HIGH YIELD MARKET

INVESTMENT COMMENTARY & REVIEW

Second Quarter 2022

The Bloomberg U.S. High Yield Corporate Index (Index) returned -9.83% during the second quarter, reducing the Index total return to -14.19% for the first half of 2022.

With recession concerns beginning to surface in the second quarter, CCC-rated debt led the Index lower with a -12.98% decline. B-rated and BB-rated categories followed with losses of -10.76% and –8.43%, respectively.

The Index option-adjusted spread (OAS) widened 244 basis points (bps) in the second quarter to +569 bps, while the yield-to-worst (YTW) rose to 8.89% from 6.01%. By ratings, BB-rated credits now trade at an OAS of +404 bps and offer a YTW of 7.24%, B-rated credits at an OAS of +631 bps and 9.53% YTW, and CCC-rated credits at an OAS of +1043 bps and 13.63% YTW. The average dollar price of the HY Index declined to $85.83 at quarter end.

As capital market concerns expanded beyond inflation fears to include deteriorating economic growth, June delivered the second worst monthly total return for high yield bonds since 2008, and the second worst 6-month period on record. Additionally, the S&P 500 suffered its worst first-half performance since 1962, while U.S. Treasuries produced their worst first-half results since 1788. That said, while recession risk is heightened and concerns are warranted, current high yield valuations have historically been compelling entry points in the high yield market, with positive forward 12-months returns during all periods throughout the history of the high yield asset class when the entry-point yield was 8.5% or greater (Citigroup).

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