



- Coupons on newly issued long bonds are hitting record lows, as the average coupon of the index fell below 4.75% after starting the decade over 6.5%; issuers such as Alphabet and Praxair priced long-duration bonds with coupons 2% or below this month.
- Higher coupon long bonds are typically less liquid than the more-recently issued, lower coupon bonds that often trade with relatively tighter spreads; however, we have seen that liquidity premium diminish since the spread rally that began in late March.
- Consistent with most spread rallies, the most liquid issuers outperformed first, followed by lower-quality issuers and longer-duration bonds, as investors searched for ways to pick-up additional yield. Off-the-run bonds are beginning to catch up, with some +10% coupon bonds starting to trade more often.
- We believe corporates, with both higher and lower coupons, have a place in portfolios; higher coupons can offer more spread, but are typically less liquid and have higher downside risk in credit weakening environments given higher dollar prices. Lower coupons may offer less spread but are generally more liquid, more positively convex, and the low dollar price provides a ceiling on future spread widening, especially in challenged credit environments.

Sources: Bloomberg, Bloomberg Barclays as of 7/24/20. Yields are represented as of 7/24/20 and are subject to change. Each bubble represents a CUSIP issued after 6/30/00, and in the BloomBarc Long Corporate Index; x-axis for each CUSIP corresponds to the respective issue date. Size of bubble is relative to the market value (%) within index. The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research + Management. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.