



The Great Fixed Income Show: Tariffs, Tight Spreads, and the M&A Mirage

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Market Reality Check

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Primary Market: A Split Screen

While overall IG issuance has been explosive—over \$220 billion in just the first six weeks of the year—M&A-related issuance has hit a five-year low. Wall Street had projected \$250B–\$300B in acquisition-related bonds for 2025. The actual number? A meager \$8B in the current pipeline. The Mars–Kellanova and Synopsys–Ansys blockbusters raised hopes in March (\$26B and \$10B, respectively), but they now look more like one-off anomalies than the start of a trend.

Barclays’ Meghan Graper nailed it: this pipeline’s gone from gusher to trickle. And it’s not just about tariffs—the macro fog has made both buyers and sellers skittish.

Technical Tailwinds: The Cash Conundrum

Here’s the twist: demand hasn’t slowed. Investors are sitting on a \$1 trillion cash pile from maturing bonds and interest payments, creating a strong continuous bid. As a result, even in a lower-supply environment, spreads have tightened, not widened. ICE BofA US Corporate Index OAS compressed nearly 6bps from its March highs to just 91bps—only 14bps from decade tights.

That’s not just a bullish tone; that’s a roar of confidence from the buy side.

Credit Fundamentals & Fed Outlook

Credit remains solid. Corporates are conservatively levered, interest coverage remains robust, and the economy is cruising at 2.25% GDP growth. The Fed is expected to cut rates twice by September, reaching a 4.0% terminal rate. That combination of high-quality credit and lower future yields is a magnet for long-duration buyers.

Sector Spotlight: Defensive Dominance

- **Utilities & Infrastructure:** Long duration remains king. FPL’s recent \$2B triple-tranche mortgage bond deal priced attractively (5.30%–5.80%) with minimal concessions. Utilities are stable, defensive plays in a rate-cutting cycle, and CreditSights suggests opco hybrid issuance could emerge as a theme.
- **Tech:** Despite the M&A slowdown, names like Synopsys showed that tech titans still enjoy wide-open access to capital markets when they do make moves.
- **Consumer & Food:** Credit quality holds, but guidance is cautious. JPMorgan notes fierce competition and defensive spending from consumers—suggesting that fundamentals remain intact, but enthusiasm for expansion is muted.

Strategic Positioning

In a world where issuance may underwhelm expectations and cash is hunting for yield, here's how to play it: stay long duration, favor sectors with stable cash flows, and watch the new issue spread.

Bottom Line

The bond market's biggest enemy in 2025 may not be inflation, default risk, or even the Fed—it's policy-driven uncertainty. But in that volatility lies opportunity. As new-issue volume recalibrates from M&A hope to rate-cut reality, savvy investors will look past the headlines and seize the scarcity premium. The market's still open. The playbook's just changing.

— Analysis based on market conditions as of March 28, 2025. Forecasts are not guarantees—but they do make for great conversation starters.

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