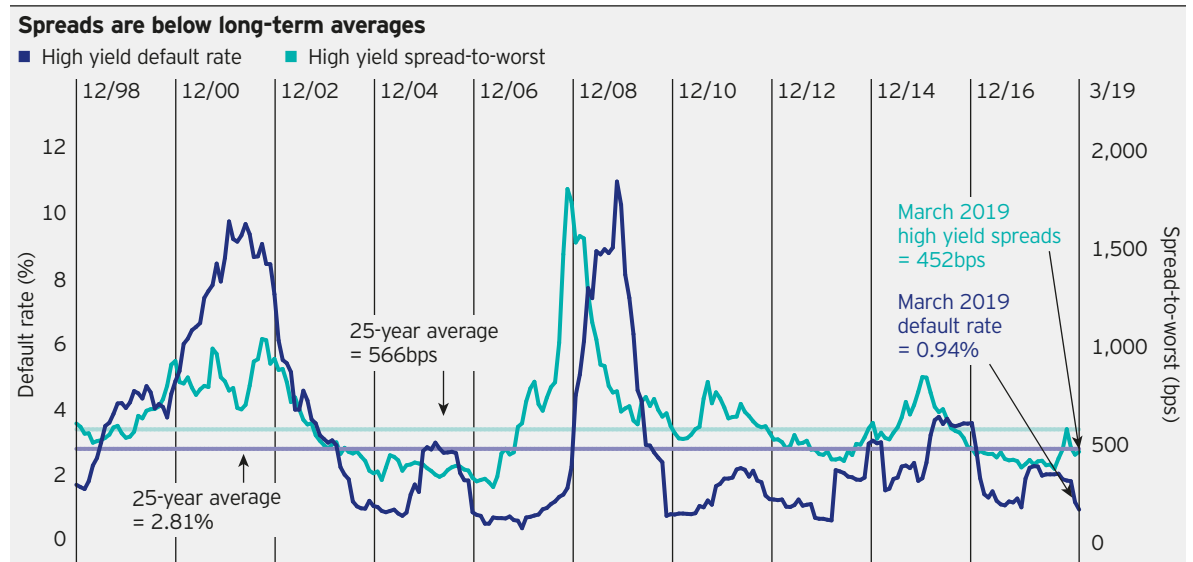




# High Yield Snapshot

## Monthly high yield bond market update: April 2019

High yield bonds continued to rally in March as central banks took on a more dovish stance and concerns about global trade tensions appeared to be easing. As a result, the BBG BARC US Corporate High Yield 2% Issuer Capped Index returned 0.94% during the month as yields fell about 10 basis points. Spreads ended March at 452 bps, which is about 115 bps below the long-term average. While high yield bond returns have been strong year to date, we believe the favorable macro environment allows for further spread compression, albeit at a slower pace.



Source: JP Morgan, as of March 31, 2019. Chart created by Invesco.

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

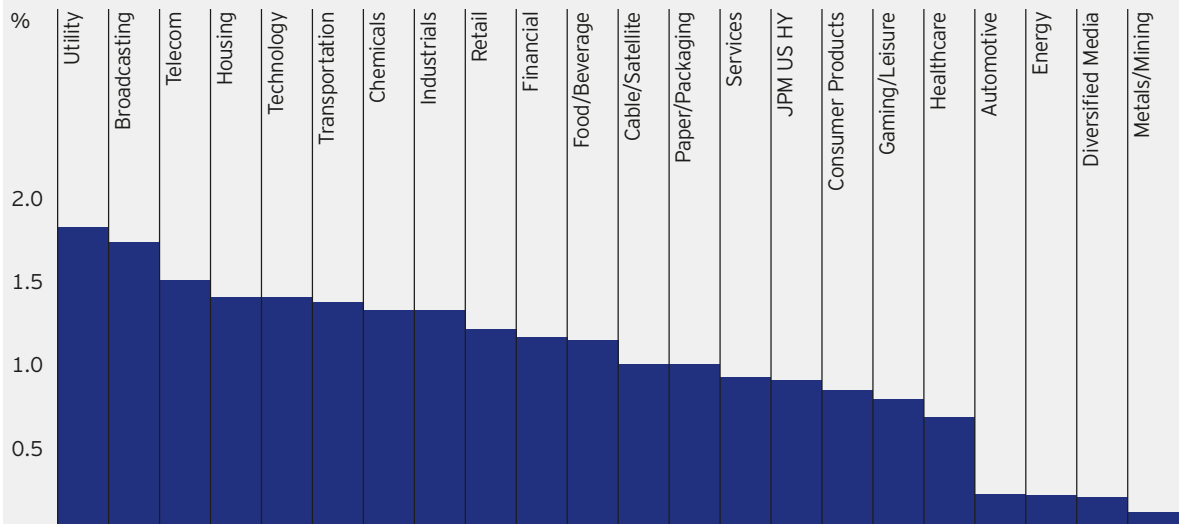
- BB-rated securities returned 1.23%.
- B-rated securities returned 0.87%.
- CCC-rated securities returned 0.17%.

## Earnings trends

After speaking with company management teams, here are some themes our analysts are monitoring:

- We are seeing a small uptick in new home activity given the decline in mortgage rates and favorable macro environment. We are still optimistic on the spring selling season given the recent comments from the Fed about slowing the pace of future rate hikes.
- Energy earnings have been mostly as expected. We view the recent increase in oil prices as beneficial from an earnings standpoint, but also raise the risk of companies increasing capital expenditure budgets as sentiment improves. We have witnessed many of these mini-cycles within the oil patch and would hope companies exercise a bit more restraint on deployment of capital expenditure dollars.
- Equipment rental companies (booms and lifts, Earth moving equipment) have noted seeing overall healthy revenue forecasts for 2019 as they evaluate their current order books. We analyze this sector as an indicator of overall economic health with the U.S. and Europe.

## High yield performance by sector in March



Source: JP Morgan, as of March 31, 2019. Chart created by Invesco. Past performance is no guarantee of future results. An investment cannot be made in an index.

## Fundamentals

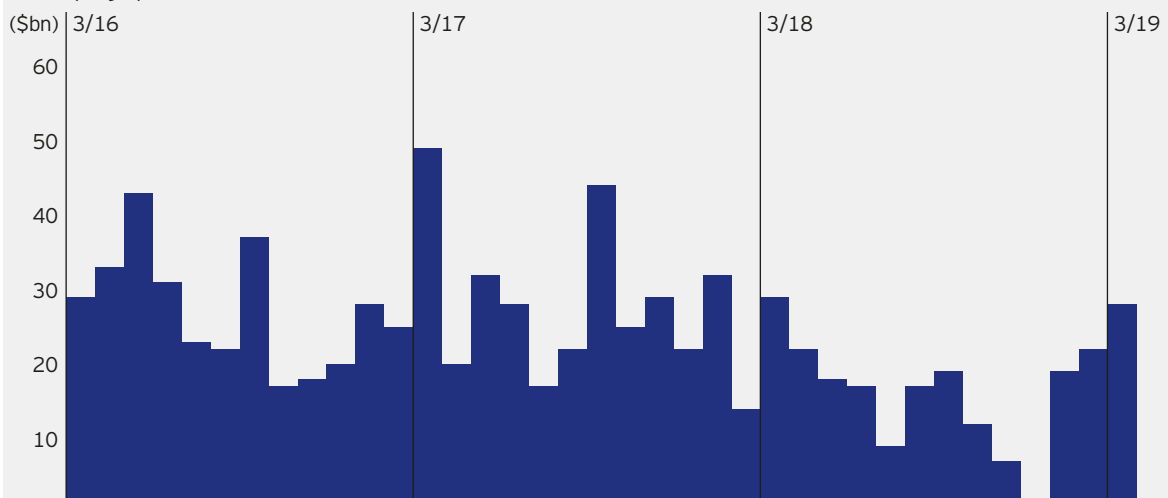
- The BBG BARC US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 6.43%, a modified duration of 3.42, an option-adjusted spread of 391 bps, and an average price of \$97.90.
- There were four defaults in March in the high yield market; however the par-weighted default rate fell to 0.94% from 1.17% in February.
- 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 \$1.9 billion in March, the third consecutive month of inflows.
- In March issuance was \$26.6 billion, the highest level in a year and follows \$21.2 billion in February.
- During the month, new issuance was led by refinancing which represented 71% of new deals.

### New issuance volume

Monthly high-yield issuance



Source: JP Morgan, as of March 31, 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 widened in March to 280 bps which is about 90 bps below its historic average.

### Index returns (%)

	10/18	11/18	12/18	1/19	2/19	3/19	YTD
Bloomberg Barclays US HY 2% Issuer Cap Index	-1.60	-0.86	-2.14	4.52	1.66	0.94	7.26
Bloomberg Barclays US Aggregate Bond Index	-0.79	0.60	1.84	1.06	-0.06	1.92	2.94
Bloomberg Barclays US Treasury 5-10 Year Index	-0.17	1.16	2.38	0.67	-0.32	2.08	2.44
JPM EMBI Global Diversified Index	-2.16	-0.42	1.35	4.41	1.00	1.42	6.95
JPM Leveraged Loan Index	-0.04	-0.83	-2.31	2.42	1.60	-0.16	3.89
S&P 500 Index	-6.84	2.04	-9.03	8.01	3.21	1.94	13.65

Source: Barclays, JP Morgan, as of March 31, 2019. Past performance is no guarantee of future results.

## Important Information

All data provided by Invesco unless otherwise noted. Data as of March 31, 2019, unless otherwise noted.

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