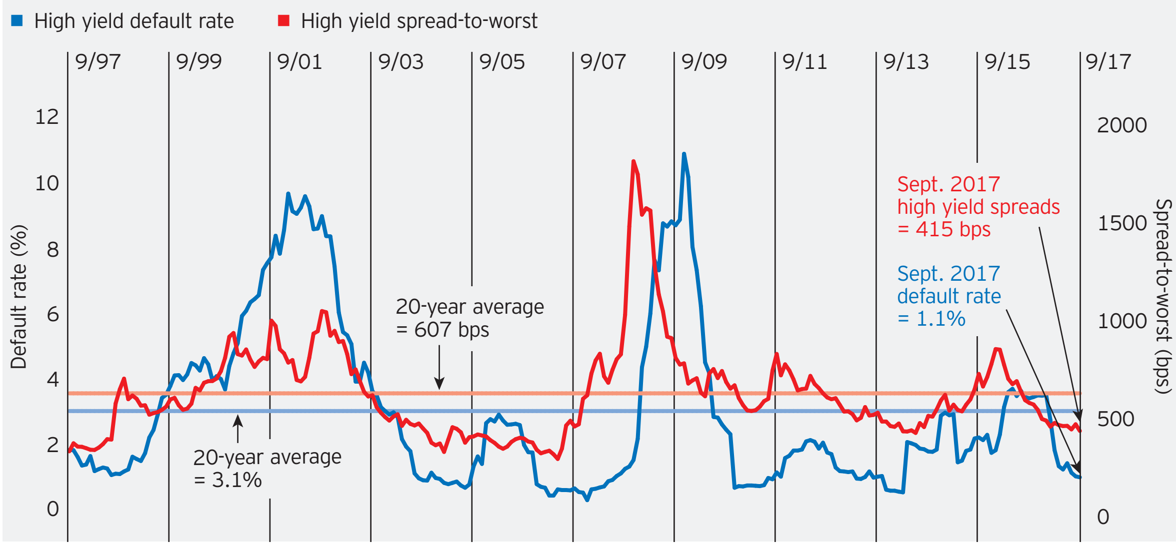
Invesco High Yield

High Yield Snapshot

Monthly high yield bond market update: October 2017

The high yield market advanced in September on optimism surrounding the Republican tax plan, a rally in oil prices, and strong equity market returns. In addition to the positive returns, there was only one default in September and as a result the trailing 12-month default rate fell again and now stands at 1.07%. In September, the Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index returned 0.90%. Credit spreads tightened about 35 bps while the five-year and ten-year Treasury yields rose about 20 basis points (bps) and ended the month at 1.92% and 2.33%, respectively. Spreads ended the month at 415 bps, which is over 175 bps below the 20-year average. In our opinion, despite spreads being tighter than the 20-year average, our research team continues to find attractive opportunities, both in the new issue market and in secondary issues.

Spreads are below long-term averages



Source: JP Morgan, as of Sept. 29, 2017

September performance by rating[1]

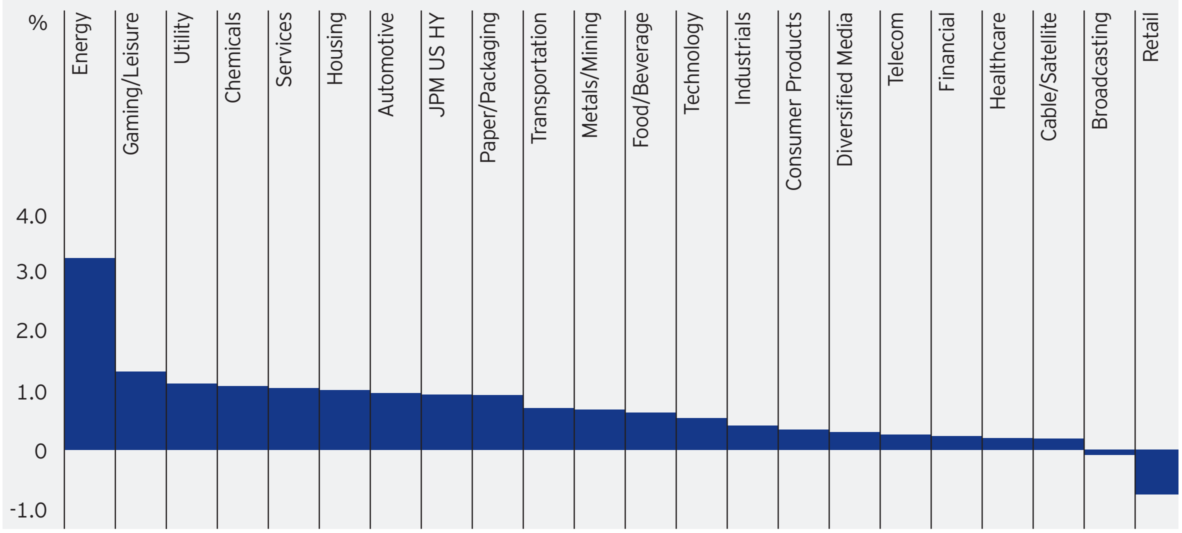
- BB-rated securities returned 0.72%
- B-rated securities returned 0.82%
- CCC-rated securities returned 1.61%

Earnings trends

Q3 earnings season will begin in a few weeks. Here are some themes we expect to see:

- We expect to hear more energy companies slightly reducing their capex budgets, despite the recent uptick in oil prices. In our opinion, we're likely to see management teams focus on capital returns as opposed to simple production growth.
- Autos will likely see a short-term benefit from the effects of the recent hurricane activity given the widespread flooding damage. This increase in demand for new and used autos has benefitted not just the auto manufactures, but the rental car companies as well.
- We believe most new home builders were not materially impacted by Hurricanes Harvey and Irma. While there may be a short-term positive catalyst for building products companies, this is already priced into secondary trading levels.

High yield performance by sector in September



Source: JP Morgan, as of Sept. 29, 2017

Fundamentals[2]

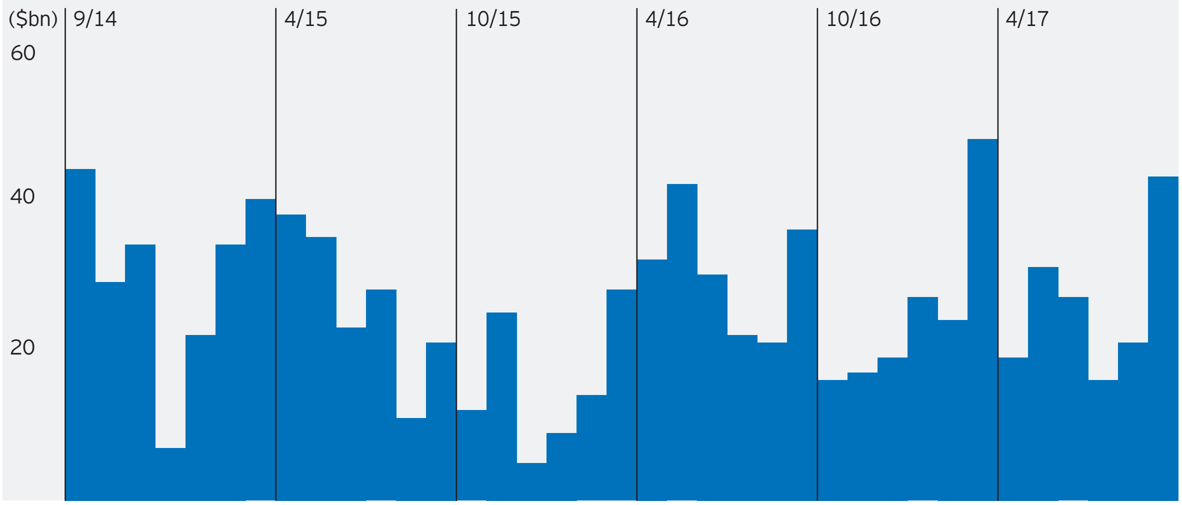
- The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 5.45%, a modified duration of 3.78, an option-adjusted spread of 347 bps, and an average price of $101.86.
- There was only one default in September in the high yield market which caused the par-weighted default rate to fall to 1.07% from 1.10% in August.
- Credit metrics for the overall market continue to reside in a healthy zone, in our opinion.
- Recent leverage statistics have improved as some energy companies announce improved earnings. Given the weight of the sector, this has had a beneficial impact on overall leverage ratios for the market.

Technicals

- High yield mutual funds reported an inflow of $1.7 billion in September, the fourth monthly inflow of the year. Year-to-date, high yield mutual funds have had $11.1 billion in outflows.
- Issuance for September was $43 billion, a significant increase from August.
- New issuance was led by refinancing activity which represented 55% of new deals.

New issuance volume

Monthly high-yield issuance



Source: JP Morgan, as of Sept. 29, 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 12 months, we expect the pace of high yield gains to continue to moderate.
- The spread between high yield and investment grade tightened in September to 223 bps which is 151 bps below the historic average, but continues to provide an opportunity for yield pick-up given a manageable default risk.

Index returns (%)

	5/17	6/17	7/17	8/17	9/17	YTD 2017
Bloomberg Barclays US HY 2% Issuer Cap Index	0.87	0.14	1.11	-0.04	0.90	7.00
Bloomberg Barclays US Aggregate Bond Index	0.77	-0.10	0.43	0.90	-0.48	3.14
Bloomberg Barclays US Treasury 5-10 Year Index	0.76	-0.53	0.42	1.21	-1.16	2.60
JPM EMBI Global Diversified Index	0.88	-0.14	0.84	1.77	0.01	8.99
S&P 500 Index	1.41	0.62	2.06	0.31	2.06	14.24
S&P/LSTA Leveraged Loan Index	0.44	-0.22	0.77	-0.21	0.34	2.33

Source: Barclays, JP Morgan and Standard & Poor's, as of Sept. 29, 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 Sept. 29, 2017, unless otherwise noted.

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