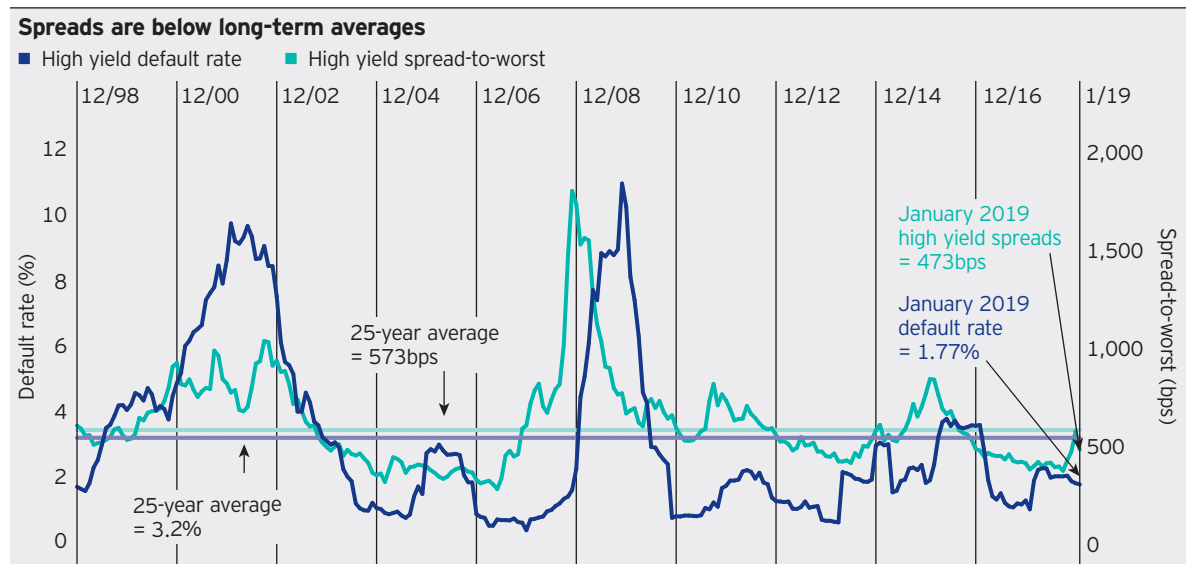




High Yield Snapshot

Monthly high yield bond market update: February 2019

High yield bonds snapped back in January as the Federal Reserve Bank took on a more dovish tone, trade tensions appeared to ease, oil prices rallied and corporate earnings remained solid. As a result, the Barclays US Corporate High Yield 2% Issuer Capped Index returned 4.52% during the month as credit spreads tightened about 100 basis points. Spreads ended January at 473 bps, which is about 125 bps below the long-term average. Given the Fed's change in approach to quantitative tightening, flows have returned to the high yield asset class driving strong year to date performance.



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

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

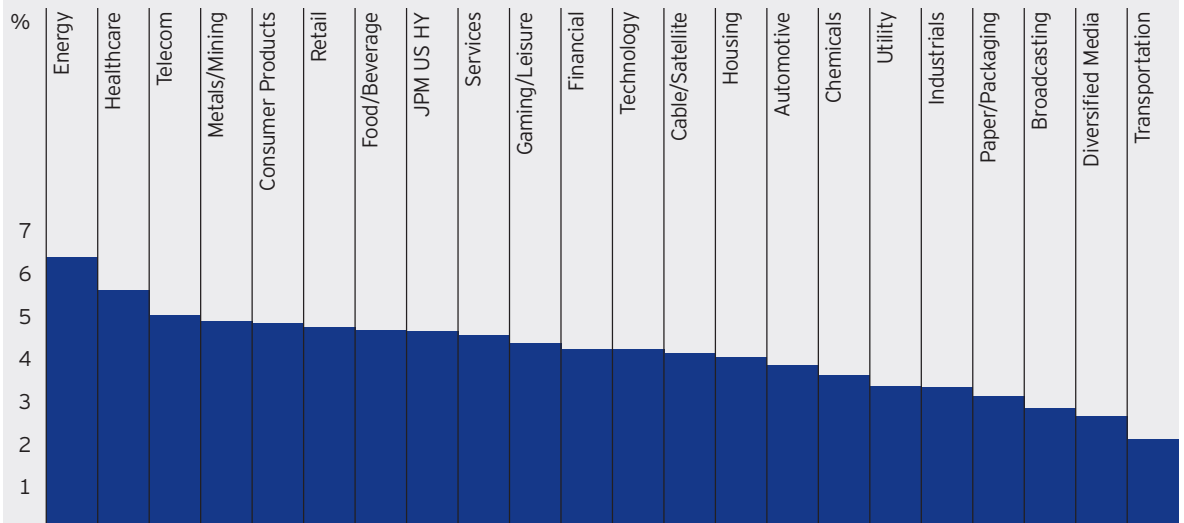
- BB-rated securities returned 4.23%
- B-rated securities returned 4.50%
- CCC-rated securities returned 5.29%

Earnings trends

Below are some themes our analysts are seeing regarding fourth quarter earnings:

- New homes sales remain sluggish and analysts have shifted their attention to the spring selling season. We do not expect any material uptick in activity given the cautious stance new home buyers have embraced.
- Retail sales of new autos remain sluggish; however we have seen an uptick in used car volumes. It is likely some buyers opted to spend less on autos given the recent uptick in borrowing rates.
- As we expected, we are starting to hear of energy companies lowering their 2019 capital expenditure plans given oil prices remaining in the low 50's per barrel. We believe it is unlikely that budgets will increase given a refreshing focus by energy companies on cash flow as opposed to production growth.

High yield performance by sector in January



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

Fundamentals

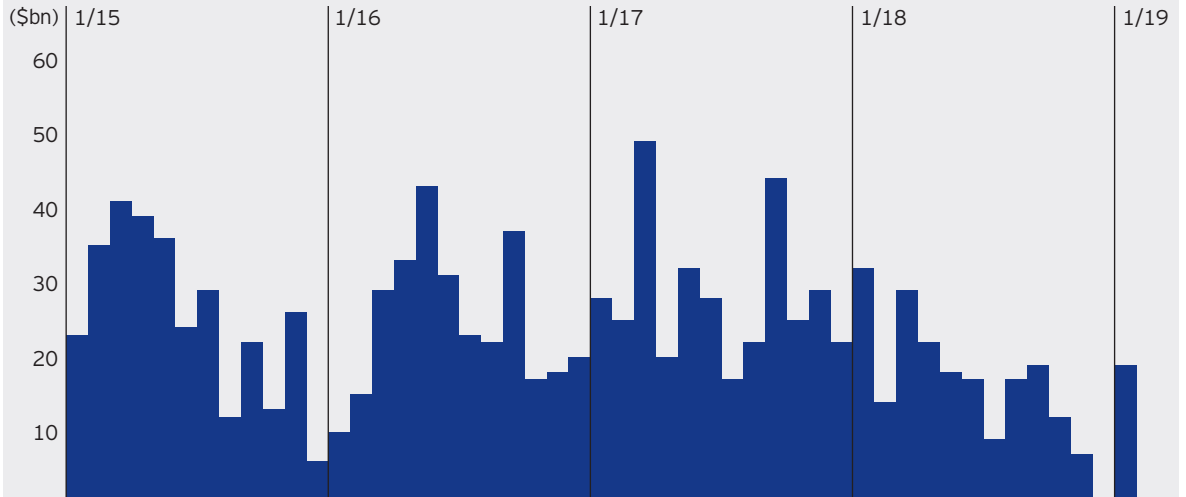
- The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 6.90%, a modified duration of 3.67, an option-adjusted spread of 423 bps, and an average price of \$96.24.
- There were no defaults in January in the high yield market and as a result the par-weighted default rate fell to 1.77% from 1.83% in December.
- 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 \$4.0 billion in January, the first monthly inflow since August.
- In January issuance was \$17.6 billion, which followed no new issuance in December.
- During the month, new issuance was led by refinancing which represented 44% of new deals.

New issuance volume

Monthly high-yield issuance



Source: JP Morgan, as of Jan. 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 tightened in January to 290 bps which is about 80 bps below its historic average.

Index returns (%)

	7/18	8/18	9/18	10/18	11/18	12/18	1/19
Bloomberg Barclays US HY 2% Issuer Cap Index	1.09	0.74	0.56	-1.60	-0.86	-2.14	4.52
Bloomberg Barclays US Aggregate Bond Index	0.02	0.64	-0.64	-0.79	0.60	1.84	1.06
Bloomberg Barclays US Treasury 5-10 Year Index	-0.44	0.98	-1.06	-0.17	1.16	2.38	0.67
JPM EMBI Global Diversified Index	2.55	-1.73	1.51	-2.16	-0.42	1.35	4.41
JPM Leveraged Loan Index	0.79	0.49	0.71	-0.04	-0.83	-2.31	2.42
S&P 500 Index	3.72	3.26	0.57	-6.84	2.04	-9.03	8.01

Source: Barclays, JP Morgan, as of Jan. 31, 2019.

Important Information

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

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