# High Yield Market Update

## OCTOBER 2022: OUTLOOK AND IMPLEMENTATION

► Optimism in October leading up to the early November Federal Open Market Committee (FOMC) meeting helped high yield recoup most of its losses from September with a +2.60% return as month-to-month volatility persists. Bs led the charge in October with a total return of +3.30%, while BBs and CCCs returned +2.35% and +1.28%, respectively. Financial markets remain laser focused on economic data and the FOMC's pace of rate hikes. Heading into the FOMC meeting on November 2nd, the market was anticipating a rate hike of 75 basis points (bps), but also guidance towards a slower pace in future meetings. While this was the main driver behind October's bounce, both fundamentals and technicals supported this month's rally.

► The top performing industries in October were oil field services (+7.21%), brokerage, asset managers, exchanges (+5.38%), cable satellite (+4.63%), other REITs (+4.12%) and finance companies (+3.84%). Bottom performers for the month were gaming (-0.98%), healthcare (+0.64%), banking (+0.96%), health insurance (+1.38%) and retailers (+1.39%).

### Fundamentals

- The upgrade-to-downgrade ratio, by number of issuers, inverted to 0.5 this month as we saw more downgrades than upgrades.
- The issuer-weighted rate of defaults over the last twelve months stayed the same through October at 0.96%.
- Earnings are generally coming in better than expected in the third quarter, with inflation being a near-universal topic of earnings calls across industries.

### Technicals

- October was just the second positive fund flow of 2022 as the asset class took in $3.1 billion.
- The primary markets remain all but closed, with just $5.1 billion of activity in October through eight different bonds.
- With net new issuance near zero and over $18 billion of rising stars, high yield saw a substantial shortfall of over $36 billion in October.

### Pricing

- The spread on the high yield index tightened 89 bps in October from +552 to +462.
- The yield-to-worst on the index decreased by 0.76% from 9.88% to 9.12% over the same period.
- The index average dollar price finished October at $85.71, or $1.85 higher from September's close.

### Implementation

- Given our conservative positioning and our theme of adding quality and duration to the portfolio, we were relatively quiet during October's rally. The primary market was essentially closed yet again, and the few issues that did price offered little value or, in our minds, excessive credit risk. Secondary levels remain unattractive, especially considering the current cost of liquidity. The volatile markets have increased the bid-ask spreads in turn, increasing the cost of trading. Many investors have turned to using ETFs or portfolio trades to improve liquidity. These options, while more cost effective, offer access to the full market as opposed to specific credits. Looking ahead to November, we will continue to monitor economic data and the FOMC's stance on future rate decisions, but we will also closely evaluate earnings as November will be a busy month for high yield issuers.

**Newfleet Asset Management**

**One Financial Plaza**

**Hartford, Connecticut 06103**

**877-332-8172**



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