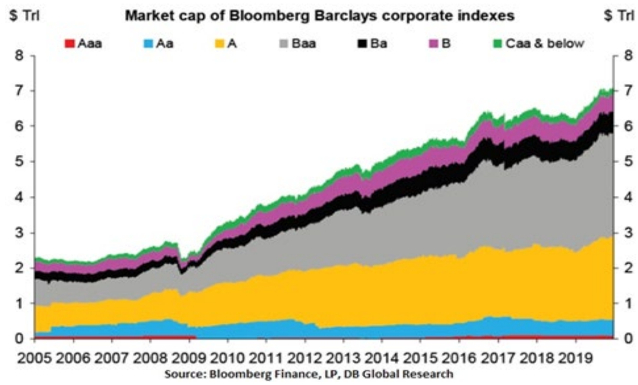
# BLOG POST
Analyst Corner
Part 2
2/10/2020

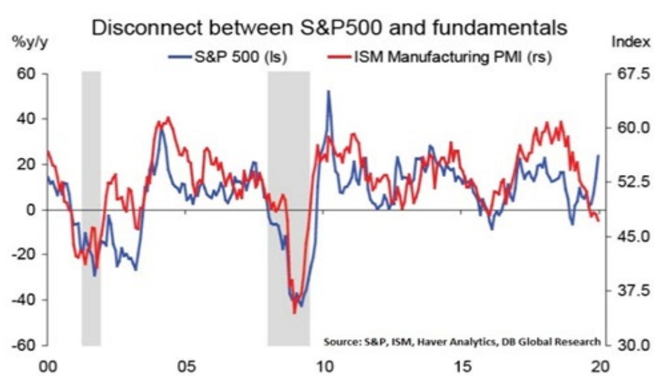
## Fixed Income – Bad Credit Rules

The market cap of the Bloomberg Barclays corporate index has shifted in favor of risk over the last 15 years. The prevalence of A-rated bonds has stayed mostly constant, but Baa bonds, the lowest rating to qualify for "investment-grade," has surged over the last 6 years in absolute terms and as a percentage of market cap. In 2014, Baa-rated bonds were approximately 20% of the total bond market, representing $1 trillion of the $5 trillion market. Today Baa-rated bonds exceed $3 trillion and nearly 50% of the total bond market. Why does this matter? During the next recession there is likely to be a large number of downgrades as earnings fall. Baa bonds, if downgraded, become non-investment grade or "junk bonds," and will result in forced selling by institutions with mandates to avoid junk bonds. Look out below when that happens.




## Technical – Charting Fundamentals

The correlation between the S&P 500 and ISM Manufacturing PMI indices are unmistakable over the last 20 years. More than 90% of the movement of the S&P 500 could be traced to what was happening with the ISM index. Both accurately predicted that recessions were imminent when they fell below 50 and had negative year-over-year growth in 2000 and 2007. The data since early 2019 has had analysts scratching their collective heads as the formerly highly correlated indices move in opposite directions. The ISM data indicates a slowing of the economy breaching the lows hit in 2013 and 2015 that stopped short of a recession. The price of the S&P meanwhile has been able to climb to new highs over the last year. When correlated indicators diverge for this long of a period something must give, meaning the ISM recovers or stock prices tank.



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