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What impact do the purchases of Investment Grade bonds by central banks have on the valuation of High Yield bonds in Europe and the United States?

Asset purchase programmes are extremely active and have reached unprecedented levels in 2020 on both sides of the Atlantic. This provides immense support to the credit markets, especially investment grade but also, by extension, high yield.

However, mechanisms vary between regions. In the United States, intervention takes place on the high yield market directly. The Federal Reserve can now buy bonds of fallen angels, i.e. companies that until recently were rated investment grade but have been downgraded to high yield as a result of the crisis. This direct intervention also involves the purchase of high yield ETFs.

In Europe, intervention on the high yield market has been more limited. It has so far been restricted to accepting the high yield bonds of fallen angels as collateral for banks' refinancing transactions.

The fact remains that, on both markets, this action by central banks has contributed to the narrowing of spreads and therefore the rise in bond prices. Indeed, with yields now being squeezed very tightly again in the investment grade segment, we are seeing the emergence of a number of participants who are willing to go in search of higher yields, especially in the double B segment, which is the closest to investment grade.

Central bank purchases have therefore had a positive impact on the whole of the market. This was particularly true during the first leg of the rally. Credit markets started picking up at the end of March and during the first stretch, which lasted until late April, the main support factor was technical, i.e. linked to the Federal Reserve's and governments' intervention.

The second period of the recovery, which was particularly strong from mid-May, especially at the beginning of June, was dictated more by the gradual reopening of economies and by Q1 results being reassuring on the whole. Companies were then able to report on the drop in volumes in April and sometimes even May, and this ultimately eased concerns about a number of business sectors.



About Anaxis Asset Management

Anaxis specialises in corporate credit for investors who firmly believe in fundamental investing based on in-depth knowledge of issuers. For more than 10 years, Anaxis has focused on corporate credit strategies and has developed comprehensive expertise and methods renowned for their reliability by its clients.

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