High Yield Market Update

Newfleet ASSET MANAGEMENT
A Virtus Investment Partner

APRIL 2023: OUTLOOK AND IMPLEMENTATION

► The high yield index was able to generate a positive return of +1.00% in April as fears over the banking turmoil began to abate, and as the market benefited from both its largest inflow since August of 2020 and one of the most active capital markets in over a year. CCCs led the way with a return of +2.33%, while Bs and BBs also saw positive returns of +0.99% and +0.72%, respectively. Market volatility persisted, and the MOVE index remained at heightened levels due to March inflation data and the pending May FOMC meeting. Early indications were positive for first quarter earnings season, which ramped up in late April for high yield credits. This helped drive investors' risk appetite higher, which was reflected in CCC-tier performance. This was also further supported by positive technicals. Heading into May, the main points of focus remain the same: regional bank health, the FOMC and economic data, and first quarter earnings.

► The top performing industries in April were pharmaceuticals (+4.78%), other financial (+2.33%), packaging (+2.24%), home construction (+2.09%), and finance companies (+2.07%). April's worst performing industries were transportation services (-0.99%), cable satellite (-0.38%), refining (-0.12%), wireless (-0.01%), and consumer products (+0.27%).

Fundamentals

- The issuer-weighted rate of defaults over the last twelve months increased to 1.19% from 0.97%, though this is still well below historical averages.
- Downgrades were on par with upgrades this month – an upgrade-to-downgrade ratio, by issuer, of 1. The pace was the same as that of March.

Technicals

- For the first time in five months, the high yield market saw an inflow. At $6.2 billion, this represents the largest one-month inflow since August of 2020.
- While April's $18.8 billion of new issuance was not a record month, it was the second largest month in over a year.
- The increased issuance in April was not enough to offset the inflows and a sizable number of rising stars, creating a supply shortfall of $20.9 billion.

Pricing

- The high yield index spread finished 5 basis points tighter in April at +447. Spreads ranged from as tight as +435 to as wide as +478 during the month.
- The yield-to-worst for the index finished at 8.48%, or 4 basis points lower. The range was relatively tight for April, with a low of 8.38% and a high of 8.58%.
- The average dollar price for the index closed April at $88.77, or $0.43 higher. The price peaked at $89.01 and bottomed at $88.27 in April.

Implementation

- April's volatility and ample supply increased liquidity, enabling us to keep moving forward with investing cash, reducing risk, and improving the overall credit quality of the portfolio. The strength in CCCs provided the bid we were looking for to reduce, while the move in rates, coupled with a few bouts of selling, allowed us to invest cash in the higher quality part of the credit curve. We anticipate more volatility heading into May, with the FOMC meeting and the release of payroll data both taking place in the first week. We are also in the middle of first quarter earnings announcements, so we anticipate opportunities there as well. Despite all of this, our strategy has not changed. We will continue to make use of market gyrations and earnings announcements to opportunistically upgrade the portfolios. Our focus will remain on the FOMC, economic data, and first quarter earnings. While we hope the regional bank turmoil is behind us, we will continue to monitor its impact not only on the markets, but lending standards as well.

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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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