Hotchkis & Wiley

Why High Yield Bonds Deserve A Strategic Allocation

In the July webinar, Portfolio Manager Ray Kennedy discussed the current high yield landscape and the case for why we believe this asset class deserves a strategic allocation. The following summarizes his discussion:

Ray Kennedy, CFA
Portfolio Manager

Top Takeaways

- Weak issuance and foreign demand could provide support for the high yield market in the second half of 2017.
- Although dealer inventories have increased, the market needs more supply to create more trading activity.
- Current fundamental, technical and economic data suggests the high yield market remains healthy compared to previous periods.
- Historically, narrow high yield spreads over Treasuries have coincided with robust economic conditions and indicated a healthy credit cycle.
- For the past few years, the distressed debt ratio and default rates have been benign relative to history.
- Riskier non-traditional issuance by companies without earnings has been nominal, i.e., companies issuing debt can service their debt.
- An inverted yield curve has preceded every recession over the past 50 years; the current curve has flattened but has an upward slope—a reassuring sign.
- Given the above factors, we believe high yield bonds should have a strategic weight in an investor's well diversified portfolio.

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