Hotchkis & Wiley Webinar Highlights

Hotchkis & Wiley

High Yield and the Rising Rate Environment

In the April webinar, Portfolio Manager Mark Hudoff discussed the high yield market in the first quarter of 2017 and how the market has historically reacted during rising interest rate environments. The following summarizes his discussion:

Mark Hudoff
Portfolio Manager

Top Takeaways

- In 1Q17, high yield new issuance was over $100 billion compared to approximately $61 billion in 1Q16.
- Credit fundamentals appear solid, with improved earnings, consumer confidence, and economic indicators.
- While longer duration bonds are more sensitive to changes in interest rates than shorter duration bonds, duration matters to a varying degree.
- Unlike other areas within fixed income, high yield bonds have outperformed during rising rate environments.
- Periods of rising rates often coincide with economic expansion, which is characteristic of growing revenue, improving profitability, and open capital markets.
- Rising rate environments generally correspond to a reduction in credit risk, which we believe is a catalyst for favorable high yield performance.
- While high yield bond valuation is richer than we prefer, fundamentals appear strong and spreads remain sufficiently wide to absorb an increase in rates, at least partially.

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