15 key Credit charts

US High Yield at risk from 2nd wave of downgrades and defaults

AUTHOR:
Chris Turner
+44(0) 7073 0759
Chris.Turner@absolute-strategy.com

Quality still matters

US aggregate High Yield indices have fully recovered Q1 losses. CCC has lagged, however, showing that investors are not ignoring solvency risk altogether. We still prefer Investment Grade to High Yield, which has worked well since Q4 2018.

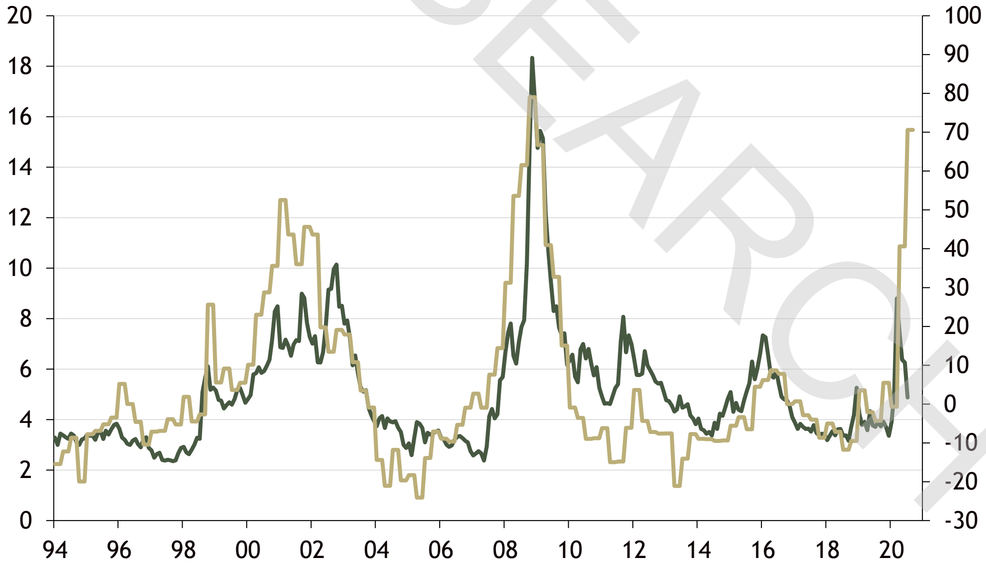
Investors in US Investment Grade and High Yield face different risks

High duration, especially in the US, is the major risk for IG. For HY, a 2nd wave of downgrades and defaults is the key risk. The new debt that corporates have taken on will prove a big burden if nominal GDP takes a while to return to pre-crisis levels.

High Yield in a broader portfolio context

The share of HY yields made up by spreads has hit a new high, fortifying the long-term trend for credit to become a less diversifying asset. On a more tactical basis, a long breakevens bias has acted as a good hedge for a negative stance on HY.

Key chart: Fed Senior Loan Officer Survey and US High Yield OAS



Source: ASR Ltd. / Federal Reserve / Bloomberg Barclays / Bloomberg