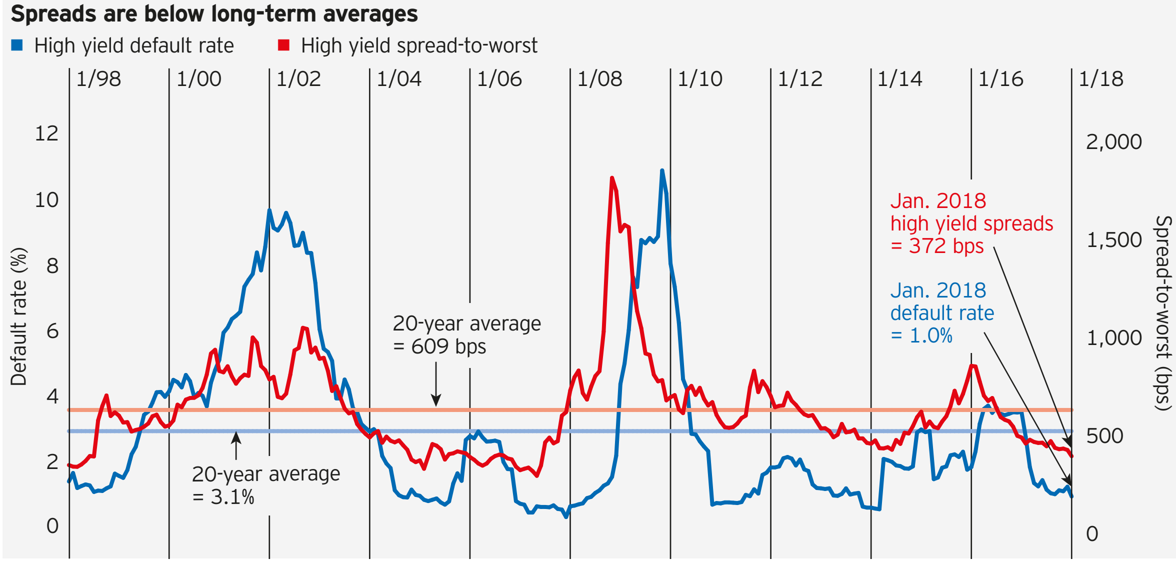
Invesco High Yield

High Yield Snapshot

Monthly high yield bond market update: February 2018

A rally in equities and oil prices drove the high yield market up in January despite the rise in Treasury yields. As a result of this dynamic, there was dispersion in returns during the month with CCC-rated bonds leading the market while BB-rated bonds lagged. In January, the Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index returned 0.60% as credit spreads tightened about 25 basis points (bps). Spreads ended the month at 372 bps, which is almost 240 bps below the 20-year average. As the chart below highlights, overall market spreads are not "cheap" to their 20-year averages. However, we continue to find attractive ideas in both the secondary and new issue markets.

Spreads are below long-term averages



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

January performance by rating[1]

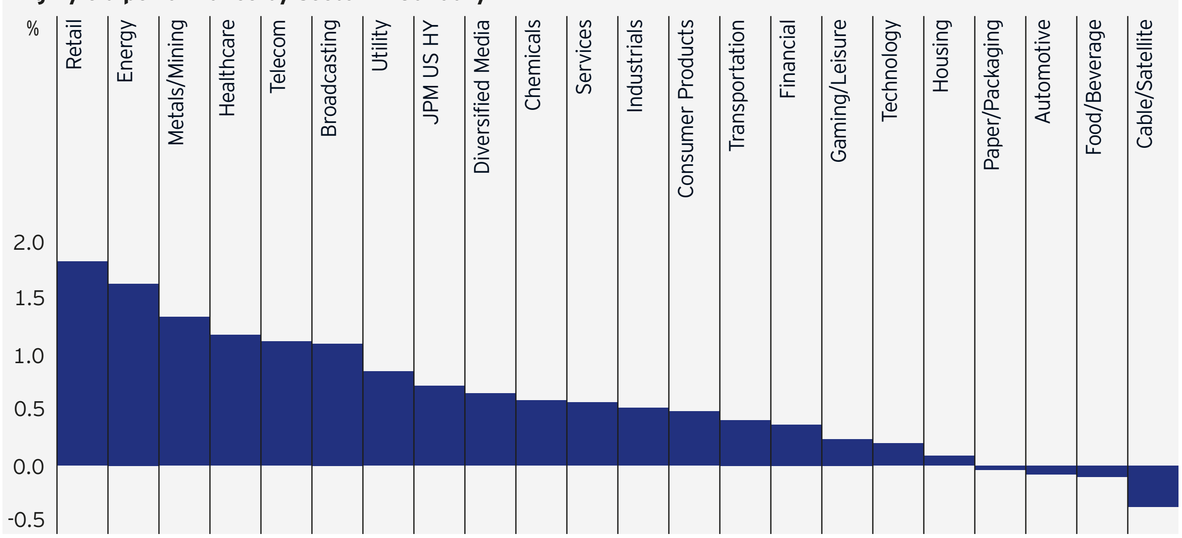
- BB-rated securities returned 0.04%
- B-rated securities returned 0.71%
- CCC-rated securities returned 1.96%

Earnings trends

Q4 earnings reporting season is in full swing. Here are some themes our analysts are following:

- We're hearing of slight upticks in wages in a variety of industries, including restaurants, retail, and healthcare. Special mention was given to higher freight costs by a number of companies as well.
- In general, we continue to see mid-single revenue growth for many industries, consistent with moderate GDP growth in the US and Europe.
- Improving energy earnings are consistent with the rise in oil prices, but we've yet to see any fundamental improvement in offshore service company earnings. We expect Capex budgets to be fickle and easily modified lower if oil prices decline. We applaud this newfound discipline by independent energy companies.

High yield performance by sector in January



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

Fundamentals[2]

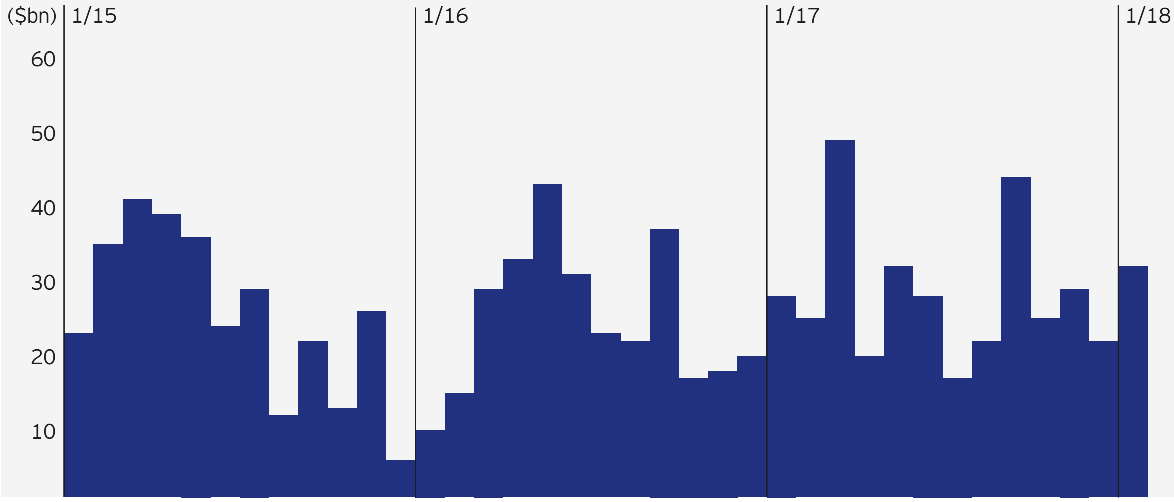
- The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 5.78%, a modified duration of 3.94, an option-adjusted spread of 319 bps, and an average price of $100.96.
- There was only one default in January in the high yield market and as a result the par-weighted default rate fell to 0.99% from 1.28% in Dec ember.
- 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 $1.5 billion in January, the fourth consecutive month of outflows. In 2017, high yield mutual funds had $20 billion in outflows.
- Issuance for January was $31 billion, an increase from December.
- New issuance was led by refinancing activity which represented 74% of new deals.

New issuance volume

Monthly high-yield issuance



Source: JP Morgan, as of Jan. 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 tighten 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 tightened in January to 223 bps which is 151 bps tighter than the historic average, but continues to provide an opportunity for yield pick-up given a manageable default risk.

Index returns (%)

	8/17	9/17	10/17	11/17	12/17	1/18
Bloomberg Barclays US HY 2% Issuer Cap Index	-0.04	0.90	0.42	-0.25	-0.25	0.60
Bloomberg Barclays US Aggregate Bond Index	0.90	-0.48	0.06	-0.13	-0.13	-1.15
Bloomberg Barclays US Treasury 5-10 Year Index	1.21	-1.16	-0.19	-0.34	-0.34	-1.83
JPM EMBI Global Diversified Index	1.77	0.01	0.37	0.05	0.05	-0.04
S&P 500 Index	0.31	2.06	2.33	3.07	3.07	5.73
S&P/LSTA Leveraged Loan Index	-0.21	0.34	0.56	0.07	0.07	1.07

Source: Barclays, JP Morgan and Standard & Poor's, as of Jan. 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 Jan. 31, 2018, unless otherwise noted.

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