CHAPTER 1

Development of the High Yield Industry

Chapter 1 lays the groundwork necessary for understanding the U.S. corporate high yield asset class. It starts by explaining what high yield debt is and how it compares to investment grade debt, the two broad fixed income categories. The chapter then covers the importance of credit ratings before providing a short history on how the modern day, high yield market evolved. This history tells a story of market growth that was not always sound, epitomized by the early 1990s "junk bond" bubble. However, the high yield industry has grown from its experiences. Improved underwriting standards, regulatory scrutiny, and greater investor protections ultimately fostered more sustainable growth manifest in today's $2.5 trillion market. To note, terms that might be confusing or are industry jargon are highlighted in italics and included in the Glossary.

1.1 WHAT IS HIGH YIELD DEBT?

High yield debt, often referred to simply as *high yield,* is debt rated *below investment grade* by major rating agencies such as Moody's Investor Services, Standard & Poor's (S&P), or Fitch Ratings. The highest rated debt is labeled *investment grade* by the rating agencies and has low risk of default or loss. This ratings category includes U.S. government bonds and the debt of large public companies such as General Electric, Microsoft, and ExxonMobil. Rating agencies label debt with below BBB-/Baa3 ratings as *below investment grade* or *speculative grade*, which constitute the high yield market. As the name "high yield" suggests, this category of debt provides a high rate of return to compensate for greater credit risk, or the possibility that the debt does not get repaid in full.

Leo Tolstoy's famous observation that "happy families are all alike; every unhappy family is unhappy in its own way" aptly describes the differences between investment grade and below investment grade borrowers as well. Investment grade borrowers are like happy families, enjoying access to the capital markets at attractive rates. For example, Apple (Aa1/AA+ rated) raised $5.5 billion in 2013 of 10-year debt at 2.4%, a rate similar to what the U.S. government pays. The risk of default for investment grade issuers is considered negligible; therefore, the borrowing rates are similar and more affected by the *yield curve* – or interest rates of government debt with different maturities – which serves as a benchmark for all debt. Though the prospects for investment grade companies' stock differs, their debt is generally well insulated from growth-related risks. In this way, the "happy families" are all alike.

High yield borrowers are more like unhappy families borrowing at expensive rates, each for its own reason. The high yield issuer base is broad; it includes countries, municipalities and corporations such as Costa Rica, Detroit and Sprint. Each high yield issuer has unique challenges and opportunities. Unlike investment grade companies, growth prospects matter more because these entities are more heavily indebted. As Moody's and S&P ratings migrate to lower categories such as Caa1/CCC+, the potential for default and loss amplifies. What binds high yield issuers into one asset class is simply a rating designation: below investment grade. But high yield issuers, unlike investment grade companies, carry more idiosyncratic risks, similar to stocks, and must pay higher interest rates on their debt as a result. In Tolstoy's words – and the debt markets – high yield issuers are the unhappy families, with each being unhappy in its own way.

Table 1.1 details the highest to lowest ratings provided by Moody's and S&P. Though each rating agency uses a different methodology to estimate and categorize credit risk, they produce comparable metrics. For example, a Baa2 rating by Moody's is similar to a BBB rating by S&P. This is shown below. The notching can also be viewed comparably, where a "1" from Moody's is similar to a "+" from S&P. Notching provides an added degree of segmentation which shows how close an issuer is to the next ratings tier.

Regarding the ratings chart, it's interesting to note that high yield is a somewhat arbitrary designation. The ratings agencies don't provide clear guidance on why BBB-/Baa3 serves as the demarcation line between

TABLE 1.1 Moody's and S&P Ratings Categories

Credit Risk	Moody's Rating	S&P Rating
Investment Grade		
Highest Quality	Aaa	AAA
High Quality	Aa1/Aa2/Aa3	AA+/AA/AA−
Upper Medium Grade	A1/A2/A3	A+/A/A−
Medium Grade	Baa1/Baa2/Baa3	BBB+/BBB/BBB−
Below Investment Grade		
Lower Medium Grade	Ba1/Ba2/Ba3	BB+/BB/BB−
Low Grade	B1/B2/B3	B+/B/B−
Poor Quality	Caa1/Caa2/Caa3	CCC+/CCC/CCC−
Most Speculative	Ca	CC
No interest being paid or bankruptcy petition filed	C	C
In Default	C	D

what they consider investment grade and below investment grade. The decision, however, made many decades ago, now broadly classifies the entire fixed income market, which in the United States is estimated at over $40 trillion.[1] Today, any outstanding debt obligation – whether it is issued by a company, country, municipality, or even a structured finance vehicle – can be considered investment grade or below investment grade risk.

1.2 THE IMPORTANCE OF CREDIT RATINGS

Credit ratings are important to high yield investors and issuers for a few reasons. First, high yield debt investors generally require issuers to obtain credit ratings from two agencies on any debt offering. Although investors rely on their own business's *due diligence* – or evaluation of the issuer – when making investment decisions, the ratings still have an impact on the investment decision. This is because many high yield investors have

[1]Credit Suisse, SIFMA.

investment mandates shaped by ratings. For example, a certain type of loan investor may only be able to buy a limited number of CCC rated credits, irrespective of what they think of the risk-return. Also, many buyers utilize lower cost borrowings to make investments and seek to profit from the spread. Ratings can affect the amount of financing available or regulatory capital that must be set aside for high yield investments. If a lower rating makes a debt issue more expensive to purchase with financing, investors seek compensation for this cost through a higher interest rate or yield to make the investment sufficiently profitable. It therefore goes without saying that lower ratings result in higher interest costs to issuers.

But the two broad ratings categories – investment grade or below investment grade – when taken literally are actually misleading. Rating agencies in fact have no interest in opining on whether a debt obligation is investment-worthy or not. Rather, the ratings of an issuer or its debt instrument serve only as a third-party assessment of the creditworthiness of the issuer and its ability to meet its debt obligations as they come due. Whether one chooses to buy or sell a debt instrument depends less on whether it is deemed investment or below investment grade and more on whether the price and yield compensate for the risk of loss. Further, credit rating agencies' estimates sometimes bear little relationship to reality. In 2008 for example, the rating agencies grossly underestimated the risks of numerous credit investments that had sub-prime mortgage exposure. Even though the rating agencies are not perfect, they still play an important role in the fixed income industry by constituting a third-party assessment of risk. Ratings can be relied upon for their independence and absence of conflict.

Something to keep in mind is that ratings can be upgraded or downgraded, which means they can change over time with credit developments and periodic ratings review by credit rating agencies. Some high yield issuers eventually have debt that is upgraded to investment grade. When ratings are downgraded from investment grade to below investment grade as they were for Ford and GM in 2005, it causes a turnover in the investor base. Initial investors who prefer, or can only hold, higher quality investment grade issues sell their positions, usually at a loss. New investors, with different investment mandates or who believe the return potential at a lower purchase price now compensates for the risk, step in. Trading in the debt of these types of issues is exactly how the modern high yield market got its start.

1.3 THE ORIGINS OF HIGH YIELD

Strictly speaking, the high yield market took shape in the early 1900s when major rating agencies began providing ratings on government, municipal, and corporate debt. After all, high yield – as it's defined – can only exist with ratings. In practice, however, speculative grade debt existed well before the rating agencies. It was used to finance important modern world developments such as early sea exploration, railroads, banks, and steel companies. Even the United States borrowed heavily from the Netherlands and France in the 1780s shortly after its founding in a way similar to emerging market countries borrowing from the developed countries of today. The potential risks of lending to a newly formed country made this debt akin to what we now consider speculative grade debt.

Speculative grade debt is a natural component of the capital markets system. Similar to how a happy family might become unhappy (e.g., Mom loses her job, Dad becomes ill), creditworthy issuers sometimes hit hard times; and the unthinkable happens – an issuer loses its investment grade rating. During the Great Depression, for example, many investment grade issuers had their debt downgraded to speculative grade status as their financial health and prospects deteriorated.

But the nature of high yield debt has changed in the past four decades. Up until the 1970s, the high yield universe consisted mostly of companies whose debt had been downgraded to below investment grade ratings or so-called *fallen angels*. Fallen angels include retailers like JCPenney who once prospered and raised investment grade debt to facilitate rapid expansion. As the prospects of these businesses changed and their performance declined, their debt was downgraded, eventually to high yield or "junk" status. When investment grade debt becomes high yield, it carries a low interest rate but trades at a steep price discount. An example would be a 3% bond trading at a price of 70%. What this means is that an investor can buy a $1,000 bond for $700. The $300 discount provides additional compensation, or yield, to account for the higher risk of loss that now exists. For example, if this 3% bond had five years remaining and was paid in full at maturity, it would offer an 11% yield. This yield can be computed using an internal rate of return calculation assuming an initial cash outflow of $700 followed by $30 per annum of interest income (3% of $1,000) for five years and then $1,000 of principal return at maturity (in year five).

The modern high yield market obtained its start through the trading of fallen angel debt. One investment banker largely credited for developing

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this market is Michael Milken. Working for the investment bank Drexel Burnham Lambert, Milken was an early advocate of speculative grade bonds. Drawing from the research of Braddock Hickman, an economist and former Federal Reserve Bank president who published studies on the performance of debt of varying quality, Milken believed that the yields of fallen angel debt often over-compensated for the risk of default loss and that this less understood category of debt provided attractive opportunities for investment. Milken's success in cultivating demand for high yield bonds ultimately opened a primary market for an entirely new type of high yield issuer, one that was deliberately high yield rather than the result of a downgrade.

A *primary market* refers to the market for new issues and stands in contrast to the *secondary market,* or market for existing debt. The significance of a high yield primary market was that the issuers were not only composed of fallen angels. They included companies that made a corporate finance decision to raise significant quantities of debt with full knowledge that doing so would result in their debt being classified as high yield. To provide some context, these companies might willingly issue debt with an 11% interest rate. The issuers that sought to do this were not necessarily companies that longed for their best days; they included companies that were more entrepreneurial with growth prospects that high yield capital might unlock.

Early issuers of high yield included Texas International, an energy company engaged in exploration and development whose story is documented in the book by Harlan Platt, *The First Junk Bond*.[2] It also included companies like McCaw Cellular and Viacom, which had tremendous growth opportunities that were capital intensive to fund. High yield debt provided a means of financing this growth, often led by innovative entrepreneurs who built large successful enterprises. Some of these companies, like Viacom, eventually became investment grade, as their investments paid off. Others, like McCaw Cellular, were sold to strategic or financial buyers in successful transactions.

In opening a primary market for speculative grade issuers, Drexel laid the groundwork for a high yield market that would have profound implications for companies, municipalities, and countries. For corporations who

[2]Platt, Harlan. *The First Junk Bond: A Story of Corporate Boom and Bust*. Beard Books, 2002.

previously either maximized low-cost borrowings or financed operations with high-cost equity, high yield provided a third option, a source of capital between bank or bond borrowings and equity. Although equity capital does not have a stated cost like debt does, the cost of equity is the expected return it provides. For example, many investors expect to generate 10–20% returns on equity over time. Therefore, high yield, which usually carries a 4–12% rate, could present an attractive option relative to equity. As an added benefit, interest on the debt is for the most part tax-deductible and thereby lowers the effective cost of borrowings for taxpaying issuers.

1.4 ADVENT OF THE LEVERAGED BUYOUT

The *leveraged buyout* or *LBO* is an outgrowth of the high yield market that emerged in the 1980s and an industry that has experienced tremendous growth over the years. A leveraged buyout is simply what the name implies: a buyout – or acquisition of a controlling interest in a company – facilitated primarily with *leverage*, which is another word for debt. Today, LBOs are a major driver of high yield activity. Debt is raised almost daily to fund buyouts and refinance existing debt. This type of transaction is often employed by *private equity firms* who seek to put down as little money as reasonable to gain control. Private equity firms manage pools of investment capital allocated toward equity investments in companies that provide ownership control. In contrast to public equity, or stock listed on a national exchange, private equity investments do not trade in the market.

The premise of an LBO is to maximize high yield debt borrowings to finance an acquisition. By doing this, a private equity firm minimizes its equity investment while retaining all the benefits of growth. This happens because debt borrowings only obtain a fixed rate of return – principal and interest – while the equity retains all residual enterprise value. For example, if a business bought for $100 million and financed with $80 million of debt and $20 million of equity is ultimately sold for $200 million, the debt only receives $80 million plus its rate of interest. The equity benefits from all residual value and therefore can receive a return amounting to multiples of its initial investment.

Henry Kravis, Jerome Kohlberg, Jr. and George Roberts are among the most famous individuals involved in pioneering the LBO industry. Experimenting with buyouts in the 1960s while working at Bear Stearns, their acquisition targets included companies that lacked a good exit option – either being too small for an IPO or perhaps founder-owned and unwilling to sell to a competitor. After buying a number of companies, the three executives left Bear Stearns and established Kohlberg Kravis Roberts (KKR) in 1976, one of the largest alternative asset managers today. Similar to the experience Bill Gates and Paul Allen had at Lakeside, a Seattle school with its own computer at the brink of the personal computing revolution, the founders of KKR spent their formative years pioneering leveraged buyouts at the moment the industry was set to take-off with the innovations taking place in high yield finance.

By the late 1970s, leveraged buyouts were taking place more frequently and were not just carried out by entrepreneurs who sought to buy and improve businesses but also by more controversial *corporate raiders*, or individuals who sought to create value through more hostile tactics. This group included Carl Icahn, Victor Posner, Nelson Peltz, Robert M. Bass, T. Boone Pickens and Kirk Kerkorian among many others whose rise and actions are well chronicled in the book, *The Predator's Ball*,[3] released in 1989. Corporate raiders look for undervalued assets. They then seek to take control or exert influence over the company by buying shares. By changing management, divesting assets or implementing more shareholder friendly policies, corporate raiders can make huge sums of profit in a short time period. Many public officials, including Paul Volker, chairman of the Federal Reserve Bank, were outspoken critics of the transactions these individuals proposed and even sought legislation to limit the use of high yield finance to support "greenmail," a transaction in which capital is raised to purchase shares owned by corporate raiders.

As a relatively new industry, high yield was initially viewed skeptically by many in part due to the reputation of its proponents. But, despite criticism leveled at it, the LBO and high yield industry thrived. From 1978 to 1989, over 2,000 leveraged buyouts were consummated.[4] According to research by Edward Altman, the annual high yield default rate over this time period averaged 2.1% – a rate actually lower than average default

[3]Bruck, Connie. *The Predator's Ball: How the Junk Bond Machine Started the Corporate Raiders*. HarperCollins, 1989.

[4]Opler, T. and Titman, S. "The determinants of leveraged buyout activity: Free cash flow vs. financial distress costs." *Journal of Finance*, 1993.

rate for high yield bonds from 1994–2014.[5] Economic growth during the 1980s allowed early high yield issuers to prosper and for high yield by 1990 to grow into a $200 billion industry from under $10 billion just a decade earlier.[6] Increased demand opened up the possibilities for larger, more aggressive transactions. KKR's $31 billion takeover of RJR Nabisco today stands as the pinnacle of the 1980s LBO era. Financed with a staggering amount of debt, it would represent the largest buyout in history for the next 17 years. Occurring in 1989 – it would also come to symbolize the end of the 1980s LBO boom.

1.5 JUNK BONDS

In the early days of the high yield and leveraged buyout industry, meaningful data on appropriate credit metrics for buyouts did not exist. This is because the nature of the high yield issuer had changed, and performance data for this new category of issuers was limited. LBOs can put equity and debt investors at odds with each other. This is because equity investors have returns that improve with more debt, which is considered lower cost capital. This works unless of course the business becomes imperiled with such a high debt burden and defaults. Debt investors like to see larger equity investments, which to them reflect greater skin in the game and alignment. But when equity investments are low, the risk may still be attractive at a price. Ultimately, the amount of debt versus equity is a negotiation between lenders and shareholders – the two capital providers. As it turned out, early investors in high yield debt demanded high compensation for known and unknown risks but they were willing to make more risky investments than what is more typical today.

Economic growth in the 1980s, which allowed high yield issuers to perform, masked some of the risks of these transactions. But the economic recession that occurred from July 1990 to March 1991 surfaced the weak underwriting standards of many LBOs of that time. Declining credit quality had already begun to manifest itself earlier on and in 1989 default rates

[5] Altman Edward I. "Setting the record straight on junk bonds: A review of the research on default rates and returns." *Journal of Applied Corporate Finance*, 1990.

[6] Altman Edward I. "The high yield bond market: A decade of assessment, comparing 1990 with 2000." *NYU Stern School of Business*, 2000.

exceeded 7%. When GDP slowed and then declined, many high yield issuers simply had too much debt outstanding to withstand the economic setback. Interest expense is a significant cost to heavily indebted high yield issuers. Unlike labor, it's a fixed cost that cannot be scaled down to match economic conditions and therefore can cause companies to default and seek bankruptcy court protection. In 1990 and 1991, default rates exceeded 10%.[7] To provide some context on the damage looking back today, the cumulative default experience from 1989–1991 was worse than what was experienced during the Great Recession of 2007–2009, the most severe recession since the Great Depression and one that lasted more than twice as long as the 1990–1991 recession.

During this turbulent period in 1989 and 1990, the high yield industry suffered a number of setbacks. Some of the industry's leading advocates attracted further controversy but others crossed the line, including Michael Milken who was ultimately found guilty of violating U.S. securities laws. Drexel, the primary force behind the high yield industry, was forced into bankruptcy in 1990. Also, many high profile high yield issuers underwent restructuring that entailed employee lay-offs drawing media attention. Prominent high yield related bankruptcies during the early 1990s included Federated Department Stores, Revco Discount Drug Stores, Walter Industries, and Eaton Leonard. Although referring to high yield as "junk" was a practice that had been around for some time – it was only after this experience that the term *junk bonds* became associated with high yield debt.

For those witnessing the damage seemingly inflicted by high yield issuers, the industry appeared unruly and capable of causing great financial harm to the economy. Regulators reacted harshly with a set of rules aimed at restricting the high yield industry and improving transparency. For example, the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) of 1989 placed limitations on high yield debt investments by thrifts, or savings and loans institutions, and forced them to mark-to-market assets, which created selling pressure. The Revenue Reconciliation Act of 1989 limited the tax deductibility of certain high yield debt that lacked a cash interest component. Bank regulators issued stricter capital reserve requirements for insurance companies and other regulated financial institutions that limited their ability to participate in the market. The Securities

[7] Moody's Investor Service; J.P. Morgan (Default Monitor).

and Exchange Commission (SEC) encouraged the National Association of Securities Dealers (NASD) to develop and implement the Fixed Income Pricing System (FIPS), a system of tracking and reporting trading activity of high yield bonds to reduce opacity. Although most regulatory developments were aimed at curbing the use of high yield finance, improved oversight also helped restore confidence in high yield and led to more balanced growth.

1.6 MARKET MATURATION AND GROWTH

The high yield industry ultimately overcame the various scandals and regulatory setbacks because high yield debt had become an important source of capital to issuers and provided attractive risk-adjusted returns to investors. Despite high default rates and a wave of corporate bankruptcies from 1989–1991, the returns produced by the high yield asset class over this time period are not as bad as many believe. Data from Credit Suisse and Bank of America Merrill Lynch estimate the high yield market posted a positive total return in 1989 and was down 4.5%–6.5% in 1990 before recovering approximately 40% in 1991.[8] Taken alone, this data would suggest the asset class actually performed well – not just in comparison to stocks and other asset classes such as real estate – but also in relation to how high yield has performed in future recessionary periods such as the recessions of 2001 and 2007–2009. Part of the reason that high yield held up so well in 1990 is that bonds entered the year with a 15.9% yield – a 7.9% premium over comparable maturity government debt yields.[9] This hefty risk premium implied that the cost of underperformance and possible failure had largely been priced in going into the recession.

Following the junk bond market collapse, market participants organized to build a market that would function more soundly. Standard legal protections were adopted in credit agreements, business and risk disclosures improved, and new high yield issues were more carefully structured. Secondary market liquidity also improved with the adoption by the SEC of Rule 144A that facilitated trading among large institutional buyers. Credit officers, armed with the 1989–1991 downside scenario, now had an

[8]Bank of America Merrill Lynch Global Research; Credit Suisse.
[9]Credit Suisse.

important data point with which they could stress test capital structures to make more informed investment decisions. Lastly, private equity firms contributed more capital to LBOs to create more sound capital structures and greater alignment with creditors.

One of the key lessons learned from the 1980s LBO is the importance of a *margin of safety.* In debt investing, the margin of safety represents the amount of downside that can be sustained before the debt claim becomes impaired. One way to measure margin of safety is by way of equity contribution. To explain this through an example, if an enterprise is acquired at a fair market value, the equity contribution reflects the amount the enterprise can decline in value before the debt claim becomes impaired. In this regard, a 30% equity contribution provides a greater margin of safety than a 10% contribution. Another way to measure margin of safety is by way of debt service metrics. When debt burdens and borrowing costs are high, there is less room for a business to experience setbacks or a decline in earnings and continue to make these payments. Companies generally default on debt and seek bankruptcy protection when they can no longer service interest payments. Once a company seeks bankruptcy protection, the risk of impairment greatly increases.

When comparing the late 1980s high yield market to that of today, two noticeable differences stand out. First, debt burdens as a percentage of total enterprise value are lower now than in the past. Prior to 1990, equity contributions generally represented less than 10% of the total LBO consideration. Similar to subprime real estate loans – low equity down payments not only create an insufficient margin of safety for creditors, they also create misalignment with owners and stoke asset price bubbles. Today the amount of equity required in an LBO averages at least 25–30% of the purchase price consideration. Second, borrowing costs are also lower, primarily driven by low interest rates. The 10-year U.S. government bond in 1989 yielded almost 9% – in comparison to roughly 2% at year-end 2014. Interest rates on high yield debt are set at a premium to government rates. These two considerations imply that high yield issuers in the 1980s not only borrowed more heavily than they do today, but did so at more expensive rates.

The progression in LBO equity contribution as a percentage of the total buyout consideration is indicative of how much the high yield asset class changed following the harrowing default experiences of the early 1990s. The industry as a whole, it seems, turned its mistakes and high profile failures into a valuable learning experience. Figure 1.1 shows equity contribution as a percentage of total buyout consideration since 1987. Over

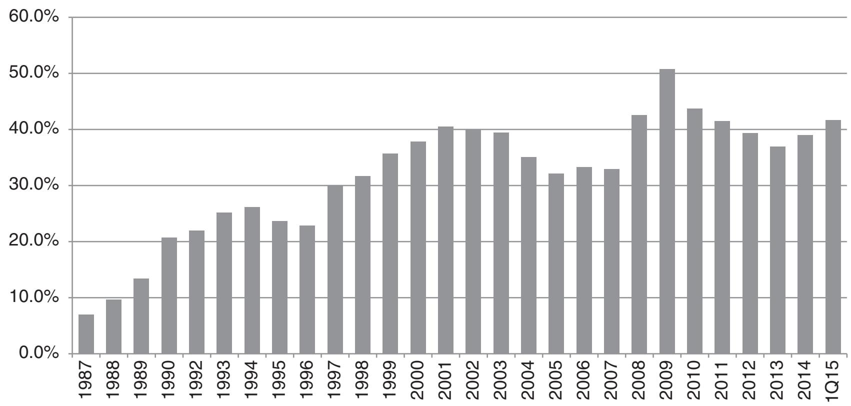

FIGURE 1.1 Trends in LBO Equity Contribution Since 1987
Note: There were too few deals in 1991 to form a meaningful sample
Source: S&P Capital IQ LCD

this 27-year time period, equity contributions in buyouts increased from under 10% to almost 40%.

While increased equity contributions has been one factor improving asset class performance, economic growth and the decline in long-term interest over the past two decades have also helped high yield issuers perform.

1.7 HIGH YIELD TODAY

High yield today is on a safer course than it was 25 years ago but the industry is still prone to both excesses and corrections, often driven by broader macroeconomic trends. Figure 1.1, on LBO equity contribution over time, highlights how equity contributions decline in the periods preceding a recession, reflecting increased risk tolerance, and then increase following a recession as lending standards become more conservative. This trend played out in the 1990–1991 recession, the 2001 recession, and then the Great Recession that lasted from December 2007 through June 2009. This of course is not just the case for high yield but for all asset classes. But what is notable about high yield is the market progression since the mid-1980s. Compared to the industry's experience in 1990–1991, future recessions did not result in the same relative magnitude of debt impairment. The overall trend in equity contribution has been especially positive – over time LBOs

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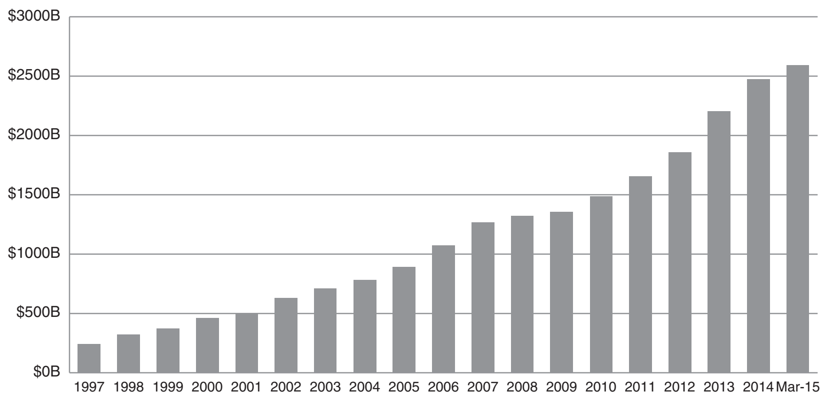

FIGURE 1.2 High Yield Debt Outstanding
Source: S&P Capital IQ LCD

have provided a greater margin of safety to debt investors. This highlights not only the more solid underpinnings of the high yield industry today but also growth and maturation in the private equity industry.

Questions will always arise regarding whether high yield valuations are appropriate or not. What is less scrutinized today is high yield's legitimacy as a source of financing for a growing number of entities including countries, municipalities, and corporations. In the United States, the corporate high yield debt market is a $2.5 trillion global industry – up 10-fold from 1997 when the market size was $243 billion.[10] High yield debt represents approximately 6% of the U.S. fixed income market. Pension funds, endowments, insurance companies, corporations, and family offices increasingly incorporate high yield debt as part of a balanced portfolio. Even individuals today can access the high yield market with daily liquidity through various retail fund offerings. Figure 1.2 highlights the extraordinary growth of the U.S corporate high yield industry since 1997.

1.8 SUMMARY

While the designation of speculative grade debt did not occur until the formation of credit rating agencies, the existence of debt of reputable businesses that hit hard times and fell out of favor is as old as

[10]"S&P Capital IQ LCD" – only if it is required since it is referencing the data in Figure 1.2.

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capitalism. During the 1970s, a market for high yield bonds developed, which stemmed from interest in the debt of "fallen angels." Oil shocks, rising inflation, regulation, and the growth of thrifts created the backdrop for a market receptive to speculative grade primary offerings. The early issuers of high yield were in capital-intensive industries or the targets of leveraged buyouts. It took the 1990–1991 recession to expose the weak underwriting standards prevalent in the 1980s LBOs. The high yield market revived with more solid underpinnings to regain trust with a public wary of "junk bonds." Twenty years later, what was once considered a cottage industry, now represents a $2.5 trillion marketplace.