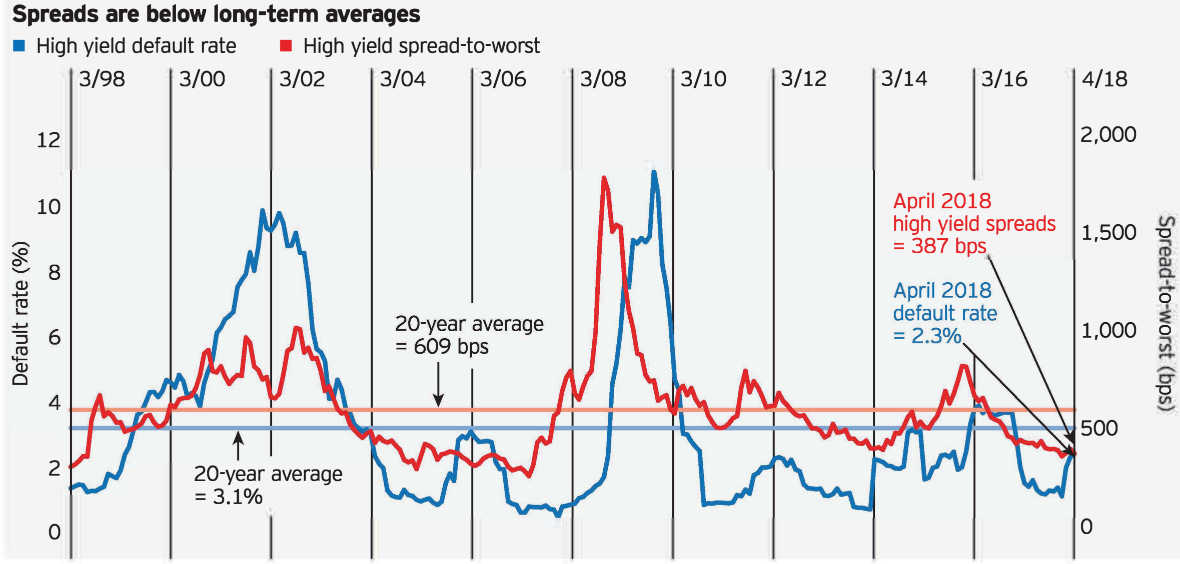
Invesco High Yield

High Yield Snapshot

Monthly high yield bond market update: May 2018

Despite the rise in US Treasury yields, the high yield market delivered a positive return in April. The gain comes after declines in February and March as outflows slowed and oil prices rallied during the month. Yields on the overall market were roughly unchanged as Treasury yields increased about 20 basis points (bps) while credit spreads tightened by about the same amount. As a result, the Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index returned 0.65% in April. Spreads ended April at 387 bps, which is about 220 bps below the 20-year average. Despite the current spread environment, our team continues to identify attractive investment ideas in both the new issue market and secondary market. As always, thoughtful credit analysis is required and our credit process has helped us avoid participation in some weak performing new issues that have received much press.

Spreads are below long-term averages



Source: JP Morgan, as of April 30, 2018

April performance by rating[1]

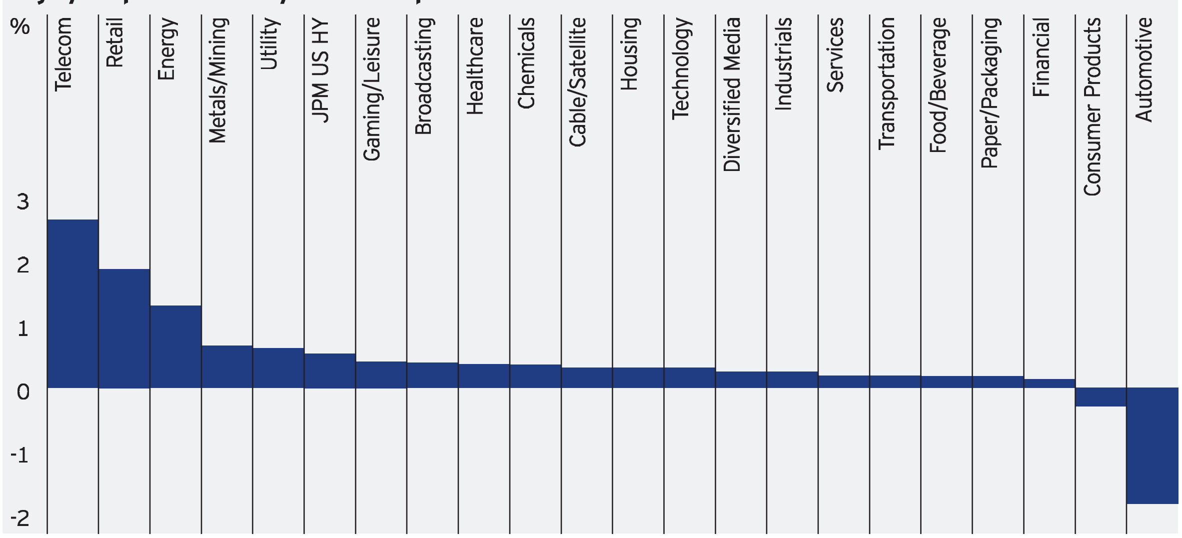
- BB-rated securities returned 0.13%
- B-rated securities returned 0.95%
- CCC-rated securities returned 0.99%

Earnings trends

First quarter earnings season is nearing completion

- Homebuilders have reported healthy earnings overall. We've heard from many homebuilding companies that the recent increase in interest rates has not impacted buyers' interest. This is consistent with other internal research we've conducted. Our view remains that a gradual increase in interest rates will not derail the momentum we've seen in homebuilders or building product companies.
- Wage inflation is evident in a few sectors, namely healthcare, freight hauling, and some parts of oil and gas. Healthcare companies have noted rising wages for skilled professionals as having an impact on their margins. On the other end of the scale, we've heard from entertainment/theme park operators that seasonal workers will cost more than in recent years.
- Cord-cutting remains a theme with wireline companies reporting continued subscriber losses. We, along with others, believe this trend will continue as consumers have other options.

High yield performance by sector in April



Source: JP Morgan, as of April 30, 2018

Fundamentals[2]

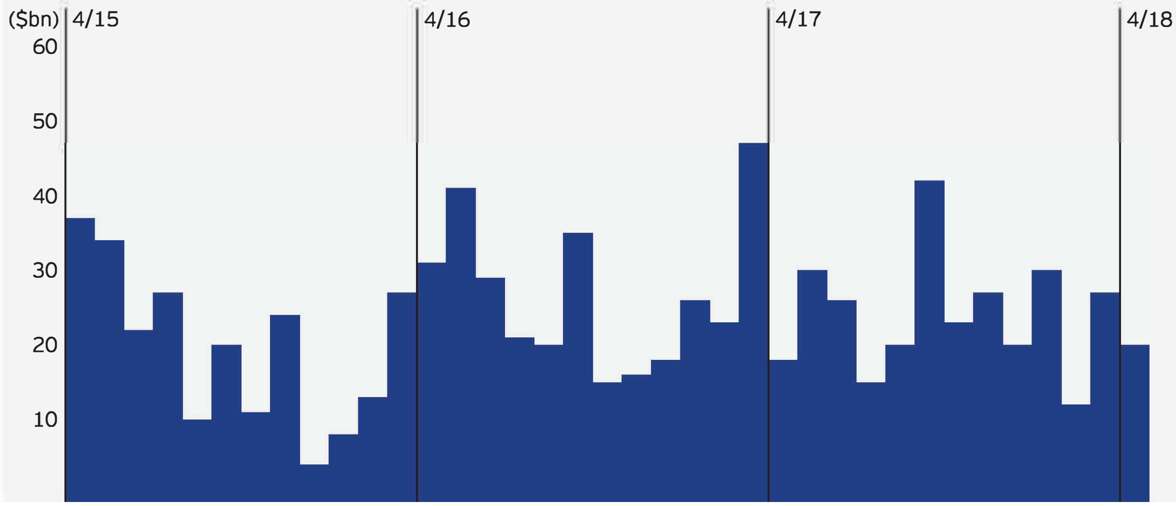
- The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 6.26%, a modified duration of 3.95, an option-adjusted spread of 338 bps, and an average price of $98.80.
- There were two defaults in April in the high yield market and as a result the par-weighted default rate was little changed at 2.26% from 2.22% in March.
- Credit quality for the overall market is still acceptable.
- Recent credit statistics continue to improve as companies slowly reduce leverage.

Technicals[2]

- High yield mutual funds reported an inflow of $1.1 billion in April, the first monthly inflow since September 2017. For the year, outflows have totaled $18.8 billion.
- Issuance for April was $21 billion, a slowdown from March.
- New issuance was led by refinancing activity which represented 46% of new deals.

New issuance volume

Monthly high-yield issuance



Source: JP Morgan, as of April 30, 2018

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 tightened in April to 227 bps, which is 147 bps tighter than the historic average but continues to provide an opportunity for yield pick-up given a manageable default risk.[2]

Index returns (%)

	12/17	1/18	2/18	3/18	4/18	YTD
Bloomberg Barclays US HY 2% Issuer Cap Index	0.30	0.60	-0.85	-0.60	0.65	-0.21
Bloomberg Barclays US Aggregate Bond Index	0.46	-1.15	-0.95	0.64	-0.74	-2.19
Bloomberg Barclays US Treasury 5-10 Year Index	0.11	-1.83	-0.67	1.00	-1.07	-2.57
JPM EMBI Global Diversified Index	0.73	-0.04	-1.99	0.29	-1.45	-3.17
JPM Leveraged Loan Index	0.41	1.07	0.15	0.35	0.44	2.03
S&P 500 Index	1.11	5.73	-3.69	-2.54	0.38	-0.38

Source: Barclays, JP Morgan and Standard & Poor's, as of April 30, 2018

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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.

Important information

All data provided by Invesco, as at April 30, 2018, unless otherwise noted.

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