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.

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