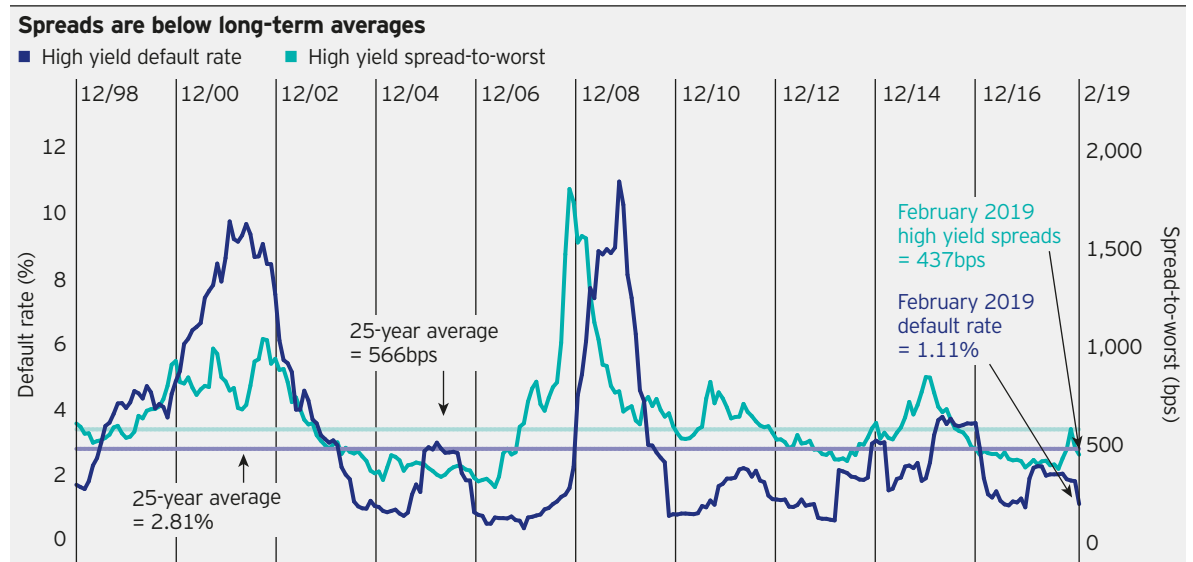




# High Yield Snapshot

## Monthly high yield bond market update: March 2019

High yield bonds continued to rally in February as corporate earnings remain solid, global trade tensions appear to be easing, and central banks are taking on a more dovish tone. As a result, the Barclays US Corporate High Yield 2% Issuer Capped Index returned 1.66% during the month as credit spreads tightened about 45 basis points. Spreads ended February at 437 bps, which is about 130 bps below the long-term average. Despite the strong rally year to date, our team continues to find attractive investment opportunities in the primary and secondary markets.



Source: JP Morgan, as of Feb. 28, 2019. Chart created by Invesco.

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

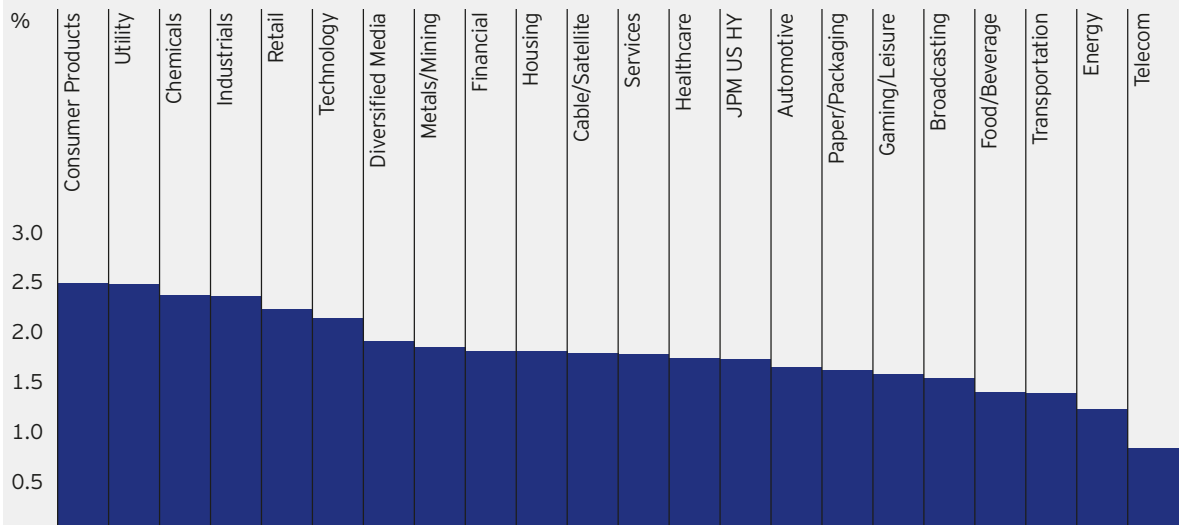
- BB-rated securities returned 1.60%.
- B-rated securities returned 1.71%.
- CCC-rated securities returned 1.59%.

## Earnings trends

After reviewing fourth quarter earnings and speaking with company management teams, here are some themes our analysts are monitoring:

- We have not seen any meaningful uptick in new home activity given the increase in mortgage rates and overall cautious buyer behavior. We are optimistic on the spring selling season given the recent comments from the Fed about slowing the pace of future rate hikes.
- Retail earnings have been weak in several areas but we think this is company/theme specific, rather than a signal that the consumer is pulling back. Challenged business concepts coupled with highly levered balance sheets is not a winning formula.
- 5G wireless rollout will continue to be a focus for wireless customers and the companies developing large capex plans. In our opinion, 5G rollout will lead to additional mergers, including possible combinations between wireless companies and cable and satellite providers.

## High yield performance by sector in February



Source: JP Morgan, as of Feb. 28, 2019. Chart created by Invesco.

## Fundamentals

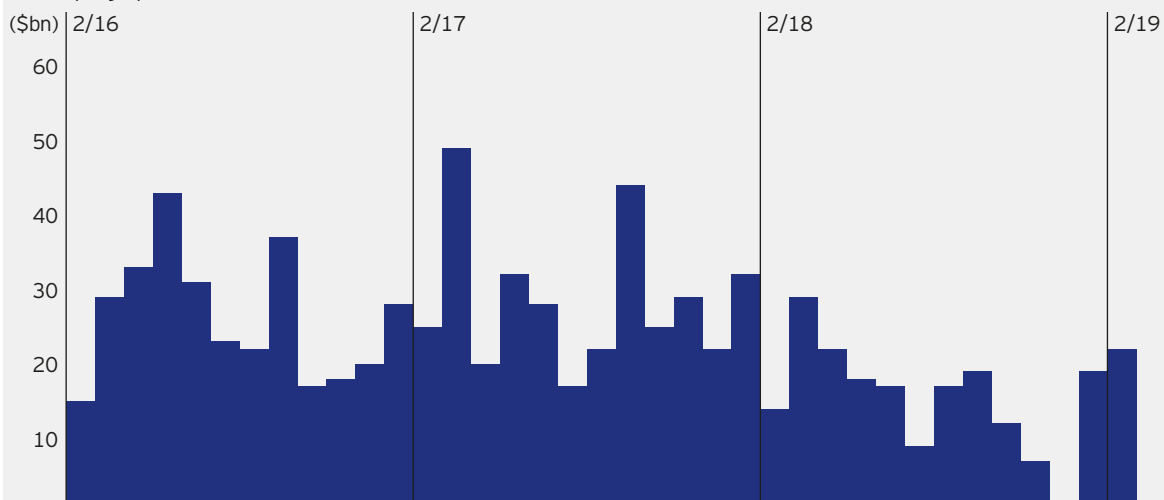
- The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 6.54%, a modified duration of 3.52, an option-adjusted spread of 379 bps, and an average price of \$97.45.
- There was one default in February in the high yield market and as a result the par-weighted default rate fell to 1.11% from 1.81% in January.
- Credit quality for the overall market is still acceptable.
- Recent credit statistics continue to improve as companies slowly reduce leverage.

## Technicals

- High yield mutual funds reported an inflow of \$4.8 billion in February, the second consecutive month of inflows.
- In February issuance was \$21.2 billion, the highest level in a year and follows \$17.6 billion in January and no new issuance in December.
- During the month, new issuance was led by refinancing which represented 64% of new deals.

### New issuance volume

Monthly high-yield issuance



Source: JP Morgan, as of Feb. 28, 2019.

## Relative value

- High yield offers protection against rising rates given its relatively low duration, call protection, and earnings growth for the underlying companies.
- High yield offers attractive yield relative to other fixed income asset classes.
- The spread between high yield and investment grade tightened in February to 260 bps which is about 90 bps below its historic average.

### Index returns (%)

	9/18	10/18	11/18	12/18	1/19	2/19	YTD
Bloomberg Barclays US HY 2% Issuer Cap Index	0.56	-1.60	-0.86	-2.14	4.52	1.66	6.26
Bloomberg Barclays US Aggregate Bond Index	-0.64	-0.79	0.60	1.84	1.06	-0.06	1.00
Bloomberg Barclays US Treasury 5-10 Year Index	-1.06	-0.17	1.16	2.38	0.67	-0.32	0.35
JPM EMBI Global Diversified Index	1.51	-2.16	-0.42	1.35	4.41	1.00	5.45
JPM Leveraged Loan Index	0.71	-0.04	-0.83	-2.31	2.42	1.60	4.06
S&P 500 Index	0.57	-6.84	2.04	-9.03	8.01	3.21	11.48

Source: Barclays, JP Morgan, as of Feb. 28, 2019.

## Important Information

All data provided by Invesco unless otherwise noted. Data as of Feb 28, 2018, unless otherwise noted.

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