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Will the looming Venezuelan debt default – set to be the largest and most chaotic in history – finally open investors' eyes to the reckless risks they've been taking in their frantic hunt for yield?

Venezuelan bond prices slumped on Friday after President Nicolas Maduro signalled the cash-strapped country was looking to restructure and refinance its foreign debt, estimated to be about $US150 billion ($200 billion).

Investors – who have earned handsome returns in recent years by betting that Venezuela would continue to meet interest payments on its debt, despite its disastrous economic predicament – dumped bonds issued by Venezuela and its state-owned oil company after Maduro said he was calling a meeting of bondholders in Caracas to discuss a debt restructure.

Venezuela's benchmark government bonds due in 2018 fell to 40¢ on the US dollar on Friday from 74¢ a day earlier.

Analysts says it's unlikely Venezuela will be able to reach a debtrestructuring arrangement because of US sanctions, introduced in August, that block US-regulated institutions and investors from buying new Venezuelan bonds, which would typically be issued as part of such a deal.

What's more, analysts say there will likely be tension between creditors, particularly since Venezuela's major allies, Russia and China, which have provided the embattled country with an estimated $US50 billion in oilbacked loans, are expected to jostle to ensure their loans are given priority in terms of repayment.

Without a debt restructure, the cashstrapped country will likely be plunged into a complicated and drawn-out default, that could be even more destabilising for financial markets than Argentina's $US80 billion debt crisis in 2001, which amounted to the biggest government default ever at the time.

This would confirm the dire predictions made by economists who have long warned Venezuela – which is suffering a calamitous collapse in economic activity, hyperinflation and falling oil production – will ultimately be forced to default on its foreign debts, and instead use the $US10 billion or so it will save each year on interest payments to buy desperately needed food and medicine.

There are fears the Venezuelan debt crisis could reverberate through global markets, as investors abandon other emerging countries such as Turkey, which are saddled with high levels of foreign debt.

And this could trigger huge losses for hedge funds, which have borrowed huge amounts of yen or euros to invest in higher-yielding emerging markets.

Some analysts warn a Venezuelan debt crisis could also cause investors to look more closely at the lofty prices they've been paying for US high-yield ''junk bonds''.

Prices of junk bonds have climbed to post-crisis highs as desperate, yieldstarved investors have wagered that default rates will fall even further as the US economic recovery gains traction.

Some analysts warn investors are severely underestimating the risks involved with junk bonds. They warn that retail investors have poured tens of billions of dollars into exchangetraded funds that invest in high-yield bonds, but they warn these ETFs could suffer a major drop in liquidity if the $US1.3 trillion US junk bond market came under severe selling pressure.

They also warn that, with junk bond yields now about 5 per cent, investors are not being properly compensated for the risk that default rates among the riskiest US corporate borrowers could rise next year, as higher US interest rates begin to bite and the woes of US retailers deepen.

What's more, they say, investors' seemingly insatiable demand has led to a whittling away of the covenants on junk bonds, which limit how much debt companies can pile on.

This could hurt investors when a debt-laden company eventually does get into trouble, and they find that a huge number of other creditors are also fighting for a share of the assets.

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