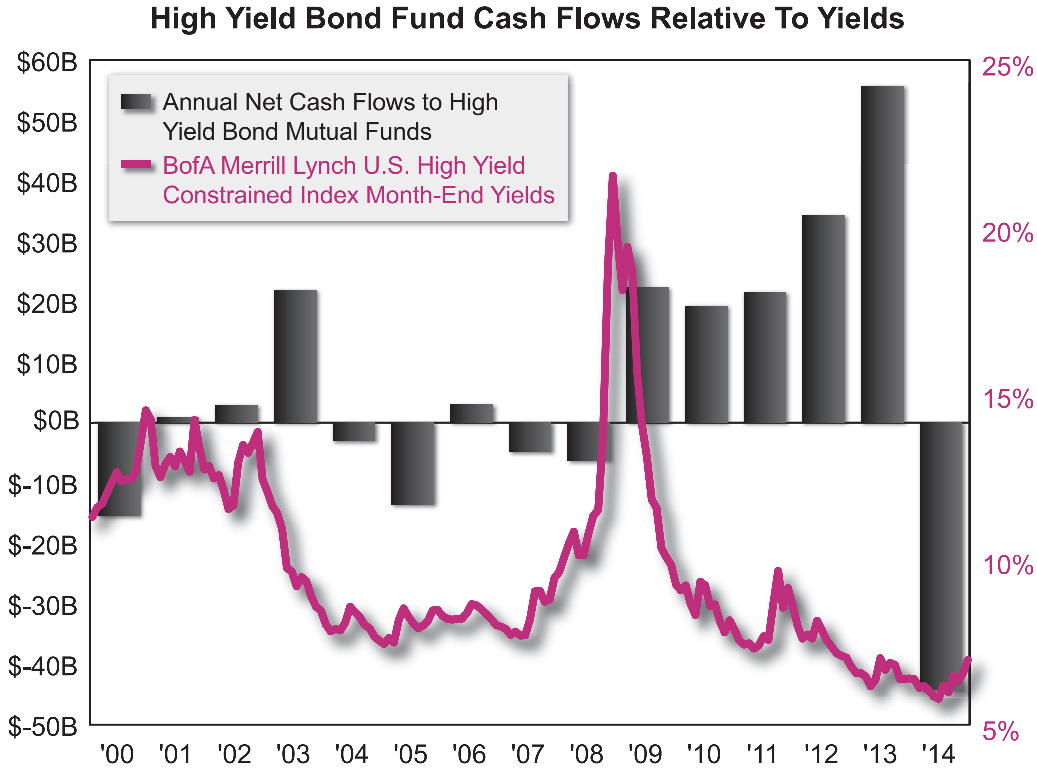
An Update On The High Yield Corporate Bond Market



Sources: Bloomberg and the Investment Company Institute

View from the Observation Deck

1. Today's post is intended to provide investors with some key metrics regarding high yield corporate bonds.
2. 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.
3. The trailing 12-month global speculative-grade default rate stood at 2.3% in June 2015 (U.S. default rate was 2.0%), according to Moody's. It has averaged 4.5% since 1983.
4. From 2000-2014, the average yield on the BofA ML U.S. High Yield Constrained Index was 9.62%, according to Bloomberg. The average was somewhat skewed upward due to the sell-off that occurred during the 2008-2009 financial crisis (see chart).
5. The yield on the index closed the trading session on 7/15/15 at 6.93%, according to Bloomberg. For comparative purposes, the yield on the 10-Year Treasury Note was 2.35%, according to Bloomberg.
6. The average par weighted price on the BofA ML U.S. High Yield Constrained Index was $98.13 on 7/15/15, a discount to par value, according to Bloomberg.
7. The index's par weighted price was $105.16 a year earlier (7/15/14), a premium to par value. The plunge in energy prices, which commenced in June 2014, put downward pressure on bond prices. Energy companies represented 17% of the high yield corporate bond market in November 2014, according to Barron's.
8. SIFMA reported that companies issued $179.9 billion worth of high yield corporate bonds in the first half of 2015, up 1.4% from the same period in 2014, according to data from Thomson Reuters. From 2012-2014, new issuance averaged $325.1 billion per year.

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 Constrained Index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market.