

NOTE 194: HIGH YIELD BOND OPPORTUNITY

Don Gimpel – February 2016

OBSERVATION

A significant trend has developed in High Yield Bond yields, which has important investment implications. The data supporting can be obtained from the Federal Reserve Bank of St. Louis Fred 2 data base under the heading of BofA Merrill Lynch US High Yield Master II Effective Yield. The internet address is:

<https://research.stlouisfed.org/fred2/series/BAMLH0A0HYM2EY>

The following chart covers the period from mid-2011 to early 2016. The rising trend appears to have begun in July 2015 with the yield rising from 6 to just above 10% before turning down to 9.75%. The latest value of the same series is published in Monday's issue of the Wall Street Journal in Section C under Corporate Borrowing Rates and Yields under High Yield 100 Merrill Lynch and is 8.5%. The Fred 2 table is noted to provide the "Effective Yield" accounting for the value difference.

IMPORTANCE

Some use the spread between High Yield Bond yields and the 10-year government notes as a way of timing entrance to and exit from "junk bonds." The common rule is to buy junk bonds when the spread rises above 5% and to sell when it falls below 3%.



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DOW TRANSPORTATION INDEX – Courtesy of Don Coyne, RIA

