



November 26, 2011

U.S. Corporate Spreads Wider on German Bond Yield's Relative Rise Versus U.S.

Notice how you can substitute in a new European country in the headline each week. As I predicted several weeks ago, a seemingly endless rotation of investors attacking the most vulnerable European bond continues to occur, with Germany the latest target. This rattles U.S. investors since Germany is the only country standing between Europe and financial chaos.

Main bond sectors I follow performed as follows:

Sector	11/18/11	11/25/11	Wkly Spread	Nov Spread	2011 YTD
	OAS	OAS	Change (bp)	Change (bp)	TROR (%)
IG Corp	249	265	+16	+43	+6.08
AAA Corp	94	99	+5	+18	+9.14
AA Corp	183	301	+18	+45	+4.62
A Corp	235	253	+18	+47	+5.94
BBB Corp	299	312	+13	+39	+6.75
All HY Corp	761	800	+39	+93	+1.12
BB Corp	564	595	+31	+70	+3.27
B Corp	763	804	+41	+89	+1.32
CCC Corp	1370	1435	+65	+187	-5.78
Govt Master	4	4	+0	+0	+8.66.
Mtg Master	70	68	-2	+6	+5.18
Sr Agencies	33	33	+0	+2	+4.93
BB Sovs	549	580	+31	+74	+3.51
EM Corps	984	1025	+41	+76	+3.40
Muni Master	49	49	0	-1	+9.16
BABS	210	212	+2	+9	+21.90

Significant new issues for the week -- all major issues are summarized in categories as follows (some ratings are estimated):

Aa/AA: UPMC Health System (Aa2/NR/AA- by Fitch) +190/10;
 Ba/BB: SESI LLC (Ba3/BB+) +517/10.

Despite the endless European bailout process, Treasuries are poised to do a lot worse over the next five months, in my opinion, as investors will sell Treasuries to buy corporates and mortgages, both of which are way more attractive.

With a near-historical high spread of 265 bps, investment-grade corporate bonds are highly likely to outperform Treasuries over the next two to three years. High yield is similarly good relative value at 800 bps spread. High volatility in high yield continues to be a disincentive to full participation in the otherwise-attractive secondary corporate bond market. Nevertheless we're now in the traditionally good time of the year (November-April) to invest in spread product, so that will offset worries about European-inspired volatility, in my opinion.

Good luck and good investing,

Stephen Smart, CFA
Chicago (630-363-8511) stephen.h.smart@gmail.com
Carolina Capital Markets
Chapel Hill (919-960-0807) smart@bonddog.com
The Smart Bond Guy

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