

## ANALYSTS SKEPTICAL ABOUT BOND MARKET

With so many investors flush with cash, they have been throwing it at **CORPORATE BONDS**, pushing their prices up and their yields down. Thus, even the shakiest corporate borrowers are not paying a lot more than the government pays for a loan.

The interest rates corporate borrowers are paying on their debt have fallen in the past few months. Not only is inflation tame, which helps to hold rates down, but corporate defaults have decreased, making lenders willing to take more chances with their money for less return.

Many analysts and investors are warning the cycle will eventually run its course, meaning higher corporate borrowing rates, which could affect the ability of some companies to thrive, and a hit for investors betting on corporate debt.

Bond investors call the difference between **CORPORATE BOND'S** yield and a **TREASURY BOND** yield "*the spread*." When the spread is so narrow, it means investors see little risk in owning corporate debt.

**TREASURYS** tend to pay lower rates than **CORPORATE BONDS** because the government is so unlikely to default. As spreads have gotten narrower, **CORPORATE BONDS** have been rewarding investors. Even though the interest rates on these bonds are relatively low, the prices of the bonds have been going up because of declining defaults. Now many investors are beginning to worry that with spreads so low, they surely will rise.

## STREET TRANSLATION

The financial system is currently flush with cash and banks and investors are willing to lend money. This allows even weak firms to raise money they need to keep operating. The investor base for corporate debt has expanded, with **HEDGE FUNDS** and **FOREIGN INVESTORS** channeling record sums to the sector. Foreigners are the **biggest owners of U.S. CORPORATE BONDS, with a 29% share**, according to research firm **CREDIT SIGHTS LTD.**, which analyzed data from the **FEDERAL RESERVE**.

Meanwhile **CREDIT DERIVATIVES** are allowing more investors to participate in the market and to hedge their risks. But just like the economy, the credit market goes through cycles, with periods of low defaults and widespread losses. The latest stretch of falling default rates has lasted for more than five years. **PAST CYCLES HAVE TURNED WITHIN FIVE TO SEVEN YEARS.**

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**STREET TRANSLATION(Cont.)**

For now, investors and analysts are on the lookout for any event that could derail the outlook for companies and cause defaults to pickup.

A sharp fall in oil prices, a sudden decline in the U.S. dollar, or a fallout from problems in the subprime mortgage industry are among the potential threats.

They are all looking over their shoulders for the “*boogeyman*”.

If you have any questions and/or require assistance, simply...

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