Invesco

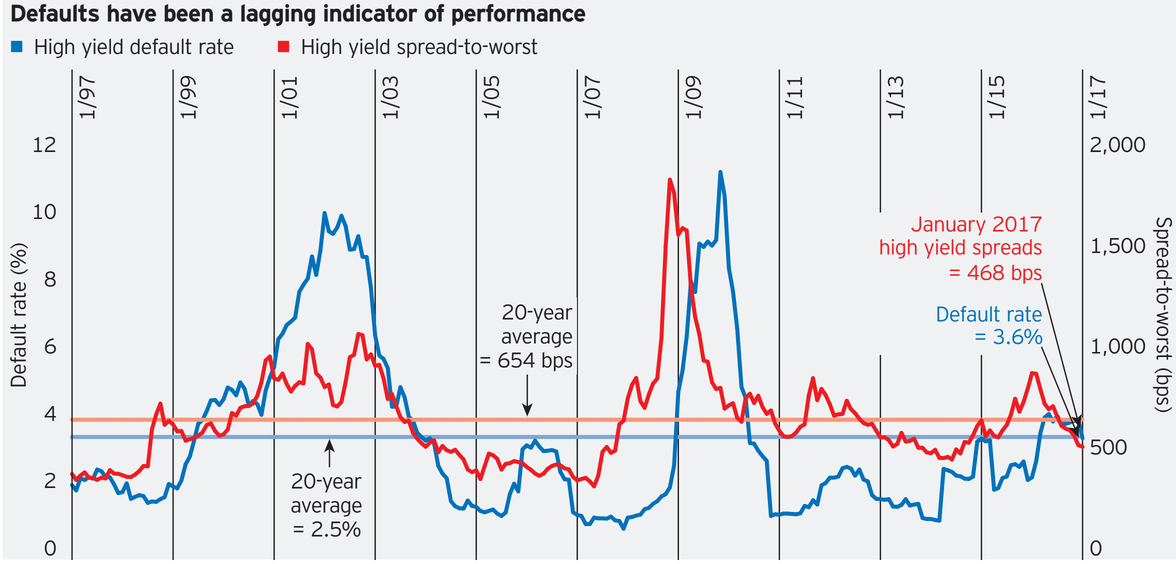
Invesco High Yield

High Yield
Snapshot

Monthly high yield bond market update: February 2017

The high yield market posted a strong return in January with the Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index advancing 1.45%. Continued post-election optimism stemming from the expectation of a more favorable regulatory environment and new fiscal stimulus combined with a rising stock market boosted returns during the month. Since February 2016, the market has had positive returns each month, except November while the yield on the overall market has fallen over 300 basis points (bps). Spreads ended the month at 468 bps, which is over 100 bps below the 20-year average level. Five-year and ten-year Treasury yields were largely unchanged at 1.9% and 2.4%, 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.

Defaults have been a lagging indicator of performance



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

Performance by ratings[1]

Within the ratings categories:

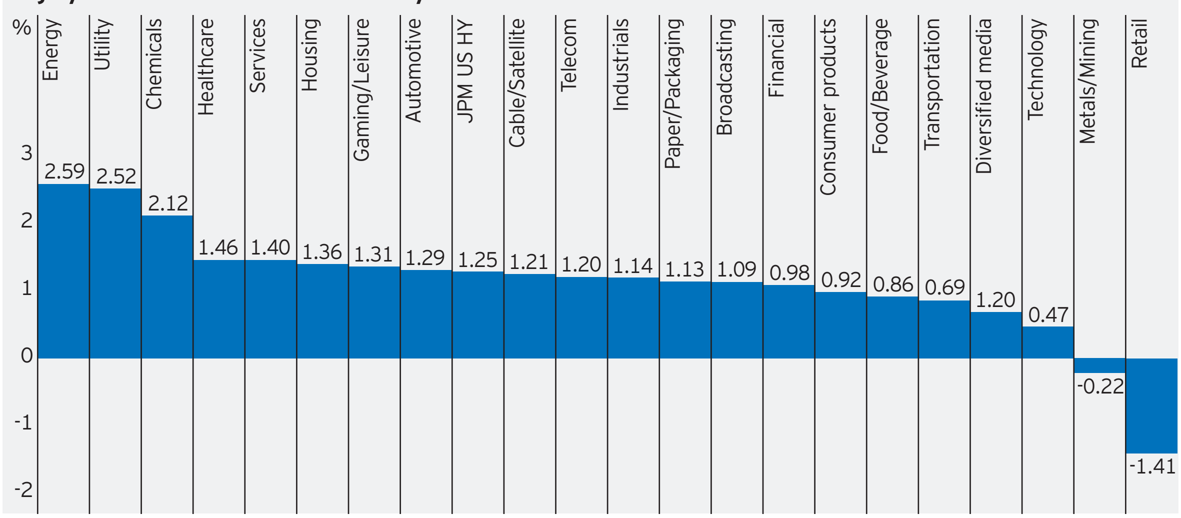
- BB-rated securities returned 1.10%
- B-rated securities generated returns of 1.39%
- CCC-rated securities returned 2.50%

Earnings trends

Q4 earnings are in the process of being released. Here's what we expect to see:

- Healthcare and pharmaceutical company results will continue to be in focus. There is widespread uncertainty related to potential changes to the Affordable Care Act which continues to create volatility in the sector.
- Retail earnings woes persist. Structural changes in consumer shopping behavior continue to impact the earnings profiles of many chains and concepts. Outdated business models coupled with high balance sheet leverage is a recipe for disaster. Careful credit selection is essential to outperforming in this sector.
- With the rebound in oil prices, earnings are slowly improving for companies in the energy patch. We're starting to see marginal improvement for land based oil field services companies, but offshore focused service companies continue to see declining results. We expect these trends to continue in the coming quarters.

High yield had solid returns in January



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

Fundamentals[2]

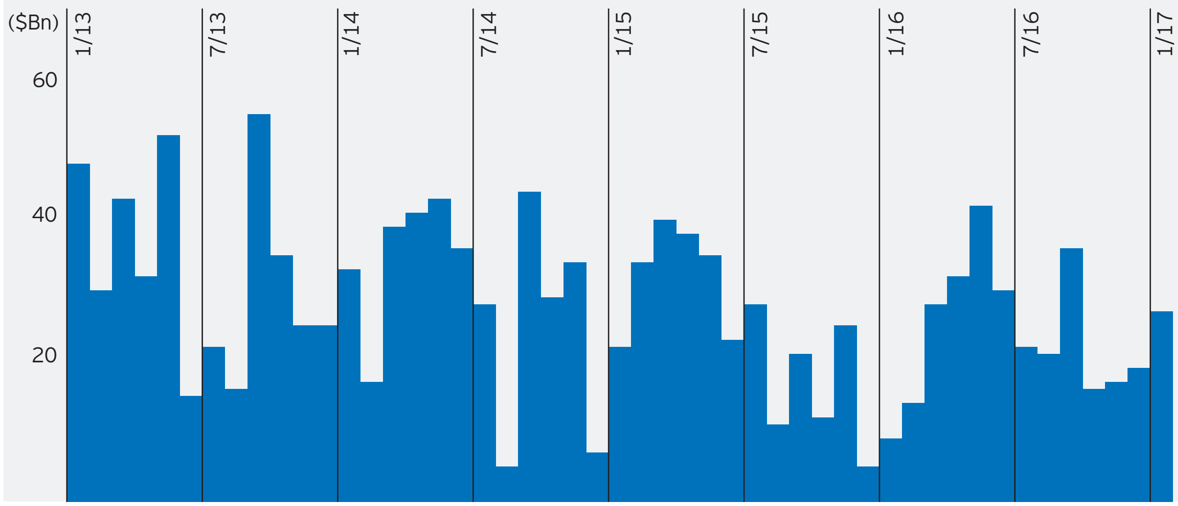
- The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index finished the month with a yield-to-worst of 5.85%, a modified duration of 4.03, an option-adjusted spread of 388 bps, and an average price of $100.77.
- There were four defaults in January in the high yield market which caused the par-weighted default rate to rise to 3.61% from 3.56% in December. Excluding energy, and metals and mining, the default rate is only 0.80%.
- Credit metrics for the overall market continue to reside in a healthy zone, in our opinion.
- Recent leverage statistics continue to increase. This increase is being driven by poor earnings within energy, and metals and mining. We don't see this trend reversing in the near-term.

Technicals

- High yield mutual funds reported an outflow in January of $489 million after a $7.8 billion inflow in December.
- January issuance was strong, with net new issuance totaling $26.5 billion compared to $9 billion in January 2016. Average monthly issuance in 2016 was $24 billion.
- New issuance was led by refinancing activity which represented 51% of new deals.
- High yield issuance has decreased over the past few years, which should bode well for technicals.

New issuance volume was strong in January

Monthly high-yield issuance



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

Relative value

- High yield offers a relatively low duration and a high coupon, which reduces its sensitivity to interest rate movements.
- After a strong run during most of 2016, we expect the pace of high yield gains to continue to moderate.
- The spread between high yield and investment grade has fallen to 242 bps, which is about 100 bps below the historic median, but continues to provide an opportunity for yield pick-up given a manageable default risk.

Index returns (%)

	9/16	10/16	11/16	12/16	1/17	YTD 2017
Bloomberg Barclays US HY 2% Issuer Cap Index	0.67	0.39	-0.47	1.85	1.45	1.45
Bloomberg Barclays US Aggregate Bond Index	-0.06	-0.76	-2.37	0.14	0.20	0.20
Bloomberg Barclays US Treasury 5-10 Year Index	0.16	-1.11	-3.39	-0.12	0.22	0.22
JPM EMBI Global Diversified Index	0.40	-1.24	-4.09	1.33	1.44	1.44
S&P 500 Index	0.02	-1.82	3.70	1.98	1.90	1.90
S&P/LSTA Leveraged Loan Index	0.60	0.72	0.18	1.29	0.34	0.34

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

Important Information