

## High Yield and the Rising Rate Environment

In the April webinar, Portfolio Manager Mark Hudoff discussed the high yield market in the first quarter of 2017 and how the market has historically reacted during rising interest rate environments. The following summarizes his discussion:



Mark Hudoff  
*Portfolio Manager*

### Top Takeaways

- In 1Q17, high yield new issuance was over \$100 billion compared to approximately \$61 billion in 1Q16.
- Credit fundamentals appear solid, with improved earnings, consumer confidence, and economic indicators.
- While longer duration bonds are more sensitive to changes in interest rates than shorter duration bonds, duration matters to a varying degree.
- Unlike other areas within fixed income, high yield bonds have outperformed during rising rate environments.
- Periods of rising rates often coincide with economic expansion, which is characteristic of growing revenue, improving profitability, and open capital markets.
- Rising rate environments generally correspond to a reduction in credit risk, which we believe is a catalyst for favorable high yield performance.
- While high yield bond valuation is richer than we prefer, fundamentals appear strong and spreads remain sufficiently wide to absorb an increase in rates, at least partially.

### FOR MORE INFORMATION

visit [www.hwcm.com](http://www.hwcm.com)  
or call 888-596-4926

©2017 Hotchkis & Wiley. All rights reserved. Any unauthorized use or disclosure is prohibited. For general information only and should not be relied on for investment advice. Opinions expressed are subject to change and any forecasts made cannot be guaranteed. Statements on financial market data/trends are based on current market conditions, which may change or fluctuate. Information obtained from independent sources is considered reliable, but H&W cannot guarantee its accuracy or completeness. Investing in high yield securities is subject to certain risks, including market, credit, liquidity, issuer, interest-rate, inflation, and derivatives risks. Lower-rated and non-rated securities involve greater risk than higher-rated securities. High yield bonds and other asset classes have different risk-return profiles, which should be considered when investing. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Past performance is not a guarantee or reliable indicator of future returns. For a complete GIPS Compliant Presentation visit [www.hwcm.com](http://www.hwcm.com). For Investment Advisory clients.