

Perspectives on the Credit Supply in High Yield

In the July webinar, Portfolio Manager Ray Kennedy provided a mid-year market outlook as well as his perspective on credit supply in today's high yield market. The following summarizes his discussion:



Ray Kennedy
Portfolio Manager

Top Takeaways

- Modest new issuance has buffered the impact of fund outflows.
- The subdued high yield new issuance market is likely driven by strong asset flows into the CLO market and corporate tax reform, which limits interest expense deducts for highly levered companies.
- Many companies have sold assets or built up cash to reduce leverage, which has helped to keep the default rate low.
- Since 1992, high yield returns have outpaced all other fixed income asset classes.
- The BBB-rated market has rapidly grown: As of March 31, 2018, the face value of BBB and BBB-credits is nearly \$1.9 trillion while the high yield market totals about \$1 trillion.
- The face value of BBBs is five times that of BBs, a historically large multiple.
- While large downgrades can significantly reshape the composition of the high yield market, excess supply could produce compelling opportunities.
- High yield leverage has come down, but leverage in BBB-rated credits has increased.

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