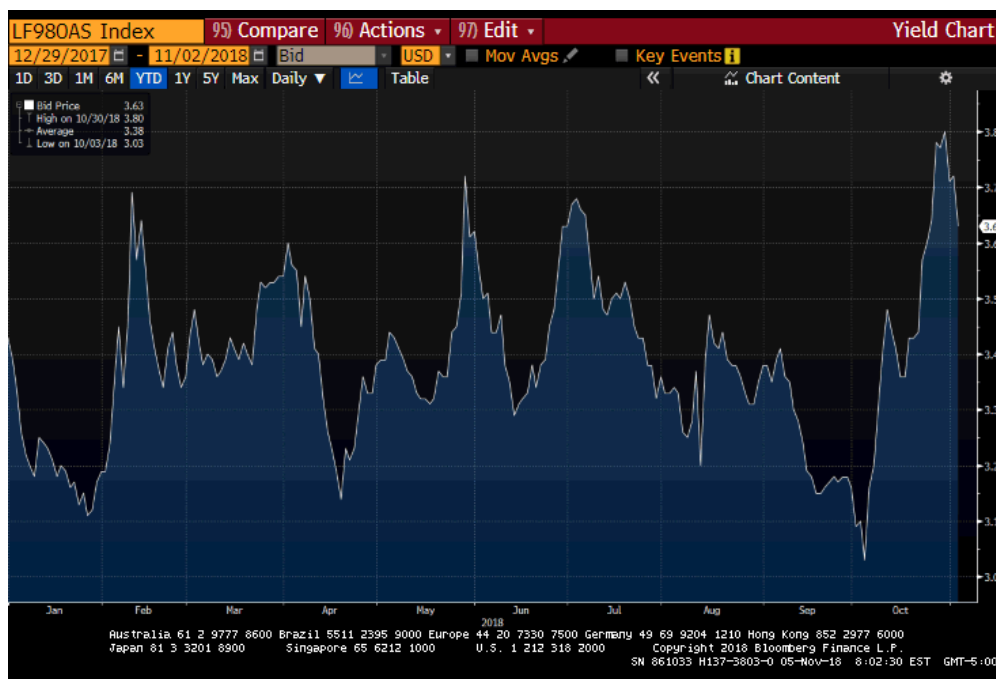




Volatile October for High Yield Corporates

- Looking back on the month of October, high yield posted its worst monthly performance all year with excess return of -1.62%, while year-to-date excess return remains positive at 1.76%. Spreads widened by 53 basis points (bps) during the month, pushing out to 381 bps and taking the yield on the index up to 6.89%. Consumer cyclicals produced the largest declines including Energy, Building Materials, Chemicals and Autos, posting excess returns of -2% or more.
- Lower-rated and longer duration segments of the market underperformed in October as the bid for short paper remained relatively firm. While investment grade spreads also widened by 12 bps, the ratio of HY to IG spreads increased to 3.2x by the end of the month. This is still well inside the 4.0x seen back in February but hardly represents great relative value.
- Spreads are now 18 bps wider on the year and one could argue this widening is unjustified based on the underlying strength in the economy. However, we remain cautious.

High Yield Spreads



Source: Bloomberg

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