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# LQD: DNF

First of all, the LQD is an index of High-Grade Corporate bonds and it is going “DNF” because there won’t be many such bonds around. One of the features of post-bubble contractions has been difficulties in servicing the huge debt burden. While too many pundits have been calling for the return of “inflation”, which would devalue the principal and future coupons, this won’t be the reason for the disaster in bondland.

As we have been writing it up and will continue to do so, this is another Great Bond Revulsion, which is one of the plagues of a contraction. Not enough cash flow to service the debt and traders mark the prices down. And then the credit rating agencies mark down their quality ratings, which is a key part of this study.

It has been price first and then the downgrades.

Which puts the rating agencies behind the market with their downgrades, which last was the case in 2008. When, say, S&P would suddenly announce a “3-Notch Downgrade”. That was considered drastic. Yesterday “Wolf Street” headlined:

> ***“Coup de Grace to Overrated Commercial Mortgage-Backed Securities”***
>
> ***“S&P made up for its tardiness by downgrading the CMBS in one fell swoop by 9 notches from AAA to BBB, just one notch above junk.”***

Again, as we have noted credit rating agencies are reluctant to drop below BBB. Because it would force further collapse.

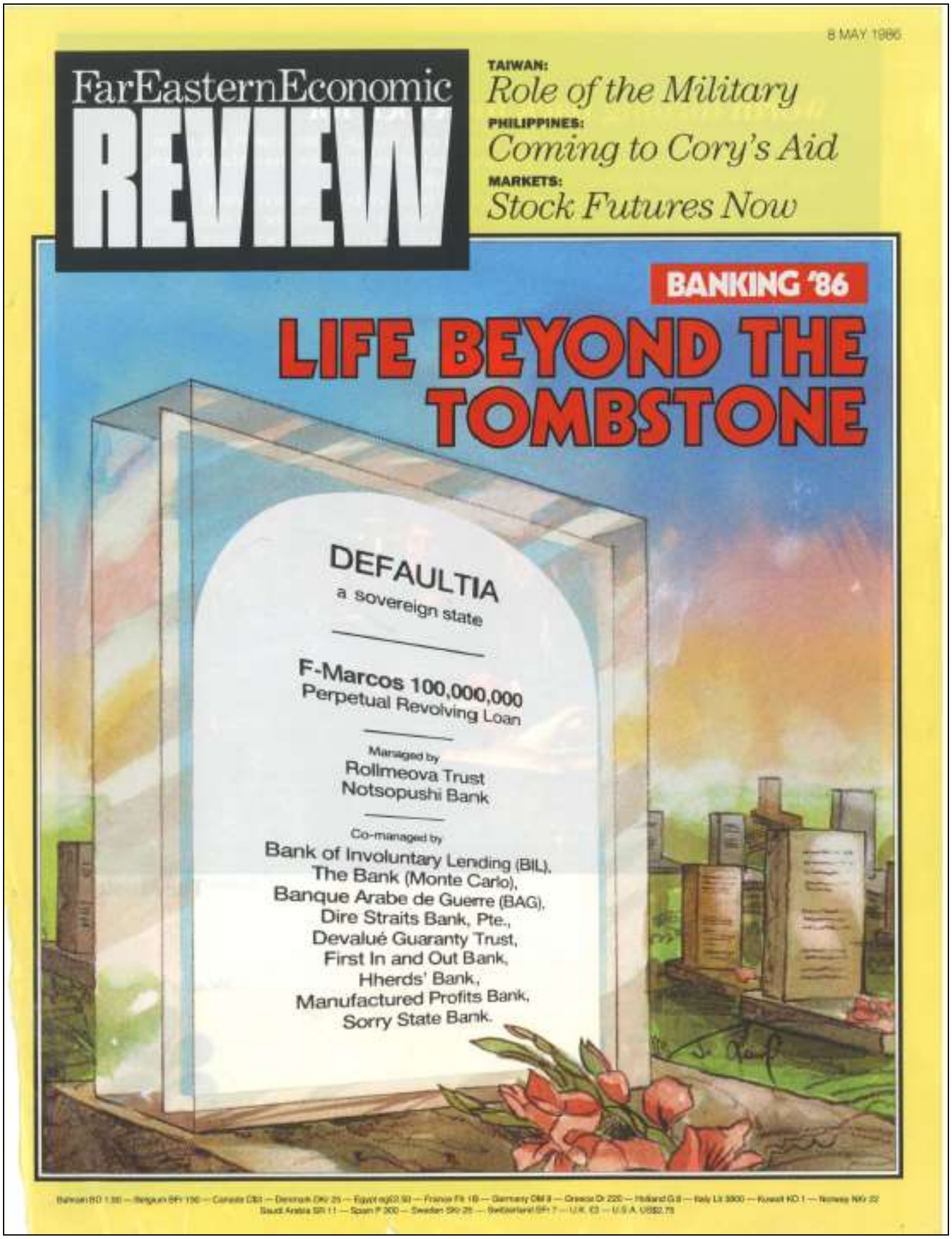
But a nine-notch drop is remarkable. As is the quickness of the reversal from bubble to contraction, of course exaggerated by the Wuhan Virus.

The distinction was the speed of the change, but the equivalent collapses in lower-grade bonds has happened in the early stages of previous post-bubble contractions.

It is profound that once again, investors bought investment-grade bonds in a bubble and will face a long period of credit deterioration with down-grades. We wrote our “Sovereign Debt Follies” some time ago and this is the link:

https://www.dropbox.com/s/maq1qrt9kd9fbnu/200326%20Sovereign%20Debt%20Follies.pdf?dl=0

Meanwhile, T-Bills are again down to zero, so where can investment funds be parked? Ideally, a reasonable return can be obtained from High-Grade Corps maturing in 3 to 5 years. Longer-dated issues will continue to be risky. And risk stuff is to be avoided.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