Hotchkis & Wiley Webinar Highlights

Hotchkis & Wiley

High Yield and the Business Cycle

In the May webinar, Portfolio Manager Mark Hudoff discussed the current high yield market and where we are in the business cycle. The following summarizes his discussion:

Mark Hudoff
Portfolio Manager

Top Takeaways

- Based on various economic factors, we believe the U.S. is late in the business cycle but not close to a peak.
- We believe predicting precise turning points in the economic cycle is impossible.
- We have not observed an indication of a turning point that will signal the next recession.
- While monetary policies have modestly tightened, recent fiscal stimulus could prolong the current cycle.
- While the yield curve has flattened, there appears to be no warnings signaling a turn in the business cycle.
- We believe an inversion in the yield curve has historically been a reliable indicator of stress in the system.
- The two-year swap spread is currently below its long-term mean and appears stable.
- Historically, the high yield market has experienced relatively few years of negative performance.
- High yield bonds have historically outperformed investment grade corporate and treasury bonds in the years before a recession but underperform one year following a recession.
- Drawdowns tend to be short-lived and often laden with opportunities for diligent, patient credit investors.

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