A Good Time To Make A Keen Observation

View from the Observation Deck

1. High yield corporate bonds are speculative-grade debt securities, which means they are inherently more risky than investment grade debt securities.

2. Since 1983, their average annual default rate has been approximately 4.7%, according to Moody’s. In other words, roughly 95 out of 100 bonds have paid their interest obligations each year, on average.

3. The speculative nature of them, as opposed to say common stocks, has been much more heavily scrutinized through the years, in our opinion. High yield corporate bonds, in some corners, carry a unique stigma.

4. The term “junk” is synonymous with high yield corporate bonds, yet a good percentage of these debt securities are issued by publicly traded companies. You rarely hear investors refer to stock issues as junk.

5. Since 1989, the high yield corporate bond market has endured multiple high-profile brokerage scandals, recessions, periods of rising interest rates, deleveraging phases, and a global financial crisis in 2008.

6. The performance data in the chart features 5-year periods, except for the most recent from 12/09-7/13. For those who may recall, the start of the 1990s was quite challenging due to the Savings & Loan crisis.

7. From 12/89-7/13, the annualized total return on the BofA Merrill Lynch U.S. High Yield Corporate Bond Index was 9.10%, essentially matching the 9.13% annualized total return on the S&P 500 Index.

8. As the saying goes, one man’s junk is another man’s treasure.