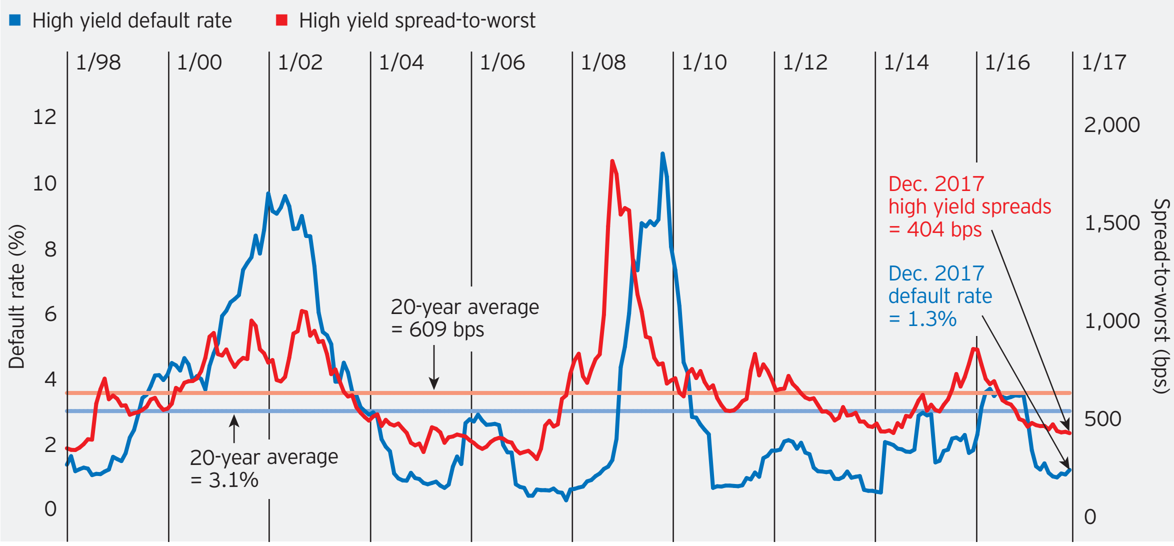
Invesco High Yield

High Yield Snapshot

Monthly high yield bond market update: January 2018

High yield bond prices were largely unchanged in December despite the passage of the GOP tax bill, an increase in interest rates by the Federal Reserve and a rise in oil prices. There was some dispersion between sectors as oil prices pushed up the energy sector, while utilities registered a negative return. In December, the Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index returned 0.30% as credit spreads and Treasury yields were largely unchanged. Spreads ended the month at 404 basis points (bps), which is 200 bps below the 20-year average. As the chart below highlights, overall market spreads are not "cheap" to their 20-year averages. However, we continue to find attractive ideas in both the secondary and new issue markets.

Spreads are below long-term averages



Source: JP Morgan, as of Dec. 31, 2017

December performance by rating[1]

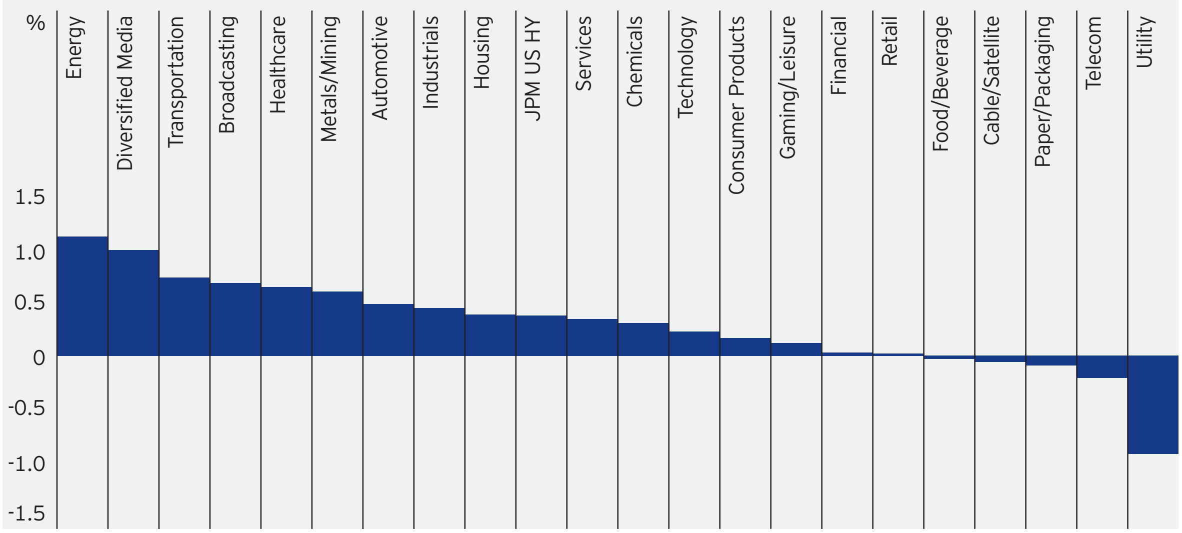
- BB-rated securities returned 0.10%
- B-rated securities returned 0.34%
- CCC-rated securities returned 0.79%

Earnings trends

In the coming weeks companies will report Q4 earnings. Here are the themes we expect:

- **Retail:** Holiday sales were slightly better than expectations; however, this may not turn into stronger earnings for all chains. Competitive pressures and structural change will persist leaving troubled concepts with limited options.
- **Pharmaceuticals:** We expect headwinds to persist as pricing pressures weigh on the sector. Companies will have to find new ways to cut cost in an effort to manage earnings margins.
- **Energy:** Companies' earnings are improving as oil prices increase and the dollar weakens. We expect companies to slightly boost capex to capitalize on higher oil prices with this leading to higher activity levels in oil field services. While land-based service companies will see a positive impact first, increased spending in the offshore segment has yet to materialize.

High yield performance by sector in December



Source: JP Morgan, as of Dec. 31, 2017

Fundamentals[2]

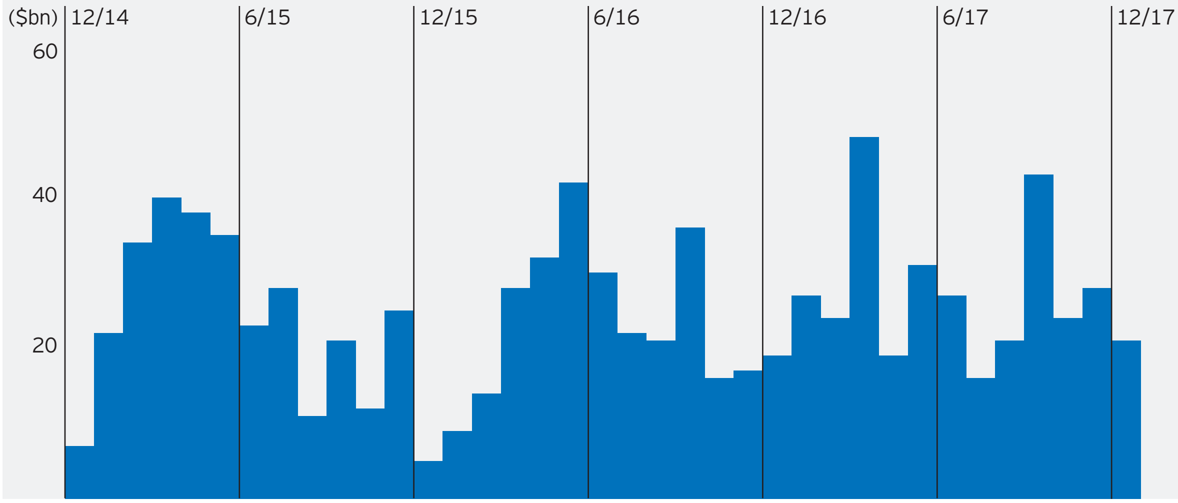
- The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 5.72%, a modified duration of 3.86, an option-adjusted spread of 343 bps, and an average price of $100.91.
- There were two defaults in December in the high yield market which had only a minor impact on the par-weighted default rate, which rose slightly to 1.27% from 1.16% in November.
- Credit quality for the overall market is still acceptable.
- Recent leverage statistics continue to improve as companies slowly reduce leverage.

Technicals

- High yield mutual funds reported an outflow of $2.1 billion in December — the third consecutive month of outflows. In 2017, high yield mutual funds have had $20 billion in outflows.
- Issuance for December was $21 billion — a decrease from November.
- New issuance was led by refinancing activity which represented 70% of new deals.

New issuance volume

Monthly high-yield issuance



Source: JP Morgan, as of Dec. 31, 2017

Relative value

- High yield offers a relatively low duration and a high coupon, which reduces its sensitivity to interest rate movements. However, as spreads tighten, the sensitivity to Treasury rates has grown.
- After a strong run over the past two years, we expect the pace of high yield gains to moderate.
- The spread between high yield and investment grade widened in December to 245 bps, which is 129 bps tighter the historic average, but continues to provide an opportunity for yield pick-up given a manageable default risk.

Index returns (%)

	8/17	9/17	10/17	11/17	12/17	YTD 2017
Bloomberg Barclays US HY 2% Issuer Cap Index	-0.04	0.90	0.42	-0.25	0.30	7.50
Bloomberg Barclays US Aggregate Bond Index	0.90	-0.48	0.06	-0.13	0.46	3.54
Bloomberg Barclays US Treasury 5-10 Year Index	1.21	-1.16	-0.19	-0.34	0.11	2.17
JPM EMBI Global Diversified Index	1.77	0.01	0.37	0.05	0.73	10.26
S&P 500 Index	0.31	2.06	2.33	3.07	1.11	21.83
S&P/LSTA Leveraged Loan Index	-0.21	0.34	0.56	0.07	0.32	3.31

Source: Barclays, JP Morgan and Standard & Poor's, as of Dec. 31, 2017

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1 Source: Barclays
2 Source: JP Morgan

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.

All data provided by Invesco unless otherwise noted. Data as of Dec. 31, 2017, unless otherwise noted.

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