
MAY 2022: OUTLOOK AND IMPLEMENTATION

- ▶ A late rally helped the high yield index finish May in positive territory at +0.25% after a dismal start. Concerns over elevated inflation data, rising U.S. Treasury rates, increasing odds of a recession, and the impact these factors would have on corporate earnings, all weighed heavily on the market. After reaching yields in mid-May not seen since late 2020, higher-quality high yield led the rally as BBs finished May with a positive total return of 1.54%. Lower-rated companies lagged, with Bs finishing with a return of -0.63% and CCCs at -2.83%.
- ▶ May's best performing industries included health insurance (+2.89%), supermarkets (+2.16%), electric (+2.10%), independent (+1.87%), and wireless (+1.68%). Meanwhile, the worst performers were pharmaceuticals (-8.17%), retailers (-2.79%), leisure (-1.63%), brokerage, asset managers and exchanges (-1.44%), and other industrial (-1.22%).

Fundamentals

- The upgrade to downgrade ratio, by number of issuers, was 1.5 in May, with 25 upgrades to just 17 downgrades.
- The issuer-weighted default rate for the last twelve months through May increased to 0.86%.

Technicals

- May marked both the fifth straight month of outflows, and the sixth month of outflows out of the last seven months, with \$3.6 billion leaving the asset class. Year-to-date, we have seen \$36.6 billion depart.
- An anemic month of high yield issuance saw the primary market only produce \$4 billion – the slowest month since December of 2018.
- Another paltry month of issuance coupled with a jump in rising stars offset outflows and created a supply shortfall of \$35.5 billion.

Pricing

- The index spread finished at 402 bps – 24 bps wider from the end of April. The spread peaked in late May at +481, only to see a 79-bps rally at the close of the month.
- After peaking late May at 7.82%, the yield-to-worst for the index finished at 7.09%, or 11 bps higher.
- Thanks to the late rally, the dollar price of the index finished only \$3.38 points lower, \$92.67, after bottoming out at \$89.68.

Implementation

- In early May, we started to increase our exposure to higher-quality paper, which was carried out primarily through the secondary markets as the new issue market remained all but closed due to volatility. We funded these purchases with a combination of cash and lower-quality sales. Unfortunately, this trade was cut short as the “decompression” trade began. Lower-rated risk underperformed dramatically during this selloff. While our cash balance remains elevated entering June, we plan to continue to add opportunistically to higher-quality paper given our overall risk profile.

High Yield Market Update

Paul Privitera

Director – Institutional

Paul.Privitera@Newfleet.com

Phone: (860) 839-0705

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.

Newfleet Asset Management's industry trends and observations are the result of research conducted by the portfolio management / research team. These observations reflect their industry expertise and have been prepared using sources of information generally believed to be reliable; however, their accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice.

Investing is subject to risk, including the risk of possible loss of principal.

AR 2234955 6/2022

For Institutional Investor Use