Webcast Summary

Spotlight on High-Yield

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With overall market sentiment whipsawing—from the upbeat optimism seen at the start of the year to utterly risk-off in the last few weeks—fixed-income investors could benefit from some guidance. Deputy CIO Michael Buchanan sat down with Product Specialist Robert Abad and Walter Kilcullen, Head of US High-Yield, to discuss the state of the fixed-income market and where they're currently finding the most potential for value. Walter helps round out the discussion by providing excellent commentary specific to the high-yield market.

Market Environment

- There is some elevated concern about the length of the credit cycle, which is now at 10 years and counting, but we firmly believe that credit cycles do not die of old age.
- 10-year and 30-year US Treasury yields are at their all-time lows; futures markets are pricing in another two or so rate cuts by 2021.
- The annual US GDP growth rate is currently around 2.0%.
- Current risks to the market outlook include the continued spread of the coronavirus/COVID-19, and the chance for an upset result in the presidential election.

Investment Themes/Outlook

- Low rates combined with relatively tight spreads makes identifying value in fixed-income a bit more challenging, but we believe there's always opportunity to be found in global fixed-income.
- This is not a year for beta returns; investors won't find value investing across entire categories.
- 2020 is a year for alpha returns; investors need to identify idiosyncratic opportunities with compelling risk/reward relationships.
- High-yield will continue to offer select opportunities for managers who do the fundamentals research.
- We do not expect default rates to pick up meaningfully; rather, we think they are trending lower.

2020 US High-Yield Themes

- The current environment of 0%-2% GDP is the sweet spot for high-yield.
- Credit quality is more important than ever.
- High-yield is generally 400 bps over US Treasuries and that spread is warranted given the higher quality credit, good management behavior and investment discipline (to pay down debt).
- High-yield's spread over the risk-free rate, especially given the technicals and credit quality, makes it an attractive option.
- Nearly 70% of the primary market is using the proceeds of new debt to pay down outstanding debt.
- Access to capital in the high-yield market is about as good as it's ever been.
- Acquisition financing in high-yield, when done correctly, can be part of a total return play.

- What matters most is reliable coupon clipping.
- This year is all about issue selection—it's not just about what you own, it's also about avoiding certain issues.

Q&A Highlights

- Regarding the energy sector in high-yield, we continue to see value in companies that demonstrate spending discipline and cost efficiencies. We don't think today's market resembles that of 2015, when oil sold off. We favor energy issues with higher credit quality.
- The 2020 US presidential election will introduce a fair amount of uncertainty into the investment outlook, but we embrace a bit of pricing volatility related to the election as it allows us to exploit any mispricing for the benefit of our clients.