Quick Take: Market timing is difficult – credit is no exception!

ACADIAN

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Myth: You can time corporate bonds with credit spreads

Credit spreads are historically tight, renewing discussion among corporate bond investors about market timing. If timing were feasible, then we would expect to find robust evidence that entry and exit signals based on credit spreads can outperform buy-and-hold.

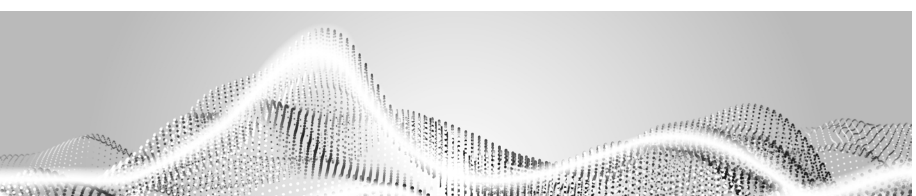
Fact: Most spread-timing rules fail

The heatmap summarizes active returns of ***100,000*** timing strategies based on credit spreads (encompassing 2,500 entry/exit triggers applied using 5 lookback windows to time 8 investment grade and high-yield indexes). Key observations:[1]

- Roughly 70% of the timing strategies underperform (red dots).
- Even the positive results look fragile. The absence of concentrations of green indicates that when rules worked for one specification, they generally failed when applied with different triggers, with different lookback windows, or to other markets.
- *Out-of-sample* efficacy didn't hold up for a family of specifications with perhaps the most consistent *in-sample* efficacy. (They involved a subset of U.S. Investment Grade strategies for which alternative data sources allowed extension of the test back to 1926.)

Corporate credit deserves a consistent allocation

The results from this exceptionally broad test reinforce the case that corporate credit should be a long-term strategic allocation, and they deepen our skepticism of market timing, more broadly. Moreover, we would advise caution when evaluating claims regarding even more sophisticated timing approaches. Evidence of efficacy should be robust – across markets, time periods, and rule parameterizations.



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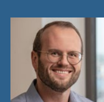

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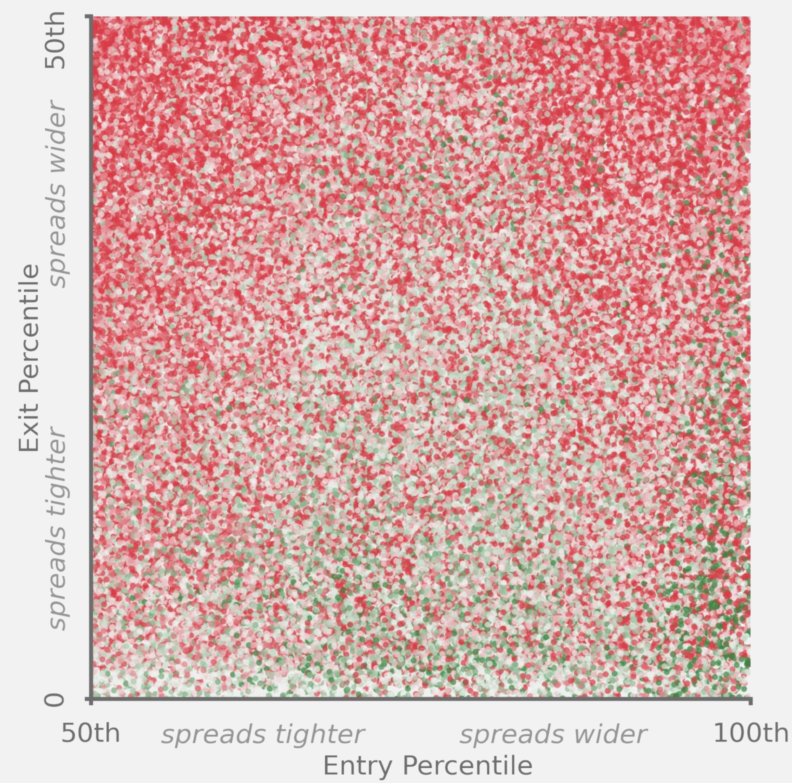
100,000 Hypothetical Credit Timing Strategies vs. Buy-and-Hold

Annualized active returns, colors limited from -1% (red) to +1% (green)



Based on 2,500 hypothetical timing rules to enter (exit) the market the month after credit spreads exceed (fall below) indicated percentile. Per rule, 40 specifications cover 5 rolling lookback windows (3, 5, 7, 10, 20-year) for 8 ICE BofA credit indexes (Global Corporate, US Corporate, Euro Corporate, US High Yield, Developed Markets High Yield, European Currency Developed Markets High Yield, Emerging Markets Corporate Plus, High Yield US Emerging Markets Corporate Plus). Results reflect monthly data from between 1997 and 1999 (depending on the index) and June 2025.

Source: Acadian based on index levels from ICE. For illustrative purposes only. Charts do not reflect trading costs, borrow costs, and other implementation frictions, and they are not representative of returns to investable portfolios. It is not possible to invest directly in any index. Investors have the opportunity for losses as well as profits. Past performance is no guarantee of future results.

[1] An even broader test that incorporated over 4.5 million hypothetical strategies produced similar results.

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