



# HIGH YIELD MARKET

## INVESTMENT COMMENTARY & REVIEW

First Quarter 2024

The Bloomberg U.S. High Yield Corporate Index (Index) began the year on a positive note, returning 1.47% during the first quarter. Index returns were inversely correlated with issue size and quality. Smaller issues ( $\leq$  \$500 million) returned 2.25%, while large issues ( $\geq$  \$1 billion) returned 0.87%. By credit rating category, BB-rated, B-rated, and CCC-rated bonds recorded gains of 1.13%, 1.36%, and 2.14%, respectively.

As anticipated, the tailwinds following the unexpected dovish December The Federal Open Market Committee (FOMC) pivot continued into the new year, supported by continued economic strength and historically attractive yields. The 10-year Treasury yield climbed 32 bps in the first quarter to 4.20%, while the Fed Funds rate remained unchanged at 5.25-5.50%. The Index option-adjusted spread (OAS) tightened by 24 bps in the quarter to +299

bps, while the yield-to-worst (YTW) rose 7 bps to 7.66%. BB-rated credits now trade at an OAS of +184 bps and offer a YTW of 6.49%, B-rated credits at an OAS of +266 bps and 7.38% YTW, and CCC-rated credits at an OAS of +717 bps and 11.87% YTW. The average dollar price of the Index increased modestly to \$93.43 at quarter end.

By the end of the first quarter, strong employment, economic growth, and persistent structural inflation diminished hopes for the anticipated level of 2024 rates cuts, but the Federal Reserve remains on pause with a current bias to ease. We believe this structural backdrop and a modest default outlook for 2024 provide a constructive environment for the high yield market in the near-term.

PIA Investment Strategy Group

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*Bloomberg U.S. Corporate High Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both U.S. and non-U.S. corporations. The Yankee sector has been discontinued as of 7/1/00. The bonds in the former Yankee sector have not been removed from the index, but have been reclassified into other sectors. Indexes are unmanaged, do not incur management fees, costs, and expenses, and cannot be invested in directly.*

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