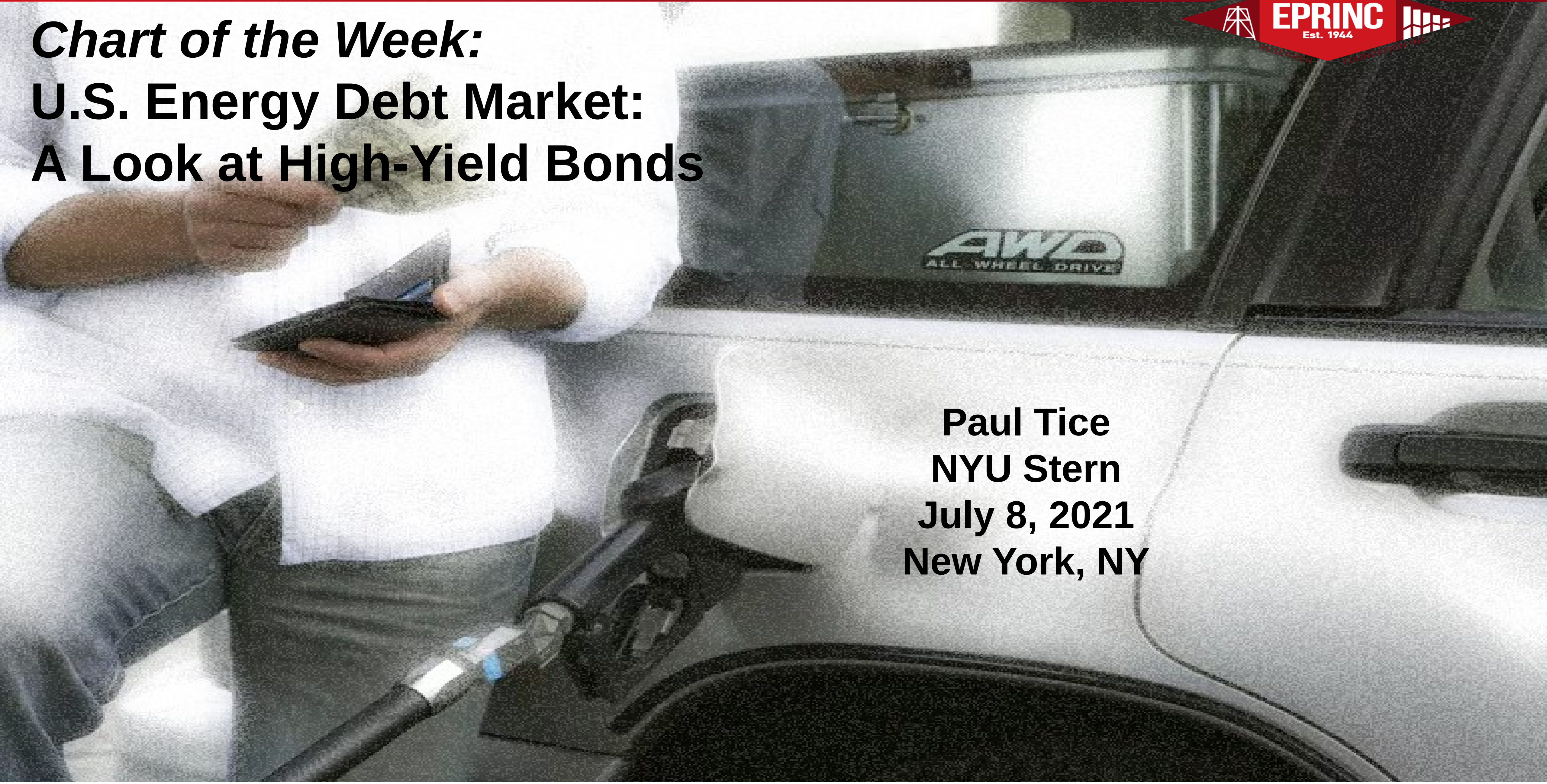

Chart of the Week:
U.S. Energy Debt Market: A Look at High-Yield Bonds

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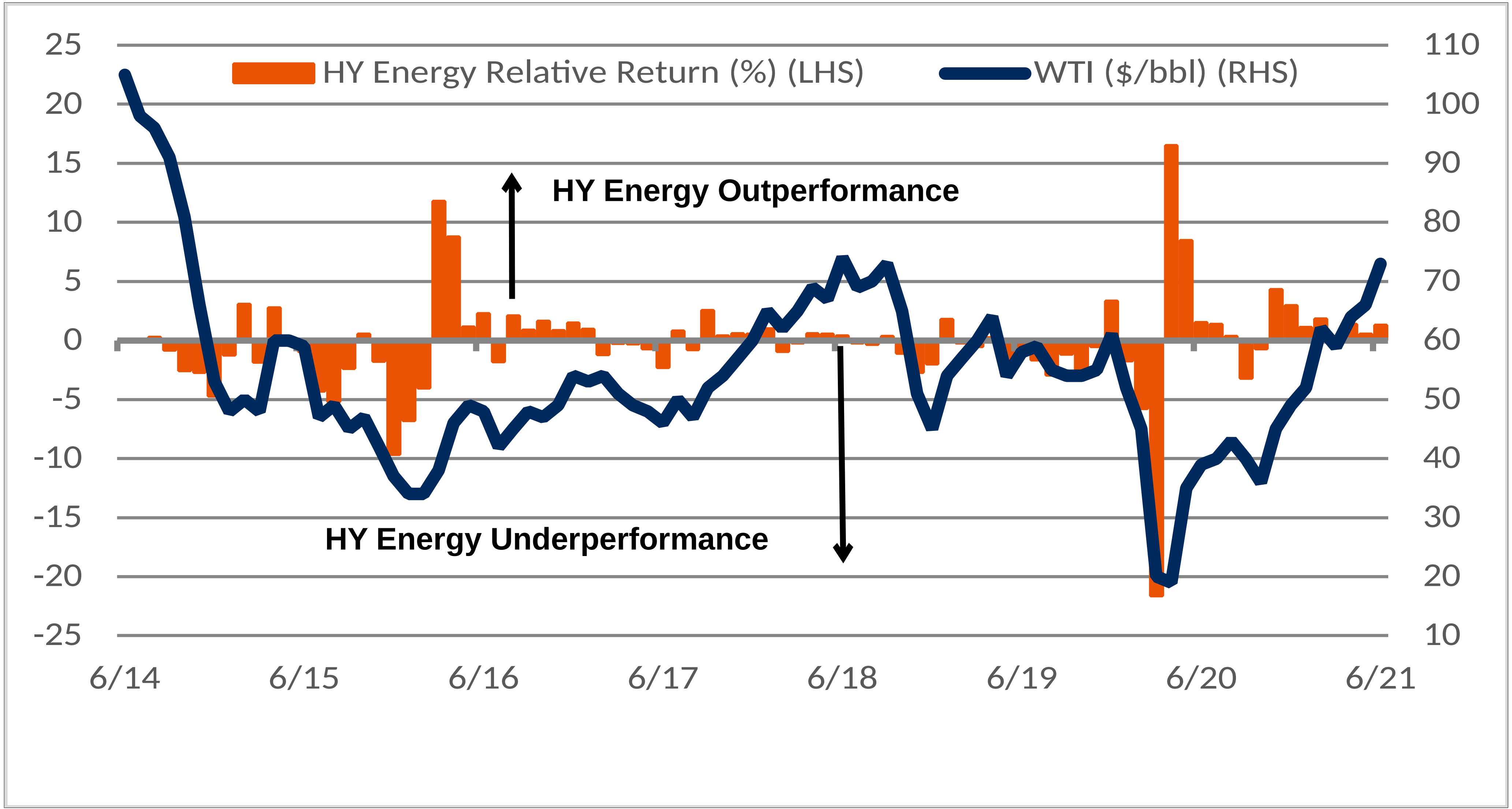
July 8, 2021
New York, NY

U.S. High-Yield (HY) Energy Bond Market Performance



Source: Bloomberg Barclays, Bloomberg

U.S. High-Yield (HY) Energy Bond Market Performance – Key Points

- As a follow up to our recent chart showing how the U.S. energy bond markets continue to shrug off stranded asset risk concerns for oil and gas companies (evidenced by the lack of meaningful steepening in the credit spread curve for investment grade energy bonds), this week's chart focuses on a similar story in the high-yield energy bond market.
- Despite increased oil price volatility and ongoing restructuring in the shale oil & gas industry since 2014, along with a concerted effort by ESG and sustainability activists to choke off capital to fossil fuel companies, U.S. high-yield investors have maintained exposure to—and continue to actively trade—the energy sector due to its significant market proportion and outsized return potential at various points in the oil price cycle.
- As of June 30, 2021, the energy sector comprised 13.4% of the Bloomberg Barclays High-Yield Corporate Bond Index, with total outstanding debt including a number of downgraded large-cap energy names ("fallen angels") that dropped out of the investment grade bond index during 2020 due to the pandemic and OPEC+ oil price war.
- Since the beginning of 2020, record new high-yield energy issuance of $108 billion through June 30, 2021 (on top of $58 billion of "fallen angel" bonds) has been easily absorbed by the market.
- Since the March 31, 2020 high-yield market trough, high-yield energy bonds have significantly outperformed the broader index by an aggregate 38.4% as oil prices have steadily recovered, highlighting how U.S. energy bondholders still remain focused on fundamentals, relative value and performance despite all of the press swirl around ESG.
- The expanded version of this slide deck is available at: https://eprinc.org/chart-of-the-week/
- For more information on this chart, please contact Paul Tice, ptice@stern.nyu.edu