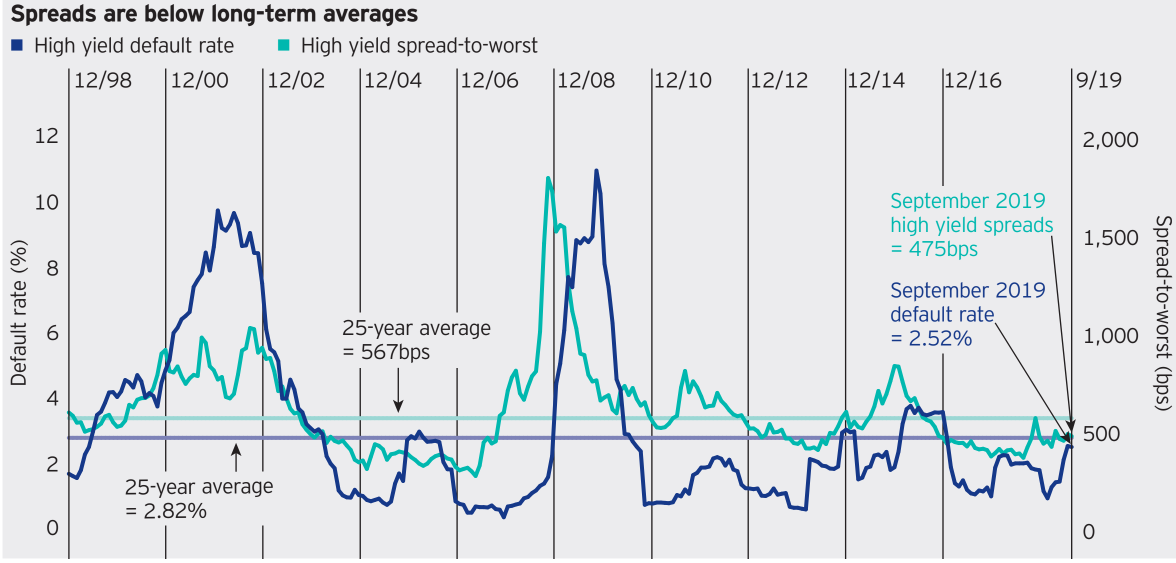
High Yield
Snapshot

Monthly high yield bond market update: October 2019

High yield bonds posted a modest return in September despite the rise in government yields due to solid investor inflows and accommodative central bank policies. As a result, the Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index returned 0.36% during the month while credit spreads tightened about 20 basis points. Spreads ended September at 475 bps, which is about 90 bps below the long-term average. Despite concerns of slowing global growth, demand for high yield bonds remained steady as the search for yield continues. We note robust interest in higher quality rated high yield bonds, both in the primary and secondary market. While fundamentals remain healthy for many companies, we think global trade uncertainties will likely lead to lower capital investment plans in the coming months. Despite these concerns, we still see value in segments of the high yield market.

Spreads are below long-term averages



Source: JP Morgan, as of Sept. 30, 2019. Chart created by Invesco, based off the JP Morgan US High Yield Index. An investment cannot be made directly into an index. **Past performance is no guarantee of future results.**

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

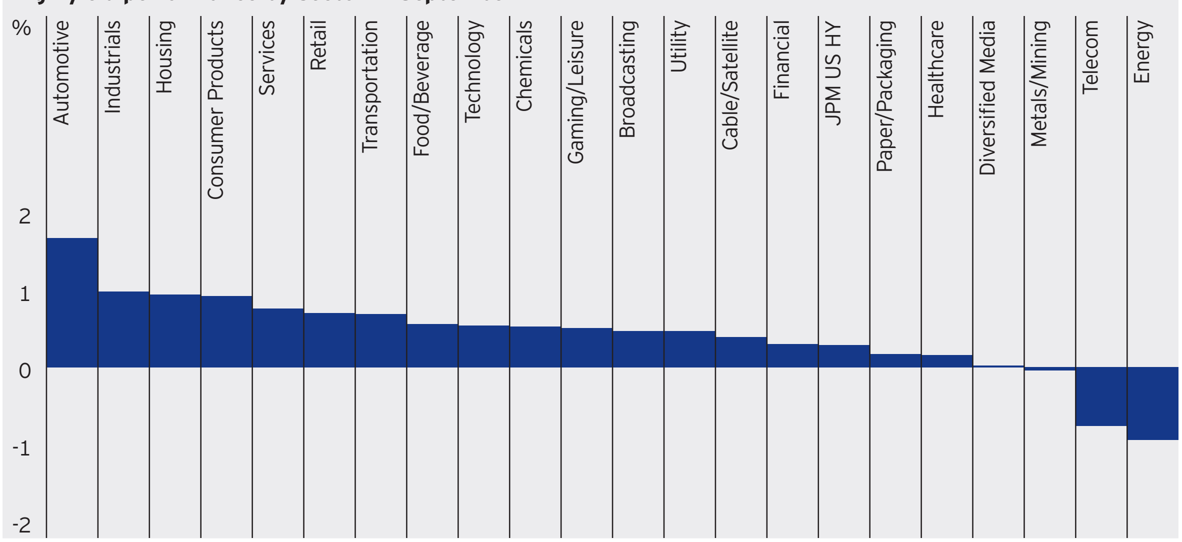
- BB-rated securities returned 0.30%
- B-rated securities returned 0.59%
- CCC-rated securities returned -0.15%

Earnings trends

Here are some themes our analysts are monitoring:

- Rental equipment companies have reported earnings inline with prior expectations. We have not witnessed a downturn in commercial construction activity in the U.S, despite the concerns about slowing global growth. We will continue to monitor this sector for clues about overall economic activity.
- Energy companies continue to scale back their capital expenditure plans as evidenced by declining drilling rig activity. We think this trend will continue as equity and debt markets are sending clear signals to management teams that living within cash flow is a preferred approach to operating in the current oil/natural gas pricing environment.

High yield performance by sector in September



Source: JP Morgan, as of Sept. 30, 2019. Chart created by Invesco, based off the JP Morgan US High Yield Index.
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Fundamentals

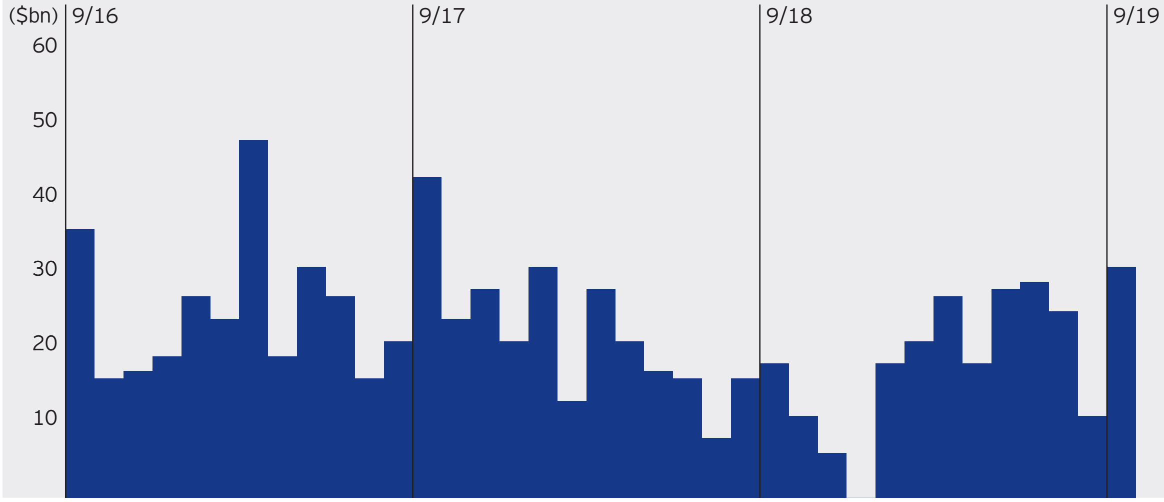
- The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 5.65%, a modified duration of 3.07, an option-adjusted spread of 373 bps, and an average price of $99.79.
- There was one default in September in the high yield market and as a result the par-weighted default rate fell slightly to 2.52% from 2.55% in August.
- Credit quality for the overall market is still acceptable; however leverage has recently increased due to a slowdown in earnings.

Technicals

- High yield mutual funds reported an inflow of $4.7 billion in September. Year-to-date the sector has had $15.3 billion in inflows, compared to 2018 which had $47 billion in outflows.
- In September issuance was $31.3 billion and year-to-date it has totaled $208.2 billion, compared to $187 billion in new issuance for all of 2018.
- During the month, new issuance was led by refinancing which represented 65% of new deals.

New issuance volume

Monthly high-yield issuance



Source: JP Morgan, as of Sept. 30, 2019.

Relative value

- High yield offers protection against declining interest rates given its fixed coupon nature. Call protection is an important benefit embedded in high yield bonds allowing many bonds to trade above face value for long time periods.
- High yield offers attractive yield relative to other fixed income asset classes.
- The spread between high yield and investment grade tightened in September to 308 bps which is about 60 bps below its historic average.

Index returns (%)

	4/19	5/19	6/19	7/19	8/19	9/19	YTD
Bloomberg Barclays US HY 2% Issuer Cap Index	1.42	-1.19	2.28	0.56	0.40	0.36	11.41
Bloomberg Barclays US Aggregate Bond Index	0.03	1.78	1.26	0.22	2.59	-0.53	8.52
Bloomberg Barclays US Treasury 5-10 Year Index	-0.22	2.50	1.22	-0.18	3.22	-0.90	8.30
JPM EMBI Global Diversified Index	0.24	0.41	3.40	1.21	0.75	-0.46	12.99
JPM Leveraged Loan Index	1.59	-0.24	0.28	0.84	-0.22	0.41	6.67
S&P 500 Index	4.05	-6.35	7.05	1.44	-1.58	1.87	20.55

Source: Barclays, JP Morgan, as of Sept. 30, 2019. Chart created by Invesco, based off the JP Morgan US High Yield Index.
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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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