

Corporate Bond

At a time of heightened geopolitical uncertainty and slowing economic growth, Grace Le explains why investment-grade corporate bonds merit a place in your portfolio.



2025 OUTLOOK



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What role will corporate bonds play in investors' portfolios in 2025?

In an environment where we're expecting increased geopolitical tensions as well as slowing global growth, being exposed to some of the strongest companies in the world at **historically attractive yields** doesn't look like a bad place to be.

Are there any sectors you are avoiding?

It's no secret that water companies need to issue a lot of debt to upgrade their infrastructure and fix leaky pipes. And, as always, whenever we get a lot of new issuance, valuations tend to stay under pressure. So, going forward, with the deluge of new issuance, we expect the **water sector to remain under pressure**.

Credit spreads appear to be quite tight by historic standards, so why should investors hold investment-grade bonds?

Credit spreads, it is true, are looking tight by historic standards.

But what we have to remember here is that **companies are paying the yield on the bond – not the spread**. So, if a company can continue to pay its coupon and redeem the debt, at the end of the day, **you will get paid**.

How can active managers add value in the corporate bond market

The thing that's so interesting is that investment-grade bonds are issued by some of the strongest companies in the world. These tend to be global companies with revenues in multiple currencies. As such, they also have **bonds in varying currencies**. No matter the currency or the maturity of a particular bond, as long as it is issued by the same parent company, they should trade at relatively similar levels. Why? Because if one corporate bond goes bust from a company, so does the whole complex. But we often find that these bonds don't trade at the same level. And, **as active investors, we're able to take advantage of these market inconsistencies** – so long as we can be active and nimble.

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