

## Latest High Yield Perspectives

In the January webinar, Portfolio Manager Ray Kennedy provided his perspective on the high yield market. The following summarizes his discussion:



Ray Kennedy, CFA  
*Portfolio Manager*

### Top Takeaways

- The high yield market remains a significant asset class for investors and an important funding source for companies.
- Mutual fund industry outflows in 2018 combined with fewer new issues have created a balanced and stable high yield market.
- In 2018, high yield bond returns were negative. It is rare that the high yield market experiences consecutive negative years.
- High yield valuations appear attractive, leverage has stabilized, and companies' revenues and earnings have grown.
- The default rate at the end of 2018 was approximately 2%; no material increase in defaults are expected in 2019.
- In the short-term, uncertainties over the trade war and China's economic slowdown have weighed on many companies' operational results.
- Energy companies had reduced their leverage since 2015-16; therefore, the 2018 negative return had less of an impact on the overall high yield market.
- We are constructive on oil at these levels and believe select Energy companies represent solid opportunities.
- Lower-rated new issuance remains modest with declining Triple-C rated issues.
- While bank loans took market share from high yield bonds in 2018, more recently, interest in bank loans has waned due to the outlook of interest rate increases.

### FOR MORE INFORMATION

visit [www.hwcm.com](http://www.hwcm.com)  
or call 888-596-4926

©2019 Hotchkis & Wiley. All rights reserved. Any unauthorized use or disclosure is prohibited. For general information only and should not be relied on for investment advice. Opinions expressed are subject to change and any forecasts made cannot be guaranteed. Statements on financial market data/trends are based on current market conditions, which may change or fluctuate. Information obtained from independent sources is considered reliable, but H&W cannot guarantee its accuracy or completeness. Equities, high yield bonds, and other asset types have different risk profiles and market cycles, which should be considered when investing. All investments contain risk and may lose value. Investing in high yield securities is subject to certain risks, including market, credit, liquidity, issuer, interest-rate, and inflation risk. Lower-rated and non-rated securities involve greater risk than higher-rated securities. For Investment Advisory clients.