# iBoxx Clever: How to re-enter the ring with Corporate Bonds

**Corporate bonds currently offer poor value to investors, but market conditions can change quickly. Putting a framework in place now can help schemes make the most of any future opportunity to buy corporate bonds at more attractive prices.**

There has been a general trend for DB schemes (and insurers) to look outside of traditional corporate bonds to build their low dependency portfolios. But what if conditions for these assets reversed, is your scheme set up to capture the opportunity?

## Why corporate bonds bought at attractive levels are a super powerful asset

Purchased at an attractive spread traditional corporate bonds bring huge utility to pension schemes:

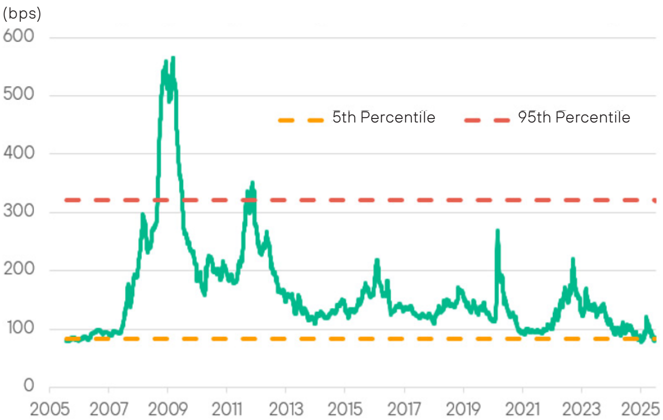
- Low risk
- Can lock into attractive yields and therefore higher future returns
- Adds duration to take weight off the LDI (and potential for credit repo)
- Income generative
- Possibility of passing to insurer at point of transaction / used in a price lock
- Scope to integrate strong ESG guidelines

However, market conditions have led to many of these points being sub-optimal vs other credit assets. Chart 1 shows that A-rated corporate bond spreads are below 100bps for the first time since before the Global Financial Crisis. Chart 2 shows that for the same level of default risk you can achieve 200bps of spread elsewhere.

Furthermore, we have seen insurers switch away from traditional corporate bonds to such an extent that credit linkage in price locks has evaporated and in some cases insurers have even raised premium to take on corporate bonds.

### Credit spreads are at historic lows

**Sterling single A option-adjusted credit spreads vs UK gilts**




Source: Eikon, 29 July 2025, iBoxx A GBP Corporates

### Alternatives look better risk adjusted

**Securitised vs Corporate Bond Credit Spreads**


Source: TwentyFour, ICE BofA Indices, Citi Velocity, Morgan Stanley. ABS is a blend of RMBS, CMBS and CLOs. Corporate Bonds is a blend of EUR, USD and GBP bonds. 30 June 2025

## How to buy back into corporate bonds IF conditions reverse

### 1 Establish Triggers

Buying opportunities are episodic so you need to plan in advance, move quickly and to hold your nerve if buying into a down market - remember that overall default risk is low. We recommend setting triggers between 150bps and 200bps to initiate and accelerate corporate bond purchases. The chart below illustrates these buying opportunities.

### 2 Consider relative value

You also need to understand the value of what you are selling. We tend to use high-quality, shorter dated alternatives, so they "should" be more stable and therefore avoid crystalising significant losses when sold. At these higher spreads, corporate bonds would offer relative value over shorter dated alternatives due to their longer duration and contribution to the LDI hedge providing more 'bang for buck'.

**Sterling non-gilts option-adjusted credit spreads vs. UK gilts**


Source: Eikon, 29 July 2025, iBoxx GBP Non-Gilts

### 3 Focus on implementation

Due to the short lived nature of attractive buying opportunities, a governance structure needs to be planned in advance. Corporate bond mandates should be lined up, or in place already, to quickly build out an allocation. Your LDI manager needs to be prepared to account for the interest rate duration from the credit mandate to maintain your overall hedge.

## Key take aways

**Plan well in advance – having a framework can help you capture opportunities.**


**Barry Jones**
Chief Investment Officer, Investment
+44 (0) 1615184654
Barry.Jones@isio.com