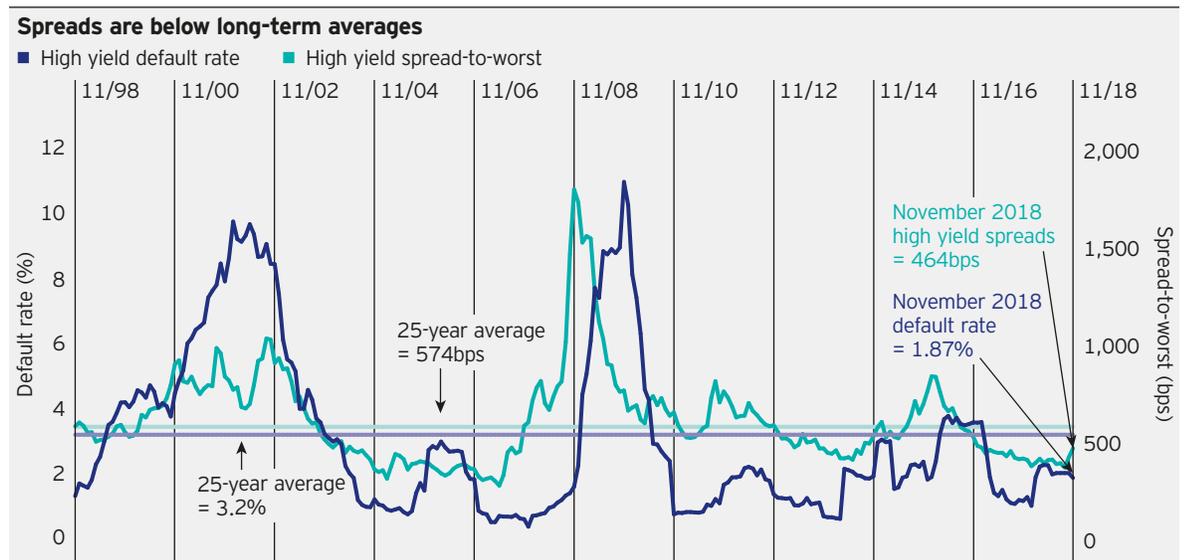




High Yield Snapshot

Monthly high yield bond market update: December 2018

High yield bonds had another difficult month in November as trade tensions persisted, concerns about global growth continued and oil prices fell. As a result, the Barclays US Corporate High Yield 2% Issuer Capped Index returned -0.86% in November as credit spreads widened 45 basis points while Treasury rates decreased about 15 basis points. Spreads ended the month at 464 bps, which is about 150 bps below the long-term average. Despite valuations, we continue to identify new investment ideas that meet our strong credit criteria.



Source: JP Morgan, as of Nov. 30, 2018. Chart created by Invesco.

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

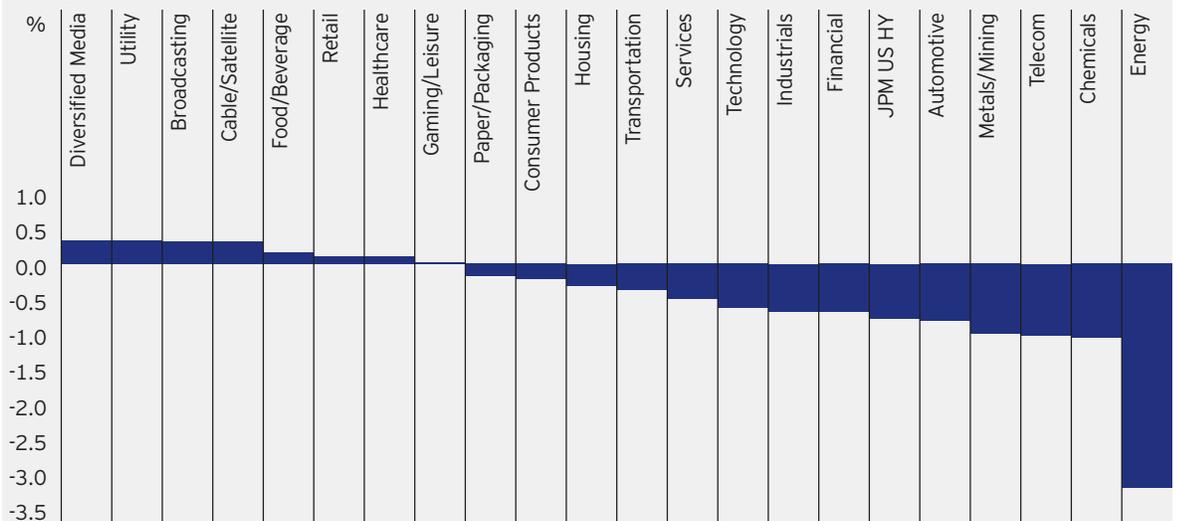
- BB-rated securities returned -0.25%
- B-rated securities returned -0.75%
- CCC-rated securities returned -2.84%

Earnings trends

Third quarter earnings season is behind us. Here are some themes our analysts are seeing:

- Homebuilding orders have slowed as potential buyers contend with higher mortgage rates. We think it is likely new home buyers will remain on the sidelines until we get greater clarity from the Federal Reserve regarding the direction of interest rates.
- Retail auto sales have been sluggish, partly due to higher interest rates and the age of the auto cycle. Auto companies have announced job cuts and production schedule changes to deal with the change in auto demand.
- Energy companies are starting to delay capital expenditures given the lower oil price environment. Company board meetings in December and January will likely result in lower capex plans for 2019 relative to 2018.
- We have seen the chemicals sector report weaker results as order patterns slow. While seasonality explains part of this performance, cycle concerns are relevant as well.

High yield performance by sector in November



Source: JP Morgan, as of Nov. 30, 2018. Chart created by Invesco.

Fundamentals

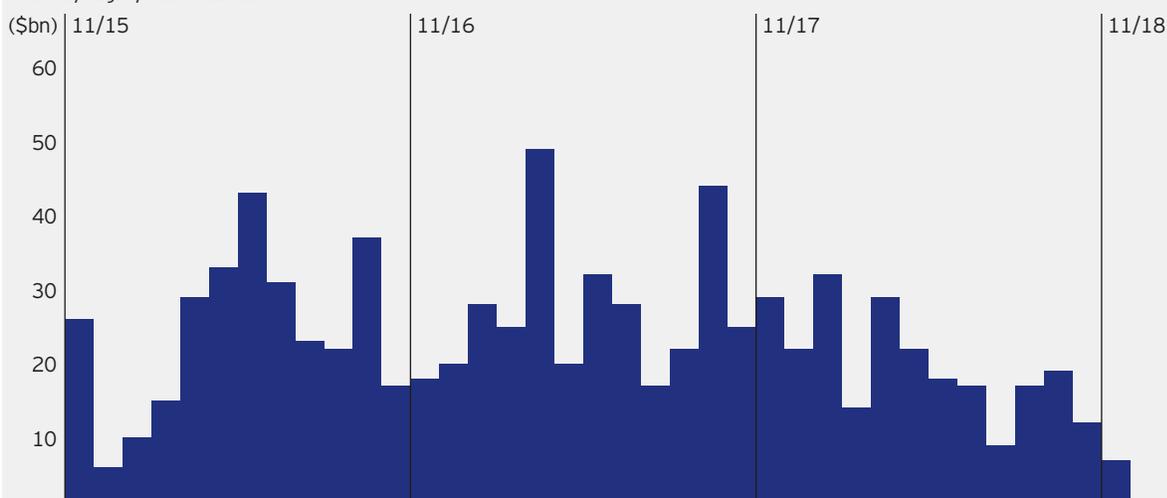
- The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 7.22%, a modified duration of 3.90, an option-adjusted spread of 418 bps, and an average price of \$95.18.
- There were two defaults in November in the high yield market and as a result the par-weighted default rate fell to 1.87% from 2.04% in October.
- 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 \$1.9 billion in November. Year-to-date outflows have totaled \$37 billion compared to an outflow of \$18 billion for the same period last year.
- In November issuance was \$6 billion and year-to-date \$187 billion, which is a 39% decline compared to the same period last year.
- New issuance in November was led by acquisition financing which represented 46% of new deals.

New issuance volume

Monthly high-yield issuance



Source: JP Morgan, as of Nov. 30, 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 November to 274 bps which is 96 basis points tighter than the historic average, but continues to provide an opportunity for yield pick-up given a manageable default risk.

Index returns (%)

	6/18	7/18	8/18	9/18	10/18	11/18	YTD
Bloomberg Barclays US HY 2% Issuer Cap Index	0.40	1.09	0.74	0.56	-1.60	-0.86	0.06
Bloomberg Barclays US Aggregate Bond Index	-0.12	0.02	0.64	-0.64	-0.79	0.60	-1.79
Bloomberg Barclays US Treasury 5-10 Year Index	-0.02	-0.44	0.98	-1.06	-0.17	1.16	-1.14
JPM EMBI Global Diversified Index	-1.19	2.55	-1.73	1.51	-2.16	-0.42	-5.53
JPM Leveraged Loan Index	0.08	0.79	0.49	0.71	-0.04	-0.83	3.47
S&P 500 Index	0.62	3.72	3.26	0.57	-6.84	2.04	5.10

Source: Barclays, JP Morgan, as of Nov. 30, 2018.

Important Information

All data provided by Invesco unless otherwise noted. Data as of Nov 30, 2018, unless otherwise noted.

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