As more plan sponsors look to derisk, we often ask about the potential supply/demand imbalance in long corporate markets. Given the recent uptick in LDI activity, it is worth reviewing how the market reacted to increased demand from plan sponsors during the first half of 2018.

Strong LDI demand persisted through the first half of the year, as plan sponsors locked in funded status gains. However, despite robust demand, long spreads widened by about 50 basis points from their tights in February to the end of June.³

Spread widening reflected a few factors; the STRIPS market absorbed some LDI demand, which reduced the pressure on corporate markets. Outside of LDI buyers, we saw lighter demand from overseas investors due to rising currency hedging costs. On the supply side, long issuance was up despite many predictions to the contrary.

These factors combined to create a favorable environment for de-risking through June. In July, issuance slowed, and strong demand led to a rally in corporate spreads. With LDI activity likely to continue into the second half of the year, it will be interesting to see if supply again rises to meet demand.