Hotchkis & Wiley Webinar Highlights

Hotchkis & Wiley

What's in Store for the High Yield Market in 2018

In the January webinar, Portfolio Manager Ray Kennedy discussed the 2017 high yield market and what's in store for 2018. The following summarizes his discussion:

Ray Kennedy, CFA
Portfolio Manager

Top Takeaways

- Favorable supply/demand fundamentals provide support for the high yield market.
- Supply in the high yield market has declined as more companies used floating rate bank loans to refinance bonds or cash to retire debt.
- The tax reform bill may result in fewer new issues, lower leverage and higher interest coverage as companies are incentivized to reduce interest expense.
- Demand for high yield bonds remains strong as investors seek higher levels of income.
- We believe high yield bonds are fairly valued as excess spreads are modestly below the historical median but not near the lows.
- The total value of the investment grade debt market is over 2x its size relative to 2008 while the high yield debt market has only grown 1.6x.
- In a new default cycle, we anticipate many issues will be downgraded to high yield.
- Historically defaults have had a 4-5 year cycle, with the last cycle occurring in 2015.
- Leveraged buyouts continue to be anemic due to high valuations and regulatory overhang.
- High yield market liquidity has improved with larger dealer inventory levels and increased trading volume.

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