**NYU’s Altman says benign credit cycle is over**

The average recovery rate on a defaulted corporate bond dropped to just 34 cents on the dollar in 2015, from 63 cents in 2014, according to Edward Altman, the Max L. Heine Professor of Finance at NYU’s Stern School of Business, a move, he says, is another indication that the benign credit cycle is over.

Speaking at the Turnaround Management Association’s 15th Annual Professor Altman Luncheon Conference earlier this week, the developer of the “Z-score” method for predicting bankruptcies said the default rate on high-yield bonds was 2.8% in 2015, compared to his own historical weighted average of 3.7%.  
   
But things have changed, and changed dramatically in one year, Altman said, and unrelenting volatility, a tightening of lending standards, and the dramatic widening of spreads should serve to push the default rate up. “There is no question in my mind that this year (the default rate) will go beyond the historical average and maybe significantly beyond,” he stated.

Altman uses four metrics to determine where the market is in the credit cycle: default rates, recovery rates, yields, and liquidity.  
   
“The only one of these four that has not gone above historical averages are default rates,” he said.   
   
The average spread on a high yield bond is above 800 bps, Altman said, versus a historic average of 525 bps. One year ago, it was 500 bps. “That is a 300 bps move in one year, you don’t see that very often,” he said.  
  
In terms of liquidity, Altman pointed to the primary market.   
  
“When was the last time you saw a CCC issue, or even B–? Liquidity is gone,” he said.