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[WSJ: What Economic Dangers Is the Bond Market Pricing In?](#)

Corporate debt was hit by the recent panic, but true concerns are mostly limited to a few corners of the market

Even more so than stocks, bonds are often seen as an economic bellwether. If so, they are heading in a pretty positive direction.

The difference, or spread, between Treasury yields and the rate at which companies borrow has widened. Option-adjusted spreads on the investment-grade paper issued by blue-chip corporations closed at 1.11 percentage points Tuesday—an aftershock of the big stock-market selloff the day before. Spreads on debt issued by risky “high yield” issuers hit 3.81 percentage points. Both were the highest since last November. U.S. municipal bonds have been affected as well.

However, trading has normalized since. The spread on high-yield bonds closed at 3.4 percentage points Thursday. This still implies a rise in the default probability to 5.7% from 5.1% at the end of May, despite the fact that, as of the latest June data published last week by Fitch, actual U.S. leveraged-loan and junk-bond default rates had inched down to 4.06%. But it is a small increase, and it may soon fully come back down.

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The Wall Street Journal

By Jon Sindreu

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