

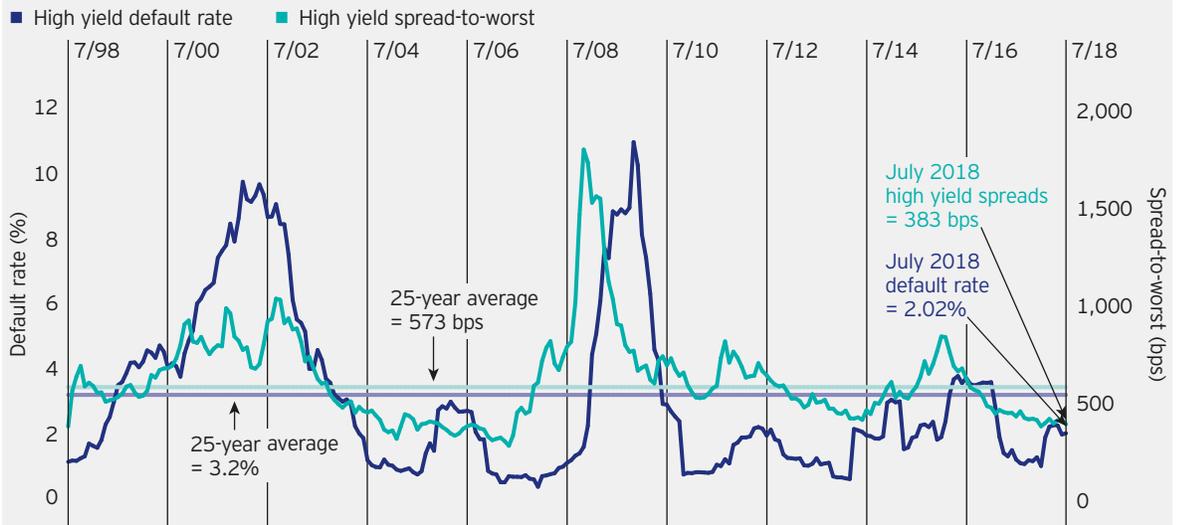


High Yield Snapshot

Monthly high yield bond market update: August 2018

High yield bonds had their strongest return in a year in July as solid earnings and a light new issuance calendar propelled the market higher. The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index returned 1.09% in July as the benchmark yield fell about 20 basis points to 6.31% and as credit spreads tightened over 25 basis points (bps). Spreads ended the month at 383 bps, which is over 200 bps below the 20-year average. High yield continues to benefit from moderate GDP growth (US, Europe, and China), supportive central banks, and overall earnings momentum. Despite current market valuations, we continue to identify attractive opportunities for both income and capital appreciation.

Spreads are below long-term averages



Source: JP Morgan, as of July 31, 2018. Chart created by Invesco.

July performance by rating¹

- BB-rated securities returned 1.13%
- B-rated securities returned 0.97%
- CCC-rated securities returned 1.23%

Earnings trends

Here are some themes our analysts are following:

- Trade tensions continue to dominate the news. We do not expect this to end anytime soon and have been analyzing the potential impact on companies we are invested in.
- Inflation trends up as higher prices find their way into an increasing number of industries. We are monitoring companies' ability to pass along these costs and/or cope with the margin pressure they cause.
- Energy company earnings continue to improve. We believe expanding capex budgets will likely benefit the pipeline and oil field services segments.
- Trends in the cable-media-telecom space: intensifying competition/subscriber losses, ever changing spectrum valuations, consistent rumors of mergers and acquisitions, and the development (and implications) of the 5G rollout.

High yield performance by sector in July



Source: JP Morgan, as of July 31, 2018. Chart created by Invesco.

Fundamentals²

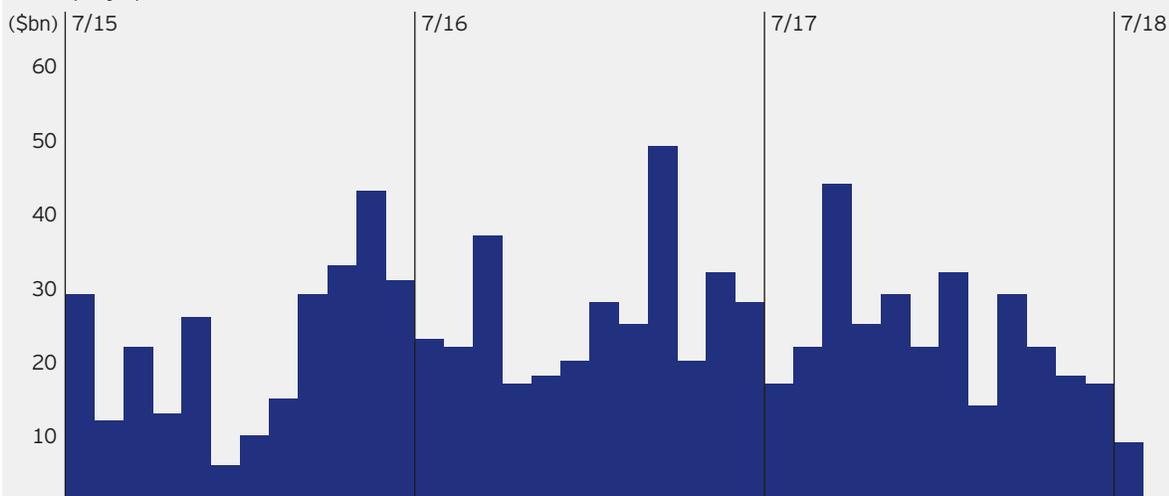
- The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 6.31%, a modified duration of 3.87, an option-adjusted spread of 336 bps, and an average price of \$98.52.
- There was one default in July in the high yield market and as a result the par-weighted default rate rose slightly to 2.02% in July from 1.98% in June.
- 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 \$527 million in July, only the second inflow in the past ten months. For 2018, outflows have totaled \$24 billion.
- Issuance for July was light at \$8 billion and has averaged about \$19 billion per month in 2018, which is \$8 billion less than in 2017.
- New issuance was led by refinancing activity which represented 76% of new deals.

New issuance volume

Monthly high-yield issuance



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

Relative value

- High yield helps hedge 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 tightened in July to 226 bps which is 148 basis points tighter than the historic average, but continues to provide an opportunity for yield pick-up given a manageable default risk.

Index returns (%)

	2/18	3/18	4/18	5/18	6/18	7/18	YTD
Bloomberg Barclays US HY 2% Issuer Cap Index	-0.85	-0.60	0.65	-0.03	0.40	1.09	1.25
Bloomberg Barclays US Aggregate Bond Index	-0.95	0.64	-0.74	0.71	-0.12	0.02	-1.59
Bloomberg Barclays US Treasury 5-10 Year Index	-0.67	1.00	-1.07	1.02	-0.02	-0.44	-2.03
JPM EMBI Global Diversified Index	-1.99	0.29	-1.45	-0.94	-1.19	2.55	-2.81
JPM Leveraged Loan Index	0.15	0.35	0.44	0.21	0.08	0.79	3.14
S&P 500 Index	-3.69	-2.54	0.38	2.41	0.62	3.72	6.47

Source: Barclays, JP Morgan, as of July 31, 2018.

- 1 Bloomberg Barclays US High Yield 2% Issuer Cap
- 2 JP Morgan

Important Information

All data provided by Invesco unless otherwise noted. Data as of July 31, 2018, unless otherwise noted.

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