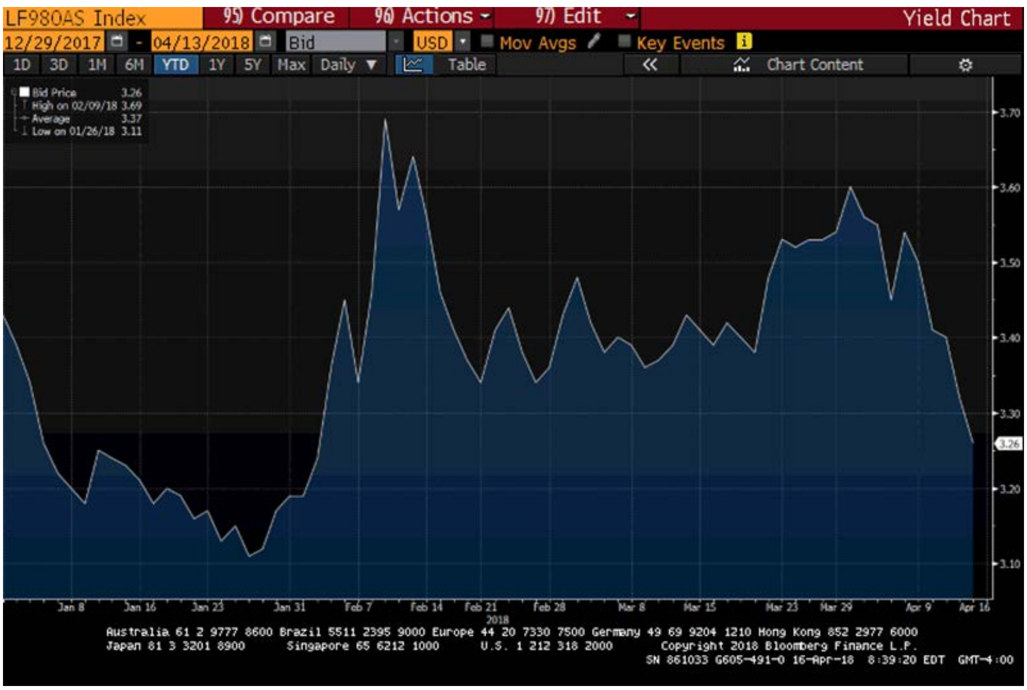
High Yield Energy Rallies

- The high yield bond market turned positive last week, prompted initially by comments from the Chinese on their willingness to open up trade. While the comments were not new, the timing eased concerns of an imminent trade war and brought buyers off the sidelines. Further fuel was added to the fire as the market anticipated a strike on Syria which, together with a Bloomberg story saying that the Saudis are targeting $80 oil, led to an 8% rally in WTI.

- Weekly inflows for the sector were a positive $870 million, the highest since January and the first material inflow in ten weeks. New issue activity was also moderate, further supporting technicals. Year-to-date issuance has been $64.7 billion, which is running about 24% below last year, and issuance net of refinances is down even more. Furthermore, April is a big coupon month with about $6 billion in interest payments coming back to the market.

- The option adjusted spread (OAS) ratio of the high yield versus investment grade now stands at 3.13, down from 4.0 on February 9 and only slightly off the January low of 3.07. If oil continues to rally from here, the ratio could go through the January low, but other sectors will probably stop out sooner.

High Yield OAS



Source: Bloomberg