High Yield Market Update

Newfleet ASSET MANAGEMENT
A Virtus Investment Partner

AUGUST 2020: OUTLOOK AND IMPLEMENTATION

- ► The High Yield market had another month of positive performance with a 0.95% return in August. Risky assets led the way with CCCs up 1.98%, Bs up 0.96%, and BBs up 0.61%. Improving economic data, second quarter earnings, and the continued march toward a vaccine all contributed to the positive performance. August saw the second most active primary market in 2020, which also contributed to the positive momentum by providing liquidity to borrowers.
- ► Top performing industries in August were Airlines (+6.35%), Leisure (+3.64%), Restaurants (+2.87%), Gaming (+2.63%), and Other REITs (+2.48%). COVID-exposed industries dominated the list of top performing industries. The bottom performers in August were Oil Field Services (-5.45%), Health Insurance (-0.76%), Aerospace/Defense (-0.66%), Food and Beverage (-0.02%) and Pharmaceuticals (+0.08%).

Fundamentals

- The issuer-weighted upgrade to downgrade ratio decreased to 0.5 for August. That is down from 1.3 in July.
- The issuer-weighted default rate was 5.53% at the end of August.

Technicals

- August made five straight months of inflows for High Yield as over $5.3 billion entered the asset class in the month. Year to date, there has been almost $43 billion of inflows into High Yield through ETFs and actively managed funds.
- August was the second busiest month of 2020 in the primary markets with over $54 billion of issuance. Gross high yield issuance year to date of $299 billion has already surpassed all of 2019's issuance, $286 billion.
- With over $54 billion of issuance and a light month of demand (calls, tenders, maturities, etc.), net supply was +$18.6 billion in August.

Pricing

- The average spread tightened 11 basis points in August to +477 bps from +488 bps at the end of July. Spreads ranged from +471 bps to +503 bps during the month.
- The average yield to worst finished August at 5.34% approximately 3 basis points lower than July's finish.
- The average dollar price rose to $100.99 in August from $100.36 in July.

Implementation

- We were once again active in repositioning the portfolio in August as the combination of busy primary and secondary markets, volatility, and continued inflows created plenty of opportunities. We funded primary market acquisitions with recent investments in the primary markets that have outperformed as well as existing positions. As the spread differential between risk assets – CCCs and COVID-related credits – continues to compress to higher quality high yield, we rotated out of credits that outperformed into other risk assets with the goal of keeping our overweight to risk intact, but not increasing risk given the strong recent performance that the market has experienced.

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The **Bloomberg Barclays U.S. High-Yield 2% Issuer Capped Bond Index** is a market capitalization-weighted index that measures fixed rate non-investment grade debt securities of U.S. and non-U.S. corporations. No single issuer accounts for more than 2% of market cap. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

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