

## High Yield Spreads Near Historical Lows:

2016 was a strong year for high yield bonds, with the Barclays High Yield Index returning 17.13%. Junk bonds easily outperformed all other categories of fixed income although most of this positive performance in the asset class was due to spread compression. When we discuss spread, we are talking about the extra yield on a junk bond versus a similar maturing Treasury's yield. This difference between the yield of the junk bond and the yield of the treasury is the extra return you are receiving for buying a bond whose credit is below BBB- versus an "essentially risk-free" Treasury bond. This spread has compressed so much that the excess return you are getting for taking more credit risk is at one of its lowest points since the financial crisis. The average spread of junk bonds over treasury bonds since 12/31/09 is 4.58% although currently, that spread only sits at 3.38%. In a sign of just how low that spread is today, in the beginning of 2016, the spread on junk bonds was as high as 8%.



## What's AHB's Take:

Given this massive spread compression that has taken place over the past year, AHB currently feels that the excess return in Junk Bonds does not offset the additional risk associated with buying junk bonds, which are of the lowest credit quality. AHB manages Investment-Grade Taxable Bond portfolios and would advise evaluating any high yield positions or portfolios to determine if credit quality and risk/return metrics meet clients' needs.