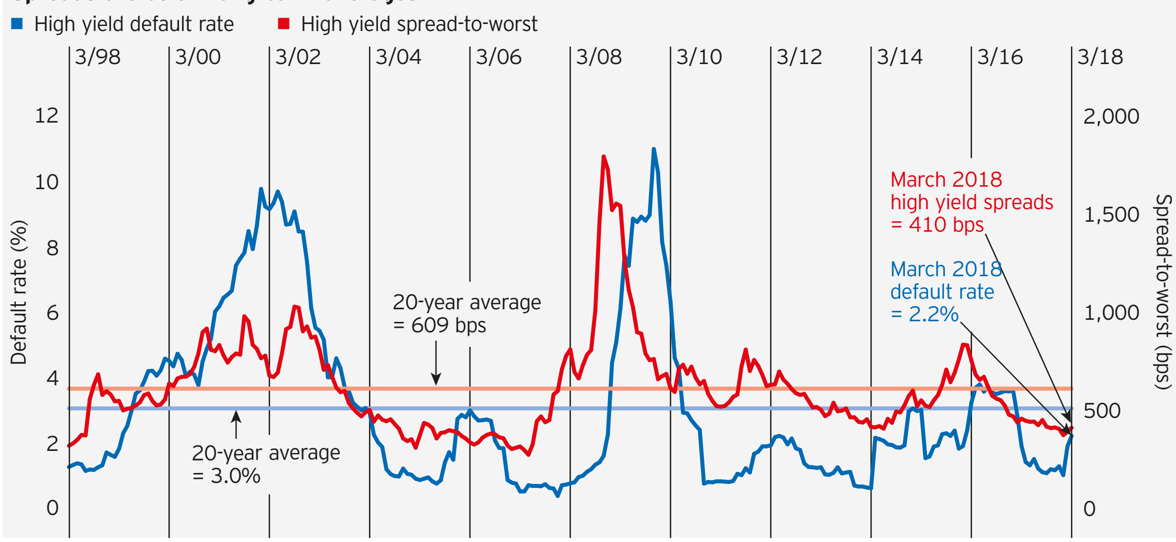
Invesco High Yield

High Yield
Snapshot

Monthly high yield bond market update: April 2018

Amid a sell-off in equities and concerns about a global trade war, the high yield market registered a second consecutive month of negative returns in March. While US Treasury rates fell, credit spreads widened about 20 basis points (bps) and as a result the Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index returned –0.60% in March. Spreads ended the month at 410 bps, which is about 200 bps below the 20-year average. The recent widening of spreads has created opportunities in the new issue and secondary markets. With new issues offering higher yields than just a few months ago, our team is actively selecting new investment ideas that meet our credit criteria.

Spreads are below long-term averages



Source: JP Morgan, as of March 31, 2018

March performance by rating[1]

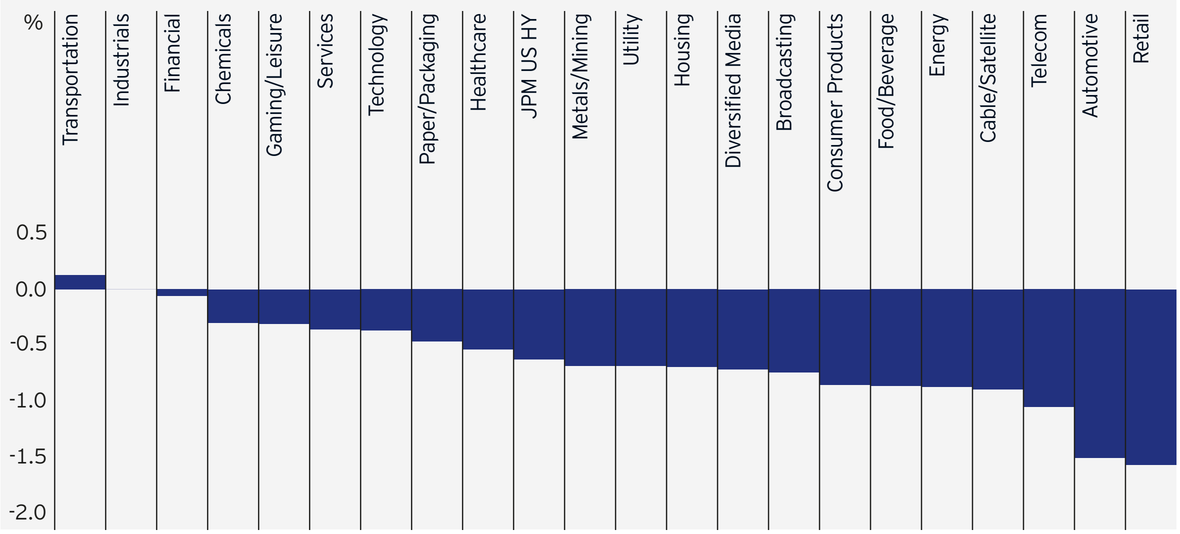
- BB-rated securities returned –0.54%
- B-rated securities returned –0.54%
- CCC-rated securities returned –0.84%

Earnings trends

First quarter earnings season has just begun. Here are some themes our analysts are following:

- We continue to hear about wage inflation from a number of industries. Specifically, we've heard this from homebuilders, some retail, and a variety of industrial companies. Additionally, freight cost inflation is still a common theme. In general, these anecdotes bode well for US GDP.
- Fundamentals overall are still healthy for most sectors. We continue to see revenue growth of mid-single digits and slightly growing EBITDA. While we do not see an acceleration of these growth rates in the coming quarters, we believe they are headed in the right direction.
- Retail will remain in the headlines as bankruptcies in this sector will continue, in our opinion. We note the challenging environment for many companies with stale concepts coupled with bad balance sheets. Nonetheless, we continue to evaluate this sector for possible investment ideas, but each idea must exceed our fundamental credit criteria for investment.

High yield performance by sector in March



Source: JP Morgan, as of March 31, 2018

Fundamentals[2]

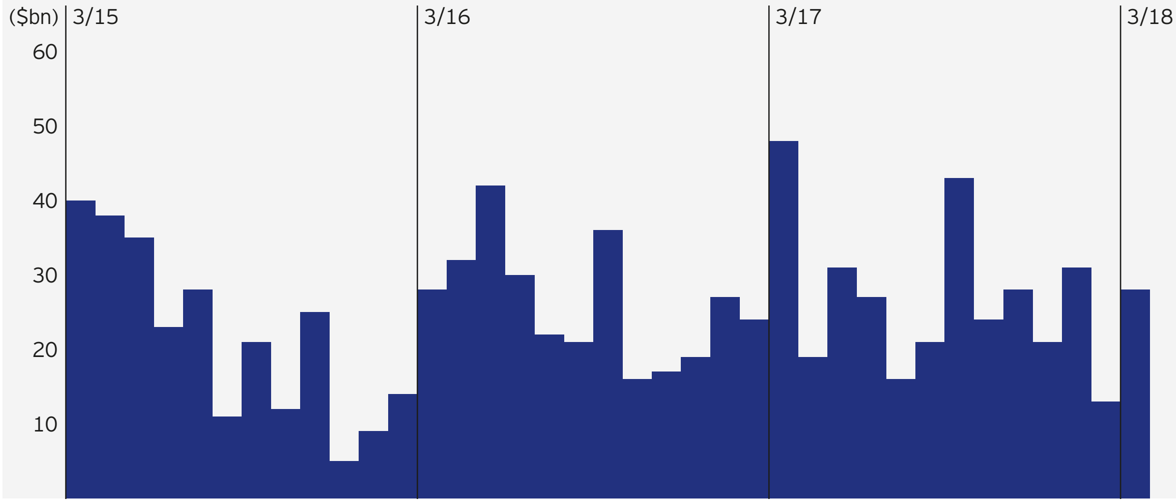
- The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 6.19%, a modified duration of 4.06, an option-adjusted spread of 354 bps, and an average price of $98.69.
- There were four defaults in March in the high yield market and as a result the par-weighted default rate rose to 2.21% from 1.89% in February.
- Credit quality for the overall market is still acceptable.
- Recent leverage statistics continue to improve as companies slowly reduce leverage.

Technicals

- High yield mutual funds reported an outflow of $2.3 billion in March — the sixth consecutive month of outflows. For the year, outflows have totaled $19.2 billion.
- Issuance for March was $28 billion, a significant increase from February.
- New issuance was led by refinancing activity which represented 70% of new deals.

New issuance volume

Monthly high-yield issuance



Source: JP Morgan, as of March 31, 2018

Relative value

- High yield offers a relatively low duration and a high coupon, which reduces its sensitivity to interest rate movements. However, as spreads have tightened, the sensitivity to Treasury rates has grown.
- After a strong run over the past two years, we expect the pace of high yield gains to moderate.
- The spread between high yield and investment grade widened in March to 246 bps, which is 128 basis points tighter than the historic average, but continues to provide an opportunity for yield pick-up given a manageable default risk.

Index returns (%)

	11/17	12/17	1/18	2/18	3/18	YTD
Bloomberg Barclays US HY 2% Issuer Cap Index	-0.25	0.30	0.60	-0.85	-0.60	-0.86
Bloomberg Barclays US Aggregate Bond Index	-0.13	0.46	-1.15	-0.95	0.64	-1.46
Bloomberg Barclays US Treasury 5-10 Year Index	-0.34	0.11	-1.83	-0.67	1.00	-1.51
JPM EMBI Global Diversified Index	0.05	0.73	-0.04	-1.99	0.29	-1.74
JPM Leveraged Loan Index	0.16	0.41	1.07	0.15	0.35	1.58
S&P 500 Index	3.07	1.11	5.73	-3.69	-2.54	-0.76

Source: Barclays, JP Morgan and Standard & Poor's, as of March 31, 2018

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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.

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