Junk Bonds

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- Junk bonds are bonds that carry a **higher risk of default** than most bonds issued by corporations and governments.
- Junk bonds represent bonds issued by companies that are struggling financially and have a high risk of defaulting or not paying their interest payments or repaying the principal to investors.
- Junk bonds are also called **high-yield bonds** since the higher yield is needed **to help offset any risk** of default.
- They are high-paying bonds with a lower credit rating than investment-grade corporate bonds, treasury bonds, and municipal bonds.
- Increased buying interest of junk bonds **serves as a market-risk indicator** for some investors.
- If investors are buying junk bonds, market participants are willing to take on more risk due to a perceived improving economy. Conversely, if junk bonds are selling off with prices falling, it usually means that investors are more risk averse and are opting for more secure and stable investments.
- Indian companies sold $3.7 billion in high-yield junk-rated bonds in 2019 (before COVID-19 pandemic), an increase of 187% from 2018. Investors started pouring funds into emerging markets after the U.S. Federal Reserve signalled U.S. interest rates may not rise.
- **RBI's decision to relax offshore borrowing rules** also boosted the sale of junk bonds by Indian issuers. Indian debt also provided investors with diversification from China, where real estate developers issued the bulk of Asian junk bonds, with several of them having conducted two or three bond sales in 2019.
- The junk bond market could get a further boost if confidence rises in the ability of the Insolvency and

Bankruptcy Code (IBC) to speed up the resolution process, so that a defaulting company can be revived in a time-bound manner through change in management.

- More than two months after the coronavirus pandemic shut all economic activity, offshore bond markets have begun opening up for Indian issuers.
- However, junk bonds have been slow to take off. While in the near term only investment-grade bond issuers will be able to tap the market, junk bonds will have to wait for a broader recovery in risk appetite.