



Thank you for joining Western Asset's *Spotlight on High-Yield* webcast featuring Deputy CIO Michael Buchanan in conversation with Head of US High-Yield Walter Kilcullen and Product Specialist Robert Abad.



Walter Kilcullen



Robert Abad

*The presentation will begin shortly.*



Michael Buchanan

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# Spotlight on High-Yield

February 25, 2020

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Robert Abad  
Product Specialist

Walter Kilcullen  
Head of US High-Yield

# Stretched Valuations Leave Little Room For Error

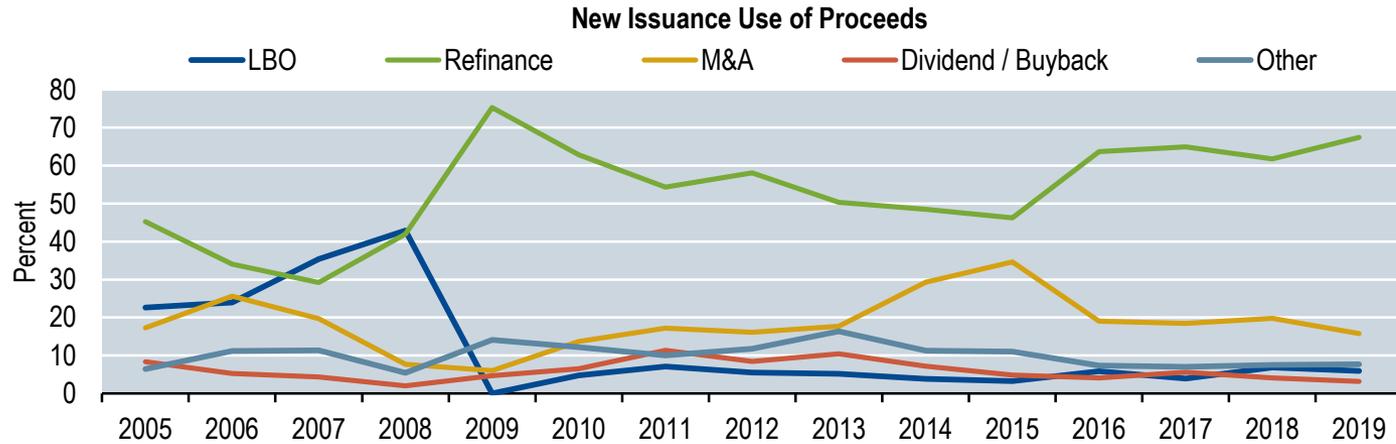
	Current Spread (bps)	YTD Change (bps)	Yield <sup>1</sup>	YTD	FY 2019	5 Year Range		
				Total Return	Total Return	Tight	Wide	
IG All	98	8	2.5%	2.3%	13.8%	81		200
IG AA	57	5	2.1%	2.6%	10.3%	51		120
IG A	77	7	2.3%	2.4%	13.0%	68		161
IG BBB	136	10	2.9%	2.3%	16.5%	111		288
EM Corp/SovIG	157	17	3.3%	2.3%	16.6%	139		287
EM Corp/SovHY	524	37	6.8%	0.6%	13.5%	389		704
HY All	390	54	5.5%	0.0%	14.3%	303		839
HYBB	229	47	3.9%	0.4%	15.5%	162		566
HYB	384	60	5.5%	-0.3%	14.8%	295		826
HYCCC	880	11	10.4%	-0.3%	9.5%	512		1,607
CDX IG 5Y	50	5	NA	-0.1%	5.5%	44		119
CDX HY 5Y	305	25	NA	-1.0%	13.0%	275		589
Lev Loan All	451	-10	6.1%	0.6%	8.6%	369		775
Lev Loan BB	280	2	4.6%	0.3%	9.3%	258		523
Lev Loan B	463	-8	6.2%	0.7%	9.0%	387		904
Lev Loan CCC	1,336	-58	14.1%	1.3%	3.4%	996		2,526
Secondary CLO AAA	100	-13	2.8%	0.8%	3.8%	90		190
Secondary CLO AA	158	-18	3.3%	1.3%	5.0%	110		280
Secondary CLO A	203	-33	3.8%	2.4%	6.9%	158		400
Secondary CLO BBB	315	-33	4.9%	2.6%	7.0%	250		675
Secondary CLO BB	683	-30	8.6%	2.8%	9.5%	513		1,150
Secondary CLO B	1,050	-28	12.3%	3.0%	3.5%	675		1,650
CRT M1	71	-3	2.4%	NA	3.2%	-406		305
CRT M2	182	-15	3.5%	NA	4.8%	133		624
Agency MBS	102	56	2.4%	0.7%	6.4%	46		119
Primary CMBS AAA 10Y	76	-12	2.2%	3.9%	11.1%	70		173
Primary CMBS AA	115	-22	2.6%	4.4%	12.0%	115		310
Primary CMBS A	155	-20	3.0%	4.6%	13.9%	155		525
Primary CMBS BBB-	285	5	4.3%	4.5%	15.2%	275		825

Source: Bloomberg, Citi Velocity, J.P. Morgan, S&P LCD. As of 31 Jan 20

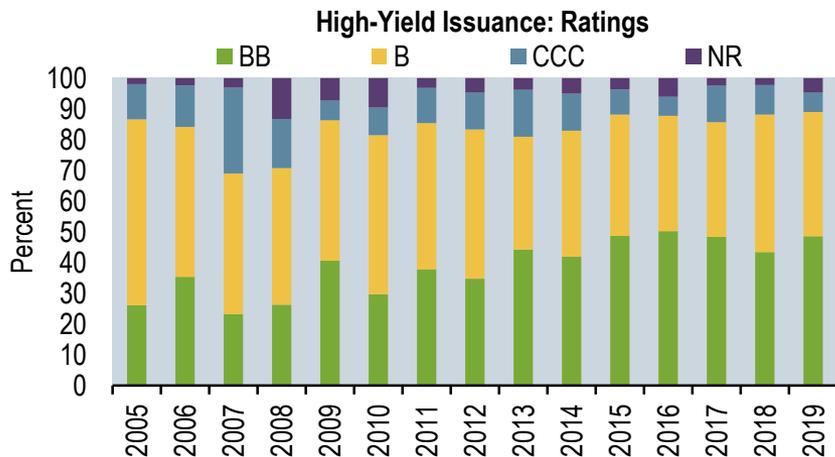
Past results are not indicative of future investment results.

<sup>1</sup>Yield to worst is used for IG, EM, HY, and Loans. Current yield is used for loans, agency MBS, CRT, CLO, and CMBS.

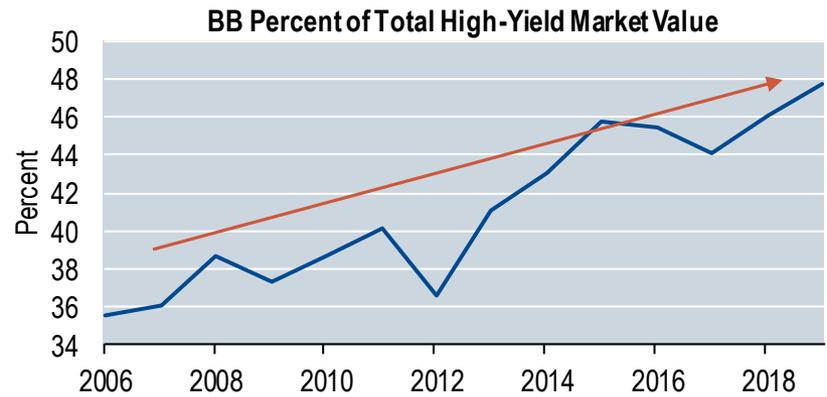
# This Is Not Your Parents' Junk Bond Market



Source: Morgan Stanley Research, S&P LCD. As of 31 Dec 19



Source: Morgan Stanley Research, S&P LCD.  
\*As of 31 Dec 19



Source: Bloomberg Barclays. As of 31 Dec 19

# Issuance Credit Quality Remains Better Than 2006/2007

	2006	2007	Avg 06-07	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Avg 17-19
Total Volume (USD, bn)	149.1	147.9		302.0	245.6	368.1	398.5	355.7	293.2	286.2	328.1	187.4	286.6	
Market Size (USD, bn)	657	629		930	928	1,145	1,270	1,326	1,199	1,334	1,339	1,170	1,278	

## By use of Proceeds

Acquisition/LBO (USD, bn)	65.6	76.9		48.3	54.0	61.9	69.3	91.1	110.0	44.3	56.0	40.3	56.7	
% of New Issuance	44%	52%	48%	16%	22%	17%	17%	26%	38%	15%	17%	22%	20%	20%

## By Rating

Lower Rated (USD, bn)	31.1	53.6		54.4	43.2	63.7	75.1	65.7	36.8	30.3	49.8	32.6	28.9	
% of New Issuance	21%	36%	29%	18%	18%	17%	19%	18%	13%	11%	15%	17%	10%	14%

## By Security Type

PIK/Toggle/Deferred (USD, bn)	11.9	17.7		0.0	4.9	7.4	12.0	7.1	0.0	0.0	0.0	0.9	4.0	
% of New Issuance	8%	12%	10%	0%	2%	2%	3%	2%	0%	0%	0%	1%	1%	1%

Source: Bloomberg, J.P. Morgan, Lipper FMI.

\*As of 31 Dec 19

# Income Is an Important Driver of Total Return

September 30, 1988 – December 31, 2019

	Coupon/ Dividend Return (%)	Total Return (%)	Annualized Total Return (%)	Percent of Return Attributable to Coupon/Dividend Income (%)
Bloomberg Barclays U.S. High-Yield Index	1,057.93	1,034.30	8.08	102%
Bloomberg Barclays U.S. Treasury Index	455.54	484.99	5.82	94%
Bloomberg Barclays U.S. Credit Index	690.48	709.98	6.92	97%
Bloomberg Barclays U.S. MBS Index	519.02	523.19	6.03	99%
S&P 500 TR	1156.67	2244.85	10.62	52%

Source: Bloomberg Barclays, Bloomberg, Western Asset. Base Currency: USD. As of 31 Dec 19. Longest time series available in Bloomberg Barclays POINT

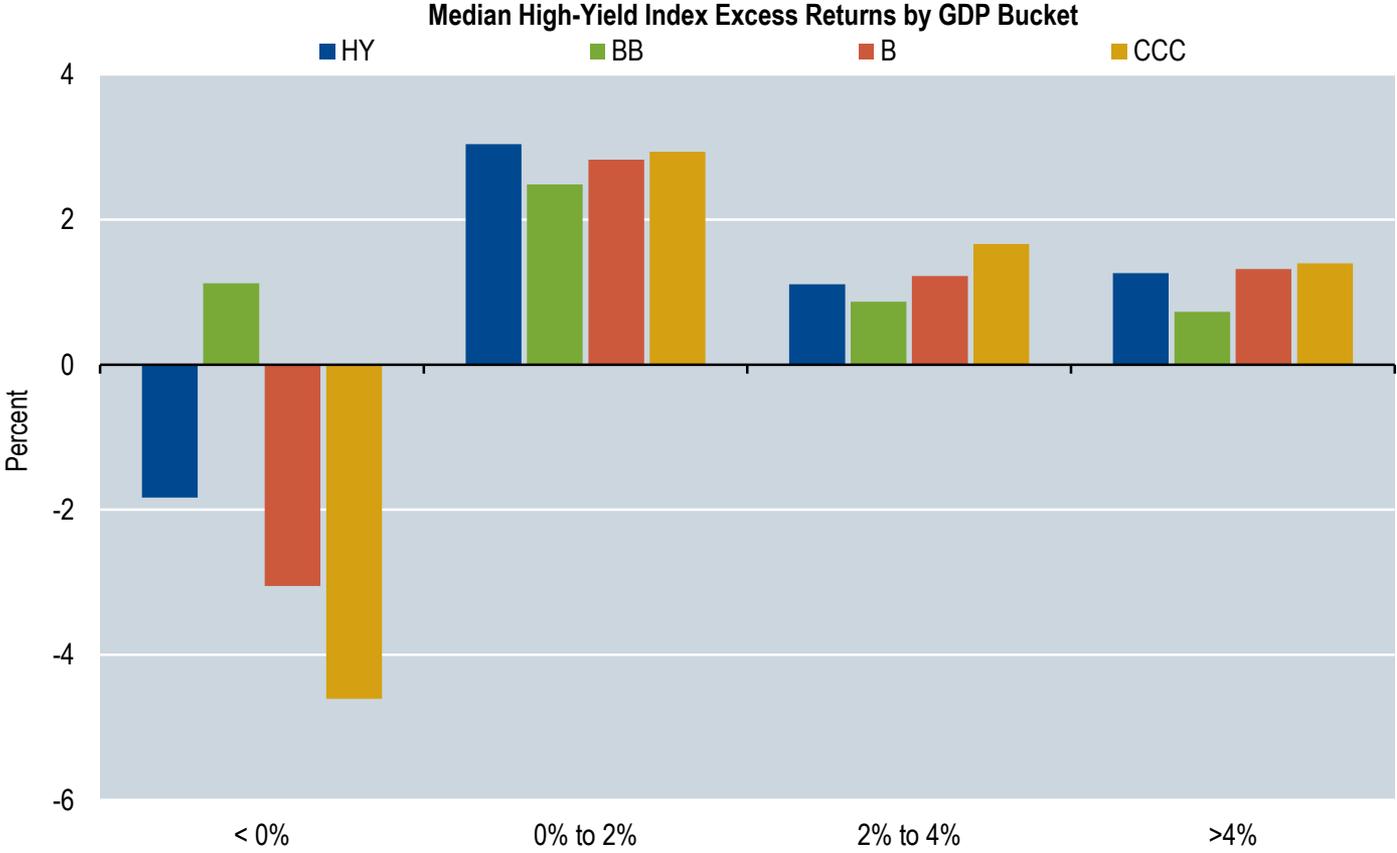
## Growth of a Dollar 31 May 07 – 31 Dec 19

	Price Return (%)	Income Return (%)	Annualized Return (%)
<b>Bloomberg Barclays U.S. High-Yield Index</b>	0.12	135.61	7.05
<b>S&amp;P 500 Total Return</b>	111.08	64.54	8.39

Source: Bloomberg Barclays, Bloomberg, Western Asset

Past performance is no guarantee of future results. Income and yields will fluctuate and are not guaranteed.

# High-Yield in a Low Growth World



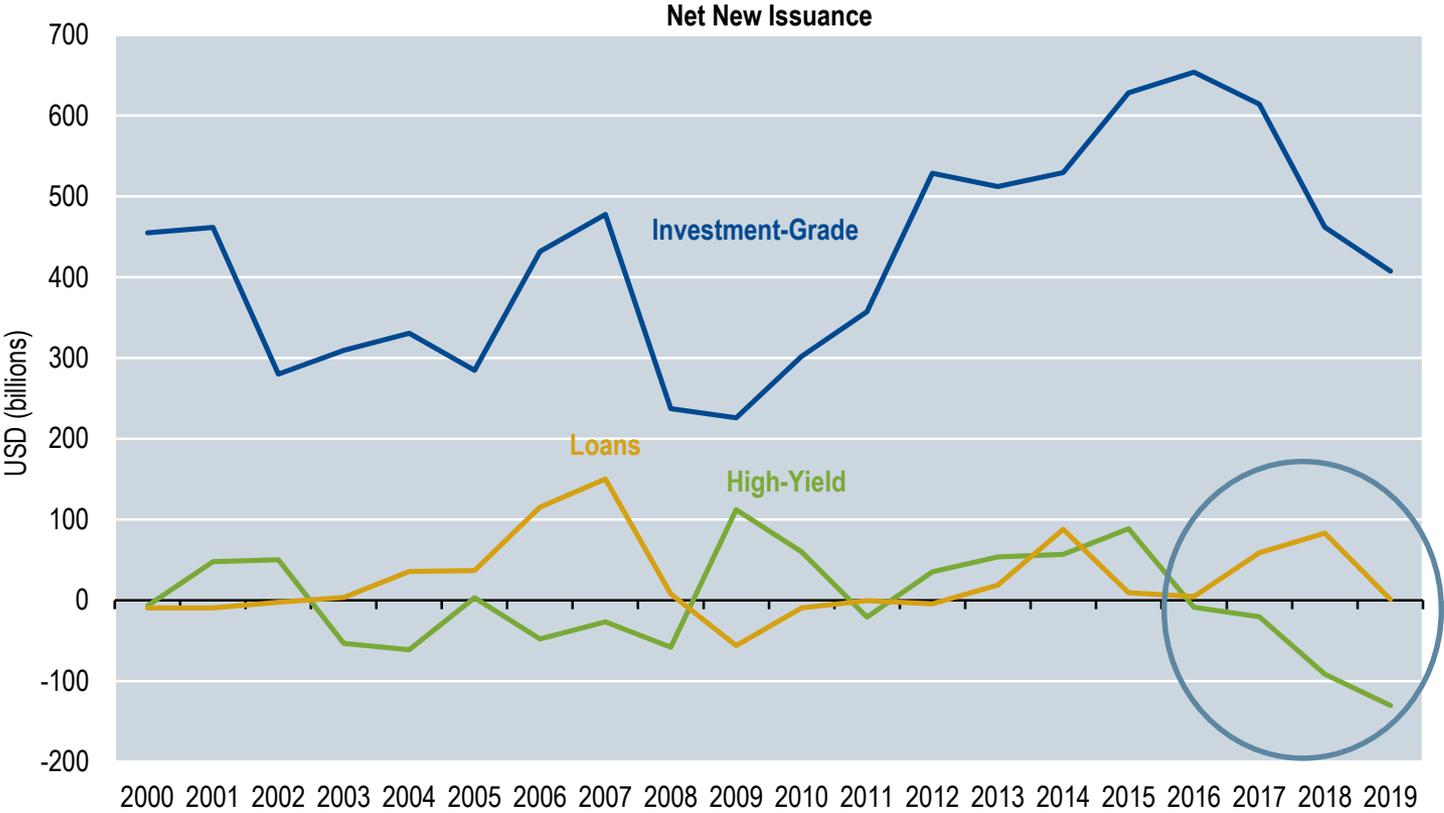
Source: Bloomberg, Bloomberg Barclays. As of 31 Dec 19

Past results are not indicative of future investment results..

Note: High-yield return data dates back to 29 Jan 93, GDP data dates back to 30 Jun 93

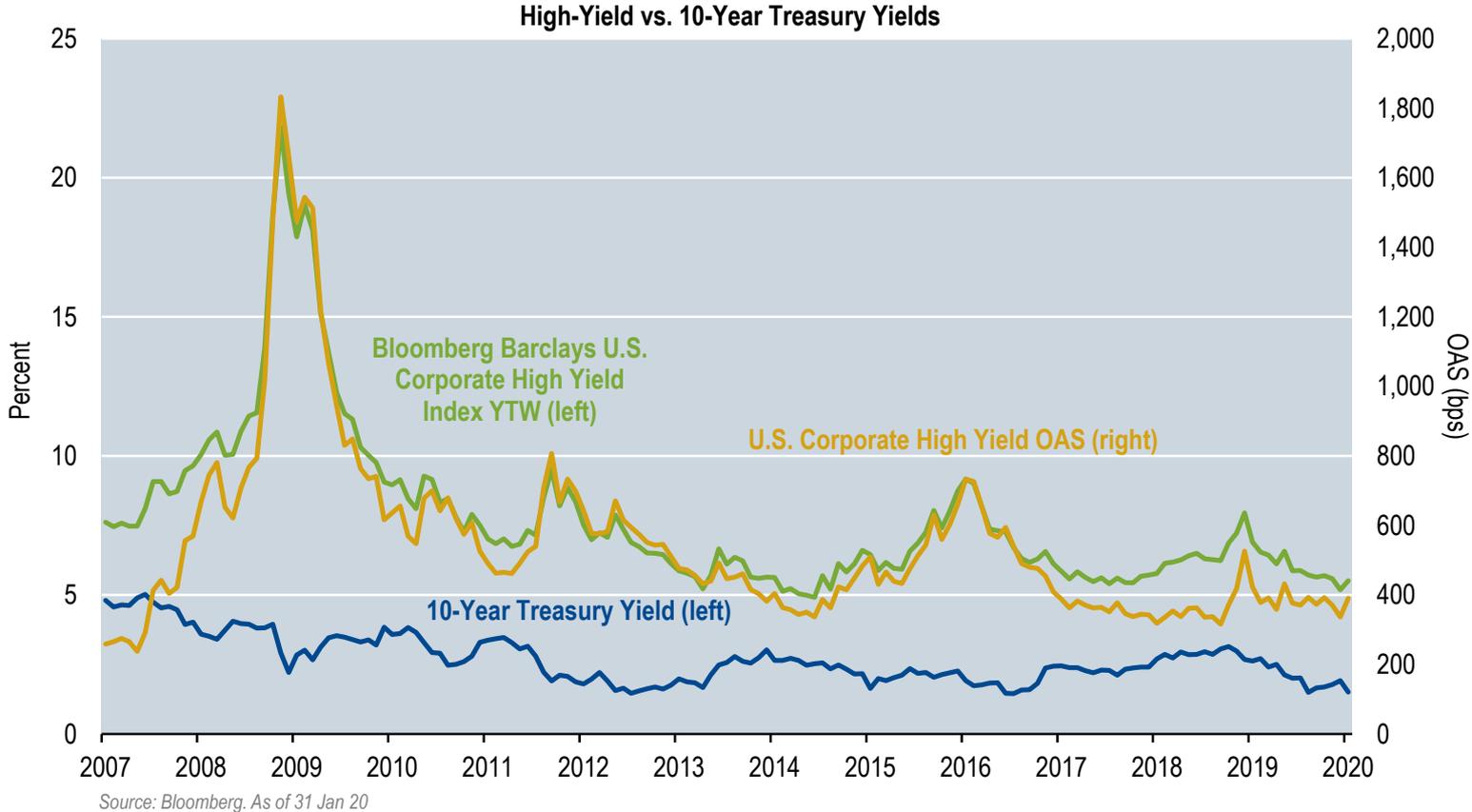
Annual GDP growth is matched against quarterly returns from the quarter preceding the GDP reading date. This is done to account for the fact that market pricing tends to anticipate economic conditions

# Net US High-Yield Supply Remains Below That of Most Other Post-Crisis Years



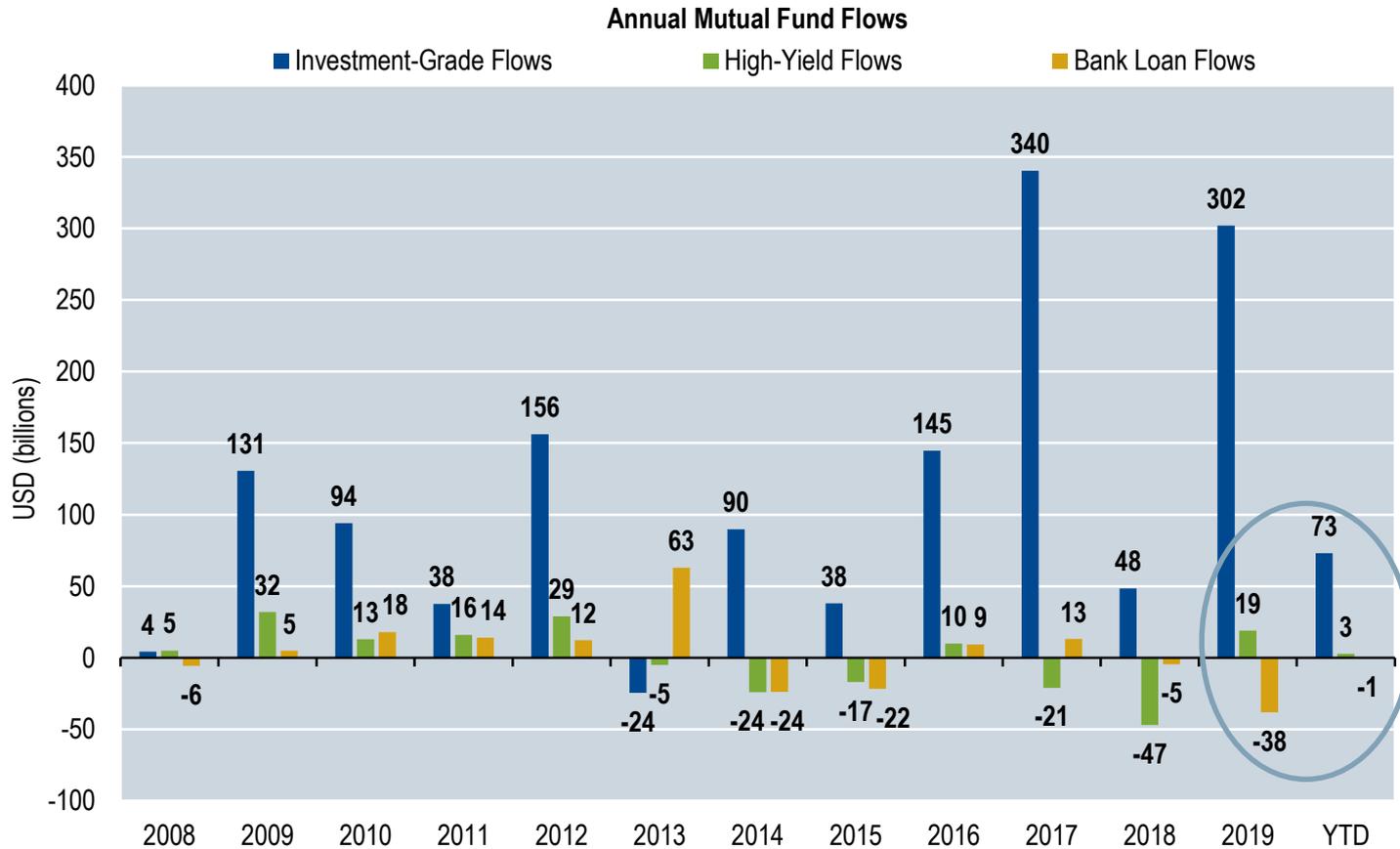
Source: J.P. Morgan. As of 31 Dec 19

# With Lower Risk-Free Rates, Most Yield in the HY Sector Is Attributed to Credit Spread



# Against a Dovish Fed Backdrop, Fund Flows Into High-Yield Have Picked Up

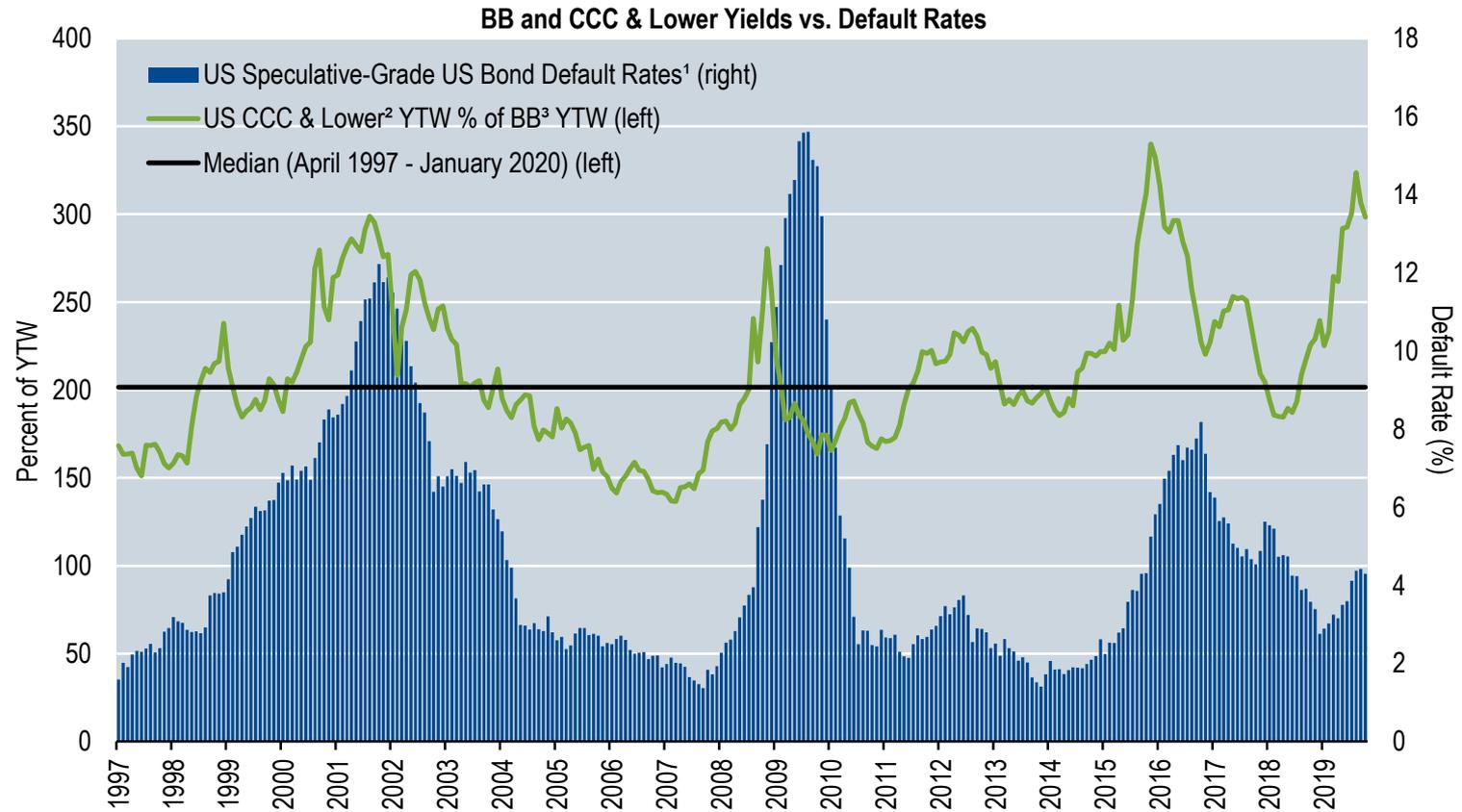
Investors are reaching down the credit spectrum in a search for yield.



Source: J.P. Morgan. As of 20 Feb 20

# The High-Yield Market Has Bifurcated, With Yields on CCCs Outpacing Those of BBs

BB yields have contracted with central bank easing, however, CCC yields are elevated even with an overall low default environment.



Source: ICE BofAML, Moody's Investors Service. As of 31 Jan 20  
<sup>1</sup>Moody's Issuer-Weighted Speculative-Grade US Bond Default Rates  
<sup>2</sup>ICE BofAML CCC & Lower US High Yield Index (H0A3)  
<sup>3</sup>ICE BofAML BB US High Yield Index (H0A1)



**Thank you.**

# Risk Disclosure

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