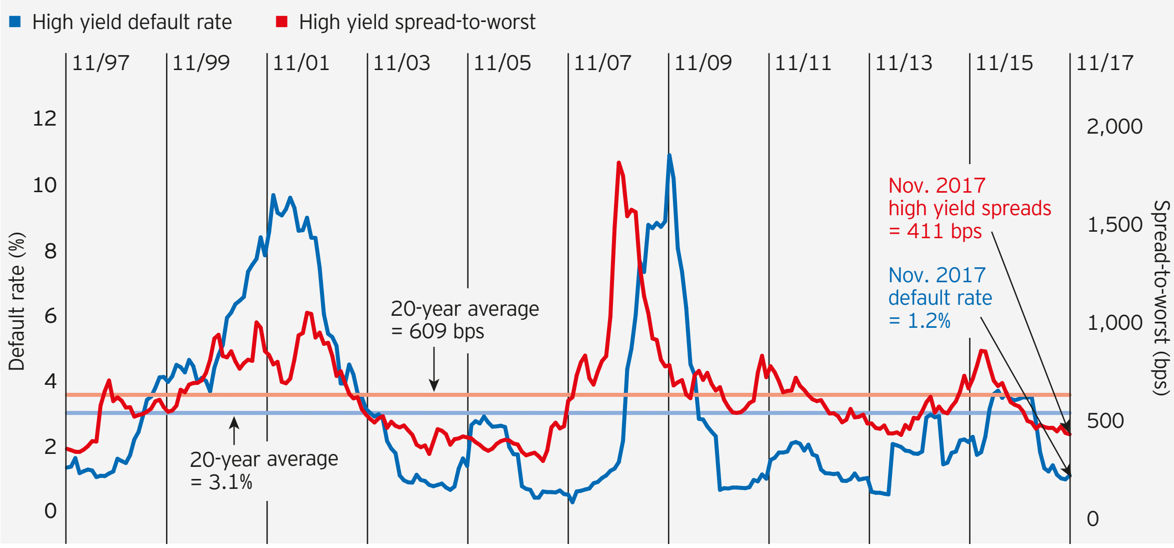
Invesco High Yield

High Yield Snapshot

Monthly high yield bond market update: December 2017

The high yield market experienced some volatility in November as prices initially dropped, but started to recover by mid-month. The market was supported by rising oil prices and strong equity returns, but also faced significant outflows as retail investors fled the sector. There was considerable dispersion between sectors as oil prices and equities rallied which pushed up the energy sector and the broader market, while the telecom and consumer product sectors both had meaningful declines. In November, the Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index returned -0.25% as credit spreads widened about 5 basis points (bps) and the five-year and ten-year Treasury yields rose to end the month at 2.14% and 2.42%, respectively. Spreads ended the month at 411 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 Nov. 30, 2017

November performance by rating[1]

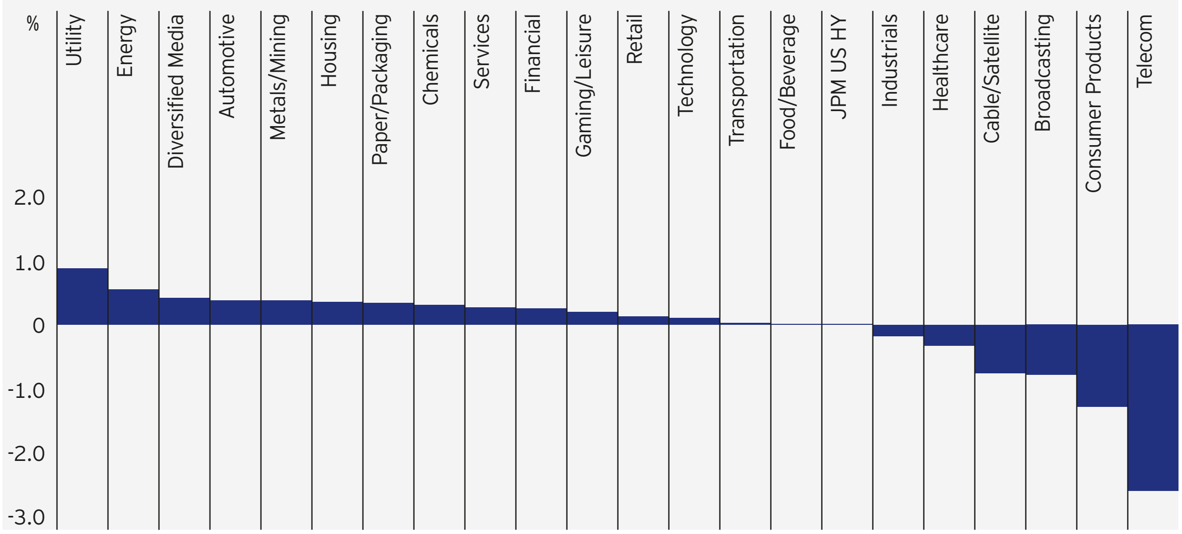
- BB-rated securities returned -0.08%
- B-rated securities returned -0.46%
- CCC-rated securities returned -0.13%

Earnings trends

Here are some post-earnings themes our analysts are focused on:

- **Telecom:** The wireline segment continues to face subscriber losses as customers terminate their land lines and replace with wireless. While we expect this trend to continue, we note a few select opportunities where asset value exist and debt is being reduced. This is not true for all wireline companies.
- **Technology weakness:** We've witnessed some weakness in the equity prices of technology names, but this has yet to spill over into debt prices. We believe this is more of an equity valuation problem, rather than a fundamental earnings problem.
- **Metals and mining:** There has been a pullback in some of the metals and mining names, both in equities and debt. We believe some metals prices had gotten ahead of themselves and some period of consolidation was warranted, however we don't see a change in the underlying demand patterns, seasonally-adjusted.

High yield performance by sector in November



Source: JP Morgan, as of Nov. 30, 2017

Fundamentals[2]

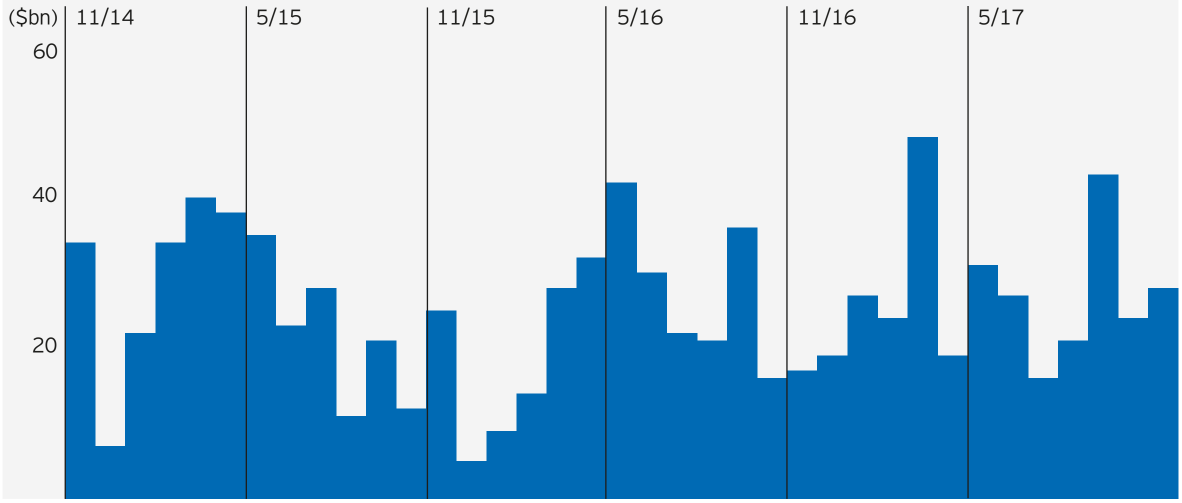
- The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 5.68%, a modified duration of 3.84, an option-adjusted spread of 344 bps, and an average price of $101.05.
- There were four defaults in November in the high yield market which had only a minor impact on the par-weighted default rate, which fell slightly to 1.17% from 1.19% in October.
- 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 $5.2 billion in November, the second consecutive month of outflows. Year-to-date, high yield mutual funds have had $17 billion in outflows.
- Issuance for November was $28 billion, an increase from October.
- New issuance was led by refinancing activity which represented 75% of new deals.

New issuance volume

Monthly high-yield issuance



Source: JP Morgan, as of Nov. 30, 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 18 months, we expect the pace of high yield gains to continue to moderate.
- The spread between high yield and investment grade widened in November to 238 bps which is 136 bps tighter the historic average, but continues to provide an opportunity for yield pick-up given a manageable default risk.

Index returns (%)

	7/17	8/17	9/17	10/17	11/17	YTD 2017
Bloomberg Barclays US HY 2% Issuer Cap Index	1.11	-0.04	0.90	0.42	-0.25	7.18
Bloomberg Barclays US Aggregate Bond Index	0.43	0.90	-0.48	0.06	-0.13	3.07
Bloomberg Barclays US Treasury 5-10 Year Index	0.42	1.21	-1.16	-0.19	-0.34	2.06
JPM EMBI Global Diversified Index	0.84	1.77	0.01	0.37	0.05	9.45
S&P 500 Index	2.06	0.31	2.06	2.33	3.07	20.49
S&P/LSTA Leveraged Loan Index	0.77	-0.21	0.34	0.56	0.07	2.98

Source: Barclays, JP Morgan and Standard & Poor's, as of Nov. 30, 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.

Important information

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