Markets

Penalty for Being Rated Junk Drops to Lowest Level Since 2007

By Alex Wittenberg
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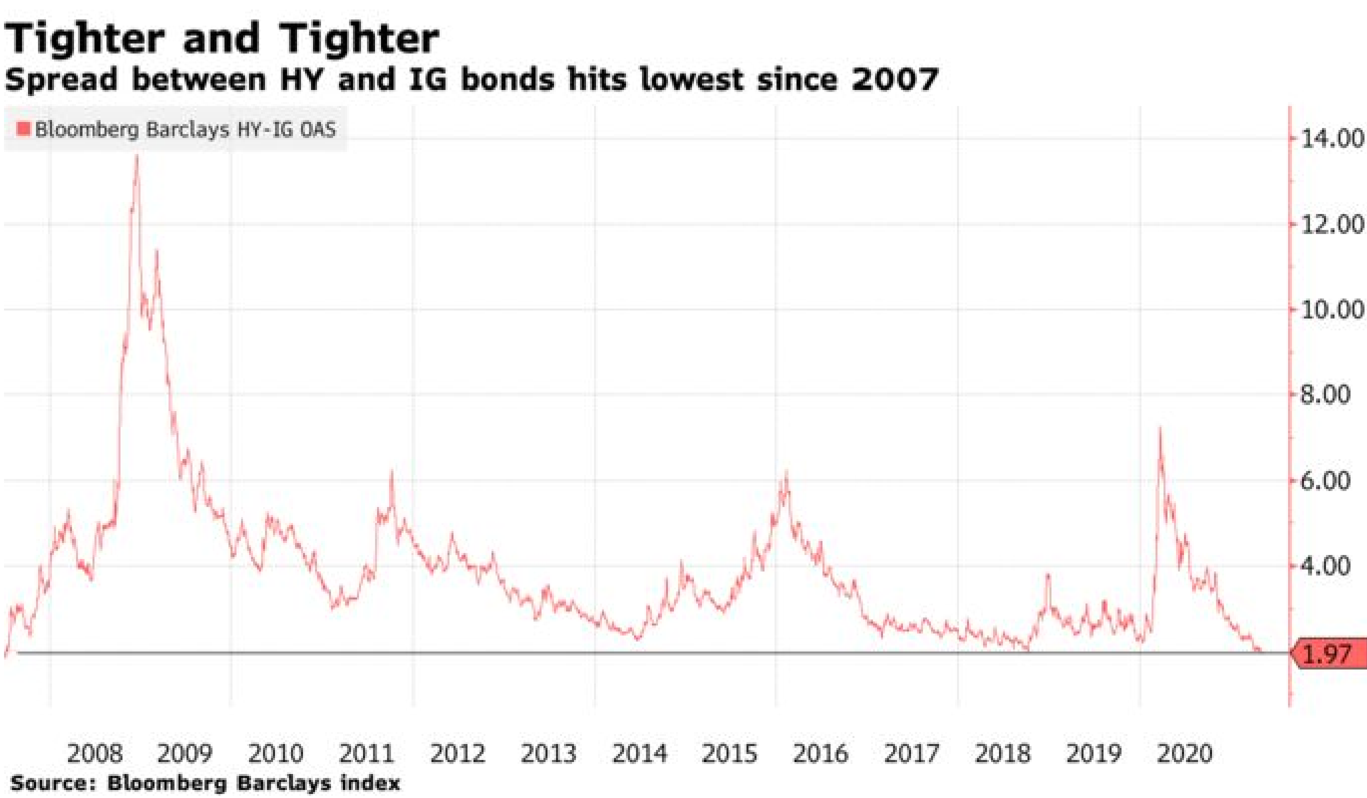
- Spread between high grade and high yield now 197 basis points
- Gap narrows amid rally in high yield as risk appetite grows

For investment-grade companies on the cusp of junk, it might not be so bad on the other side.

The additional cost for firms to borrow in the U.S. high-yield market versus high grade narrowed to 197 basis points Monday, the tightest since before the global financial crisis, according to Bloomberg Barclays index data. The spread last dipped below 200 basis points in 2007, the data show.

A relentless rally in junk-rated debt is narrowing the gap, as high-yield spreads also hit a pre-crisis tight Monday. Yields dropped to an all-time low as investors pile into riskier assets for higher returns, betting a recovery will boost particularly the most speculative names.



Cheap borrowing costs are encouraging a barrage of high-yield issuance, which has broken records in every month this year after setting a new high mark in 2020. It's especially helping the lowest-rated companies tap the market, with CCC yields dropping 34 basis points to a new low of 5.72%.
