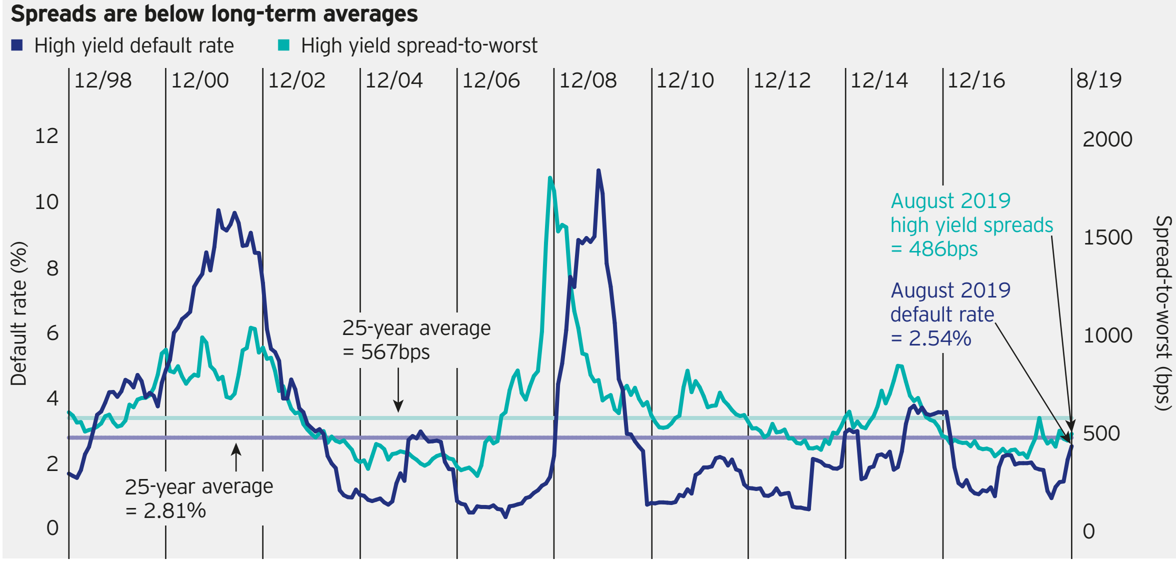
Invesco High Yield

High Yield Snapshot

Monthly high yield bond market update: September 2019

High yield bonds posted a modest return in August due largely to falling government yields. As a result, the Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index returned 0.40% during the month while credit spreads widened about 35 basis points (bps). Spreads ended August at 486 bps, which is about 80 bps below the long-term average. Concerns around slowing global economic growth led to outflows during the month, but we note strong demand for new issues as investors look to take advantage of attractive new issue discounts. Additionally, high yield bonds continue to generate interest from investors as the global hunt for income continues.

Spreads are below long-term averages



Source: JP Morgan, as of August 31, 2019. Chart created by Invesco, based off the JP Morgan US High Yield Index. An investment cannot be made directly into an index. Past performance is no guarantee of future results.

August performance by rating (Bloomberg Barclays US High Yield 2% Issuer Cap)

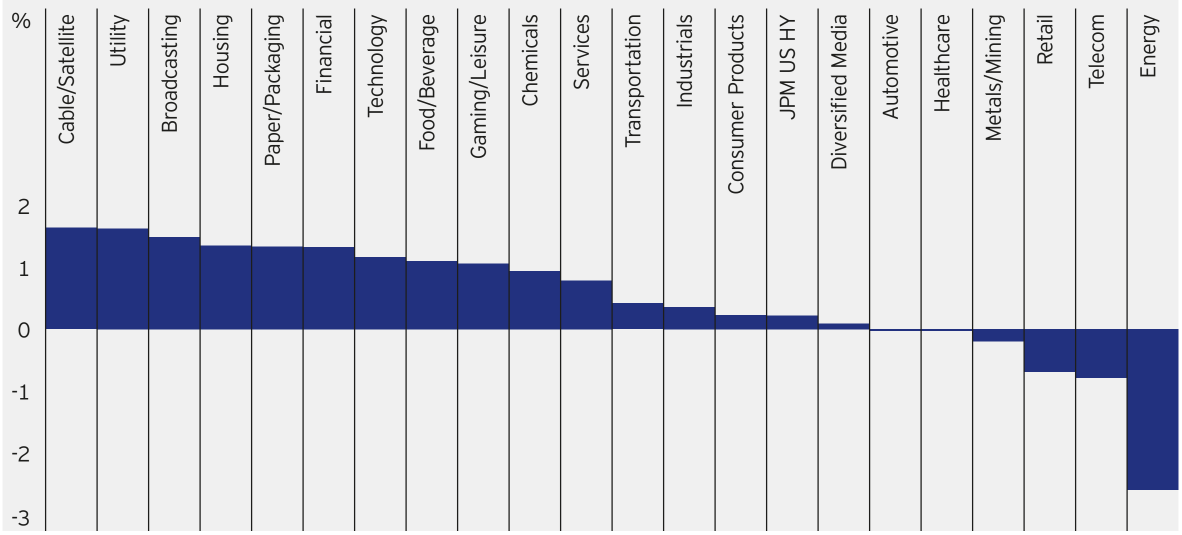
- BB-rated securities returned 1.13%
- B-rated securities returned 0.40%
- CCC-rated securities returned -1.88%

Earnings trends

Here are some themes our analysts are monitoring:

- Wireline telecom has been under pressure as customers continue to move away from land lines to wireless, a trend we see continuing. With wireline companies being left out of the 5G merger speculation conversation, investors are left to focus on the negative secular changes impacting the industry.
- Given volatility in oil prices in recent months, we continue to expect lower capital expenditures between now and year end. Additionally, we expect most independent energy companies to announce 2020 investment plans that will represent reduced capital expenditures relative to 2019.
- We have seen some weaker retail earnings, but we view this more as a combination of stale concepts coupled with stressed balance sheets rather than a statement about the health of the consumer. In our opinion, the overall health of the consumer remains strong.

High yield performance by sector in August



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Fundamentals

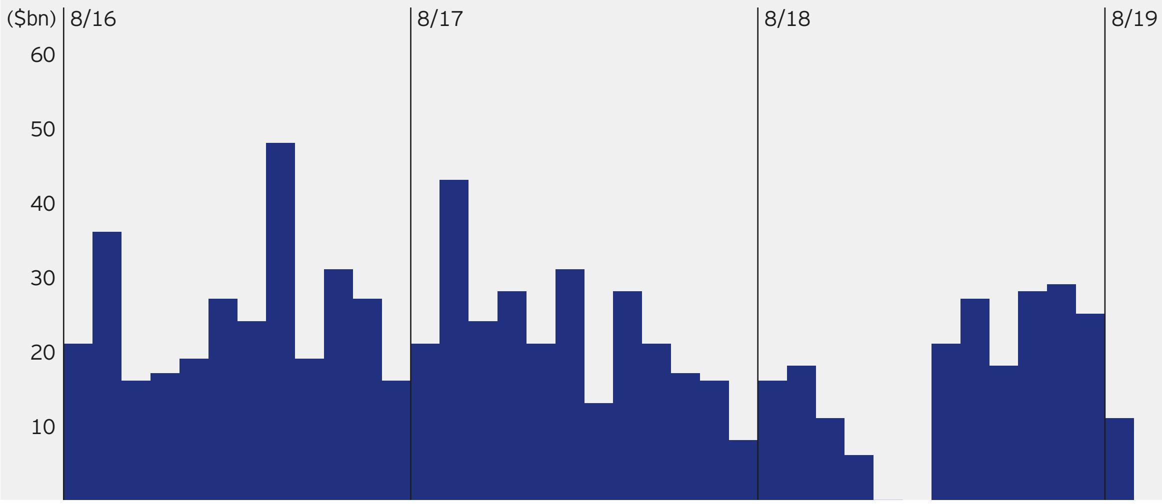
- The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 5.72%, a modified duration of 3.07, an option-adjusted spread of 393 bps, and an average price of $99.65.
- There were two defaults in August in the high yield market and as a result the par-weighted default rate rose to 2.54% from 2.13% in July.
- Credit quality for the overall market is still acceptable; however leverage has recently increased due to a slowdown in earnings.

Technicals

- High yield mutual funds reported an outflow of $4.5 billion in August. Year-to-date the sector has had $11.1 billion in inflows, compared to 2018 which had $47 billion in outflows.
- In August issuance was $11.0 billion and year-to-date it has totaled $176.9 billion, compared to $187 billion in new issuance for all of 2018.
- During the month, new issuance was led by refinancing which represented 95% of new deals.

New issuance volume

Monthly high-yield issuance



Source: JP Morgan, as of August 31, 2019

Relative value

- High yield offers protection against declining interest rates given its fixed coupon nature. Call protection is an important benefit embedded in high yield bonds allowing many bonds to trade above face value for long time periods.
- High yield offers attractive yield relative to other fixed income asset classes.
- The spread between high yield and investment grade widened in August to 321 bps which is about 50 bps below its historic average.

Index returns (%)

	3/19	4/19	5/19	6/19	7/19	8/19	YTD
Bloomberg Barclays US HY 2% Issuer Cap Index	0.94	1.42	-1.19	2.28	0.56	0.40	11.00
Bloomberg Barclays US Aggregate Bond Index	1.92	0.03	1.78	1.26	0.22	2.59	9.10
Bloomberg Barclays US Treasury 5-10 Year Index	2.08	-0.22	2.50	1.22	-0.18	3.22	9.28
JPM EMBI Global Diversified Index	1.42	0.24	0.41	3.40	1.21	0.75	13.50
JPM Leveraged Loan Index	-0.16	1.59	-0.24	0.28	0.84	-0.22	6.24
S&P 500 Index	1.94	4.05	-6.35	7.05	1.44	-1.58	18.34

Source: Barclays, JP Morgan, as of August 31, 2019. Past performance is no guarantee of future results. An investment cannot be made directly into an index.

About risk

Fixed income investments are subject to credit risk of the issuer and the effects of changing interest rates. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating. Junk bonds involve a greater risk of default or price changes due to changes in the issuer's credit quality. The values of junk bonds fluctuate more than those of high quality bonds and can decline significantly over short time periods.