

## EUROPEAN HIGH YIELD RIPE FOR A PAUSE

Euro high-yield bonds have had a very good start to the year, but don't expect much more spread tightening

On January 11, we published a "Chart of the Week" entitled "Things may be looking up for high-yield bonds" (see [Chart of the Week from 1/11/19](#)). We argued that spreads, especially those of European high-yield bonds, had widened too much. Per Wehrmann, Head of European High-Yield at DWS, said then that "we would expect spreads to tighten over the next 12 months".

Three months later, markets have recovered nicely. European high-yield spreads, which traded at a spread of 500 basis points compared to sovereign bonds at the turn of the year, have tightened to 380 basis points now. While this is still high compared to early 2018, Per Wehrmann does not want to become overly optimistic. The factors that many blame for contributing to the massive correction in financial markets in late 2018 remain present for the most part. Incoming economic data has so far failed to recover, especially in Europe. The auto sector's woes have not abated. Mar-

kets are still waiting for a breakthrough in U.S.-China trade negotiations. The only major change is a U-turn in monetary policy. The Federal Reserve's (Fed's) rate-hike cycle is switched from autopilot to wait-and-see, with a decent chance of no increase in policy rates at all this year.

Is it time to take some profits in European high-yield bonds? Wehrmann remains positive for the moment but stresses he is looking to shift down a gear in the months to come. Though low new issuance is supportive, "we have probably already seen most of the spread performance for the year," he says.

basis points



■ Euro high yield\* (option-adjusted spread vs. government bonds)

Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 20/3/19  
 \* ICE BofAML Euro Non-Financial High Yield Constrained Index

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## GLOSSARY

### Basis point

One **basis point** equals 1/100 of a percentage point.

### High Yield (HY)

**High-yield** bonds are issued by below-investment-grade-rated issuers and usually offer a relatively high yield.

### ICE BofA Merrill Lynch Euro Non-Financial High Yield Constrained Index

The **ICE BofA Merrill Lynch Euro Non-Financial High Yield Constrained Index** tracks the performance of euro-denominated below investment-grade corporate debt publicly issued in the euro-bond or euro-domestic markets by non-financial issuers, capping issuer exposure at 3%.

### Monetary policy

**Monetary policy** focuses on controlling the supply of money with the ulterior motive of price stability, reducing unemployment, boosting growth, etc. (depending on the central bank's mandate).

### Sovereign bonds

**Sovereign bonds** are bonds issued by governments.

### Spread

The **spread** is the difference between the quoted rates of return on two different investments, usually of different credit quality.

### U.S. Federal Reserve (Fed)

The **U.S. Federal Reserve**, often referred to as "**the Fed**", is the central bank of the United States.

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