

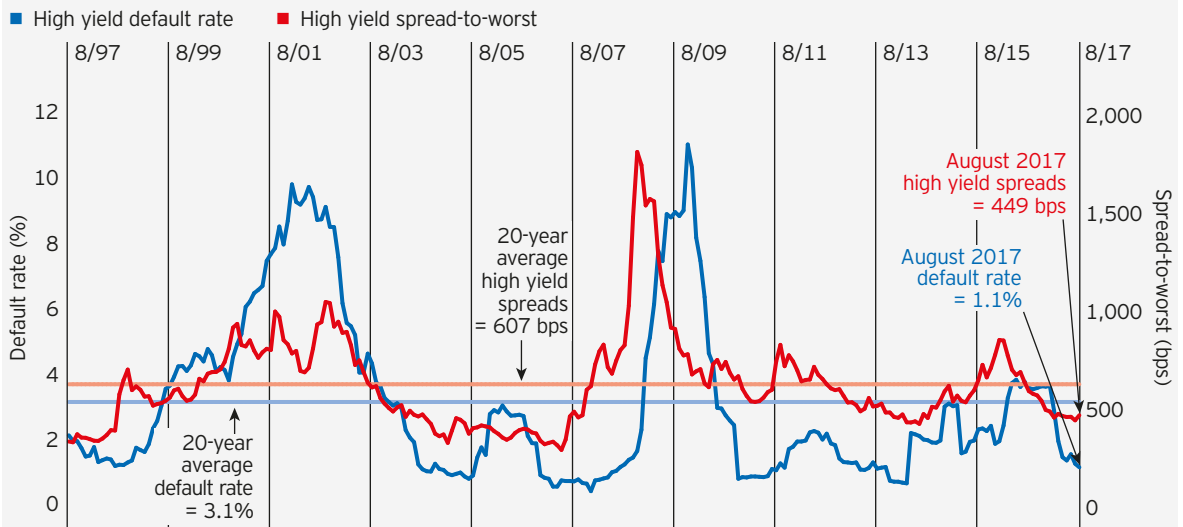


High Yield Snapshot

Monthly high yield bond market update: September 2017

The high yield market was down slightly in August as tension between the US and North Korea, and the Barcelona terrorist attacks weighed on the market. Despite these headwinds, there were no defaults and as result the trailing 12-month default rate fell to 1.1%. In August, the Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index returned -0.04%. Credit spreads widened about 25 basis points (bps) while the five-year and ten-year Treasury yields fell about 15 bps and ended the month at 1.70% and 2.12%, respectively. Spreads ended the month at 449 bps, which is over 150 bps below the 20-year average. In our opinion, despite spreads being tighter than the 20-year average, our analysts continue to find attractive relative value ideas.

Spreads are below long-term averages



Source: JP Morgan, as of Aug. 31, 2017

July performance by rating¹

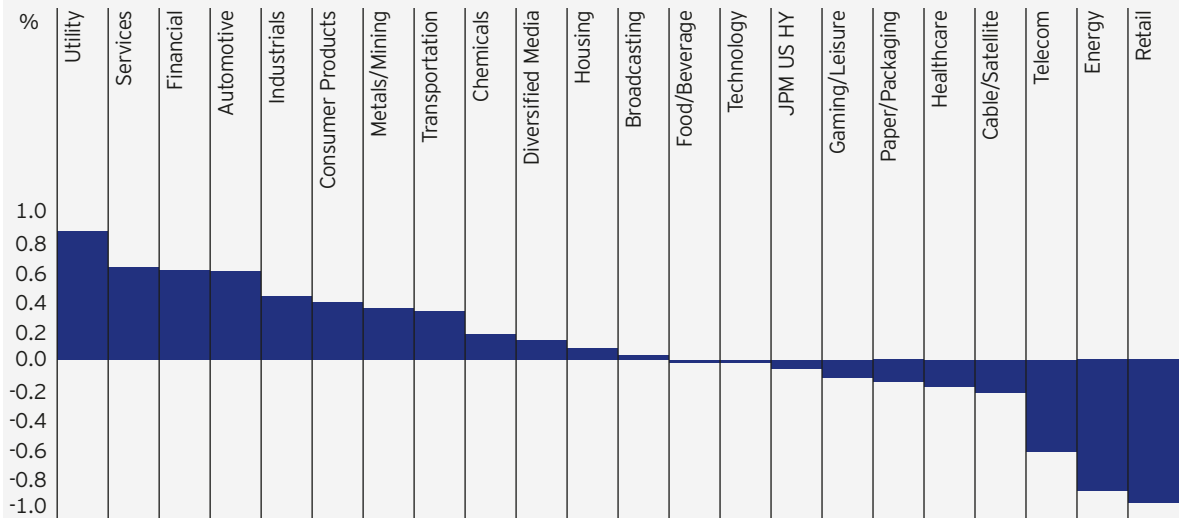
- BB-rated securities returned 0.27%
- B-rated securities returned -0.13%
- CCC-rated securities returned -0.72%

Earnings trends

With Q2 earnings season behind us, here are some themes our analysts are reporting:

- Energy companies have decreased capex budgets somewhat, a welcomed sign to the market that capital discipline is setting in. However, spending discipline can be fleeting so we need to monitor this change in behavior closely.
- We believe hurricanes Harvey and Irma will have an impact on many sectors, but for the most part these will be short term blips. We would expect to see labor inflation affect the home building sector, as well as potential for temporary labor shortages in other industries. However, we expect that over the coming months, these short-term impacts will likely unwind.
- The food retail space will see some important changes with Amazon purchasing Whole Foods. With the recent price decreases of many items at Whole Foods, Amazon will try to drive traffic into the stores. We note some food retailers will feel increased competition, but geographic overlap is key to understanding the ultimate impact on various chains.

High yield performance by sector in August



Source: JP Morgan, as of Aug. 31, 2017

Fundamentals²

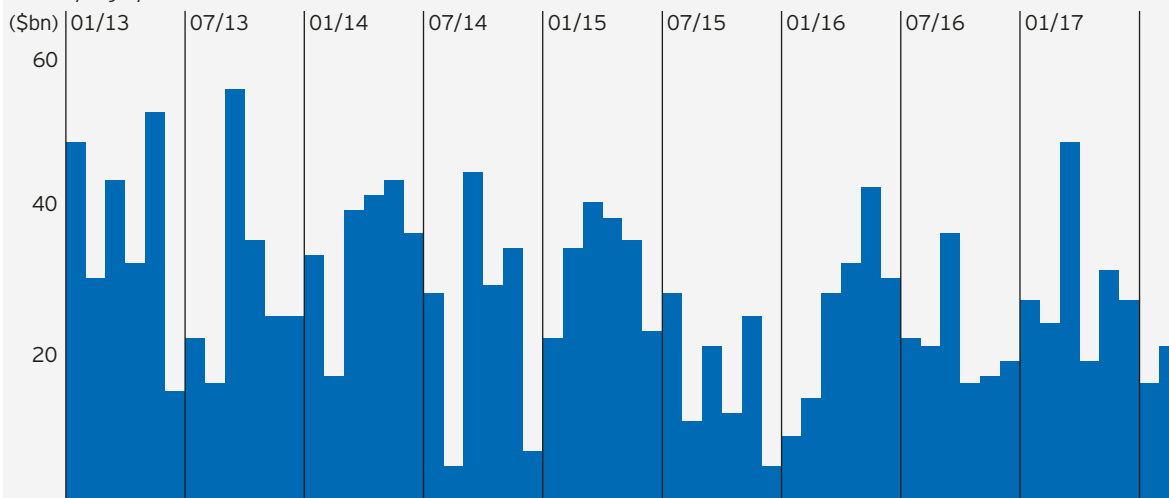
- The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 5.61%, a modified duration of 3.79, an option-adjusted spread of 378 bps, and an average price of \$101.42.
- There were no defaults in August in the high yield market which caused the par-weighted default rate to fall to 1.10% from 1.21% in July.
- Credit metrics for the overall market continue to reside in a healthy zone, in our opinion.
- Recent leverage statistics have improved as some energy companies announce improved earnings. Given the weight of the sector, this has had a beneficial impact on overall leverage ratios for the market.

Technicals

- High yield mutual funds reported an outflow of \$3.3 billion in August, the fifth monthly outflow of the year. Year-to-date, high yield mutual funds have had \$13.8 billion in outflows.
- Issuance for August was \$21 billion, an increase from July.
- New issuance was led by refinancing activity which represented 62% of new deals.

New issuance volume

Monthly high-yield issuance



Source: JP Morgan, as of Aug. 31, 2017

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 12 months, we expect the pace of high yield gains to continue to moderate.
- The spread between high yield and investment grade widened in August to 246 bps which is 128 bps below the historic average, but continues to provide an opportunity for yield pick-up given a manageable default risk.

Index returns (%)

	4/17	5/17	6/17	7/17	8/17	YTD 2017
Bloomberg Barclays US HY 2% Issuer Cap Index	1.15	0.87	0.14	1.11	-0.04	6.05
Bloomberg Barclays US Aggregate Bond Index	0.77	0.77	-0.10	0.43	0.90	3.64
Bloomberg Barclays US Treasury 5-10 Year Index	1.00	0.76	-0.53	0.42	1.21	3.80
JPM EMBI Global Diversified Index	1.49	0.88	-0.14	0.84	1.77	8.98
S&P 500 Index	1.03	1.41	0.62	2.06	0.31	11.93
S&P/LSTA Leveraged Loan Index	0.41	0.44	-0.22	0.77	-0.21	1.99

Source: Barclays, JP Morgan and Standard & Poor's, as of Aug. 31, 2017

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- 1 Source: Barclays
- 2 Source: JP Morgan

About risk

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Data as of Aug. 31, 2017, unless otherwise noted.

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