Invesco

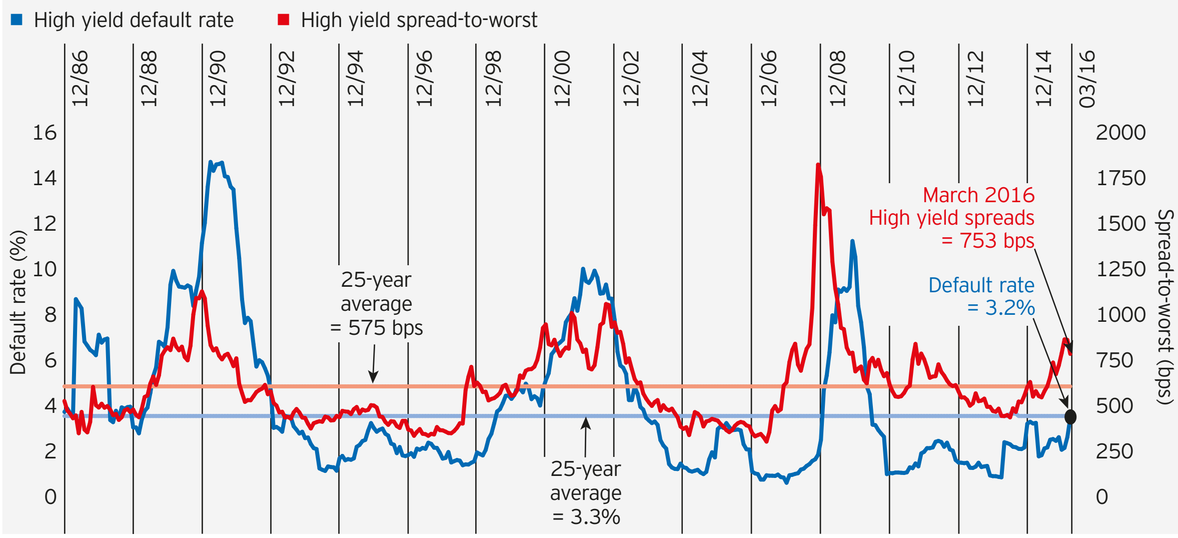
Invesco High Yield

High Yield Snapshot

Monthly high yield bond market update: April 2016

Total returns in the high yield bond market were very strong in March, with the Barclays U.S. Corporate High Yield 2% Issuer Capped Index gaining 4.44% during the month. This exceptionally strong rally was fueled by large inflows as investors refined their views of global growth. We note supportive comments from the Fed and the ECB helped alter investor's overall risk appetite. Spreads, as per JP Morgan, ended the month at 764 bps, a level we see as attractive. The five-year and 10-year Treasury yields were little changed at 1.20% and 1.77%, respectively, despite intra-month volatility. With respect to default rates, the recent rally has not changed our 5–6% view, as commodity-related companies will likely seek to restructure their balance sheets. While default statistics are a lagging indicator, they do highlight the potential dangers in certain segments of the market. Despite our expectation of elevated defaults, we do see value in many sectors of today's high yield market.

Defaults have been a lagging indicator of performance



Source: JP Morgan, as of March 31, 2016

Performance by ratings[1]

Within the ratings categories:

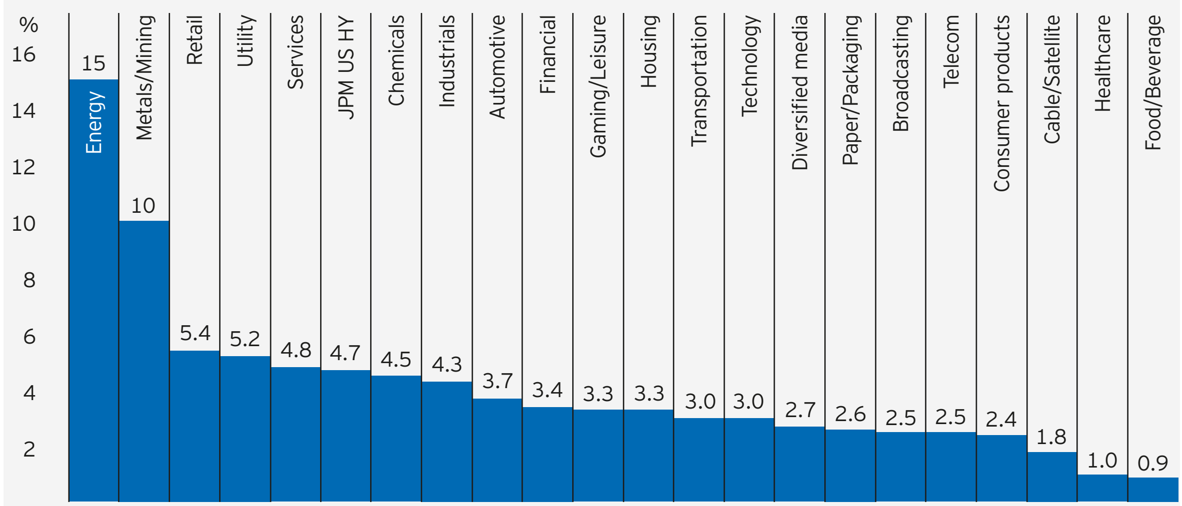
- BB-rated securities returned 3.45%
- B-rated securities generated returns of 3.60%
- CCC-rated securities returned 9.27%

Earnings trends

Fourth quarter earnings season has come to a close. As for fundamentals overall, here are several themes we are monitoring:

- We have added to our positions in metals and mining. Despite the overall weak fundamentals in the sector, we see value in certain credits with lower amounts of balance sheet leverage.
- Building products and home builders continue to demonstrate improving business conditions. We believe our overweight position will be rewarded as investors catch on to this trend.
- We did selectively add to our energy positions this past month. We continue to focus on owning debt of companies with stronger balance sheets as we believe they can weather this low-priced environment better than others. We recognize a large number of defaults will occur in this space and it's too soon to get overly bullish.

High yield posted one of its strongest months ever



Source: JP Morgan, as of March 31, 2016

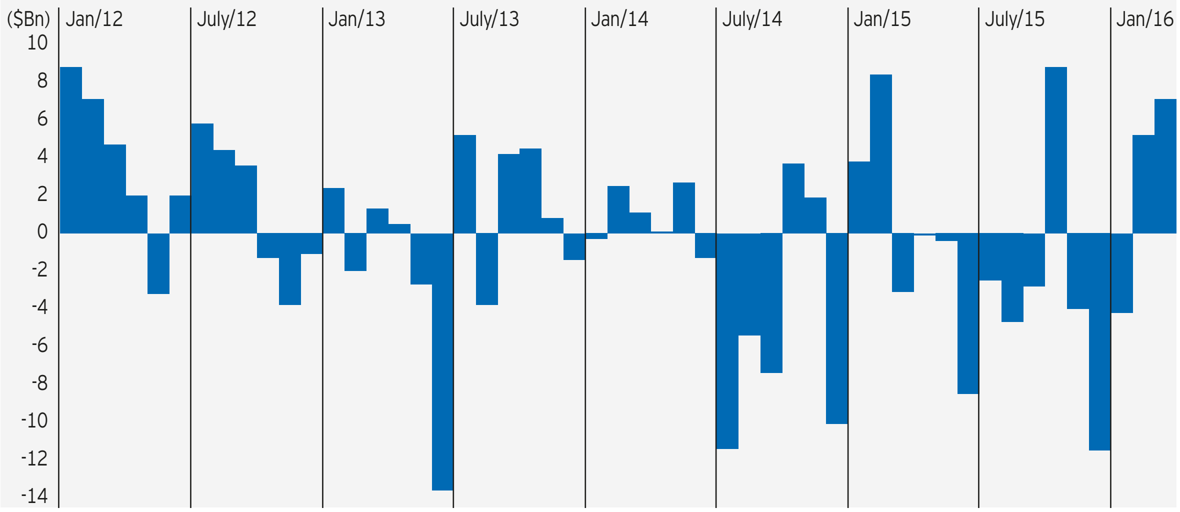
Fundamentals

- The Barclays U.S. Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 8.18%, a modified duration of 4.22, an option-adjusted spread of 656 bps, and an average price of 91.23.
- There were seven defaults in March, increasing the par-weighted default rate to 3.22% from 2.35%. Excluding energy and metals & mining, the default rate is 0.41%.[2]
- We believe credit metrics for the overall market continue to reside in a healthy zone.
- Recent leverage statistics continue to increase, driven by poor earnings within the metals & mining and energy sectors. We don't see this trend reversing in the near-term.

Technicals

- High yield mutual funds reported $7.1 billion of inflows during March, which is the sixth highest monthly inflow on record. In contrast, 2015 outflows totaled $16.6 billion following a record $23.8 billion of outflows in 2014.
- New issuance for March came in at a larger-than-usual $28.2 billion off of 35 new deals. Overall, deal volume is down year-over-year but up from the modest pace of 4Q 2015.
- Year-to-date, new issuance was led by acquisition/LBO with only 21% being used for refinancing. In 2015, new issuance was led by refinancing activity, accounting for 43% of the total volume followed by 38% used for acquisition-related purposes. This compares with 54% and 26%, respectively, during 2014.[2]

High yield experienced significant inflows in March
Monthly high yield fund flows



Source: JP Morgan, as of March 31, 2016

Relative value

- The spread between high yield and investment grade is greater than the historical median, creating an opportunity for yield pick-up given a manageable default risk.
- High yield offers a relatively lower duration and a higher coupon, which reduces its sensitivity to interest rate movements.
- The escalation of risk premiums due to declines in commodity prices and pressure on the energy sector has created value in the overall market.

Index returns (%)

	12/15	2015	1/16	2/16	3/16	YTD 2016
Barclays U.S. HY 2% Issuer Cap Index	-2.52	-4.43	-1.61	0.57	4.44	3.35
Barclays U.S. Aggregate Bond Index	-0.32	0.55	1.38	0.71	0.92	3.03
Barclays U.S. Treasury 5-10 Year Index	-0.29	1.84	2.85	1.10	0.09	4.08
JPM EMBI Global Diversified Index	-1.39	1.18	-0.18	1.91	3.27	5.04
S&P 500 Index	-1.58	1.38	-4.96	-0.13	6.60	0.77
S&P/LSTA Leveraged Loan Index	-1.05	-0.69	-0.65	-0.53	2.64	1.33

Source: Morningstar, as of March 31, 2016

1 Barclays
2 JP Morgan

About risk

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All data provided by Invesco unless otherwise noted. Data as of April 1, 2016, unless otherwise noted.

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