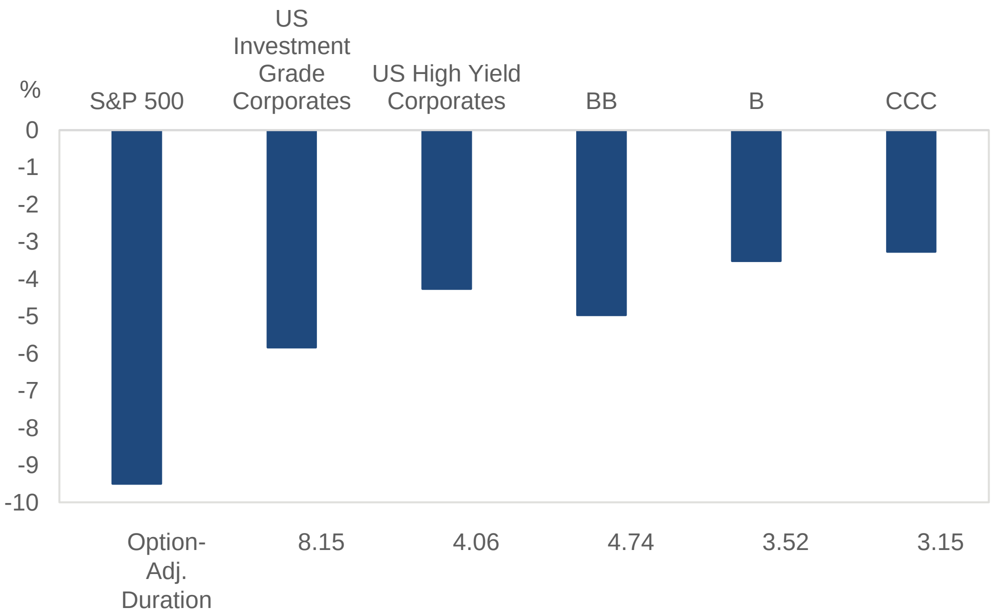
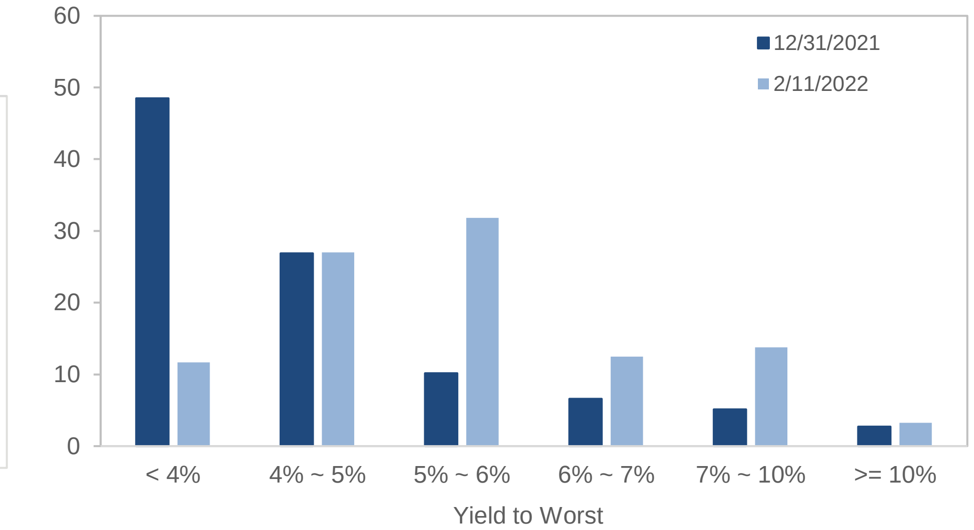
# Got Yield?

## 2022 Has Been a Tough Year for Risk Assets So Far…




## … And High-Yield Buckets have Shifted Dramatically




- **No asset class has been spared from this year's volatility.** The high yield (HY) market has posted its worst start to the year since 2016, down 4.5%, while outperforming the S&P 500's -6.9% return. Notably, the BB-rated universe lags lower-rated buckets, due to its longer duration. Rate volatility is front-and-center, with the 10-Year US Treasury closing above 2% for the first time since July 2019. Additional pressure on BBs comes from more frequently traded fallen angels with larger capital structures, magnified by HY exchange-traded funds (ETFs) experiencing outflows YTD.
- **The yield is back in "high yield."** Rate volatility has helped shift the yield distribution within the HY universe. As of the end of 2021, HY bonds yielding less than 4% comprised close to half of the HY universe. By mid-February, bonds yielding more than 5-6% increased dramatically. After touching a low of 3.5% in July 2021, the HY market now yields (on average) 5.8%, a level not seen since October 2020.
- **Capture the opportunities.** BB-rated bonds have underperformed YTD. Given their longer duration, BBs trade more in sympathy with interest rates than lower-rated HY debt, which is more heavily influenced by idiosyncratic factors. Relative value in BBs has improved as lower dollar prices create a more favorable convexity profile. Discerning investors can also find opportunities in B-rated bonds given their lower sensitivity to interest rate hikes and overall healthy credit fundamentals. High inflation, corporate earnings and economic growth surprises, and geopolitical events are watchouts and may drive additional weakness in the HY market.