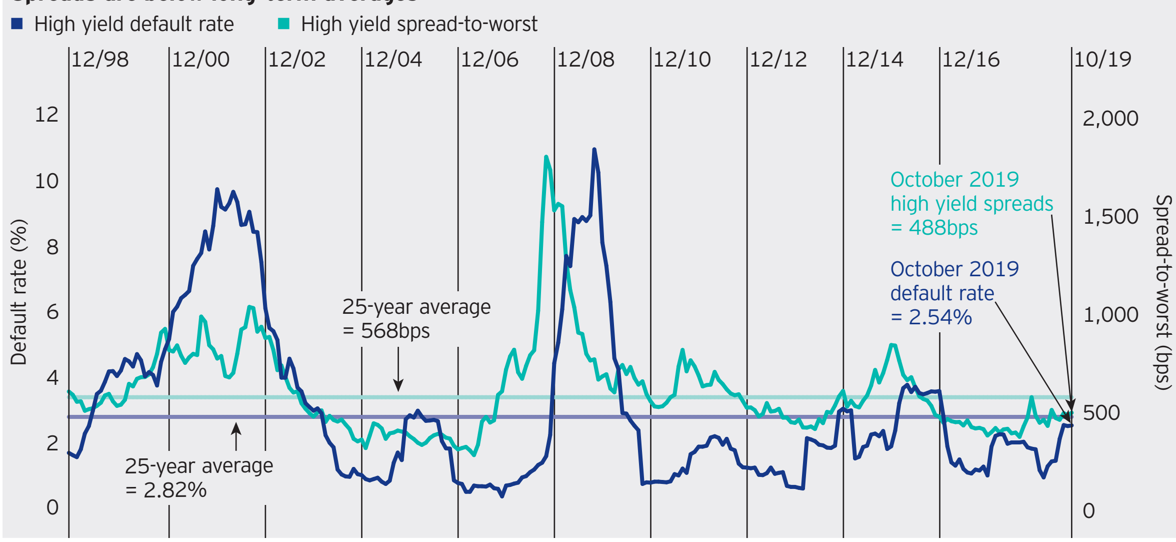
Invesco High Yield

High Yield Snapshot

Monthly high yield bond market update: November 2019

High yield bonds posted a modest return in October 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 0.28% during the month while credit spreads widened about 20 basis points. Spreads ended July at 488 bps, which is about 80 bps below the long-term average. Demand for high yield bonds remains robust, especially so for the higher rated BB segment. We note fundamentals for many companies continue to remain healthy, defying the daily trade war headlines in the press. Despite the strong year to date performance of high yield, we continue to find attractive investment ideas, in both the new issue market and in secondary trading.

Spreads are below long-term averages



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

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

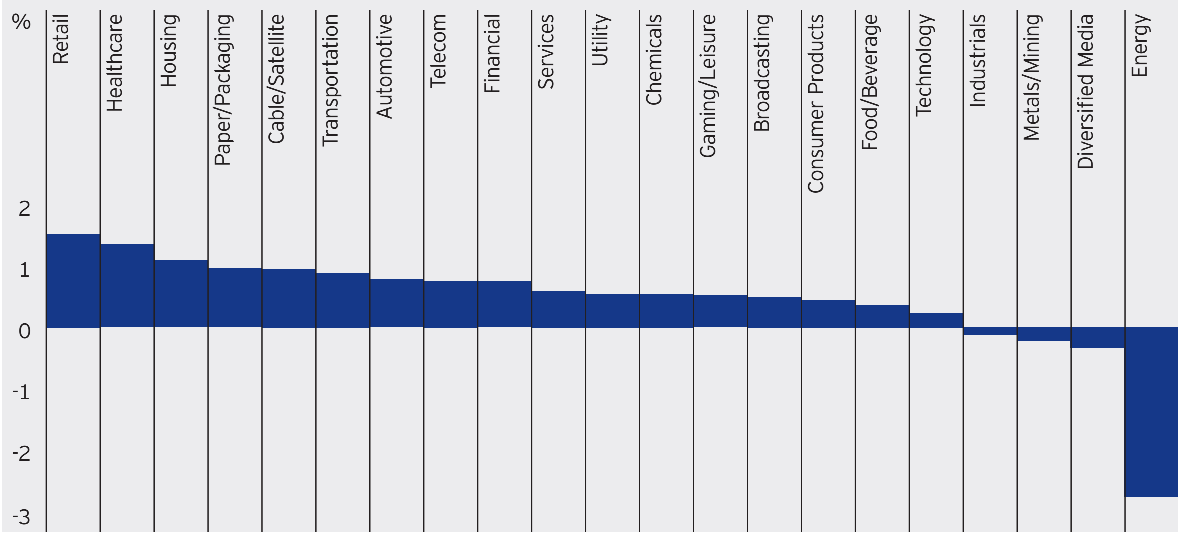
- BB-rated securities returned 0.57%
- B-rated securities returned 0.08%
- CCC-rated securities returned –0.18%

Earnings trends

Here are some themes our analysts are monitoring:

- In our view, the consumer continues to spend in a robust fashion. As we review earnings from retail and consumer products companies, we note healthy revenue increases and positive same store sales results for chains with strong concepts. Of note though, an uptick in delinquent loans in the auto space is of concern.
- We're seeing widespread behavior change in the energy space as companies continue to reduce drilling budgets to better align capital expenditures with profits. In recent weeks, several energy company CEOs have voiced their opinions about the change in the oil patch and the likely impact on future production growth. We've seen many mini-cycles before, and this behavior makes sense to us given the change in capital market appetite to finance many companies in this sector.

High yield performance by sector in October



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

Fundamentals

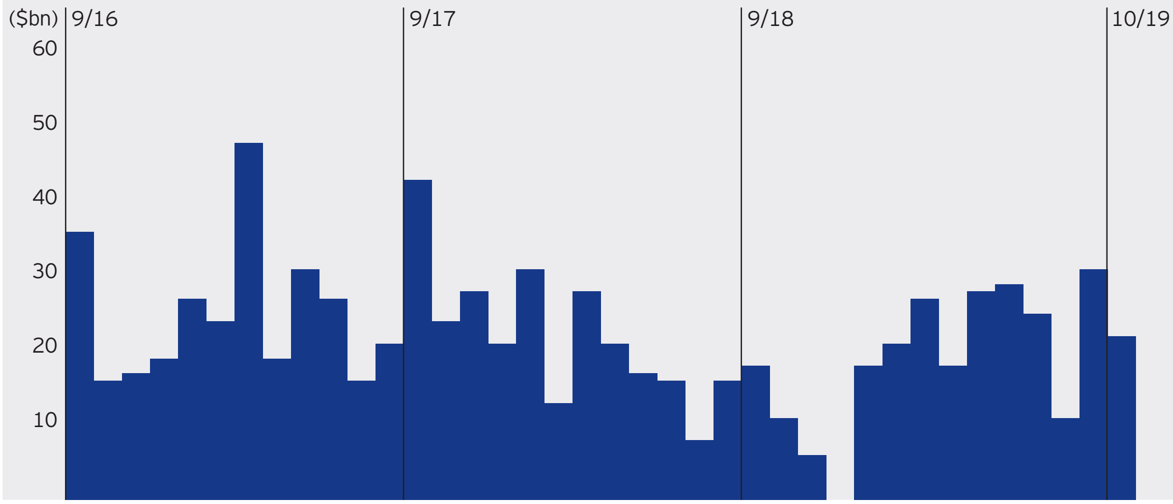
- The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 5.70%, a modified duration of 3.11, an option-adjusted spread of 392 bps, and an average price of $99.50.
- There were 3 defaults in October in the high yield market. The par-weighted default rate remained stable 2.54% in October.
- Credit quality for the overall market is still acceptable; however leverage has recently increased due to a slowdown in earnings.

Technicals

- High yield funds reported an inflow of $2.5 billion in October. Year-to-date the sector has had $18.3 billion in inflows, compared to 2018 which had $47 billion in outflows.
- In October issuance was $21.9 billion and year-to-date it has totaled $230.1 billion, compared to $181.3 billion across the first 10 months of 2018 which represents a 27% increase.
- During the month, new issuance was led by refinancing which represented 71% of new deals.

New issuance volume

Monthly high-yield issuance



Source: JP Morgan, as of Oct. 31, 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 315 bps which is about 50 bps below its historic average.

Index returns (%)

	1 month	QTD	YTD	1 year
Bloomberg Barclays US HY 2% Issuer Cap Index	0.28	0.28	11.71	8.38
Bloomberg Barclays US Aggregate Bond Index	0.30	0.30	8.85	11.51
Bloomberg Barclays US Treasury 5-10 Year Index	0.22	0.22	8.54	12.41
JPM EMBI Global Diversified Index	0.28	0.28	13.30	14.35
S&P Leveraged Loan Index	-0.45	-0.45	6.31	2.67
S&P 500 Index	2.17	2.17	23.16	14.33

Source: Barclays, S&P, JP Morgan, as of Oct. 31, 2019.

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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