RBC BlueBay
Asset Management

Why go global in IG credit?

For Professional Investors Only | Marketing Communication

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Key takeaways:

- **Invest in the best, wherever they are:** going global allows IG investors to invest in the bonds they deem most attractive, taking the currency hedging costs and the outlook for government bond yields and credit spreads in different regions into account.
- **Focus on total return not just yield:** focusing on the highest yielding bonds after hedging costs is too simplistic an approach to credit investing.
- **More choice, better potential outcomes:** we believe that expanding the opportunity set and liquidity of the investable universe increases the chances of delivering improved risk-adjusted returns over the long term.

Most UK investors predominantly invest in sterling rather than global investment grade (IG) credit, despite taking a much more global approach with their equity investments.

But we think it makes sense for many investors to diversify their sterling corporate bond exposure with an exposure to currency hedged global IG credit. Here's why:

1. **FX risk can be hedged:** investors can effectively neutralise the currency risk of investing in foreign bonds by hedging the FX risk.
2. **Reduce home bias, reduce recession risk:** the sterling IG index has a bias towards UK and European companies, and away from US companies. Europe and the UK have had recessions without causing recessions in the US, whereas US recessions have generally caused recessions in Europe and the UK too.
3. **A larger and more liquid opportunity set:** limiting oneself to sterling IG credit dramatically narrows the universe of available issuers and securities. The global IG market is also more liquid and the sterling high yield market is small, limiting its capacity to comfortably absorb fallen angels.

1. FX risk can be hedged

Rather than only buying sterling IG credit to eliminate currency risk, investors can buy the developed-market IG corporate bonds they deem most attractive from anywhere in the world, after taking currency hedging costs into account.

Successful credit investing is about much more than just picking the highest yielding bonds after factoring in hedging costs, otherwise anyone could be a star credit investor.

Higher yields can reflect higher government bond risk (rate, fiscal and political) or higher corporate credit risk. Higher yields can sometimes still rise further and deliver weaker total returns than lower yielding bonds.

The key is to assess the overall value of a bond taking the government bond yield, the credit spread and the currency hedging cost into account.

One must also compare equivalent credit and duration risks to ensure one is comparing apples to apples.

2. Reduce home bias, reduce recession risk?

The sterling corporate bond market comes with a huge bias away from US and towards UK companies, including a significant number of domestically focused firms.

Interestingly, the sterling IG corporate bond market is not only much more exposed to UK risk than the global IG corporate bond index, but it is also more exposed to Eurozone and French risk.

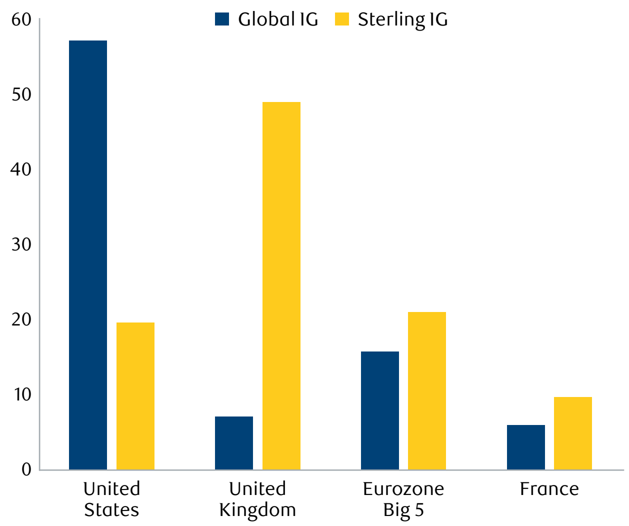
This bias away from the US can really matter because while it's very unusual for the US to experience a recession without the UK and Europe also entering recession, it's perfectly possible for the UK and/or Europe to experience a recession without the US also going into recession. The Eurozone for example experienced a sovereign debt crisis and recession in 2012, whereas the US avoided a recession and crisis.

With the US dollar the world's reserve currency, and its debt denominated in a currency which it can print, the US is less exposed to potential sovereign debt crises than some Eurozone countries or the UK.

3. A larger and more liquid opportunity set

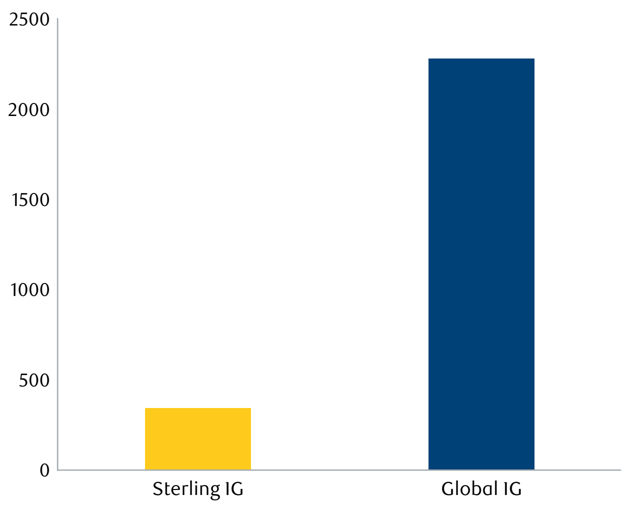
Limiting oneself to issuers who issue in sterling also dramatically limits one's opportunity set.

Percentage of issuers in each index domiciled in selected countries/ regions (%)



Source: iShares (CRHG) holdings for global and Bloomberg for sterling, data as of 3 July 2026. Eurozone big 5 refers to Germany, France, Italy, Spain and the Netherlands.

Number of issuers in the global and sterling IG corporate bond indices



Source: Bloomberg. Data as of 30 June 2026.

This results in a number of drawbacks:

- **New issue premiums** – the extra yield offered by an issuer when issuing a new bond to entice investors to buy it over an existing bond - are a significant source of potential credit alpha. There are simply far fewer new issues available in sterling compared to the global investment grade market given the far larger number of issuers and issues in the global market.
- **One cannot express views on the outlook for bond yields/rates anywhere other than in the UK** if you only invest in sterling credit markets. This eliminates the opportunity set that can come from being able to express relative value views on the outlook for bond yields across countries.
- **Sterling IG credit is less liquid than the far larger US and Euro denominated IG markets.** This reduces active managers' ability to add alpha.

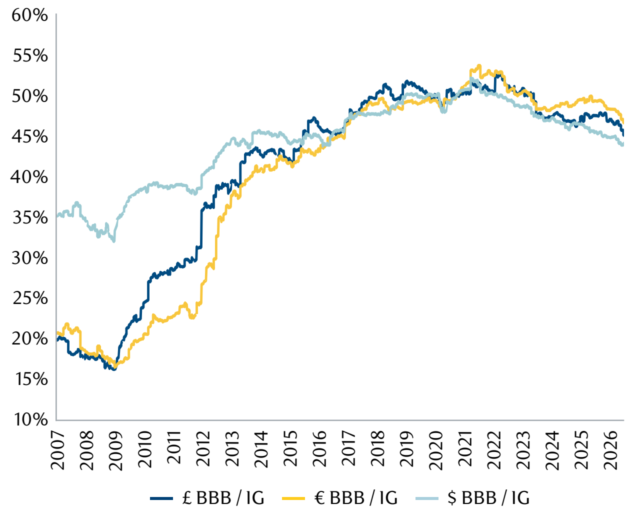
The Sterling High Yield bond index is also very small.

This increases the price risk to bonds that get downgraded from IG to high yield in the next recession.

In a recession, the capacity of the local high yield bond market to absorb downgraded fallen angels matters. If the volume of previously BBB rated bonds that get downgraded overwhelms high yield investor demand in that currency, then it could lead to sharp price declines for downgraded bonds.

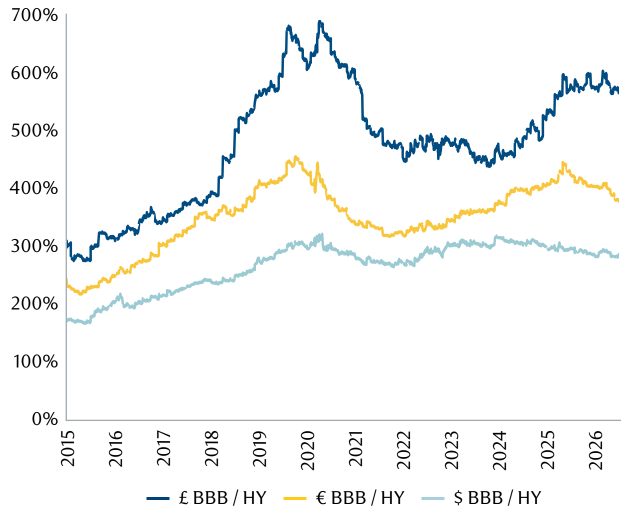
The rising share of the IG indices which are BBB rated also emphasises the importance of being able to actively select the most attractively valued BBB rated bonds that the portfolio manager believes can avoid being downgraded in a recession. The larger the opportunity set, the better chance one has of identifying attractively valued bonds that won't get downgraded.

The proportion of IG indices which are BBB rated has increased in recent years



Source: Bloomberg. Data as of 30 June 2026.

The size of BBB rated IG bonds relative to HY bonds is much larger in sterling



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