



September 16<sup>th</sup>, 2021

## Five facts we bet you didn't know about Fixed Income

**Fact #1:** Emerging Market high yield corporate bonds have historically had a lower default rate than US High Yield corporate bonds (Chart 1). EM high yield companies are often quasi-government sponsored, have international cash flows, and sometimes are rated junk just because their country is rated high yield.

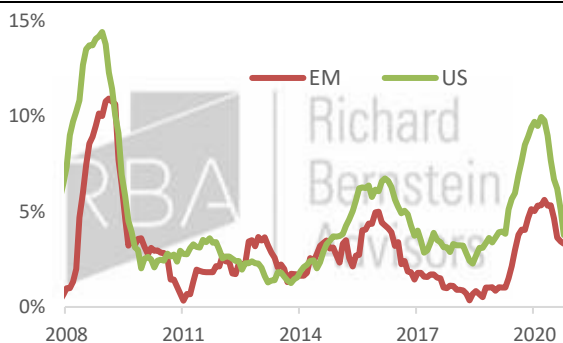
**Fact #2:** Shorter maturity US High Yield corporate bonds, despite offering low yields and tight credit spreads (small risk premiums) to Treasuries, look cheap when compared to future default losses (Chart 2). As the US high yield market valuations have richened, realized and projected default losses have fallen more than spreads\* and yields have declined.

**Fact #3:** The Fed owns 55% of all 10-20y securities (Chart 3). Extraordinary monetary stimulus due to the Covid recession led the Fed to corner the market by purchasing \$80bn of government bonds per month.

**Fact #4:** 23% of global fixed income has a negative yield (Chart 4). The trend to negative yields began back in early 2015 when a global manufacturing recession threatened a credit crunch from the US to China, forcing Central Banks to engage in a coordinated effort to stimulate the global economy. With policy rates already at 0% in much of the world (particularly in Japan and Europe), there was little choice but to drive rates into negative territory. Covid re-accelerated the fall in yields.

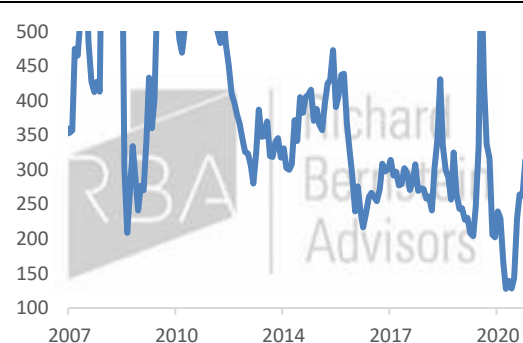
**Fact #5:** Despite the worst year in history for global fixed income (-0.68% return so far this year) there are sectors that have strong positive returns year year-to-date (Chart 5). US high yield corporate bonds have returned nearly 5% in 2021.

**Chart 1: Emerging Market HY default rates tend to be less than US HY default rates**



Source: BofA Global Research (4/30/2008 – 8/31/2021)

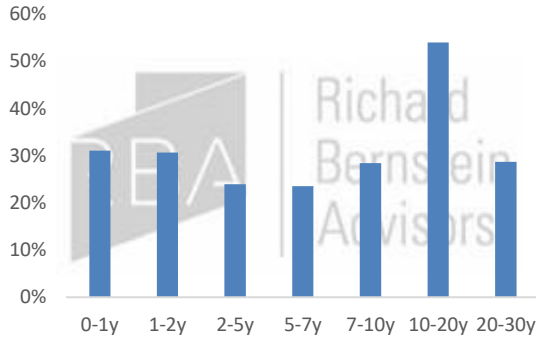
**Chart 2: US HY Spread\* – Projected Default losses highest since 2016**



Source: RBA (9/30/2007 – 8/31/2021)

\* The spread referenced here is the yield difference between the ICE BAML short maturity (0-5y) corporate bond index and the matched-maturity Treasury.

**Chart 3: The Fed has cornered the Treasury market**



Source: NY Federal Reserve Bank (as of 6/30/2021)

**Chart 4: 23% of Global Fixed Income has a negative yield**



Source: BofA Global Research (12/31/2012 – 8/31/2021)

**Chart 5: Many areas of Global Fixed Income have positive total returns**

Fixed Income Sector	Total Return
US High Yield Corporate Bonds	4.91%
US TIPS	4.80%
European High Yield Corporate Bonds	4.00%
US Bank Loans	3.99%
EM High Yield Corporate Bonds	2.80%
Interest Rate Hedged US 10y+ IG Corporate	2.80%
1-5y BBB and Lower Sovereign Debt	2.30%
US Munis	1.43%

Source: RBA, BofA Global Research (as of 9/9/2021)

**Michael Contopoulos**  
 Director of Fixed Income

**Please feel free to contact your regional portfolio specialist with any questions:**

Phone: 212 692 4088

Email: [sales@rbadvisors.com](mailto:sales@rbadvisors.com)

## INDEX DESCRIPTIONS:

*The following descriptions, while believed to be accurate, are in some cases abbreviated versions of more detailed or comprehensive definitions available from the sponsors or originators of the respective indices. Anyone interested in such further details is free to consult each such sponsor's or originator's website.*

The past performance of an index is not a guarantee of future results.

Each index reflects an unmanaged universe of securities without any deduction for advisory fees or other expenses that would reduce actual returns, as well as the reinvestment of all income and dividends. An actual investment in the securities included in the index would require an investor to incur transaction costs, which would lower the performance results. **Indices are not actively managed and investors cannot invest directly in the indices.**

### **HY EM Default rate is a combination of the following indices:**

**ICE BofA Global High Yield Index:** ICE BofA Global High Yield Index tracks the performance of USD, CAD, GBP and EUR denominated below investment grade corporate debt publicly issued in the major domestic or eurobond markets.

**ICE BofA High Yield Emerging Markets Corporate Plus Index:** ICE BofA High Yield Emerging Markets Corporate Plus Index is a subset of The ICE BofA Emerging Markets Corporate Plus Index including all securities rated BB1 or lower.

**ICE BofA 0-1 Year US High Yield Index:** ICE BofA 0-1 Year US High Yield Index tracks the performance of short-maturity US dollar denominated below investment grade corporate debt publicly issued in the US domestic market.

### **US HY Default rate is a combination of the following indices:**

**ICE BofA US High Yield Index:** ICE BofA US High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market.

**ICE BofAML 0-5 Year US High Yield Constrained Index:** ICE BofAML 0-5 Year US High Yield Constrained Index tracks the performance of short-term US dollar denominated below investment grade corporate debt publicly issued in the US domestic market.

**Global Fixed Income: ICE BofA Global Fixed Income Markets Index:** ICE BofA Global Fixed Income Markets Index tracks the performance of developed and emerging market investment grade and sub-investment grade debt publicly issued in the major domestic and eurobond markets, including sovereign, quasi-government, corporate, securitized and collateralized securities.

**US High Yield: ICE BofA US High Yield Index:** ICE BofA US High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market.

**European High Yield: ICE BofA Euro High Yield Index:** ICE BofA Euro High Yield Index tracks the performance of EUR denominated below investment grade corporate debt publicly issued in the euro domestic or eurobond markets.

**EM High Yield: ICE BofA Diversified High Yield US Emerging Markets Corporate Plus Index:** ICE BofA Diversified High Yield US Emerging Markets Corporate Plus Index tracks the performance of US dollar denominated below investment grade emerging markets non-sovereign debt publicly issued in the major domestic and eurobond markets.

**1-5Y BBB and Lower Sovereign Debt: ICE BofA 1-5 Year BBB & Lower Sovereign External Debt Constrained Index:** ICE BofA 1-5 Year BBB & Lower Sovereign External Debt Constrained Index is a subset of ICE BofA BBB & Lower Sovereign External Debt Index including all securities with a remaining term to final maturity less than 5 years and excluding securities issued by countries associated with the geographical region of Asia.

**US Munis: ICE US Broad Municipal Index:** ICE US Broad Municipal Index tracks the performance of US dollar denominated investment grade tax-exempt debt publicly issued by US states and territories, and their political subdivisions, in the US domestic market.

Nothing contained herein constitutes tax, legal, insurance or investment advice, or the recommendation of or an offer to sell, or the solicitation of an offer to buy or invest in any investment product, vehicle, service or instrument. Such an offer or solicitation may only be made by delivery to a prospective investor of formal offering materials, including subscription or account documents or forms, which include detailed discussions of the terms of the respective product, vehicle, service or instrument, including the principal risk factors that might impact such a purchase or investment, and which should be reviewed carefully by any such investor before making the decision to invest. RBA information may include statements concerning financial market trends and/or individual stocks, and are based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. Historic market trends are not reliable indicators of actual future market behavior or future performance of any particular investment which may differ materially, and should not be relied upon as such. The investment strategy and broad themes discussed herein may be inappropriate for investors depending on their specific investment objectives and financial situation. Information contained in the material has been obtained from sources believed to be reliable, but not guaranteed. You should note that the materials are provided "as is" without any express or implied warranties. **Past performance is not a guarantee of future results.** All investments involve a degree of risk, including the risk of loss. No part of RBA's materials may be reproduced in any form, or referred to in any other publication, without express written permission from RBA. Links to appearances and articles by Richard Bernstein, whether in the press, on television or otherwise, are provided for informational purposes only and in no way should be considered a recommendation of any particular investment product, vehicle, service or instrument or the rendering of investment advice, which must always be evaluated by a prospective investor in consultation with his or her own financial adviser and in light of his or her own circumstances, including the investor's investment horizon, appetite for risk, and ability to withstand a potential loss of some or all of an investment's value. Investing is subject to market risks. Investors acknowledge and accept the potential loss of some or all of an investment's value. Views represented are subject to change at the sole discretion of Richard Bernstein Advisors LLC. Richard Bernstein Advisors LLC does not undertake to advise you of any changes in the views expressed herein.