



Introducing the iBoxx USD Liquid Investment Grade BBB 0+ Index

Fine tune your portfolio exposure without sacrificing liquidity

Authored by **Nicholas Goddec, CFA**

Executive Summary

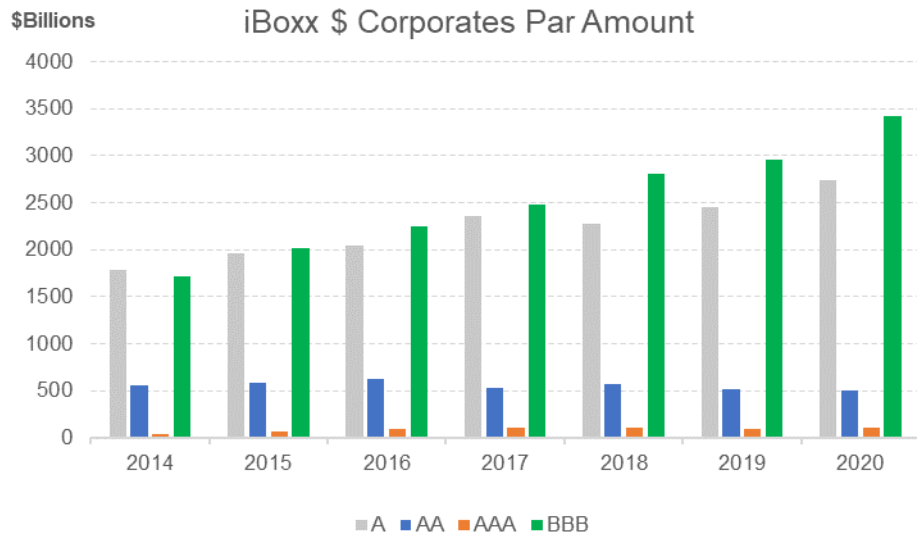
IHS Markit's newest index, the iBoxx USD Liquid Investment Grade BBB 0+ index, captures the exposure of the BBB segment of the IG universe. As the IG universe has evolved in the past few years, the launch of this index comes at an opportune time for the following reasons:

- The BBB-rated segment of the USD investment grade corporate bond market is the largest segment of the IG credit markets, at over 51% of the notional outstanding, and has become increasingly important for IG debt investors looking for incremental yield and risk-exposure.
- Further, BBB-rated debt has outperformed the broader investment grade market on a risk-adjusted return.
- BBB-rated debt offers investors a pickup in yield for yield-starved IG investors.
- Incorporating a basis of investment that targets the investible BBB-rated segment of the USD IG bond market helps investors refine their exposure and grants greater flexibility in their portfolio positioning.

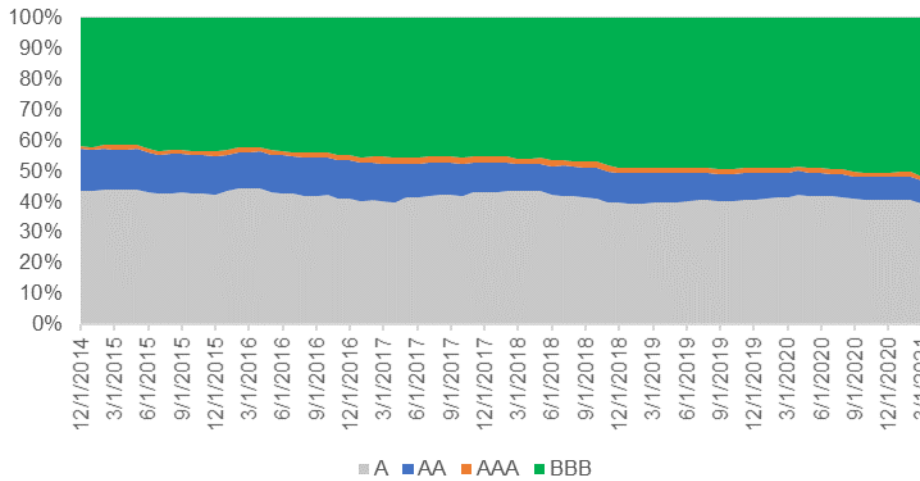
Overview of the BBB Market

The share of BBB-rated debt in the iBoxx \$ Corporates Index ("IBOXIG"), a benchmark tracking USD IG corporate debt with over \$500mn in debt outstanding per issue and over 1 year to maturity, was \$3.4 trillion, or 51.9% of the market cap, as of March 31, 2021. A-rated debt was the second largest component of the benchmark with \$2.7 trillion of notional, followed by AA-rated (\$507 billion) and then AAA-rated (\$108 billion).

Introducing the iBoxx USD Liquid Investment Grade BBB 0+ Index



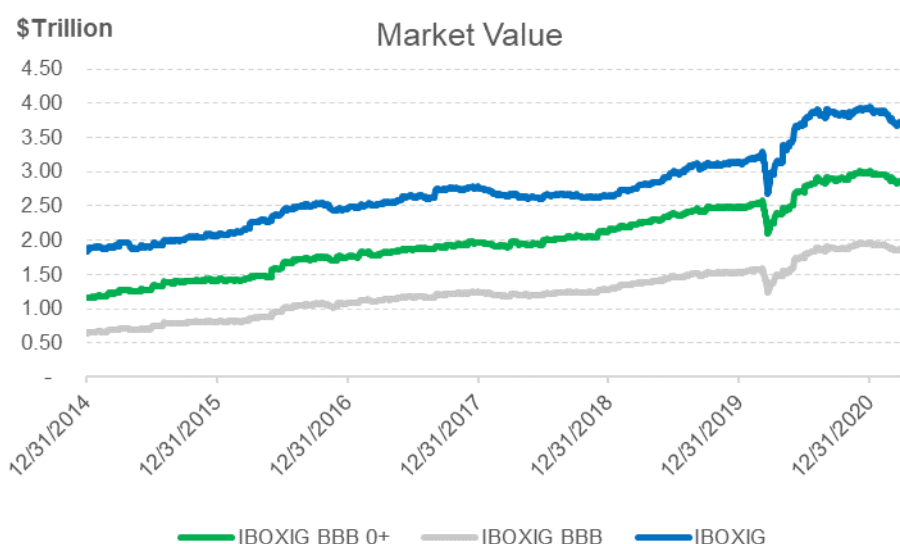
Rating Distribution in iBoxx \$ Corporates Index



To enable investors a way to define access to the most liquid and investible segment of the USD BBB-rated corporate bond market, IHS Markit has developed the iBoxx USD Liquid Investment Grade BBB 0+ Index (“IBOXIG BBB 0+ Index”). The IBOXIG BBB 0+ Index provides investors with access to the liquid BBB-rated slice of USD corporate bonds across all maturities and is designed to be a suitable basis for liquid, tradable products. The index rules differ from the iBoxx \$ Liquid Investment Grade Index (“IBOXIG Index”), the USD IG index that underlies the most liquid tradable corporate IG instruments, to enhance the coverage of this important rating slice. At the same, the IBOXIG BBB 0+ Index maintains criteria that support liquidity and accessibility, which are explained in the next section. With index data from 2010, investors can now observe how this important credit segment has evolved and continues to take shape.

IG BBB+ Index and IBOXIG Rules Comparison

The iBoxx USD Liquid Investment Grade BBB 0+ Index has several criteria that distinguish it from the IBOXIG Index. In addition to the BBB rating focus of the IBOXIG BBB 0+ Index, the index also has lower issuer and issue amount outstanding criteria, \$1bn and \$500mn, respectively, versus \$2bn and \$750mn for IBOXIG. Separately, the IBOXIG BBB 0+ Index includes bonds that mature between 0 – 3 years, which IBOXIG does not. These two distinguishing criteria provide for a broad investment universe within the BBB rating slice while not sacrificing liquidity measures, and enable the index to include \$2.9 trillion of BBB-rated market value, versus the \$1.9tn covered in the iBoxx USD Liquid Investment Grade BBB Index (“IBOXIG BBB Index”), which is the BBB-rated sub-index of IBOXIG. The market value of the IBOXIG BBB 0+ Index covers roughly \$800 billion less than the \$3.7 trillion included in IBOXIG. The broad coverage of debt while maintaining liquidity driven criteria is what makes the IBOXIG BBB 0+ well-suited as a tradable basis for the BBB-rated USD corporate bond market.



A summary of the key rule differences between the IBOXIG BBB 0+ and IBOXIG Indices are highlighted in the following table.

Index Name:	iBoxx USD Liquid Investment Grade BBB 0+	Markit iBoxx USD Liquid Investment Grade Index
Bond Denomination:	USD	USD
Credit Rating:	iBoxx Rating of BBB only	Investment Grade (iBoxx Rating of BBB and above)
Minimum Maturity:	0 years for existing index constituents New index additions must have a minimum time to maturity of 0.5 years (6 months)	3 years for existing index constituents New index additions must have a minimum time to maturity of 3.5 years

Introducing the iBoxx USD Liquid Investment Grade BBB 0+ Index

	Included bonds must have a minimum time to maturity at issuance of at least 1 year	Included bonds must have a minimum time to maturity at issuance of at least 3.5 years
Maximum Maturity:	N/A	N/A
Issuer Amount Outstanding Threshold:	\$1B	\$2B
Issue Amount Outstanding Threshold:	\$500M	\$750M
Lockout Period:	3 Months	3 Months
Minimum Run:	6 Months	6 Months
Weighting Approach:	Market value weighted, with 3% issuer caps	Market value weighted, with 3% issuer caps

Risk/Return Profile

Assessing performance from the start of 2015 to March 31, 2021, the IBOXIG BBB 0+ Index has exhibited superior risk-adjusted performance versus the IBOXIG Index, as well as to the IBOXIG BBB sub-index, even though the absolute total return for the index is slightly lower than either index. The Sharpe Ratio for the IBOXIG BBB 0+ index was 0.85 for the six-year period, 0.08 and 0.09 greater than the ratio for IBOXIG BBB and IBOXIG, respectively. With an annualized volatility of 5.3%, the inclusion of 0-3 year bonds within the IBOXIG BBB 0+ index reduced annualized volatility by more than 100 basis points against IBOXIG BBB and IBOXIG.



Introducing the iBoxx USD Liquid Investment Grade BBB 0+ Index

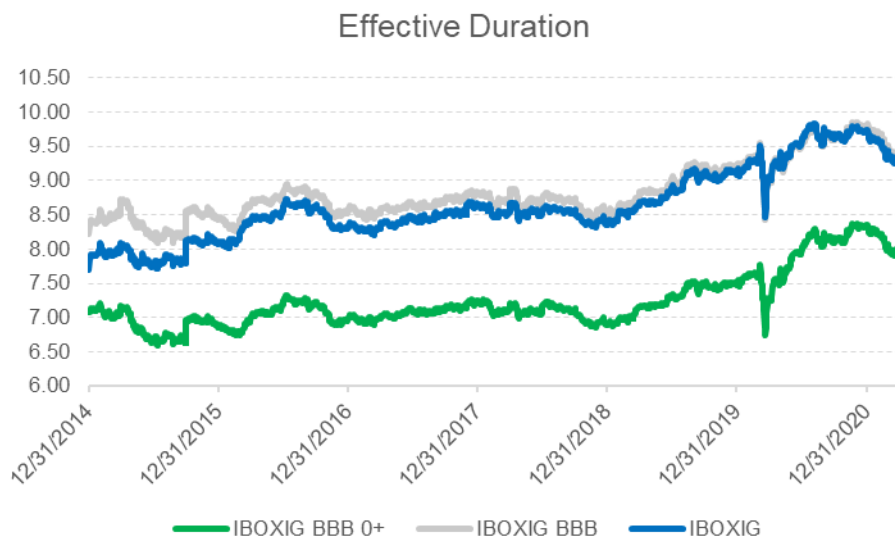
Of note, the -17.58% maximum drawdown for IBOXIG BBB 0+ over the period was considerably less than IBOXIG BBB (-21.28%) and IBOXIG (-18.88%), where the maximum drawdown date occurring March 20, 2020 across the board.

	IBOXIG BBB 0+	IBOXIG BBB	IBOXIG
Annualized Return	4.551%	5.260%	4.840%
Vol	5.332%	6.759%	6.347%
Sharpe (0 rates)	0.853	0.778	0.763
Max Drawdown	-17.58%	-21.28%	-18.88%
Max Drawdown Date	3/20/2020	3/20/2020	3/20/2020

Duration and Maturity

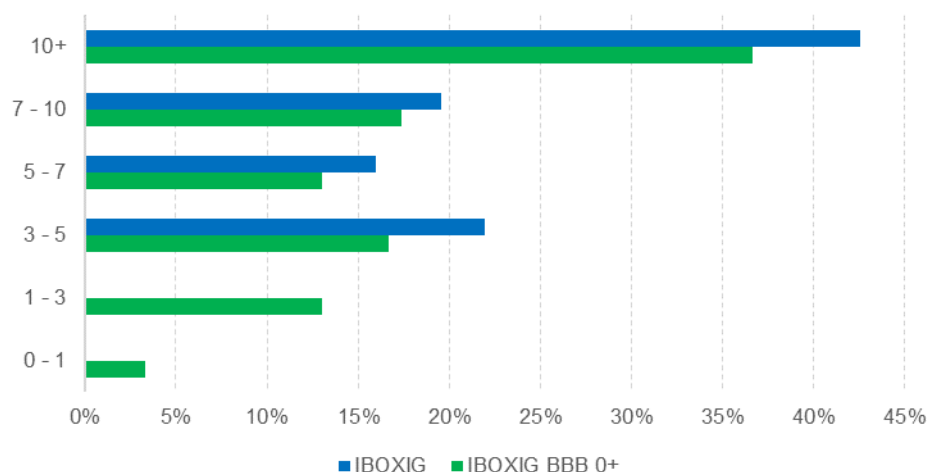
The duration of the iBoxx USD Liquid IG BBB 0+ Index is lower than IBOXIG BBB and IBOXIG Indices, due to the inclusion of bonds maturing between 0-3 years. As mentioned above, this design feature also results in lower return volatility, higher risk-adjusted performance as well as decreased exposure to interest rate risk.

The effective duration of the BBB 0+ Index was 8.01 years as of March 31, 2021, which was 1.33 years less than IBOXIG and 1.42 less than IBOXIG BBB.



Bonds maturing within 0-3 years account for 16.3% of the IBOXIG BBB 0+ Index, with 3.3% of that belonging to the 0-1 year bucket. The largest maturity bucket in the IBOXIG Index is the 3 – 5 year range, which accounts for 21.9% of IBOXIG, versus 16.7% in IBOXIG BBB 0+ Index.

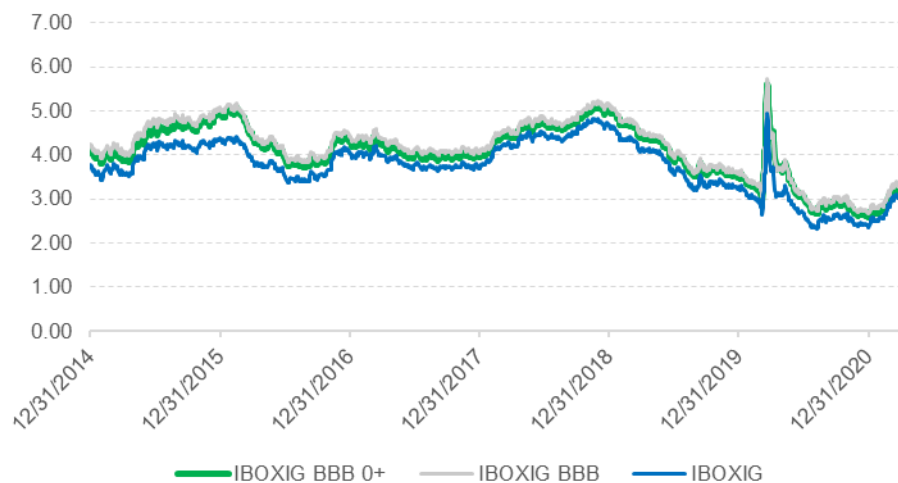
Maturity Distribution



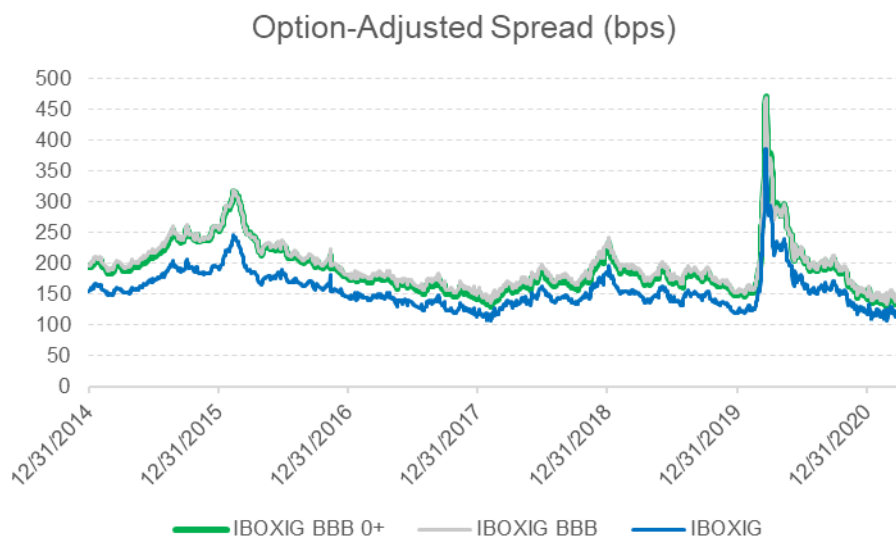
Yield and Spread

The yield of the IBOXIG BBB 0+ Index was 3.17% as of March 31, 2021, which was a 15bps yield pickup versus IBOXIG and 11bps less than the IBOXIG BBB Index.

Annual Yield (%)

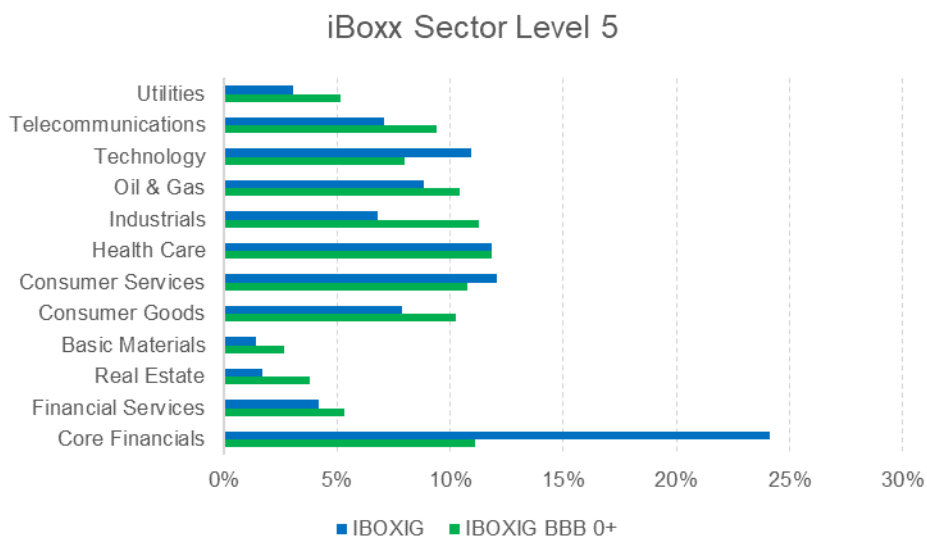


The same relationship holds when we compare spreads. IBOXIG BBB 0+ has an option-adjusted spread of 130bps as of March 31, 2021, 21bps greater than the IBOXIG Index and 4bps less than IBOXIG BBB Index.



Sector Distribution

The most significant sector difference between the IBOXIG BBB 0+ and IBOXIG is the lower exposure to financials in the BBB 0+ index. The IBOXIG BBB 0+ Index Financials weight as of March 31, 2021, was 20.2% versus 30% in the IBOXIG Index.



Top Issuers

The Financials sector difference stems from the largest Core Financials in IBOXIG having a credit rating of A, which accounts for 6 of the top 10 IBOXIG Issuers. Only two of the IBOXIG top 10 issuers have BBB ratings - AT&T Inc. and Verizon Communications Inc.

Ticker	Issuer	% Weight	Rank	iBoxx Sector Level 5	iBoxx Rating
BAC	Bank of America Corp	3.00%	1	Core Financials	A
JPM	JPMorgan Chase & Co	2.83%	2	Core Financials	A
T	AT&T Inc	2.42%	3	Telecommunications	BBB
VZ	Verizon Communications Inc	2.35%	4	Telecommunications	BBB
WFC	Wells Fargo & Co	2.25%	5	Core Financials	A
CMCSA	Comcast Corp	2.20%	6	Consumer Services	A
C	Citigroup Inc	2.12%	7	Core Financials	A
MS	Morgan Stanley	2.02%	8	Core Financials	A
AAPL	Apple Inc	2.01%	9	Technology	AA
GS	The Goldman Sachs Group Inc	1.94%	10	Core Financials	A

Verizon and AT&T are the largest issuers within IBOXIG BBB 0+, pressing right upon the 3% issuer weighing cap, and are the only two issuers that rank in the top 10 by size across both indices.

Ticker	Issuer	iBoxx Sector Level 5	IBOXIG BBB 0+	IBOXIG	IBOXIG rank
VZ	Verizon Communications Inc	Telecommunications	3.00%	2.35%	4
T	AT&T Inc	Telecommunications	3.00%	2.42%	3
ORCL	Oracle Corp	Technology	2.75%	1.91%	11
ABBV	AbbVie Inc	Health Care	2.57%	1.52%	13
ABIBB	Anheuser-Busch InBev Worldwide Inc	Consumer Goods	2.32%	1.84%	12
CVS	CVS Health Corp	Consumer Services	1.92%	1.30%	15
GM	General Motors Co	Consumer Goods	1.85%	0.85%	26
BA	The Boeing Co	Industrials	1.84%	1.17%	17
GE	General Electric Co	Industrials	1.59%	1.19%	16
AVGO	Broadcom Inc	Technology	1.44%	1.11%	19

Conclusion

The iBoxx USD Liquid Investment Grade BBB 0+ Index provides investors with a measure of the most liquid segment of USD BBB-rated corporate bond market, which is the largest credit band in the IG space. By including bonds maturing within 0 – 3 in the index and slightly easing the issuer and issue amount outstanding criteria of the iBoxx \$ Liquid Investment Grade Index, the index focuses on the most liquid segment of the BBB-rated market while delivering a broad, diversified investment set within the BBB-rated bucket. This unique structure has outperformed the broader IG market on a risk-adjusted basis, while also experiencing more tempered drawdowns in times of stress. The BBB-rated segment of the market gives greater main street exposure than the broader IG market that has a heavy tilt towards financials, given the exclusion of core financials that tend to be rated higher than BBB. With iBoxx USD Liquid Investment Grade BBB 0+ Index, investors can further fine tune their portfolio exposure without sacrificing liquidity.

Author:

Nicholas Godec, CFA

Index Product Manager, Tradable Indices, IHS Markit

nicholas.godec@ihsmarkit.com

For more information visit [iBoxx](https://www.iboxx.com) website or reach out to indices@ihsmarkit.com.

CUSTOMER CARE

NORTH AND SOUTH AMERICA

T +1 800 447 2273

+1 303 858 6187 (Outside US/Canada)

EUROPE, MIDDLE EAST AND AFRICA

T +44 1344 328 300

ASIA PACIFIC

T +604 291 3600

E sales@ihsmarkit.com