# High Yield Market Update

**September 2021: OUTLOOK AND IMPLEMENTATION**

- Despite higher U.S. Treasury yields and the worst equity selloff since March of 2020, High Yield finished September with a -.01% return for the month. CCC's, the ratings category that tends to absorb interest rate increases well, returned +.52% in September. BBs are more interest rate sensitive and performed accordingly in September with a -.21% return. Lastly, Bs were +.11% for the month. Leading into September, investors raised cash for a primary market that was advertised to be one of the most active of the year. However, the new issue calendar underwhelmed, prompting the investor community to invest in the secondary market to offset the increase in US Treasury yields and the equity sell off.
- September's top performing industries were Oil Field Services (+2.82%), Leisure (+.87%), Independent (+.86%), Midstream (+.65%) and Pharmaceuticals (+.51%). Meanwhile, the bottom performers were Health Insurance (-.74%), Metals & Mining (-.68%), Wireless (-.66%), Cable & Satellite (-.65%) and Gaming (-.60%).

## Fundamentals

- While third quarter earnings should drive further improvement in credit metrics, investors will be focused on companies' ability to overcome rising prices, deal with any supply chain disruptions, and secure adequate labor.
- The Upgrade-To-Downgrade ratio, by number of issuers, was 2.5 in September, bringing the Year-To-Date ratio up to 2.3. For context, the same ratio for 2020 was .03.
- The Issuer-Weighted default rate continues to decrease as the LTM rate dropped to 1.65% after September. This is down from 1.90% after August.

## Technicals

- The High Yield asset class saw back-to-back monthly inflows for the first time all year as $1.15 billion entered the asset class in September.
- September saw $43.7 billion of gross issuance, bringing the year-to-date total to $409.7 billion. Refinancing remains the bulk of the activity, comprising 48% of the month's issuance, but deals to fund acquisitions have been increasingly a source of supply throughout the year and reached 38% in September.
- The large increase in new issuance in September after a seasonally slow August led to a $12 billion supply surplus despite the positive retail inflows.

## Pricing

- The High Yield Index widened by 3 basis points in September, finishing at +287. During the month, the spread ranged from a high of +290 to a low of +274.
- The Yield-To-Worst for September touched a low of 3.74% mid-month before finishing the month at the high of 4.04%.
- The High Yield Index average price finished at the low of $104.644 after reaching a high of $105.462 approximately halfway through the month.

## Implementation

- September was an active month in the High Yield market with over $40 billion of new issuance. However, the month fell below expectations as weakness in equity markets, political theater in Washington around the debt ceiling, and a forthcoming restructuring on a large Chinese property developer may have kept a few issuers on the sidelines. While we looked at many deals, investor demand remains strong, and consequently deals are pricing with little concession to what we view as fair value. In addition, the quality of issuance remains weak – many of the deals were aggressive LBOs with numbers that are difficult to normalize for a non-COVID environment. Secondary market activity was largely driven by a desire to exit idiosyncratic stories or exiting yield to call paper rather than making changes to industry or quality exposures.

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**Past performance is not indicative of future results.**

The **Bloomberg 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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