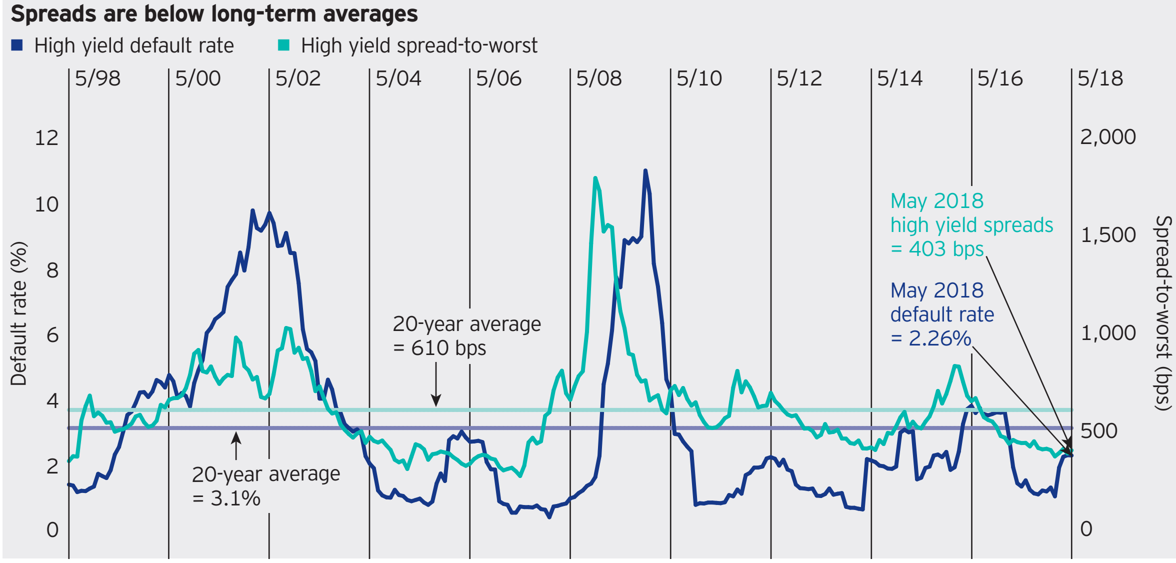
Invesco High Yield

High Yield Snapshot

Monthly high yield bond market update: June 2018

Despite a decline in US Treasury yields and strong corporate earnings, the high yield market was flat in May as credit spreads widened due to concerns about turmoil in Italy, stress in emerging markets and international trade tensions. During the month, the yield on the Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index rose to 6.42%, credit spreads widened about 20 basis points, and the index returned -0.03%. Spreads ended the month at 403 bps, which is about 200 bps below the 20-year average. We continue to expect a gradual pace of rate hikes in the U.S. to have limited impact on high yield performance as long as GDP remains robust. While we do have concerns regarding tightening financial conditions, we don't expect the Fed or the ECB to deviate from their careful and gradual approach. We still see relatively attractive total return potential for high yield bonds.

Spreads are below long-term averages



Source: JP Morgan, as of May 31, 2018.

May performance by rating[1]

- BB-rated securities returned -0.37%
- B-rated securities returned 0.00%
- CCC-rated securities returned 0.62%

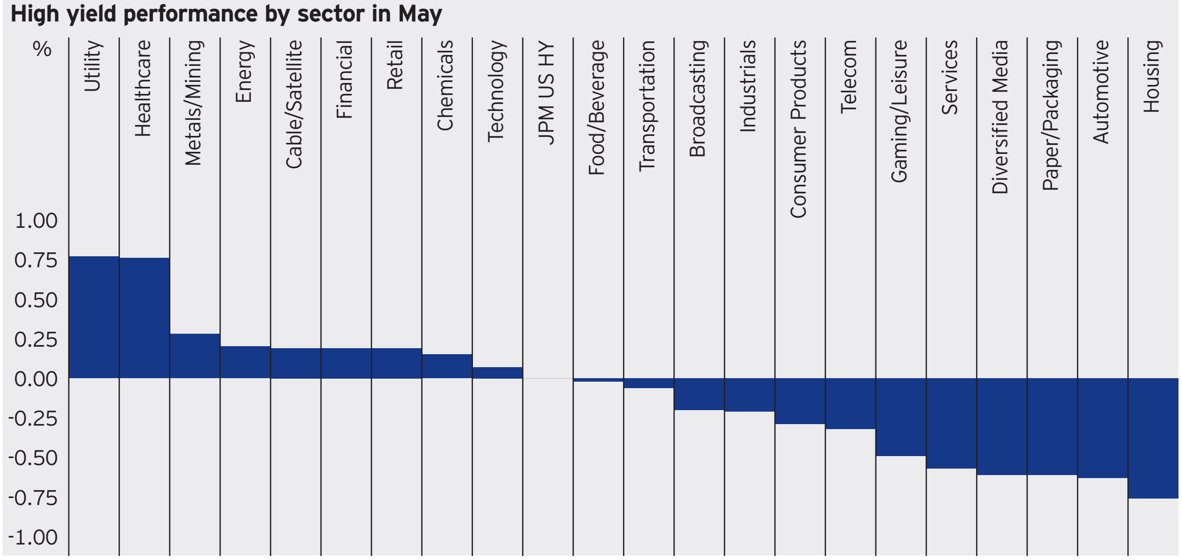
The High Yield Market is represented by the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Index.

Earnings trends

Here are some themes our analysts are following:

- We continue to see wage inflation in a few sectors. Notably, healthcare providers have cited higher skilled labor wages as having a negative impact on margins. Additionally, we've heard from freight hauling companies that upward pressure on wages will continue. This wage pressure is also present with construction workers, mostly in the homebuilding sector. We expect these trends to continue for the coming quarters and will continue to monitor for signs of inflation in other sectors.
- 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.
- Strong oil production in west Texas has created a bit of a bottleneck with pipeline capacity not keeping pace. We expect pipeline additions, increased rail and truck runs coupled with a potential delay in well completions to alleviate the issue in 2019.

High yield performance by sector in May



Source: JP Morgan, as of May 31, 2018.

Fundamentals[2]

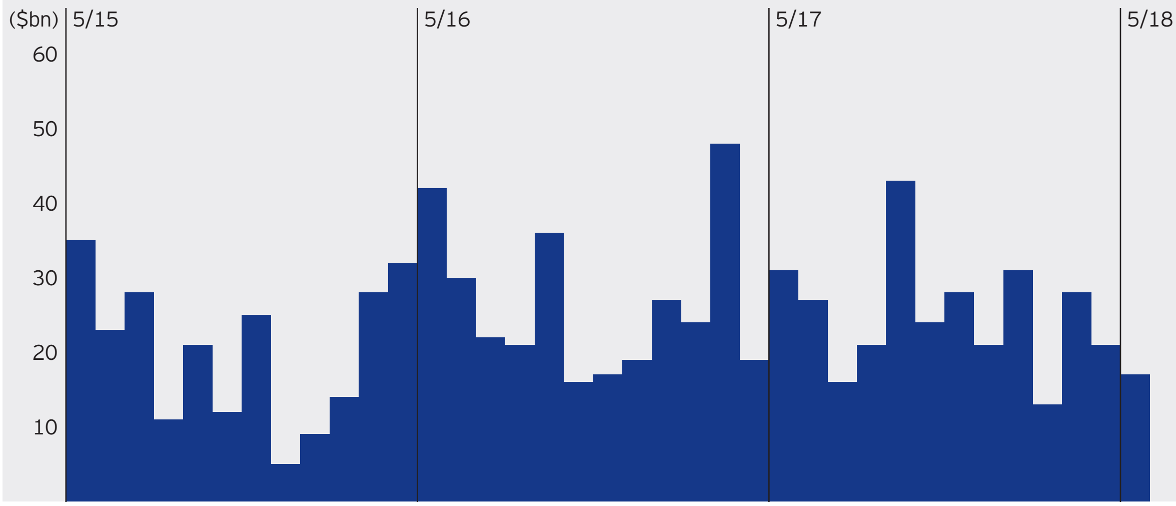
- The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 6.42%, a modified duration of 3.96, an option-adjusted spread of 362 bps, and an average price of $98.21.
- There was only one default in May in the high yield market and as a result the par-weighted default rate was little changed at 2.26% from 2.27% in April.
- 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 outflow of $800 million in May, the seventh outflow in the past eight months. Over the last eight months, outflows have totaled almost $30 billion.
- Issuance for May was $17 billion, a slowdown from March and April.
- New issuance was led by refinancing activity which represented 62% of new deals.

New issuance volume

Monthly high-yield issuance



Source: JP Morgan, as of May 31, 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 slow.
- The spread between high yield and investment grade widened in May to 238 bps which is 136 basis points 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	5/18	YTD
Bloomberg Barclays US HY 2% Issuer Cap Index	0.30	0.60	-0.85	-0.60	0.65	-0.03	-0.24
Bloomberg Barclays US Aggregate Bond Index	0.46	-1.15	-0.95	0.64	-0.74	0.71	-1.50
Bloomberg Barclays US Treasury 5-10 Year Index	0.11	-1.83	-0.67	1.00	-1.07	1.02	-1.57
JPM EMBI Global Diversified Index	0.73	-0.04	-1.99	0.29	-1.45	-0.94	-4.08
JPM Leveraged Loan Index	0.41	1.07	0.15	0.35	0.44	0.21	2.25
S&P 500 Index	1.11	5.73	-3.69	-2.54	0.38	2.41	2.02

Source: Barclays, JP Morgan, as of May 31, 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.