Tracking The Retail Investor’s Appetite For High Yield Corporate Bonds

View from the Observation Deck

1. High yield corporate bonds are speculative-grade securities (higher level of credit risk) that tend to pay a higher rate of interest than their investment grade counterparts over time.
2. One of the primary indicators used for assessing risk levels in the high yield corporate bond market is the industry default rate. A bond default occurs when the issuer fails to make an interest or principal payment within the specified period.
3. The global speculative-grade default rate has averaged around 4.7% since the early 1980s, according to data from Moody’s. The U.S. speculative-grade default rate stood at 1.8% in July 2014.
4. In November 2013, Barron’s reported that Martin Fridson, high yield corporate bond guru and head of FridsonVision LLC, released a forecast calling for a steep rise in high yield corporate bond defaults beginning in 2016.
5. From 2000-2013, total assets held by open-end high yield bond funds accounted for an average of 14.25% of the total average amount of assets held by all open-end taxable bond funds (see chart).
6. As clearly indicated in the chart, asset levels dropped dramatically during the financial crisis in 2008 and remained below average through 2012.
7. The 14.25% average share of total taxable bond fund assets nearly matches the average share of high yield corporate bond issuance relative to total corporate bond issuance.
8. From 2000-2013, high yield corporate bond issuance as a percentage of total corporate bond issuance was 15.40%, on average, according to data from Thomson Reuters.
9. From 12/31/99-8/20/14, a period that included a number of challenges and shocks to the economy, the BofA Merrill Lynch U.S. High Yield Index posted an average annual total return of 7.70%.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. There can be no assurance that any of the projections cited will occur. The BofA Merrill Lynch U.S. High Yield Index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market.