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Biiwii Commentary

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The article, starting on the next page, is entitled: **"High-Yield Credit Spread Blowout".**

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Along the way, a geek-like interest in technical analysis, a long-time interest in human psychology, and various unique macro market ratio indicators were added to the mix, with the result being a financial market newsletter (and dynamic interim updates), Notes From The Rabbit Hole (NFTRH) that combines these attributes to provide a service that is engaged and successful in all market environments by employing risk management first, and opportunity for speculation second.

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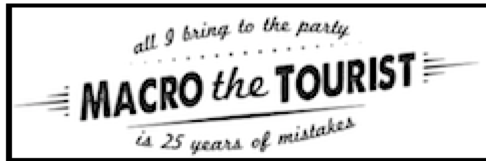
High-Yield Credit Spread Blowout

By Kevin Muir



December 21, 2018

There are lots of theories as to why the stock market is selling off so hard. I have my views but, to a large extent, opinions don't mean much in this environment. It is like when your grandma tells you she was once quite a dish. Sure, it might be true, but it is not doing much for her or anyone today.

I just want to point out the action in 10-year high-yield spreads. This is the rate that high-yield bonds are yielding above government treasuries.

To me, credit spreads are all that matter. Stocks are simply backing up in sympathy with the widening of credit spreads.

According to Bloomberg, yesterday was the biggest one-day expansion in high-yield credit spreads since August 2011. That is not good and it is no wonder stocks are struggling.

Yet, amidst all of this doomsday talk, it is instructive to step back and look at the bigger picture. Have we been here before? And what was the outcome back then?

Well, the past 3-month widening has been a touch more quick, but the move resembles 2014 to a surprising degree.

In 2014, the 10-year Barcap high-yield spread widened from 250 basis points all the way to 525 basis points in mid December. Interestingly, the high of the credit spread corresponded with the FOMC meeting – December 17th.

During the past three months, the credit spread has moved a similar amount to the 2014 episode. The only difference is that this December 19th FOMC meeting did not prove the high but, instead, only encouraged more selling of credit.

Will it get worse from here? Will traders continue selling everything in a desperate attempt to get risk off the sheets for year end?

Or have we reached that 'obscene point' where it makes sense to take out some blue tickets?

Regardless of your view, keep your eye on credit spreads. It will be difficult for stocks to rally without this spread tightening back to more reasonable levels. At the very least we need the selling in credit to stop and for spreads to stabilize.

Yet, if 2018 looks anything like 2014, we very well could have reached that point yesterday.

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