BLOG POST

A Warning from High Yield?

10/14/2020

Recently, there have been signs that the market for high-yield bonds is coming under increased stress. In particular, the pace of outflows in so-called junk bond funds has accelerated somewhat. According to data provided by Barron's, the rate of outflows is at a level not seen since the start of the COVID-19 outbreak in February, which in turn has driven overall prices lower. In general, the greatest selling pressure is across industries of the economy that are more sensitive to the COVID-19 shutdown, including leisure and travel, airlines, energy producers and entertainment. The chart to the left illustrates the weekly flows for high-yield bonds, and the recent drop-off.

- The concern is that absent any additional COVID-19 stimulus from Congress, the likelihood of defaults across broad swaths of the high-yield market could accelerate to close out the year. Likewise, if no COVID-19 vaccine is forthcoming in the months ahead, the pace of economic growth could continue to slow.

- However, given its response in March, it's likely that the Federal Reserve would step in, at least temporarily, to provide liquidity to the high-yield market. The long-term ramifications of this central bank action are uncertain, but at least prices would likely stabilize in the near-term.