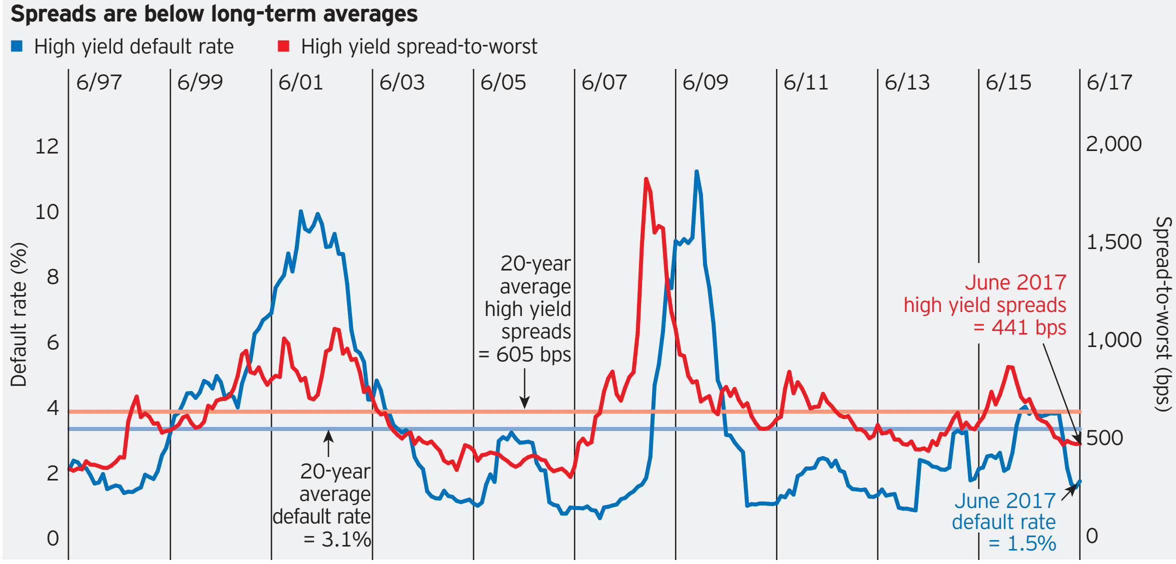
Invesco High Yield

High Yield Snapshot

Monthly high yield bond market update: July 2017

The high yield market posted a positive return in June despite volatile oil prices and the increase in Treasury rates. Most sectors had a positive return during the month except energy which was dragged down by the weakness in oil prices. In June, the Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index returned 0.14%. Credit spreads were largely unchanged and the five-year and ten-year Treasury yields rose just over 10 basis points (bps) to end the month at 1.89% and 2.31%, respectively. Spreads ended the month at 441 (bps), which is over 150 (bps) below the 20-year average. In our opinion, despite the rally in the market, we continue to find attractive relative value opportunities.

Spreads are below long-term averages



Source: JP Morgan, as of June 30, 2017

June performance by rating[1]

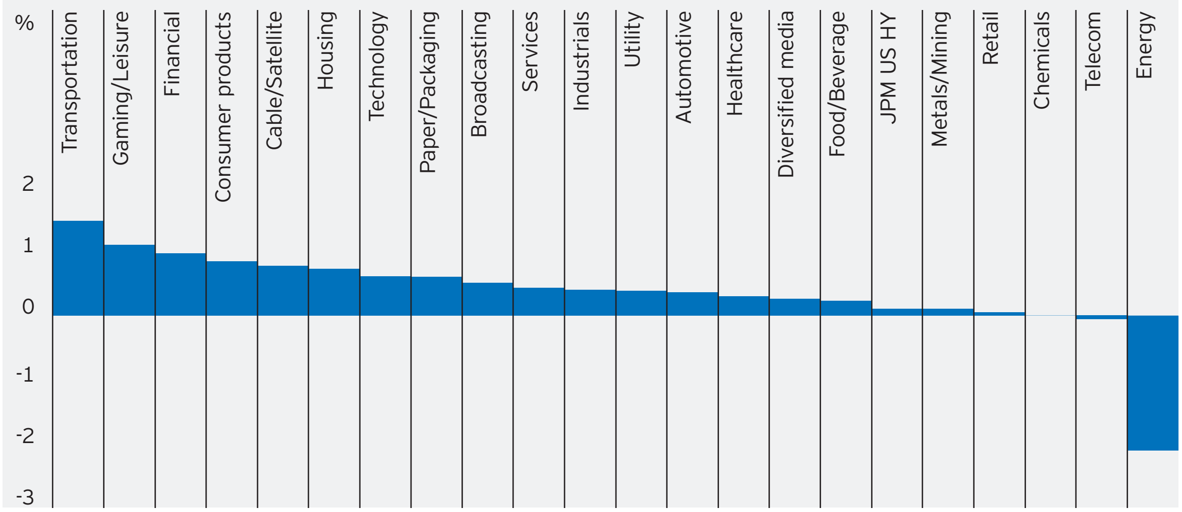
- BB-rated securities returned 0.47%
- B-rated securities returned -0.12%
- CCC-rated securities returned -0.45%

Earnings trends

As we prepare for Q2 earnings, here are some trends we expect to hear from companies:

- Energy companies will need to be clear about forward capital expenditure plans given the delayed recovery in oil prices. With many equities showing substantial negative returns year to date, investors are likely to press management teams on their forward drilling plans. In our view, if oil prices drop below $40 per barrel, some companies may decrease their drilling capital expenditure plans.
- Retail will continue to garner significant investor interest given the rapidly changing landscape. As we've highlighted in the past, over-levered balance sheets and stale business models are not a desirable combination.
- We expect to see continued improvement in the housing sector. However, from an investment standpoint, we see less relative value opportunities in this area than in the recent past.

High yield performance by sector in June



Source: JP Morgan, as of June 30, 2017

Fundamentals[2]

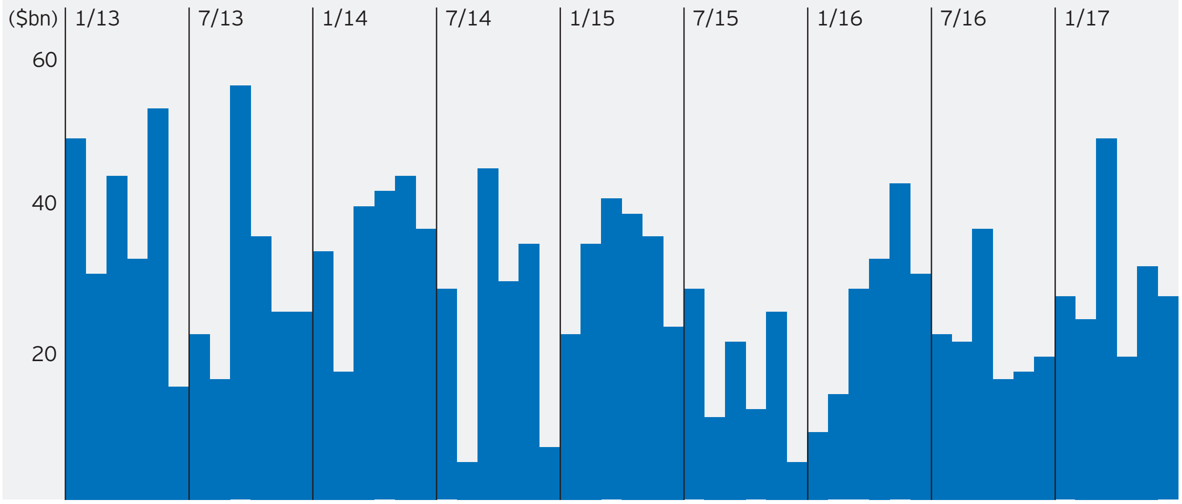
- The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 5.62%, a modified duration of 3.89, an option-adjusted spread of 365 bps, and an average price of $101.52.
- There were six defaults in June in the high yield market which caused the par-weighted default rate to rise to 1.50% from 1.31% in May.
- 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 $1.1 billion in June, the second consecutive month of outflows. Year-to-date, high yield mutual funds have had $9.5 billion in outflows.
- Issuance for June was $27 billion, a decrease from May.
- New issuance was led by refinancing activity which represented 58% of new deals.

New issuance volume

Monthly high-yield issuance



Source: JP Morgan, as of June 30, 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 slightly in June to 243 bps which is 131 basis points below the historic average, but continues to provide an opportunity for yield pick-up given a manageable default risk.[2]

Index returns (%)

	2/17	3/17	4/17	5/17	6/17	YTD 2017
Bloomberg Barclays US HY 2% Issuer Cap Index	1.45	-0.22	1.15	0.87	0.14	4.92
Bloomberg Barclays US Aggregate Bond Index	0.67	-0.05	0.77	0.77	-0.10	2.27
Bloomberg Barclays US Treasury 5-10 Year Index	0.62	0.03	1.00	0.76	-0.53	2.13
JPM EMBI Global Diversified Index	2.00	0.38	1.49	0.88	-0.14	6.19
S&P 500 Index	3.97	0.12	1.03	1.41	0.62	9.34
S&P/LSTA Leveraged Loan Index	0.50	-0.06	0.41	0.44	-0.22	1.42

Source: Barclays, JP Morgan and Standard & Poor's, as of June 30, 2017

Explore High-Conviction Investing with Invesco

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 May 31, 2017, unless otherwise noted.