High Yield bond secondary prices tumble, sending yields to post-pandemic highs

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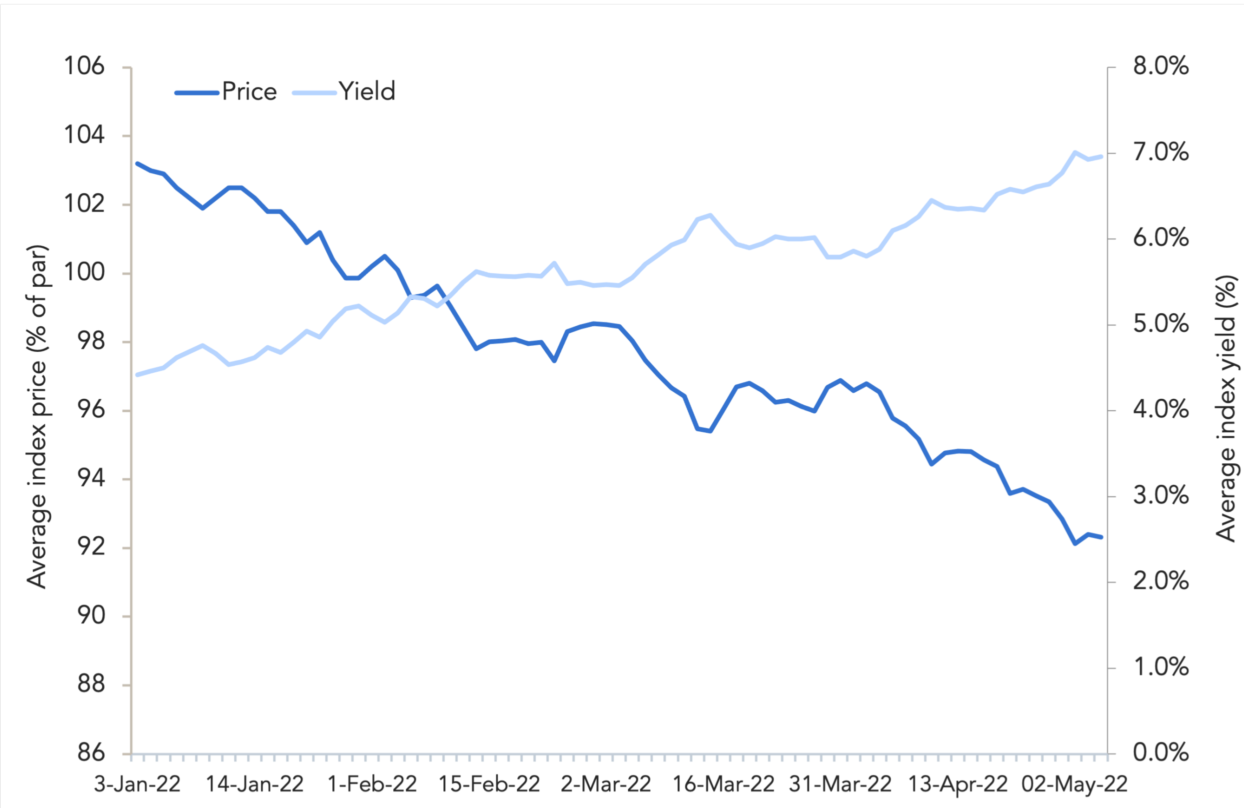

Source: BofA US HY Index, Debtwire Par

Average prices for high yield bonds trading in the secondary market have taken a significant hit this year, falling from a high of 103.17 in January to just 92.31 on 4 May, according to the ICE BofA US High Yield Index. The more than ten-point decline is the largest such slide in bond prices since May 2020, when bond prices were still recovering from the shock of the coronavirus (COVID-19) pandemic. Just last month, issuers including **Diebond Nixdorf**, **Talen Energy** and **Bed Bath & Beyond** saw bond prices slide more than 20%, to 65.56, 40.59 and 55.25, respectively.

Yields have in turn spiked to an average of 6.95%, having reached a high of 7.01% on Monday (2 May), the highest level seen since June 2020. As recently as September, bond yields sat at historically low levels of just 3.94%, before fears of persistent inflation and resultant rate hikes took hold of the market. **Community Health Systems**, for example, saw pricing on its 6.875% paper maturing 2028 fall 14% to 78.46 during the month of April, for an implicit yield of 12.07%.

Following the Federal Reserve's first half-point increase since 2000 on Wednesday, key rates are expected to hit 2.5% to 3% by year-end, sending many high yield investors fleeing to safer assets. Consumer inflation reached 8.5% in March, prompting the central bank's firm action. With additional 50bps rate hikes likely in the cards, fixed-rate debt instruments like high yield bonds have seen a mass exodus of capital. Since January, USD 27bn has been pulled out of the asset class, according to Lipper funds data.

Ten-year treasuries are currently yielding around 3%, and the risk-free nature of the investment has proven enticing to some. Still, to others, this could be a prime buying opportunity, with a net inflow of USD 1.54bn seen during the weeks of 30 March and 6 April, and bonds trading at a substantial discount to leveraged loans, which have seen average bids hovering around the 96.5 level.

(Past performance is no guarantee of future results.)