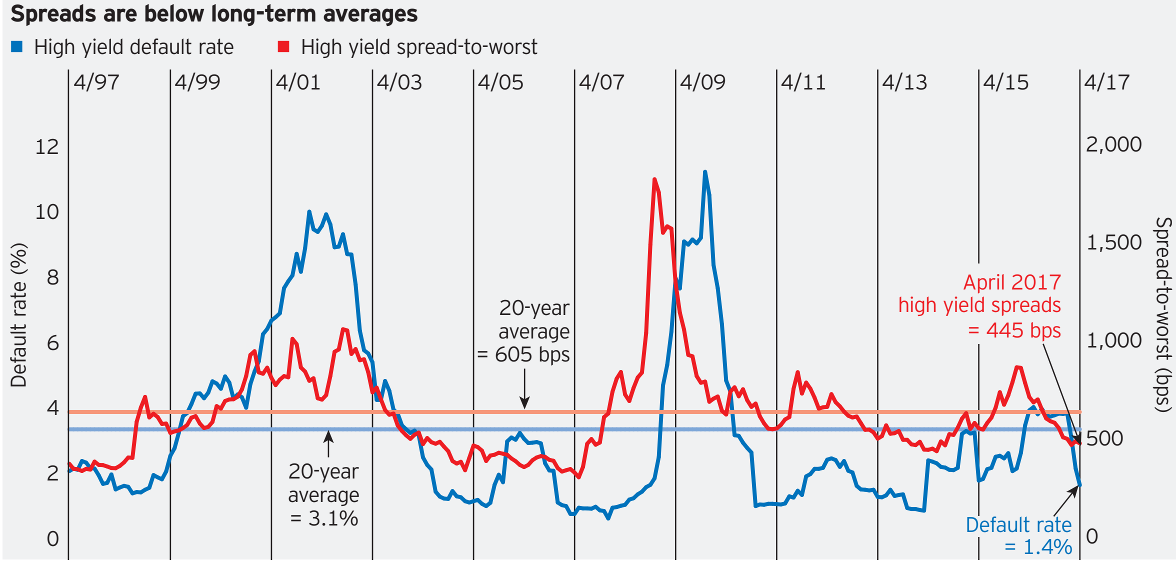
Invesco High Yield

High Yield Snapshot

Monthly high yield bond market update: May 2017

The high yield market posted a positive return in April as the French election results as well as solid corporate earnings propelled the market higher. In April, the Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index returned 1.15%. Global growth remains strong with the US, Europe and China all showing strength since the second half of last year, which is generally positive for credit assets as fundamentals in these sectors are tied to economic output. Spreads ended the month at 445 basis points (bps), which is over 150 bps below the 20-year average. Five-year and ten-year Treasury yields fell about 10 bps during the month to 1.8% and 2.3%, respectively. We continue to believe the market has changed from a rising tide to one where careful credit and sector selection will likely be the key drivers of performance for 2017.

Spreads are below long-term averages



Source: JP Morgan, as of April 28, 2017

April performance by rating[1]

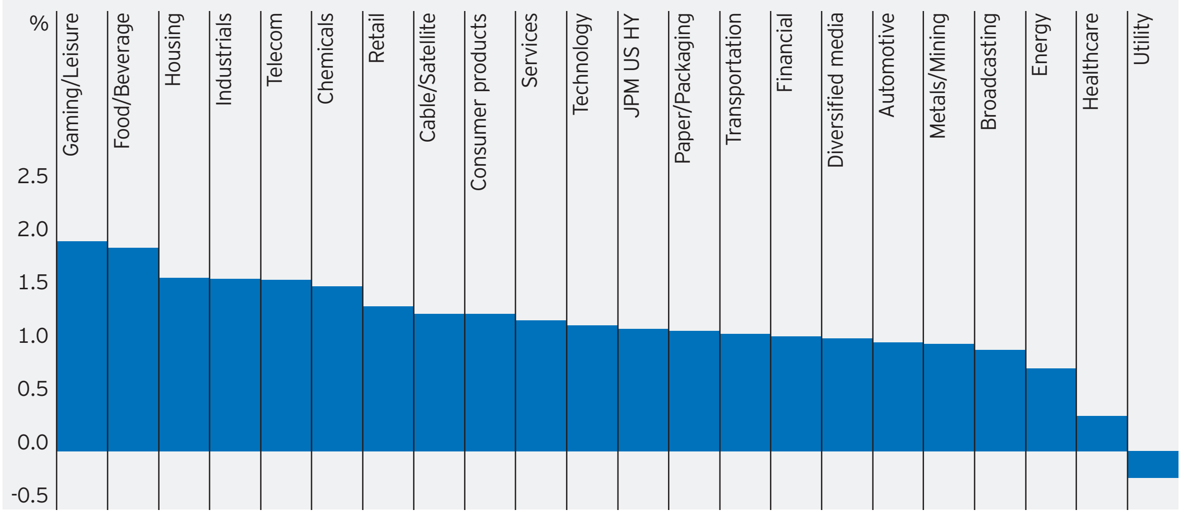
- BB-rated securities returned 1.35%
- B-rated securities returned 1.12%
- CCC-rated securities returned 0.66%

Earnings trends

As we complete Q1 earnings season, here are some themes from our analysts:

- We continue to see negative earnings surprises in auto related companies, particularly the OEM's, some suppliers, and car rental companies. Additionally, we've noticed a slight uptick in auto loan default activity by consumers. We believe the earnings misses are tied to a weak used car market, coupled with a decline in new builds. We don't see these negative headwinds improving in the short-term.
- Metals and mining companies have been in the news lately as weakness in base metals prices is generating many investor questions. While the short-term price declines may be noise, we are carefully monitoring the potential impact from a decline in Chinese consumption patterns.
- Retail earnings continue to fill the headline as mall-based, brick and mortar chains struggle to generate traffic. We see no catalysts in the immediate future for this trend to change. We believe careful credit selection in this sector is critical to outperforming.

High yield performance by sector in April



Source: JP Morgan, as of April 28, 2017

Fundamentals[2]

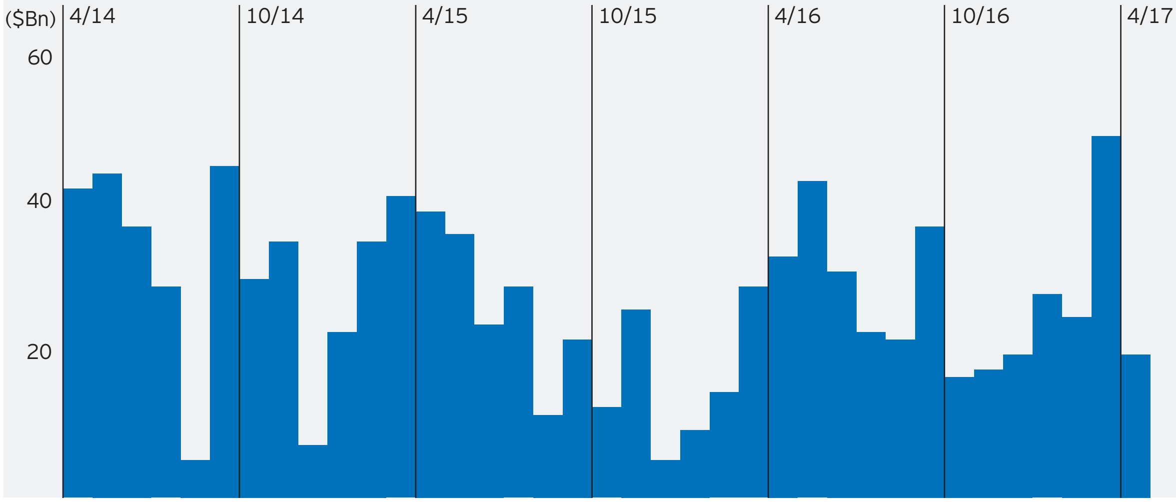
- The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 5.63%, a modified duration of 3.91, an option-adjusted spread of 371 bps, and an average price of $101.53.
- There were three defaults in April in the high yield market which caused the par-weighted default rate to fall to 1.39% from 1.90% in March.
- 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 a small inflow of $1.0 billion in April after outflows in March and February.
- Issuance for April was $19 billion, a drop from the very high level experienced in March.
- New issuance was led by refinancing activity, which represented 61% of new deals.

New issuance volume

Monthly high-yield issuance



Source: JP Morgan, as of April 28, 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 past 12 months, we expect the pace of high yield gains to continue to moderate.
- The spread between high yield and investment grade tightened slightly to 230 bps in April, which is 145 bps below the historic average, but continues to provide an opportunity for yield pick-up given a manageable default risk.

Index returns (%)

	12/16	1/17	2/17	3/17	4/17	YTD 2017
Bloomberg Barclays US HY 2% Issuer Cap Index	1.85	1.45	1.45	-0.22	1.15	3.88
Bloomberg Barclays US Aggregate Bond Index	0.14	0.20	0.67	-0.05	0.77	1.59
Bloomberg Barclays US Treasury 5-10 Year Index	-0.12	0.22	0.62	0.03	1.00	1.89
JPM EMBI Global Diversified Index	1.33	1.44	2.00	0.38	1.49	5.41
S&P 500 Index	1.98	1.90	3.97	0.12	1.03	7.16
S&P/LSTA Leveraged Loan Index	1.29	0.34	0.50	-0.06	0.41	1.19

Source: Barclays, JP Morgan and Standard & Poor's, as of April 28, 2017

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 April 28, 2017, unless otherwise noted.

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