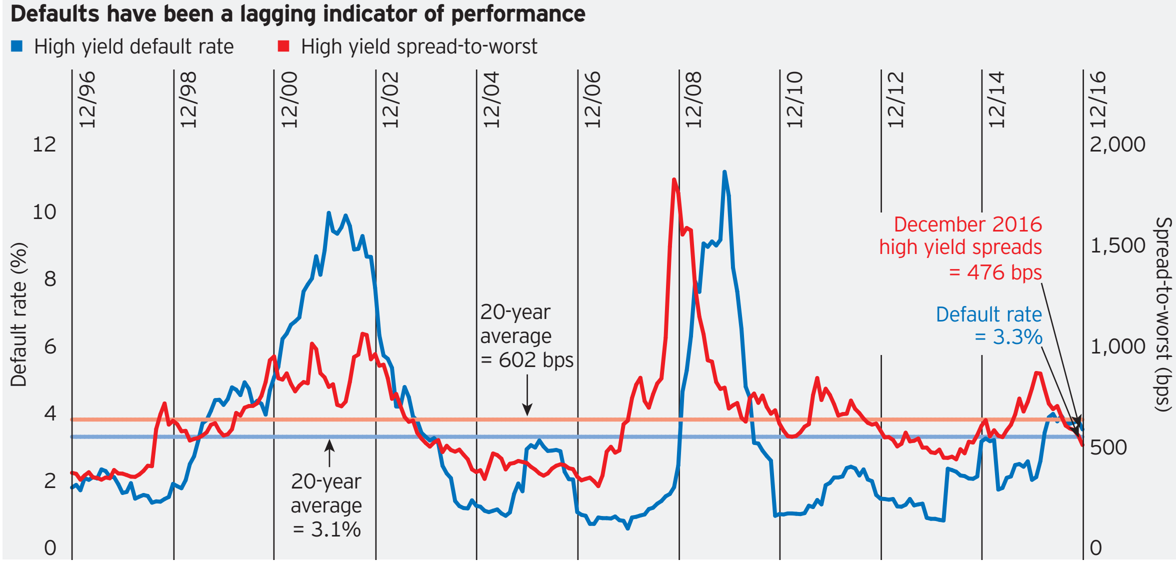
Invesco High Yield

High Yield Snapshot

Monthly high yield bond market update: January 2017

The high yield market posted a strong December, with the Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index returning 1.85%. For 2016, US high yield was a very strong performer posting double digit returns. Higher oil prices and a surging stock market were the main drivers of the strong December returns. Continued post-election optimism from the potential for reduced regulatory conditions and new fiscal stimulus pushed up investors' risk appetites. December also had the strongest inflows into the asset class since July. Spreads ended the month at 476 basis points (bps), which is about 100 bps inside of the 20-year average spread level. The five-year Treasury yields increased 9 bps to 1.93%, and the 10-year Treasury yield was 6 bps higher at 2.45%. We continue to believe the market has changed from a rising tide to one where careful credit and sector selection will likely be a key driver of performance for 2017.

Defaults have been a lagging indicator of performance



Source: JP Morgan, as of Dec. 31, 2016

Performance by ratings[1]

Within the ratings categories:

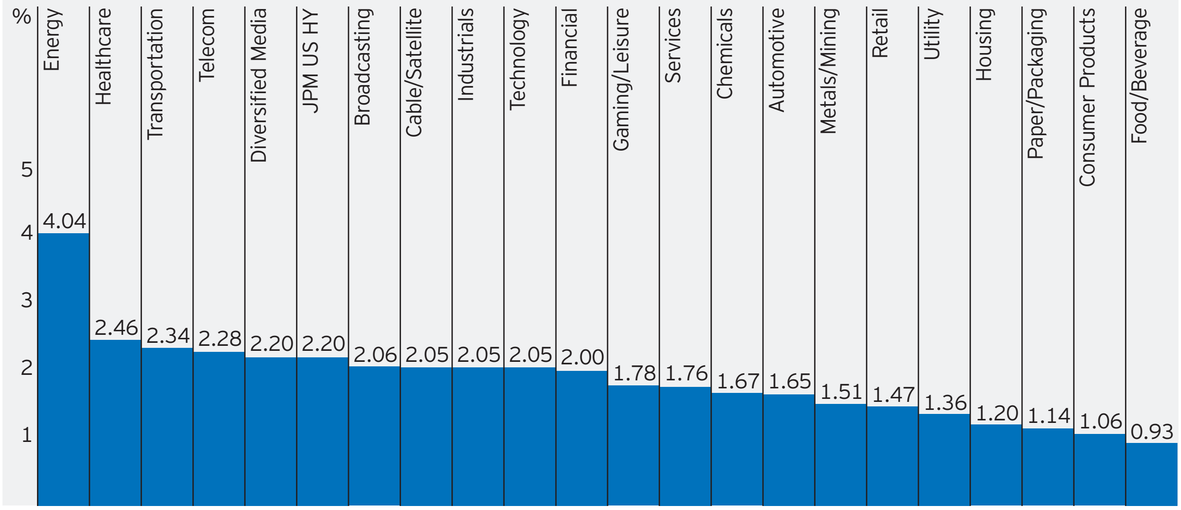
- BB-rated securities returned 1.19%
- B-rated securities generated returns of 1.97%
- CCC-rated securities returned 3.30%

Earnings trends

As we prepare for the release of Q4 earnings, we expect to see a few trends:

- Healthcare earnings woes will still be a focus. There is widespread uncertainty as to how the Affordable Care Act will be modified. These potential changes may impact the revenue and earning profiles of many companies in the sector.
- We expect earnings to disappoint for many retailers. The continued shift to online shopping will further impact revenues for companies with weak online strategies.
- Earnings for some companies in the energy sector are improving, but we are beyond the rising tide theme of 2016. We think many challenges persist in the oil field services sector, in particular in the offshore segment.

High yield had solid returns in December



Source: JP Morgan, as of Dec. 31, 2016

Fundamentals[2]

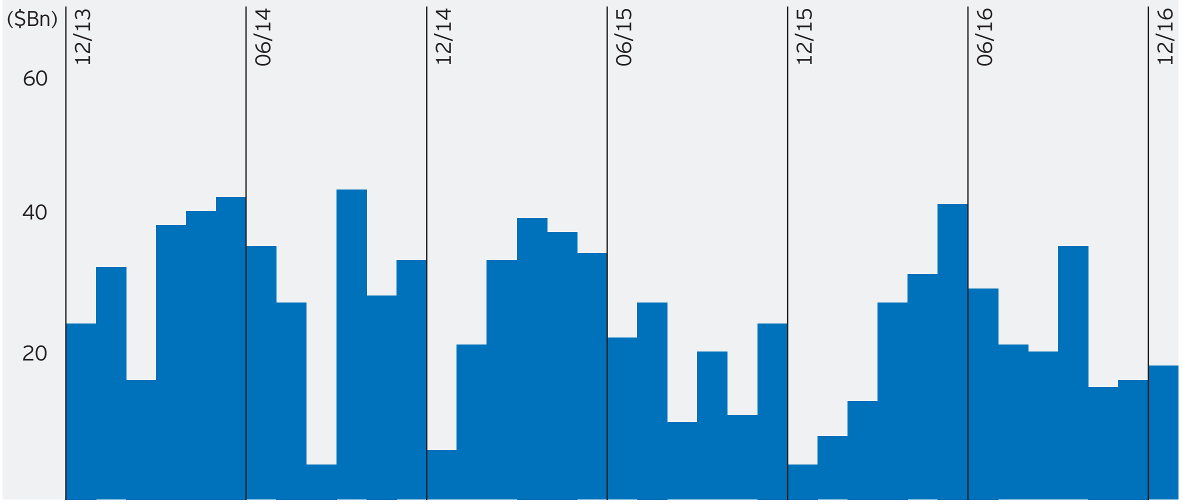
- The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 6.12%, a modified duration of 4.11, an option-adjusted spread of 409 bps, and an average price of $99.80.
- There were four defaults in December in the high yield market which caused the par-weighted default rate to fall to 3.32% from 3.58% in November. Excluding energy, and metals and mining, the default rate is only 0.68%.
- Credit metrics for the overall market continue to reside in a healthy zone, in our opinion.
- Recent leverage statistics continue to increase. This increase is being driven by poor earnings within energy, and metals and mining. We don't see this trend reversing in the near-term.

Technicals

- High yield mutual funds reported inflows after outflows in October and November. December inflows of $6.4 billion proved to be the seventh largest inflow on record. For the full year of 2016, inflows totaled $6.9 billion, compared to 2015 when outflows totaled $16.6 billion.
- Fourth quarter issuance was light, with net new issuance for December totaling $3.9 billion. For the full year of 2016, there has been $286 billion in new issuance compared to $293 billion issued in 2015.
- New issuance was led by refinancing activity which represented 80% of new deals.
- High yield issuance has decreased over the past few years, and this decreasing supply should bode well for technicals.

New issuance volume was modest in December

Monthly high-yield issuance



Source: JP Morgan, as of Dec. 31, 2016

Relative value

- High yield offers a relatively lower duration and a higher coupon, which reduces its sensitivity to interest rate movements.
- After a strong run during most of 2016, we expect the pace of high yield gains to continue to moderate.
- The spread between high yield and investment grade has fallen to 73 bps below the historic median, but continues to provide an opportunity for yield pick-up given a manageable default risk.

Index returns (%)

	8/16	9/16	10/16	11/16	12/16	YTD 2016
Bloomberg Barclays US HY 2% Issuer Capped Index	2.09	0.67	0.39	-0.47	1.85	17.13
Bloomberg Barclays US Aggregate Bond Index	-0.11	-0.06	-0.76	-2.37	0.14	2.65
Bloomberg Barclays US Treasury 5-10 Year Index	-0.79	0.16	-1.11	-3.39	-0.12	1.18
JPM EMBI Global Diversified Index	1.79	0.40	-1.24	-4.09	1.33	10.15
S&P 500 Index	0.14	0.02	-1.82	3.70	1.98	11.96
S&P/LSTA Leveraged Loan Index	0.70	0.60	0.72	0.18	1.29	10.88

Source: Barclays, JP Morgan and Standard & Poor's, as of Dec. 31, 2016

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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.

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