"Corporate bonds currently offer the best buying opportunity of the decade"

So thinks Stephen Snowden, Artemis' head of fixed income. He summarises his thoughts in four key charts.

Stephen Snowden

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1. Corporate bond yields are at very attractive levels

Corporate bond yields are made up of two components, the underlying gilt yield and the additional spread for the extra credit and liquidity risk.

Over the last few months, 10-year gilt yields have moved to levels not seen for over 10 years.

Meanwhile, credit spreads, while not at levels seen during the global financial crisis, are certainly elevated.

Neither gilt yields nor credit spreads are at their peak, but the two combined mean that the overall yield on corporate bonds is around 6%.

When both gilt yields and credit spreads are evaluated, the all-in yield is high

Source: Bloomberg as at 31 Oct 22

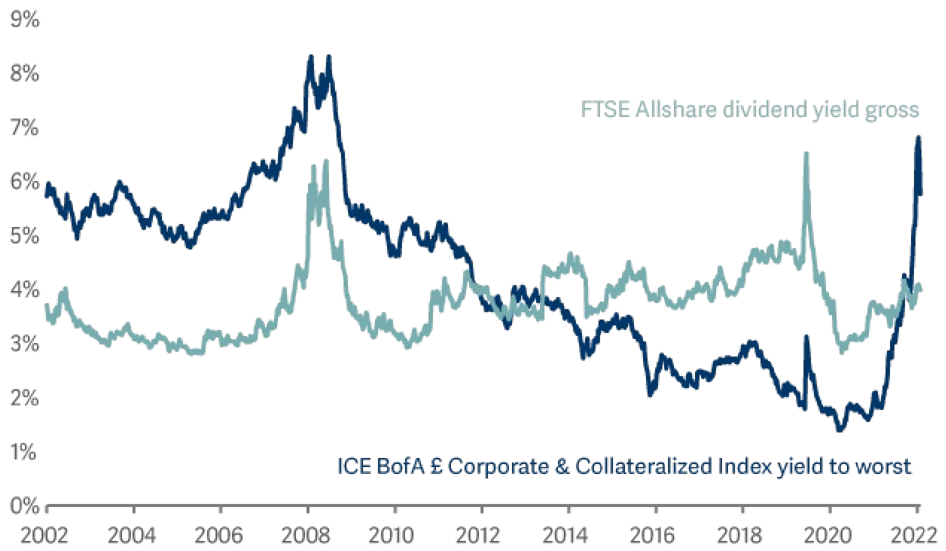
2. Corporate bond yields are now higher than equity dividend yields

The decade or so of quantitative easing suppressed corporate bond yields to the extent that for many years they were much lower than dividend yields.

The recent movements in fixed income markets has reversed this and investment-grade corporate bond yields are now substantially higher than dividend yields.

Investors are now being meaningfully compensated for taking on high-quality credit risk. This is likely to attract more income-seeking buyers into the asset class.

UK corporate bond yield versus UK equity dividend yield



Source: Bloomberg as at 31 Oct 22

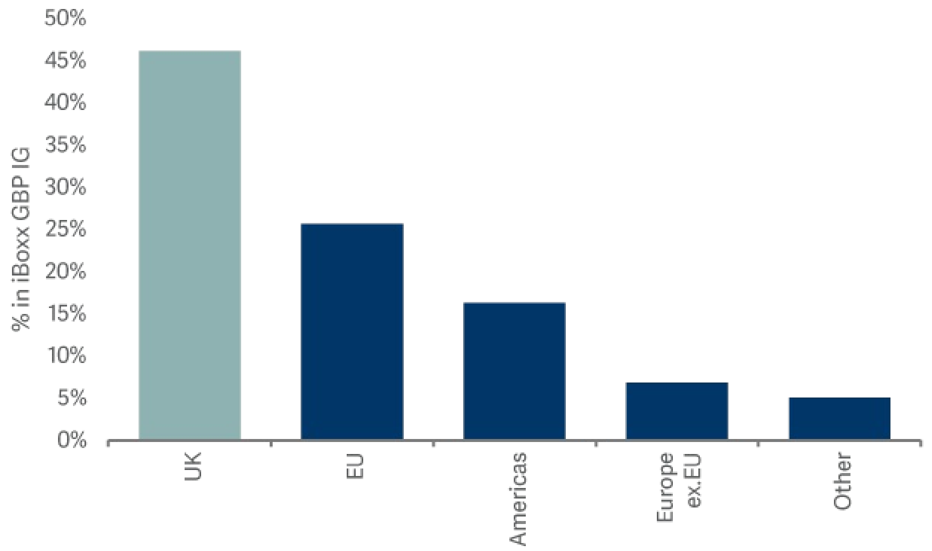
3. GBP credit is not UK credit

The UK suffered a hit to its economic credibility in September because of the actions of the last government.

While the new government has restored confidence, sentiment may remain fragile.

This should not really affect investment in the corporate bond market, as, much like the FTSE 100, the majority of its earnings are generated overseas. 45% of the constituents of the investment grade index (iBoxx GBP) are businesses registered in the UK, but only 20% of their revenues are generated in the UK, so it remains a very international market.

iBoxx GBP IG country of risk



Source: [1]Artemis, IHS Markit as at 5 October 2020

4. Dispersion is increasing in the corporate bond market

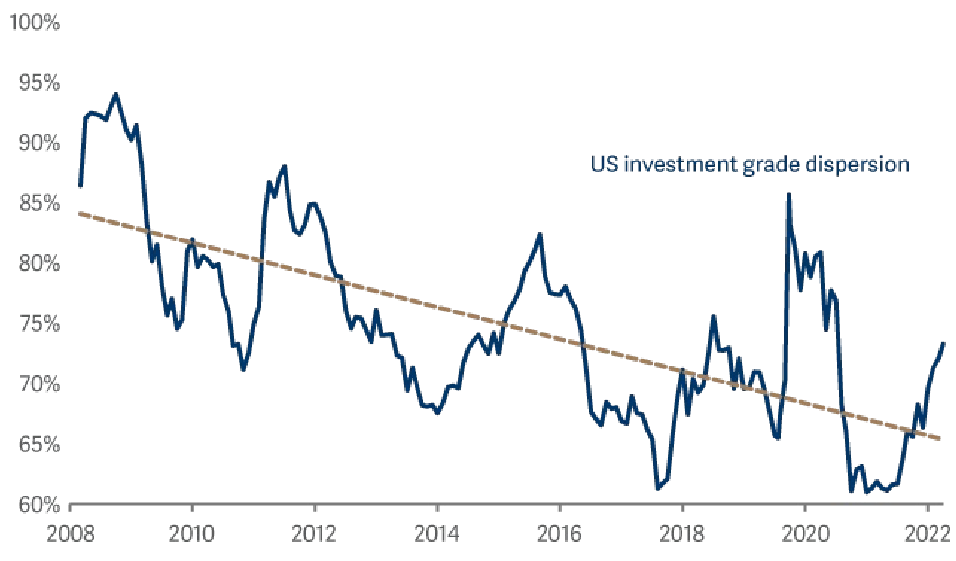
During the decade or so of quantitative easing, it was a case of a rising tide lifting all boats: there was always a buyer for corporate bonds in the shape of the central banks.

As QE gives way to quantitative tightening, the situation looks very different. This chart shows dispersion in corporate bond returns since 2008. 100% is the maximum difference between winners and losers, such as during the Global Financial Crisis when bank bonds fell markedly and defensive bonds such as utilities soared.

During the years of QE, the line has been cyclical but has trended downwards. It has recently started to pick up as QE has been withdrawn.

This, and the increase in volatility in the market, creates a very fertile environment for active managers.

Stock selection is of increasing importance in a post QE world



Credit market dispersion. Source: BofA Merrill Lynch as at 30 Sep 22. Note, spreads trade outside +/-25bps of the index

Stephen Snowden manages the Artemis Corporate Bond Fund alongside Grace Le.

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Stephen Snowden

Manages:
Bond strategy

Stephen is a fund manager and Head of Fixed Income.

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To ensure you understand whether a fund is suitable for you, please read its Key Investor Information Document or Key Information Document which are available, along with the fund's Prospectus (or in the case of investment trusts, Investor Disclosure Document and Articles of Association), in the literature library.

Risks specific to the Artemis Corporate Bond Fund

- **Market volatility risk**: The value of a fund and any income from it can fall or rise because of movements in stockmarkets, currencies and interest rates, each of which can move irrationally and be affected unpredictably by diverse factors, including political and economic events.
- **Currency risk**: The fund's assets may be priced in currencies other than the fund base currency. Changes in currency exchange rates can therefore affect the fund's value.
- **Emerging markets risk**: Compared to more established economies, investments in emerging markets may be subject to greater volatility due to differences in generally accepted accounting principles, less governed standards or from economic or political instability. Under certain market conditions assets may be difficult to sell.
- **Derivatives risk**: The fund may invest in derivatives with the aim of profiting from falling ('shorting') as well as rising prices. Should the asset's value vary in an unexpected way, the fund value will reduce.
- **Credit risk**: Investments in bonds are affected by interest rates, inflation and credit ratings. It is possible that bond issuers will not pay interest or return the capital. All of these events can reduce the value of bonds held by the fund.
- **Bond liquidity risk**: The fund holds bonds which could prove difficult to sell. As a result, the fund may have to lower the selling price, sell other investments or forego more appealing investment opportunities.

Investment in a fund concerns the acquisition of units/shares in the fund and not in the underlying assets of the fund.

Reference to specific shares or companies should not be taken as advice or a recommendation to invest in them.