Hotchkis & Wiley Webinar Highlights

Hotchkis & Wiley

The Advantage of Active Investing in High Yield

In the October webinar, Portfolio Manager Mark Hudoff discussed the current high yield market and the pitfalls associated with investing in high yield ETFs. The following summarizes his discussion:

Mark Hudoff
Portfolio Manager

Top Takeaways

- Global growth appears to be building with improvements in Europe and Asia, supporting the strong fundamentals in the U.S. credit market.
- Defaults remain around 1%, inflation looks benign, and market liquidity has improved.
- We believe high yield bonds look attractive relative to other fixed income investments due to the risks of rising inflation and interest rates.
- High yield ETFs do not pose a technical risk to the broader high yield market given the small market share (less than 3%) of the two largest ETFs.
- The two largest high yield ETFs emphasize the largest and most liquid bonds and, therefore, have lagged the broader BofA Merrill Lynch High Yield Index which is composed of large, mid, and small issuers.
- Other factors contributing to the underperformance of these more narrowly constructed ETFs include fees, large fund flows, and deviation from NAV.
- We believe that ignoring the small- and mid-cap credit space is counterproductive to effective high yield investing.
- Pricing inefficiencies of high yield credits make them attractive to active managers but pose liquidity challenges and potential pricing concerns for high yield ETF investors.

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