

How low can G spreads go?

By Ethan Currie

The persistence of notionally tight levels in spread product has remained in focus year-to-date as April recorded another strong month. May has brought fresh lows yet again, with high-quality SSA credit continuing to grind tighter. UST yields have sold off by 50–80bps since the start of the Middle East conflict (Chart 1), with key benchmarks breaching (and importantly, sustaining) above notable resistance levels—4.5% in 10s and 5% in 30s. That backup in rates has only enhanced the appeal of all-in yields, sustaining ample demand for SSAs and holding spreads close.

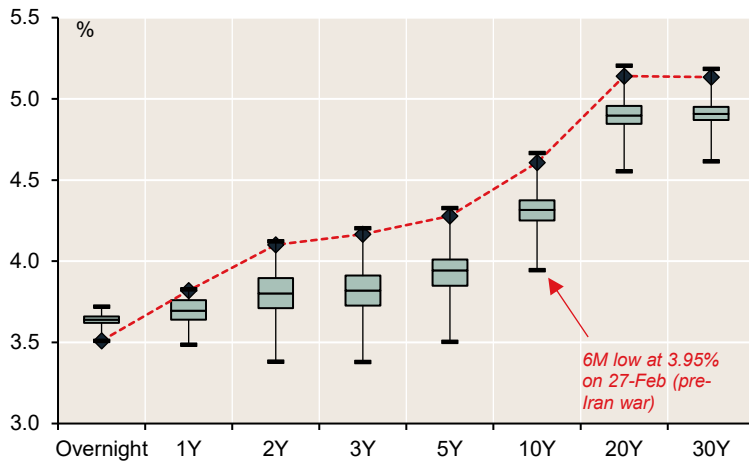
Importantly, higher U.S. rates have done little to deter USD issuance. Last week alone saw more than \$15bn of USD supply—one of the largest single-currency totals for this time of year (Chart 2). Issuance this month (with time on the clock remaining) has already exceeded the full-month totals of the past five Mays. Benchmark deals continue to meet robust demand—IBRD priced its largest-ever 10Y USD deal alongside a record book, while several other Greenback bonds traded strongly at the break. Canadian Yankee issuance has also performed strongly—the most

recent 5Y Dollar deal from the sovereign (ticker CANADA) priced at GT+2 bps—the tightest issue on record for the name, as prior deals have come in around +10-11 bps, and 2021's deal at +6 hadn't been flirted with since. Since settlement, spread compression has been notable across the board (Chart 3), reinforcing the view that demand for spread product remains healthy, and perhaps unsated. That's the case even amid heavier supply windows, with NIs trading flatter.

So, can G-spreads limbo lower from here—or perhaps move below zero? We believe so. Fundamental repricing of sovereign / U.S. risk, combined with the balance sheet strength of SSA names should help to maintain the bid. With many names well-advanced on their funding programs, relative supply for the balance of 2026 should continue to be met with substantial demand. And as mentioned, loftier all-in yields (and those yields vs swaps) will further support performance (Chart 4). Overall, the tone remains constructive for primary market activity, with secondary trading a testament to the positive tone.

Chart 1: USTs have backed up aggressively...

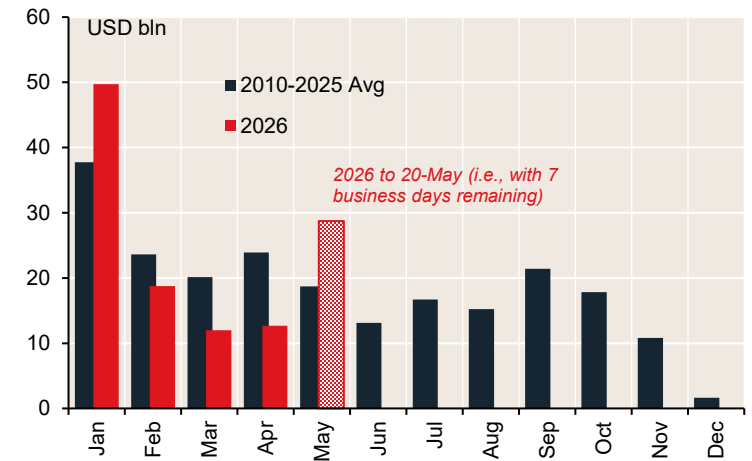
Trading range & current level of UST yields over last six months



Source: NBC, Bloomberg | Note: Marker denotes current level; box denotes 2nd/3rd quartiles

Chart 2: ... that hasn't stopped USD supply (quite the contrary)

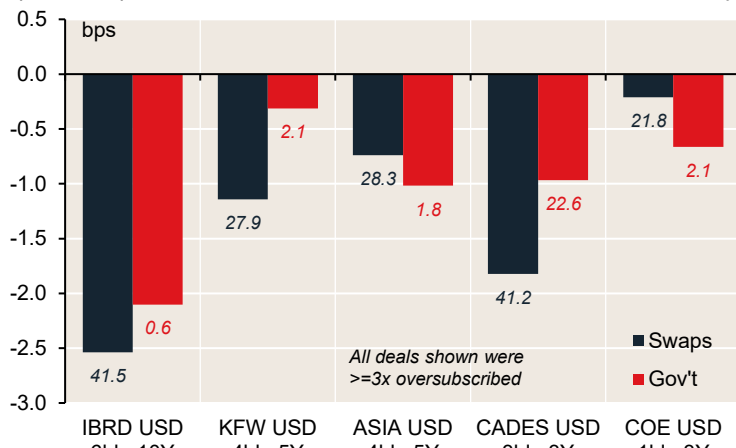
SSA USD monthly gross supply: 2026 vs prior 15Y average (deals to 20-May)



Source: NBC, Bloomberg | Note: For select SSA universe and credited deals >=\$100MM

Chart 3: New issues trading strong at the break

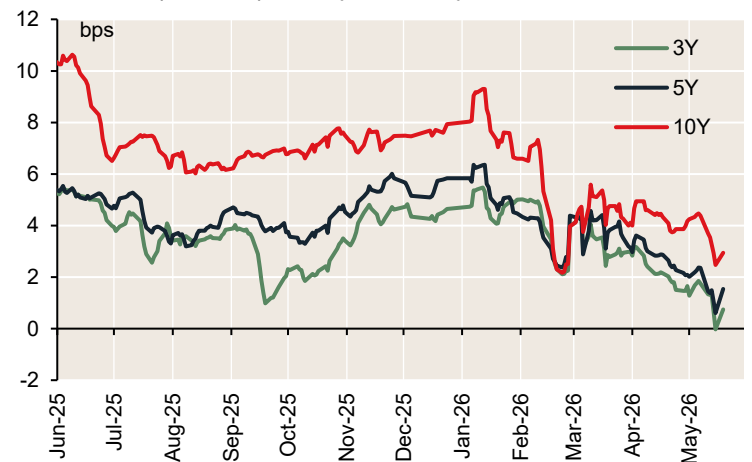
Spread compression since new issue on select USD benchmark deals in May



Source: NBC, Bloomberg | Note: Sorted by deal size; labels denote current spread (i.e., for IBRD 10Y, 0.6 bps shows current G-spread, which tightened ~2 bps since NI of GT10 + 2.7)

Chart 4: G-spreads continue to grind tighter

Tier 1 SSA composite G-spreads by tenor, last year



Source: NBC, Bloomberg | Note: Composite refers to simple average of 6 global SSA issuers



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