



HIGH YIELD MARKET INVESTMENT COMMENTARY & REVIEW

Second Quarter 2023

The Bloomberg U.S. High Yield Corporate Index (Index) returned 1.75% during the second quarter, bringing the year-to-date Index total returns to 5.38%.

The BB-rated, B-rated, and CCC-rated categories recorded gains of 0.89%, 1.90%, and 4.18%, respectively. The Index option-adjusted spread (OAS) tightened 65 bps during the second quarter to +390 bps, while the yield-to-worst (YTW) declined by just 2 basis points to 8.50%. By ratings, BB-rated credits now trade at an OAS of +252 bps and offer a YTW of 7.08%, B-rated credits at an OAS of +398 bps and 8.66% YTW, and CCC-rated credits at an OAS of +841 bps and 12.88% YTW. The average dollar price of the Index rose to \$88.97 by quarter end.

The attractive all-in yields, the Federal Reserve rate hike cycle nearing an end, and consumer data indicating the ongoing resiliency of domestic economic activity all led to continued solid High Yield market returns through the second quarter. The much-anticipated economic recession that was to follow the dramatic monetary

tightening policy intended to beat back 40-year high levels of inflation, that produced a significant yield curve inversion, and which led to more than a year's worth of monthly declines in the Leading Economic Indicator Index (LEI) still remains somewhere out on the economic horizon primarily due to the strength of the US consumer. Consumer spending remains the pillar of strength throughout, and forecasts indicate that real disposable income is set to outpace inflation over the second half of 2023, meaning this trend can continue. However, much uncertainty remains regarding the type and/or the timing of this looming recession.

Regardless, PIA High Yield remains invested in industries and companies that we believe offer compelling long-term value and, will thus, provide relative outperformance throughout this economic cycle.

Michael Yean
High Yield Portfolio Manager

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Indexes are unmanaged, do not incur management fees, costs, and expenses, and cannot be invested in directly.

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