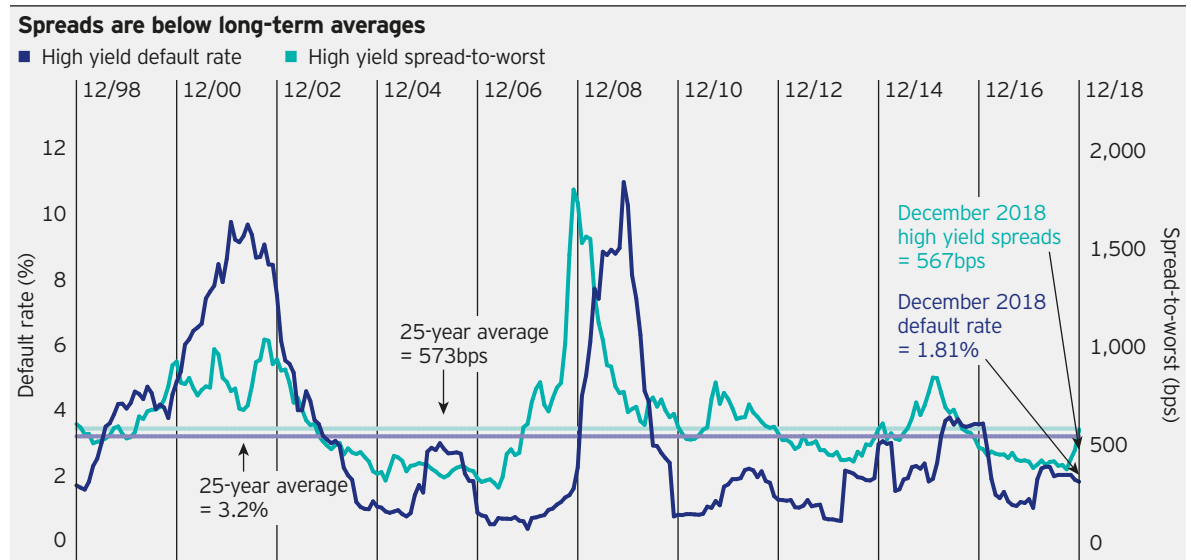




High Yield Snapshot

Monthly high yield bond market update: January 2019

High yield bonds had a challenging month in December as concerns about global growth continued, oil prices fell and equity markets sold off sharply. As a result, the Barclays US Corporate High Yield 2% Issuer Capped Index returned -2.14% in December as credit spreads widened over 100 basis points. Spreads ended the month at 567 bps, which is about 50 bps below the long-term average. The December volatility created new investment opportunities for our team as we used the better valuations to add to positions at attractive levels.



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

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

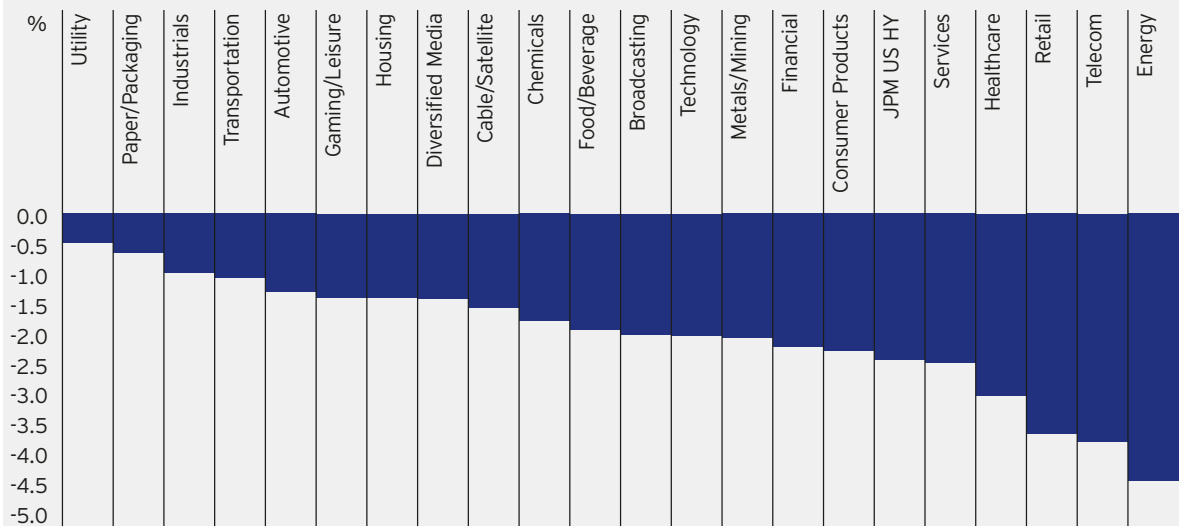
- BB-rated securities returned -1.31%
- B-rated securities returned -2.19%
- CCC-rated securities returned -4.27%

Earnings trends

Here are some themes our analysts are seeing:

- Despite recent commentary from the Fed, we have not seen a material rebound in homebuilding orders as potential buyers contend with higher mortgage rates. We think it is likely new home buyers will remain on the sidelines until the Fed offers more clarity on the direction of interest rates.
- We do not expect any meaningful near-term uptick in retail auto demand as consumers face loans with higher interest rates.
- We expect lower energy related capex in 2019 as weaker oil prices weigh on producers and service companies. In the coming weeks, we expect many energy companies to delay capital expenditures until oil prices recover.
- We expect the sluggishness in chemical company order patterns to persist as cycle concerns have caused customers to delay orders until they see an increase in end market demand.

High yield performance by sector in December



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

Fundamentals

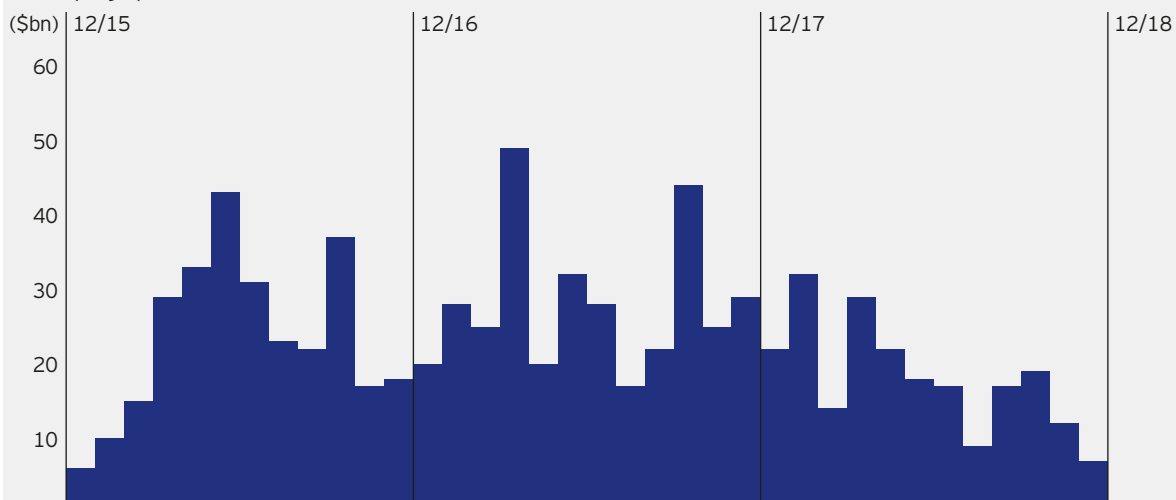
- The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 7.96%, a modified duration of 3.96, an option-adjusted spread of 526 bps, and an average price of \$92.55.
- There was one default in December in the high yield market and as a result the par-weighted default rate fell to 1.81% from 1.87% in November.
- 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 outflow of \$7.2 billion in December. For 2018 outflows totaled \$45 billion compared to an outflow of \$20 billion in 2017.
- In December there was no new issuance, the first time since November 2008. In 2018, issuance was \$187 billion, a 43% drop from 2017.
- In 2018, new issuance was led by refinancing which represented 61% of new deals.

New issuance volume

Monthly high-yield issuance



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

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 widened in December to 366 bps which is close to its historic average of around 370 bps.

Index returns (%)

	7/18	8/18	9/18	10/18	11/18	12/18	YTD
Bloomberg Barclays US HY 2% Issuer Cap Index	1.09	0.74	0.56	-1.60	-0.86	-2.14	-2.08
Bloomberg Barclays US Aggregate Bond Index	0.02	0.64	-0.64	-0.79	0.60	1.84	0.01
Bloomberg Barclays US Treasury 5-10 Year Index	-0.44	0.98	-1.06	-0.17	1.16	2.38	1.22
JPM EMBI Global Diversified Index	2.55	-1.73	1.51	-2.16	-0.42	1.35	-4.26
JPM Leveraged Loan Index	0.79	0.49	0.71	-0.04	-0.83	-2.31	1.08
S&P 500 Index	3.72	3.26	0.57	-6.84	2.04	-9.03	-4.39

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

Important Information

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

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