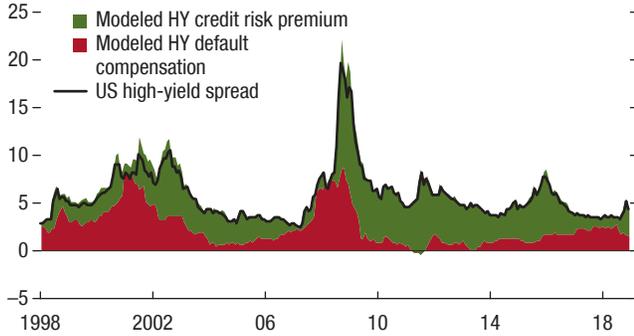


Figure 1.12. Potential Fallout from the BBB Bond Downgrades on the US High-Yield Corporate Bond Market

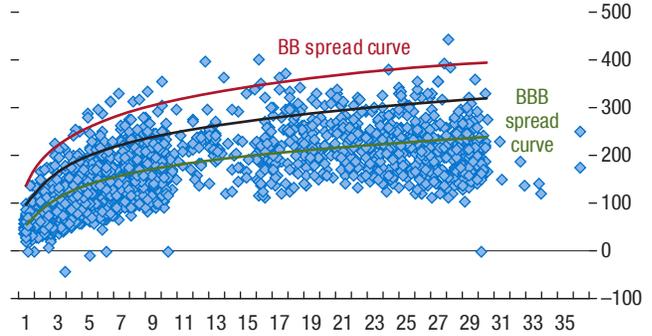
The widening in corporate bond spreads in late 2018 was driven by higher risk premiums ...

1. Decomposition of High-Yield Spreads (Percent)



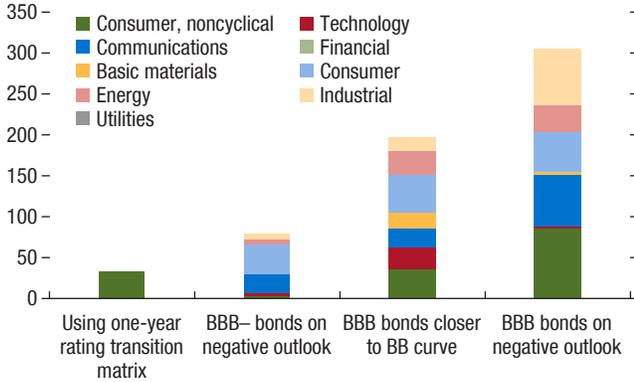
... with approximately \$200 billion in BBB-rated bonds trading closer to high yield than the BBB curve.

2. BBB Corporate Bond Option-Adjusted Spread versus Spread Curve (Basis points)



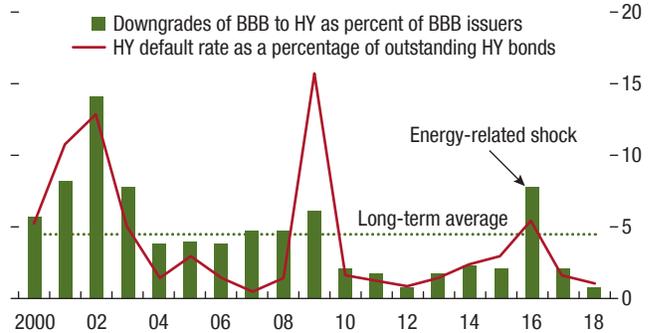
Market-based estimates of potential downgrades to high-yield bonds are within a range implied by rating agencies.

3. Potential Downgrades from BBB-Rated Bonds to High-Yield Bonds (Billions of US dollars; par values)



Waves of downgrades are not uncommon, tend to be led by certain sectors, and are not necessarily associated with recessions.

4. Downgrade Rates of US BBB-Rated Bonds to High-Yield Bonds (Percent)



Sources: Barclays; Bloomberg Finance L.P.; Moody's; and IMF staff calculations. Note: HY = high yield.