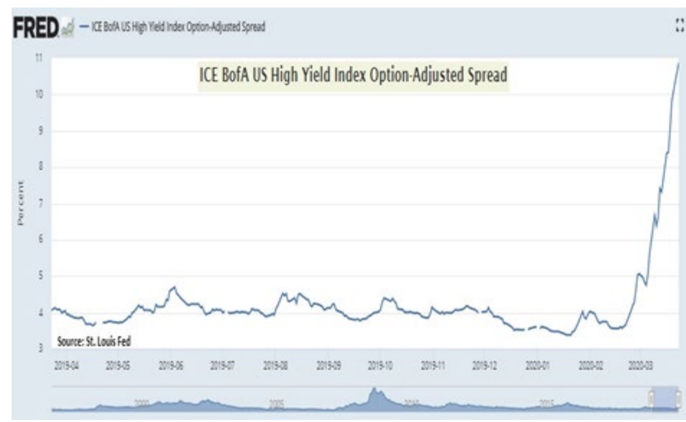
BLOG POST
Analyst Corner
Part 2
4/20/2020

Fixed Income – Blowout of Biblical Proportions

The COVID-19 crisis created a panic in the high yield market that exceeded the market's reaction during the financial crisis of 2008. The spread between the average high yield bond and Treasury prices has consistently remained in the 300-400 basis points range since 2016, with only a short surge during Q4 of 2018. In less than a couple of weeks this spread blew out to over 1,000 basis points, creating a liquidity panic as no one was willing to be a buyer. The shutting down of the global economy is causing many to question how many of these borrowers with questionable credit will end up in default. S&P Global Ratings raised their default estimate to 10% from 3.1% at the end of 2019. The pandemic, combined with a historic crash in oil prices, is another factor, with energy representing 15% of most high yield indexes.



Technical – Charting (Un)Employment

The analysts at FactSet and Bank of America provided estimates for initial jobless claims in advance of the first weekly report, after many in the country were under shelter in place orders and all non-essential businesses were ordered to close. As you can see in the chart, the peak in each of the last six recessions was around 700,000 new claims, making the estimate of 3,000,000 staggering. The analysts, it turns out, were too conservative as the actual number came in at 3,280,000, 10% higher than forecasted. What remains to be seen is the longer-term impact of the newly unemployed, with Congress passing a stimulus bill to backstop worker's wages during the mandatory quarantines. There is no playbook to refer to in this crisis. The Fed, Congress, White House, and businesses are all in uncharted waters.