In late-November, I warned that plunging oil prices and the bursting of a Fed-driven bubble in the shale energy industry would also cause a bust in high-yield or "junk" bonds (because the shale bubble is financed by high-yield bonds). High-yield bonds continued to plunge into late-December along with crude oil and stocks. Since Christmas, however, all three markets have rebounded sharply as many market participants think the worst is now over. But is it?

Fundamentally, nothing has changed. The bursting of the corporate debt bubble I've been warning about is still ahead and is unavoidable at this point. From a technical perspective, the breakdown that occurred in the
HYG high yield corporate bond ETF is still very much intact. Right now, the current rally is simply a re-test back to the key level known as a "neckline," which was once a support level and is now a resistance level. If HYG bumps its head at this level (ie., can't break back above), another powerful sell-off is very likely.

Billionaire "bond king" Jeff Gundlach feels the same way I do - "Use the strength we've seen in junk bonds as a gift and get out of them. Investors need to go into strong balance sheets...to survive the zigzag of 2019." The recent bounce in high-yield bonds has helped to underpin the stock market rebound, but should the HY bond rally falter at the nearby resistance level, expect to see stocks head lower again. I'm taking a "wait-and-see" approach for now.

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