RATHBONES

Weekly Digest

By John Wyn-Evans
Head of Market Analysis

Junk

17 November 2026

The history of junk bonds offers lessons for investors in 2026, although history tends to rhyme rather than repeating exactly.

Quick take:

- It's important to pay close attention to cash flow as opposed to just headline earnings.
- Higher interest rates could prompt highly indebted 'neoclouds' to rein in spending, presenting risks for memory chip suppliers and the companies behind the buildout of AI computing capacity.
- Digging back into financial market history always offers useful lessons for investors.

Of all the phobias, irrational fear of all things associated with the number 13 (triskaidekaphobia) seems one of the odder ones. Spiders and snakes, maybe. Narrowing it down to fear of a certain date, Friday the 13th, produces an even longer name: paraskevidekatriaphobia.

But Friday the 13th seems to have a funny habit of delivering on its threat. A quick search reveals all manner of unfortunate events that have taken place on that date, ranging from plane crashes to the bombing of Buckingham Palace during World War Two. But then, history is full of unfortunate events – and a statistically rigorous assessment would doubtless show that Friday the 13th is no more unfortunate than any other date.

That said, on Friday, 13 October 1989, we saw an early incident of a computer virus causing widespread disruption – the 'Jerusalem virus', actually set up to cause trouble on Friday the 13th (into its second year, in 1989). We also saw a stock market mini-crash in the US: the S&P 500 index fell 6.1% in a single day. I remember it clearly, as I was working in the US at the time. It was blamed on the collapse of a proposed leveraged buyout of United Airlines (UAL) by its management and employees. Compared to the sums of money being thrown around today, the $6.75bn valuation placed on the deal seems laughably small, but it was big for its time – and companies' share prices in general

This information reflects our general views and should not be taken as a recommendation or advice as to how any specific market is likely to perform. The value of investments can go down as well as up and you could get back less than you invested.

had been buoyed, among other things, by the chance that takeover offers priced at a premium to the current stock value.

Most importantly, the failure of this deal presaged the end of a lucrative takeover boom built on increasing levels of debt, initially thanks to the Federal Reserve Bank's (Fed's) cut in interest rates in response to the stock market crash of October 1987. At the same time, the Fed had also signalled its intent to shield investors from extreme market volatility, a message that encouraged more speculative behaviour. This found its era-defining outlet in the market for junk bonds - bonds deemed insufficiently safe to merit 'investment-grade' status.

A new era

Junk bonds, in their earliest guise, were investment-grade bonds issued by companies that had run into financial difficulties. When a company's bonds lose that rating, they're known as 'fallen angels'. The most famous example of such a fall from grace involved the Ford Motor Company in March 2020, when the pandemic pushed its finances over the edge. I'm happy to report that it has since regained investment-grade status.

A canny Wall Street financier (and legend, despite his various run-ins with the law), Michael Milken, is credited with developing the junk bond market in the 1970s as a place to raise capital for companies whose finances would not merit investment grade, but which might offer higher returns to investors willing to take on more risk. He also worked out that the more issuance there was, the greater the ability of investors to diversify their risk across a range of industries and companies. This led to a lower probability of a bond portfolio being wiped out by a single default. In other words, there were strong incentives for both borrowers and lenders to expand the market.

To begin with, the bulk of the new money was raised by companies that wished to invest capital in their existing businesses but were deemed too risky by banks. As interest rates fell during the 1980s and the economy expanded, a new breed of issuer emerged. This is the corporate raider: an investor who issues debt to acquire companies – sometimes debt issued by the companies themselves – and make a profit from restructuring them'. This group is also populated by names that have become part of Wall Street history (again, not without controversy), including Carl Icahn, T Boone Pickens, and Ivan Boesky. Another, Nelson Peltz, is still going strong today as an 'activist' investor.

Such big characters were source material for the character of Gordon Gekko in the culturally iconic film *Wall Street*, released in 1987. Although the film was intended by director Oliver Stone to be a cautionary tale of what happens to those who fall

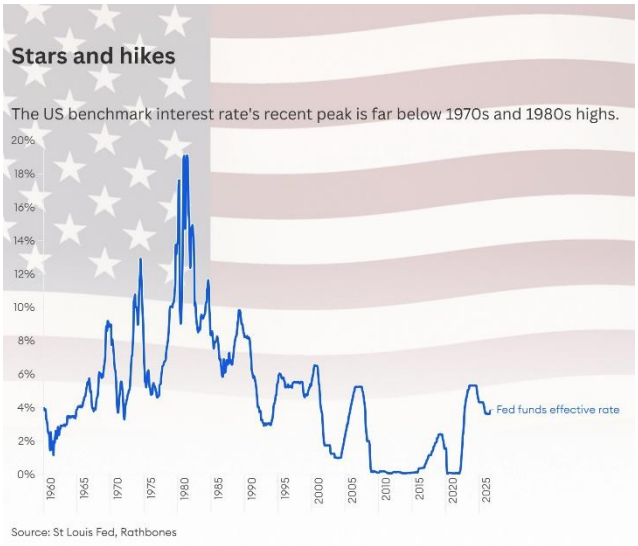
This information reflects our general views and should not be taken as a recommendation or advice as to how any specific market is likely to perform. The value of investments can go down as well as up and you could get back less than you invested.

prey to greed, audiences viewed it as a celebration of excess. It set a tone for risk-taking for the rest of the decade – not to mention a penchant for wearing braces!

The excesses did not go unnoticed by the Fed, which started to raise interest rates again in March 1988. To give some context, the first increase was from 6.5% to 6.75% – a lot higher than rate today. They eventually reached 9.75% in February 1989, so it's unsurprising that companies reliant on debt began to struggle. But market cycles have a habit of surviving beyond their sell-by date, driven by their own momentum, and the last deals of the buyout boom were done at increasingly stretched valuations with little room for disappointment. The failure of the UAL deal was a message that capital would be much less easily available for such enterprises.

The UK was swept up in the fever too. Household names such as Gateway (supermarkets), Magnet & Southern (kitchens), MFI (furniture) and Wickes (DIY and building materials) were bought out in leveraged deals. None fared particularly well from an investment perspective.

We also had our own corporate raiders, the most famous being Lord Hanson of the eponymous Hanson Trust. The *Wall Street* character Sir Larry Wildman is generally viewed as inspired by Sir Gordon (later Lord) White, who ran the highly acquisitive US arm of Hanson Trust. The company's logo was intertwined Stars and Stripes and Union flags. The rise and fall of the great British conglomerates (including Hanson, BTR, and Tomkins) merits a review of its own. Let's just say that there was some interesting accounting involved. The existence of such practices is a good reason why we pay very close attention to cash flow, as opposed to just the headline earnings.



Payback time

As for the US stock market, having peaked on 10 October 1989, it failed to make another meaningful advance until February 1991, even though the Fed cut interest rates to 6% again in the interim. This is because a lot of excess, in the form of overvalued stocks and large amounts of debt, had to be worked out of the system.

This information reflects our general views and should not be taken as a recommendation or advice as to how any specific market is likely to perform. The value of investments can go down as well as up and you could get back less than you invested.

Weekly Digest

The fact that we started by looking at Friday the 13th is a red herring, even if last week's example brought us a widespread outage of Microsoft's Outlook email software and a massive failure of the US air traffic control system. The human mind is all too ready to confuse correlation with causation. This leads to all sorts of misapprehensions, to which we, as investors, must always remain alert.

But we can draw a line from the late 1980s to the present. The junk bond market is alive and well, although now rebranded as the more alluring 'high-yield' bond market. It's still an important venue for raising buyout funds.

This market has also been used more recently to fund certain elements of the AI buildout, notably by neoclouds, which rent out to customers the servers and chips that make the use of AI possible. If rising interest rates and uncertainty over future demand for computing power persist, investors could withdraw capital from this market or at least demand an interest rate that makes the finances less viable.

Although we tend to steer clear of more highly leveraged companies, any slowdown in their growth can have effects all along the supply chain. We're currently reassessing what this means for both suppliers of memory chips and the 'picks and shovels' companies behind the buildout of AI computing capacity.

This information reflects our general views and should not be taken as a recommendation or advice as to how any specific market is likely to perform. The value of investments can go down as well as up and you could get back less than you invested.

RATHBONES

Weekly Digest

Regional highlights

UK. The UK economy continues to display resolute strength. GDP grew by 0.2% in September month-on-month, with the annual figure coming in at 1.9%. There seems to be a healthy contribution from professional & business services, which might be AI/tech-driven. There's certainly growing evidence of a greater propensity to invest. September's employment data was a more mixed bag, even if the unemployment rate fell from 4.7% to 4.6%. That was based on the Labour Force Survey measure showing a net new 155k jobs created over the last three months. However, all data from the Office for National Statistics remains under question at the moment. Data taken from payrolls (as per PAYE) suggests a loss of 34k jobs in October. Overall, taking in both data sources, employment looks flat. The silver lining, from an interest rate perspective, is that private sector wage growth remains subdued at 3.1%. This is seen as consistent with inflation returning to 2%, although much still depends on future energy prices. This could hold the Bank of England back from too many base rate hikes – certainly not the near-5% level (vs 4% today) that's priced in by futures markets.

US. Investor confidence was shaken last week by a 'hot' inflation print. Headline consumer price inflation was 0.4% month-on-month in October, above the expected 0.3%. There was no annual figure published because data was not collected in October 2025, owing to a government shutdown. However, estimates for a separate measure of inflation based on personal consumption indices suggest that prices are rising at around 3.9%, still well above the Fed's 2% target. This triggered a big shift in interest rate expectations last week, especially as the inflation numbers were accompanied by hawkish comments from a couple of Fed governors, notably Chris Waller, who floated the possibility of a 50 bp rate hike at December's meeting. The probability of a 25bp rate rise jumped to 109% (one rise and some chance of another one) from 75%. There are now more than three quarter-point increases priced in over the next 12 months, vs fewer than two just a week ago.

Europe. The ZEW Economic Sentiment Index bounced back to 26.5 in November from 18.5 in October. Respondents seem to have reacted favourably to the US midterm election results – especially to increased hopes, following the results, of a resolution to the US war with Iran. This sent the oil price down sharply, helping Europe, as a big net importer of oil and gas. Lower energy prices would relieve the pressure on the European Central Bank to increase interest rates further. The assessment of current conditions was unchanged but still

This information reflects our general views and should not be taken as a recommendation or advice as to how any specific market is likely to perform. The value of investments can go down as well as up and you could get back less than you invested.

stands at recent highs, with AI investment and higher defence spending supporting the industrial sector. The second reading of Q326 GDP growth confirmed the initial figure of 1.3% year-on-year.

China. China's monthly data release was another disappointment, coming in below expectations on every metric. Retail sales in October increased just 0.4% year-on year. Households remain unwilling to increase spending, especially with house prices still falling and residential property sales very weak. Property investment is running 21.6% below the levels of a year ago. High-tech exports are the economy's main redeeming feature. This led to annual industrial production growth of 4.8%, although that was still lower than the expected 5.3%. A planned government-funded increase in infrastructure spending is unlikely to make households feel much better.

This information reflects our general views and should not be taken as a recommendation or advice as to how any specific market is likely to perform. The value of investments can go down as well as up and you could get back less than you invested.

Additional information

If you no longer wish to receive this publication, please call 020 7399 0000 or speak to your regular Rathbones contact.

Rathbones, Greenbank and Rathbones Financial Planning are a trading names of Rathbones Investment Management Limited, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered office: Port of Liverpool Building, Pier Head, Liverpool L3 1NW. Registered in England No. 01448919.

Rathbones Investment Management International Limited is the registered business name of Rathbones Investment Management International which is regulated by the Jersey Financial Services Commission and is licensed by the Guernsey Financial Services Commission. Registered office: 25/26 Esplanade, St. Helier, Jersey, JE1 2RB. Company Registration No. 50503. Branch: Level 4, Mill Court, La Charroterie, St Peter Port, GY1 1EJ, Guernsey. License No. 3058882. Rathbones Investment Management International Limited is not authorised or regulated by Financial Conduct Authority or Prudential Regulation Authority in the UK and its services are not covered by UK regulatory protections.

Copyright ©2026 Rathbones Group Plc. All rights reserved. No part of this document may be reproduced in whole or in part without express prior permission.

Call:

For contact details of your nearest office please visit

www.rathbones.com/about-us/our-offices

Visit:

rathbones.com

Email:

enquiries@rathbones.com

For specialist ethical, sustainable and impact investment services:

Greenbank

0117 930 3000

enquiries@greenbankinvestments.com

greenbankinvestments.com

For offshore investment management services:

Rathbones Investment Management International

01534 740 500

rathboneimi.com

@rathbonesgroup

Rathbones Group Plc

@RathbonesPlc

RATHBONES