

Starboard Weekly Report Ending November 21, 2018 Charts of the Week



This week we are looking at the high yield bond market through the discernment of two different periods; monthly for the ProShares Short ETF (SJB) and daily for the iShares High Yield Bond ETF (HYG). Both charts come from StockCharts.com.

TECHNICAL

The top inverse chart is showing the early signs of a long term turnaround. All three supporting charts for SJB are showing upside potential for a move that appears to be just beginning. The HYG bottom chart is clearly showing a short term breakdown and if the price remains below the 200 day moving average then we will get a confirming bearish crossover. If this is the beginning of a longer term cyclical down draft for high yield, then SJB has considerable upside. The HYG traded in the low 30's in 2008 which is 60% lower than the current prices and that would indicate potential for SJB to return to its new issue level in the 40's.

FUNDAMENTAL

Attached to your email is a USA today article "*Ten Years after financial crisis: Is corporate debt the next bubble?*" USA Today is hardly my preferred financial news source. My son had a teacher who called it the "McPaper"; but they do spew out facts and that is what this article does. And the facts are frightening; especially the comments on collateralized loan obligations (COL) in a rising interest rate environment. There are 2 trillion dollars in loans coming due over the next few years and if the economy turns sour it will be near impossible to refinance them. The overall corporate loans have increased to 3.3 trillion since 2008 when they were 1.6 trillion. The high yield loans went from 781 billion to 1.3 trillion over the same period. Two thirds of US corporate debt is rated BBB or less suggesting that there could be wholesale defaults in a difficult economic environment. This is why our president does not want the FED to raise rates and also why the stock market averages are all trading below their respective 200 day averages. It will get interesting as years of artificially controlled interest rates come to an end.

ASIDE

"The good times of today, are the sad thoughts of tomorrow." Reggae Singer Bob Marley

What a profound description of our debt. May your Thanksgiving be full of good times with no sad thoughts of tomorrow.

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