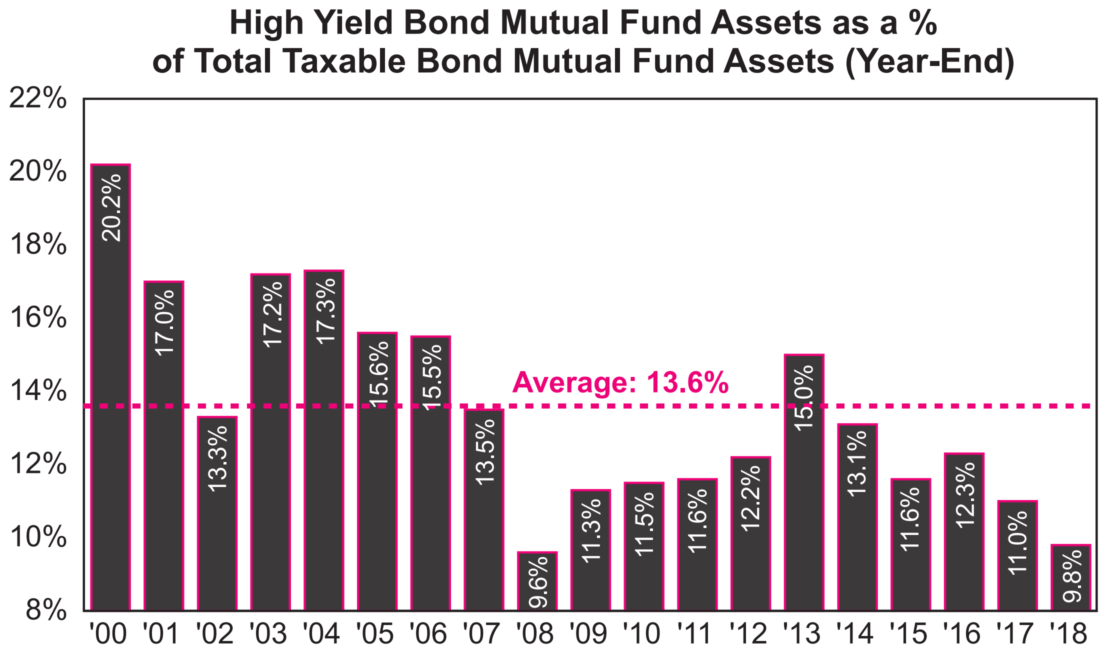
Tracking The Retail Investor's Appetite For High Yield Corporate Bonds



Source: Investment Company Institute. Open-end funds only.

View from the Observation Deck

1. High yield corporate bonds are speculative-grade securities (a much higher level of credit risk) that tend to pay a higher rate of interest than their investment-grade counterparts.
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 long-term global speculative-grade default rate, as tracked by Moody's, has averaged 4.1% since 1983, according to its own release. In April 2019, the default rate stood at 2.1%.
4. Moody's believes that the default rate will be lower a year from now. It is currently forecasting a default rate of 1.3% at the end of April 2020.
5. As indicated in the chart, asset levels in high yield corporate bond funds relative to total taxable bond fund assets dropped dramatically during the 2008-2009 financial crisis.
6. Except for 2013, a year in which bond yields rose markedly, asset levels have remained below the category's average from 2000-2018 (see chart).
7. In 2013, the yield on the benchmark 10-year Treasury note increased 127 basis points, from 1.76% to 3.03%, according to Bloomberg. We believe yields rose on the belief that U.S. economic growth could accelerate in 2014. It did not come to fruition.
8. From 2000-2018, total high yield corporate bond issuance as a percentage of total corporate bond issuance averaged 16.7% (not shown in chart), according to data from SIFMA.
9. From 12/31/99-12/31/18, a period that included many challenges and shocks to the economy, the BofA Merrill Lynch U.S. High Yield Constrained Index posted an average annual total return of 6.69%, according to Bloomberg. For comparative purposes, the S&P 500 Index posted an average annual total return of 4.86% over the same period.