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Market View

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High-Yield Opportunities

Carret Credit Insight
Carret Asset Management

Feb 3: At year-end 2020, the iBoxx High-Yield Index yielded 4.23%, an all-time low. Spreads also registered record tightness. Low yields aren't a surprise as investors globally reach for income. The Federal Reserve has backstopped the "fallen angels," allowing many high-yield (HY) companies to refinance at ever-lower rates and extend upcoming maturities for another day. Strong equity markets are forecasting an earnings rebound, and the vaccines will bring brighter days soon. We continue to find attractive values in the short/intermediate portion of the high-quality HY market.

We want to share a recent academic study with you regarding the risk and returns in the HY bond market: George Mason University recently published a report on HY bond-fund returns and volatility relative to equities (S&P 500). Since 1990, the average HY bond fund has delivered average annualized returns of 7.1% with a volatility of 7.7%. Over the same time period, the S&P 500 delivered an average annualized return of 7.8%, but with almost double the volatility of 14.5%. The conclusion: HY bonds have paid total returns near those of the U.S. stock market with half of the volatility. We believe the HY market will offer competitive returns in the decade ahead, as equity valuations have risen and Treasury yields have plummeted. Our ability to utilize busted convertibles, preferreds, and special-situation income investments enhances

our cash-flow opportunities.

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[Link to article](#)

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