High Yield Market Update

DECEMBER 2022: OUTLOOK AND IMPLEMENTATION

- While December was a holiday-shortened month, the high yield market was not short on volatility, despite its -0.62% return. BBs returned -0.45%, Bs returned -0.81%, and CCCs posted a return of -0.90%. Mixed economic data, the Federal Open Market Committee (FOMC) meeting in December, and FOMC commentary all contributed to yet another volatile month. The November jobs report came in stronger than expected, which pushed the market lower in early December. Weaker-than-expected inflation data prompted the market to pivot into positive territory, but just days later, hawkish commentary from FOMC Chairman Powell pushed markets lower. Day-to-day volatility remains high as economic data stays at the forefront. The latter half of December is usually a seasonally slow time as the holidays begin, the calendar year ends, and liquidity dissipates. This year was no different. Markets quieted down in the second half of December, but the negative momentum continued as performance slowly leaked through the end of 2022.

- The best performing industries in December were pharmaceuticals (+3.13%), banking (+1.23%), home construction (+0.92%), gaming (+0.83%), and chemicals (+0.80%). Meanwhile, December's worst performers included cable satellite (-2.81%), media entertainment (-2.32%), other financial (-1.66%), brokers, asset managers & exchanges (-1.21%), and automotive (-1.14%).

Fundamentals

- The upgrade-to-downgrade ratio, by number of issuers, was 0.5 as the number of companies downgraded doubled the number of companies being upgraded.
- The issuer-weighted rate of defaults over the last twelve months decreased to 0.75% at the end of December.

Technicals

- High yield experienced an outflow in December of $3.6 billion. Contrary to prior months, the outflow was relatively evenly distributed, as $1.6 billion left ETFs and the rest left mutual funds.
- During the holiday-shortened month, only $2 billion of notes were issued from two different issuers, taking the year-to-date issuance total to just $106.5 billion.
- There was a slight supply surplus in December despite the slow month of issuance and fallen angels. The outflow and limited activity elsewhere did not surpass the muted calendar.

Pricing

- The spread on the high yield index finished December at +468, or 2 basis points wider on the month.
- The yield-to-worst of the index closed the year at 8.96%, and 0.33% higher for December.
- The index average dollar price decreased by just over $1 in December and finished at $86.22.

Implementation

- December was the slowest month of issuance in four years. Despite the volatility during the first couple of weeks, secondary activity dried up as well. Our activity was light as we purchased one of the two new issues and filled out our allocation in the secondary markets. We also added to an existing credit, but a little further out in the term structure. We funded these purchases with similarly rated credits that we believed to be overvalued. Heading into the new year, we will keep focused on economic data, the FOMC's reaction to this data, and fourth quarter earnings.

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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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AR 2672093 1/2023

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