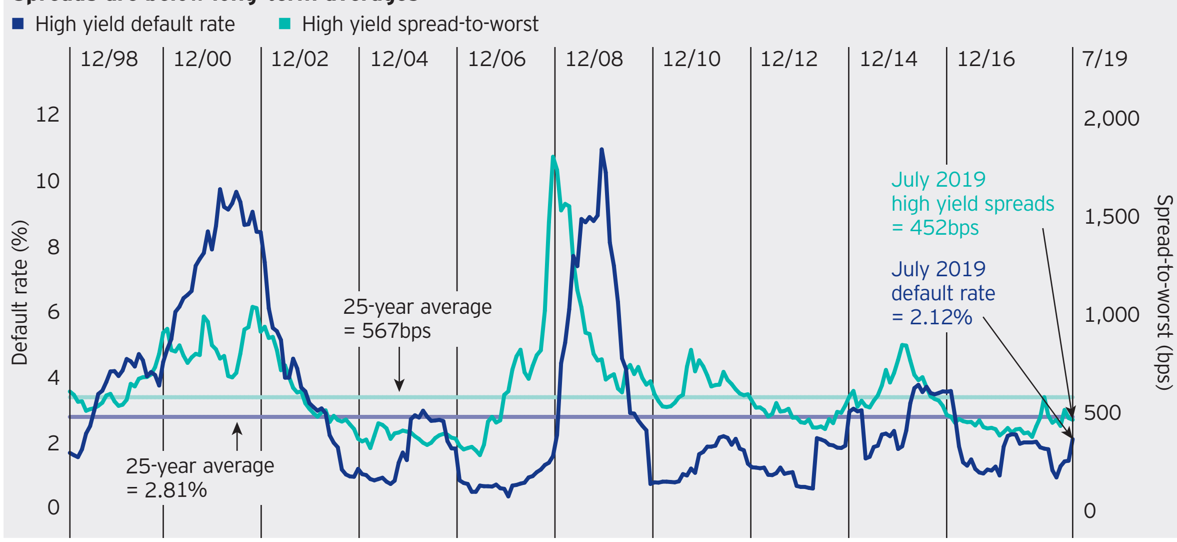
# High Yield Snapshot

## Monthly high yield bond market update: August 2019

High yield bonds posted modest returns in July due largely to a supportive Federal Reserve Bank and good corporate earnings. As a result, the Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index returned 0.56% during the month as credit spreads tightened about 10 basis points. Spreads ended July at 452 bps, which is about 100 bps below the long-term average. In our view, the high yield market continues to be impacted by fears of global trade wars and the potential of lower GDP growth. We note that while the Fed continues to communicate a message of support, some investors have rotated away from risky assets. We believe this rotation has created some attractive relative value opportunities in the new issue and secondary market.

**Spreads are below long-term averages**




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

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

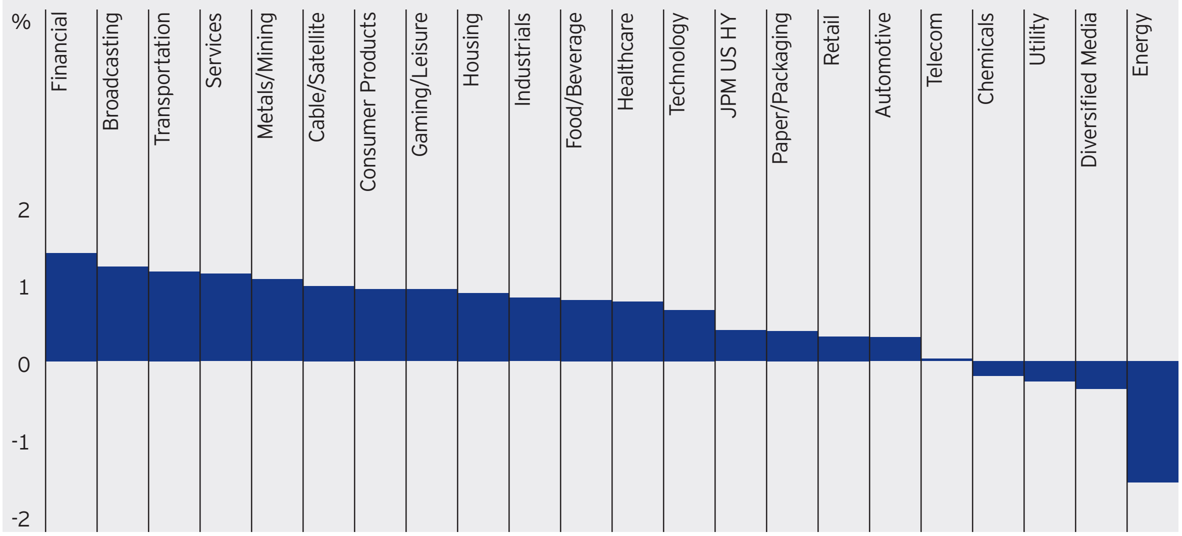
- BB-rated securities returned 0.58%
- B-rated securities returned 0.64%
- CCC-rated securities returned 0.28%

## Earnings trends

Here are some themes our analysts are monitoring:

- We have noticed a number of profit warnings from pulp, paper, and timber companies as the trade war rhetoric continues to weigh on future order patterns. The lower profits have been a result of both lower volumes and selling prices. We think it may be several quarters before we see relief in this sector.
- Some healthcare company's earnings profiles have changed given contract terminations centered around pre-negotiated payment rates. While the contract disputes are not exactly the same, the primary issue is that lower payments in the future leads to lower margins and lower earnings. It is our belief that this volatility will create investment opportunities, but careful credit selection will be crucial.
- We have seen lower earnings and guidance from many chemical companies given changing order patterns tied to trade war concerns. We expect to see this weakness persist over the next few quarters.

**High yield performance by sector in July**

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## Fundamentals

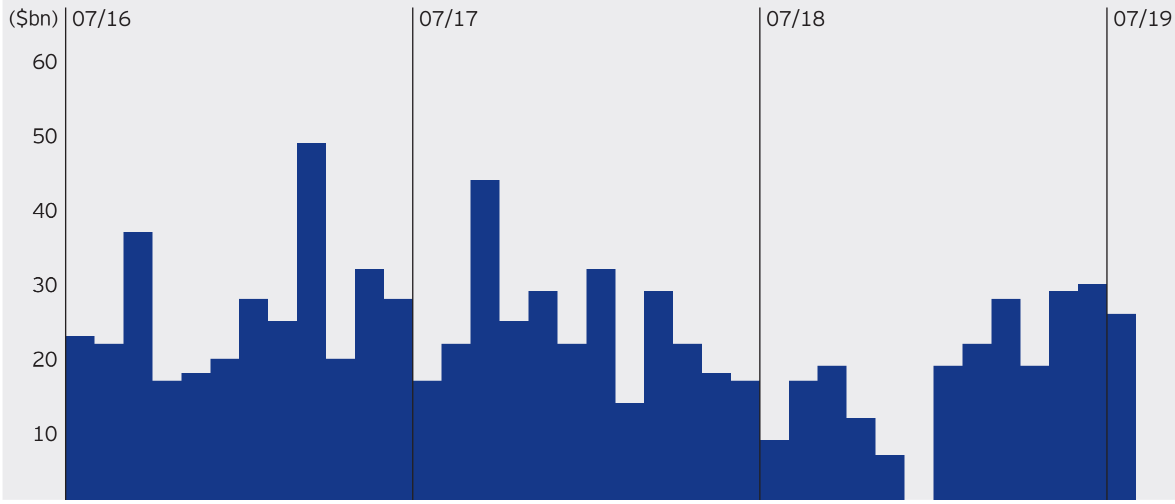
- The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 5.88%, a modified duration of 3.19, an option-adjusted spread of 371 bps, and an average price of $99.60.
- There were three defaults in July in the high yield market and as a result the par-weighted default rate rose to 2.12% from 1.46% in June.
- 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 $3.0 billion in July and $15.5 billion in the first seven months of the year. This compares to $47 billion in outflows in 2018.
- In July issuance was $25.4 billion and year-to-date it has totaled $165.9 billion, a considerable increase from the second half of 2018 issuance of $61 billion.
- During the month, new issuance was led by refinancing which represented 60% of new deals.

**New issuance volume**

Monthly high-yield issuance




Source: JP Morgan, as of July 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 July to 287 bps which is about 100 bps below its historic average.

**Index returns (%)**

| | 2/19 | 3/19 | 4/19 | 5/19 | 6/19 | 7/19 | YTD |
|---|---|---|---|---|---|---|---|
| Bloomberg Barclays US HY 2% Issuer Cap Index | 1.66 | 0.94 | 1.42 | -1.19 | 2.28 | 0.56 | 10.56 |
| Bloomberg Barclays US Aggregate Bond Index | -0.06 | 1.92 | 0.03 | 1.78 | 1.26 | 0.22 | 6.35 |
| Bloomberg Barclays US Treasury 5-10 Year Index | -0.32 | 2.08 | -0.22 | 2.50 | 1.22 | -0.18 | 5.87 |
| JPM EMBI Global Diversified Index | 1.00 | 1.42 | 0.24 | 0.41 | 3.40 | 1.21 | 12.66 |
| JPM Leveraged Loan Index | 1.60 | -0.16 | 1.59 | -0.24 | 0.28 | 0.84 | 6.47 |
| S&P 500 Index | 3.21 | 1.94 | 4.05 | -6.35 | 7.05 | 1.44 | 20.24 |

Source: Barclays, JP Morgan, as of July 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.