HIGH YIELD MARKET

INVESTMENT COMMENTARY & REVIEW

First Quarter 2023

The Bloomberg U.S. High Yield Corporate Index (Index) returned 3.57% during the first quarter of 2023, extending the late 2022 rally in spite of ongoing Fed rate hikes and elevated recession expectations following several notable bank collapses and bailouts.

The BB-rated, B-rated, and CCC-rated categories recorded gains of 3.44%, 3.47%, and 4.96%, respectively. The Index option-adjusted spread (OAS) tightened 14 bps in the first quarter to +455 bps, while the yield-to-worst (YTW) declined from 8.96% to 8.52%. By ratings, BB-rated credits now trade at an OAS of +283 bps and offer a YTW of 6.80%, B-rated credits at an OAS of +465 bps and 8.68% YTW, and CCC-rated credits at an OAS of +974 bps and 13.44% YTW. The average dollar price of the Index rose to $88.34 by quarter end.

Despite the heightened volatility brought out by concerns of a systemic banking crisis, the high yield market remained constructive largely due to attractive all-in yields, healthy corporate balance sheets, and the belief that the Federal Reserve is nearing the end of their rate hiking cycle. While the banking crisis will undoubtedly tighten financial conditions and increase the likelihood of an economic downturn, valuations continue to be supportive, as yields greater than 8.5% have historically been favorable entry points for high yield. The key swing factor for the high yield market in 2023 will be the depth, breadth and length of an economic contraction. Regardless, we believe PIA High Yield remains invested in pockets of the high yield market that offer compelling long-term value and, will thus, likely provide relative outperformance through this cycle.

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