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Effect of Being a Fallen Angel on Bond Ratings and Yields

Kelly Cai

The Journal of Trading Spring 2013, 8 (2) 7 - 13

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Abstract

This antigle investigates whether bond ratings serve as a basis for market prices of bonder. Unlike most previou work, with the focused on rating changes, the sation compares the yield spread of general high-yield honds and high-yield bonds issued by fallen angels (firms that no longer carry an investment-grade rating). If investors totally depend on the second have the same yield spreads. This study finds, however, that bonds of identical ratings have different yield spreads. Specifically, for the BB/Ba rating **Accept All Cookies**

category, yields of high-yield bonds issued by fallen angels are higher than the yields of similarly rated bonds issued by firms that have a speculative rate from the beginning. These findings suggest that bond ratings do not perfectly capture information related to bond characteristics in general. Results also suggest that rating agencies are too optimistic when rating high-yield bonds issued by fallen angels.

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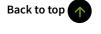
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