

February 2017

2017 Outlook for High Yield

During the January 26th webinar, Portfolio Manager Ray Kennedy discussed the factors driving our view of the high yield market as well as top reasons to invest in high yield in 2017. The following summarizes his discussion:



Ray Kennedy, CFA
Portfolio Manager

Top Takeaways

- Fundamentals appear positive as a result of an improving credit environment, potentially accelerated growth, slightly higher inflation, and a manufacturing and industrial sector resurgence.
- With growing interest from foreign and institutional investors, the high yield market has grown to \$2 trillion with increasing liquidity; the high yield market is approximately 1/10th the size of the equity market.
- Excluding commodities, the default rate in high yield decreased in 2016 to 0.7% and may retreat further in 2017.
- There were fewer small- and mid-cap Energy bankruptcies as management teams restructured debt or converted to equity.
- Due to unprecedented refinancing in recent years, near-term refinancing requirements are manageable for the borrower.
- Commodity credit spreads have narrowed and are nearly at parity with the rest of the market.
- High yield issuance was lower in 2016 and may be subdued in 2017 as companies reduce leverage.
- We believe the risk profile of the high yield market is lower as fewer CCC rated credits, as a percent of total new issuance, have been issued since the financial crisis.
- A hypothetical \$10,000 investment in high yield securities invested since the high yield index's inception in September 1986 would be worth over \$115K at the end of December 2016, significantly more than other fixed income investments.*
- Of the last 30 calendar years, the high yield market rose in 24 years and fell in only 6 years; there were no consecutive negative years.

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*Data source: BofAML, Bloomberg/Indices. High yield bonds (BofA Merrill Lynch US High Yield Index) relative to \$80K for investment grade corporates (BofA Merrill Lynch US Corporate Index); \$67K for mortgage-backed bonds (BofA Merrill Lynch US Mortgage Backed Securities Index); and \$58K for government bonds (BofA Merrill Lynch US Treasury & Agency Index). Growth of \$10,000 example reflects a hypothetical investment in the indexes noted and assumes reinvestment of dividends and capital gains. Performance data quoted represents past performance. **Past performance is not a guarantee or reliable indicator of future returns.**

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