Why It's Time to Add High Yield Bonds

With solid long-term fundamentals and compelling valuations, high yield bonds remain one of the most resilient asset classes.

High yield spreads have widened significantly since the beginning of the year, making high yield valuations more attractive. Additionally, as issuer quality has increased over the last two years, free cash flow and cash on hand should provide a strong buffer to bridge an economic downturn if the economy stalls.

The extra yield investors demand to hold high yield bonds over U.S. Treasuries (as reflected in the option-adjusted spread, or OAS) has risen to 512 basis points (bps) as of 9/23/22 from 386 bps on 12/31/21. Meanwhile, the yield to worst, or the lowest rate an investor can expect to earn short of a default, on the ICE BofA US High Yield Index hit 9.17% on 9/23/22.

Chart 1. Spread Alert: High Yield OAS Represents an Enticing Entry Point

	Date	$ Price	YTW	OAS
High Yield Bonds	12/31/21	103.31	4.32%	310
	9/23/22	84.98	9.17%	512
BB Rated Bonds	12/31/21	105.51	3.40%	211
	9/23/22	87.53	7.50%	346
B Rated Bonds	12/31/21	102.25	4.69%	351
	9/23/22	85.76	9.46%	536
CCC Rated Bonds	12/31/21	96.21	7.81%	678
	9/23/22	72.60	16.16%	1225

Source: Standard & Poor's; High Yield Bonds represented by ICE BofA US High Yield Index (H0A0); BB Rated Bonds represented by ICE BofA BB US High Yield Index (H0A1); B Rated Bonds represented by ICE BofA Single-B US High Yield Index (H0A2); CCC Rated Bonds represented by ICE BofA CCC & Lower US High Yield Index (H0A3). **Past performance is not indicative of future results.**

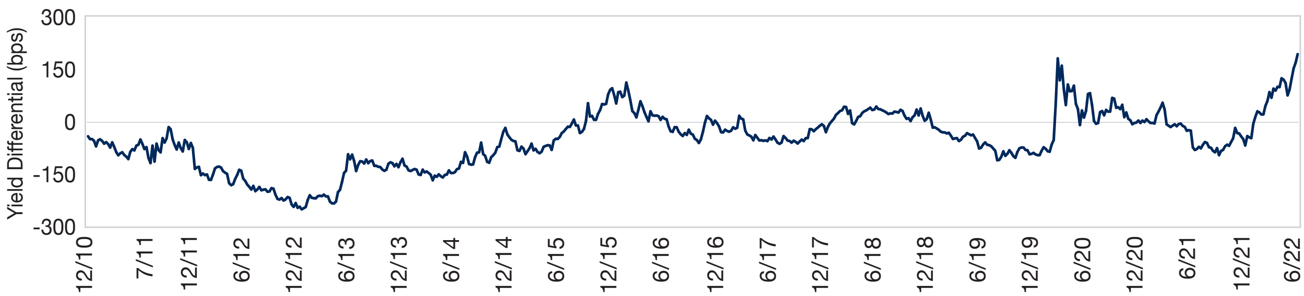
continued

TWO B'S OR NOT TWO B'S?

BB yields are now exceeding the earnings yield* for the S&P 500®, underscoring the potential benefit of diversifying away from equities.

Chart 2. BB Yield Exceeds S&P 500 Earnings Yield

Difference Between S&P 500 Earnings Yield and BB Yield



As of 6/30/22
Past performance is not indicative of future results.
Source: Standard & Poor's; BB Rated Bonds represented by ICE BofA BB US High Yield Index.
*The earnings yield refers to the earnings per share for the most recent 12-month period divided by the current market price per share. The earnings yield (the inverse of the P/E ratio) shows the percentage of a company's earnings per share.

CURRENT YIELDS SUPPORT IMPROVED RETURN OUTLOOK

Chart 3 illustrates how investors can still capture much of the upside of equities. With yields at current levels, high yield bonds have historically shown strong performance over the next 12 months.

Chart 3. High Yield Forward Performance as Yields Breach Various Barriers

	HY Forward Returns (%)				HY Spread-to-worst Change (bps)			
Yield Barrier	**3 months**	**6 months**	**9 months**	**12 months**	**3 months**	**6 months**	**9 months**	**12 months**
7.0	0.17	1.61	4.06	3.22	37	30	28	85
7.5	1.12	1.86	6.00	7.08	11	33	-25	-18
8.0	2.41	4.26	9.27	13.05	-25	-23	-106	-155
8.5	2.52	6.19	11.70	15.41	-34	-50	-124	-189
9.0	5.64	10.44	15.30	19.19	-102	-150	-209	-289

Source: JPMorgan Research 5/1/22. **Past performance is not indicative of future results.**

BARGAINS GALORE

Many BB credits now have bonds trading at a decent discount to par. This presents potential opportunities for positive event risk (i.e., private equity firms can put their significant cash to work by taking companies private, thereby reducing default risk). Among some notable recent examples of high yield discounts:

- A BB-rated communications company in excess of $50 billion market capitalization (as of September 23, 2022) that is expected to generate in excess of $7 billion in free cash flow after more than $8 billion in expected capital spending.

- A BB-rated cybersecurity technology company with more cash than debt and free cash flow that is expected to exceed 100% of current debt levels in 2024. In addition, the company has an equity market cap in excess of $30 billion.

- A well-capitalized wireless tower company that is expected to generate more than $1 billion in free cash flow in 2022 with growth for several years as wireless carriers build out their 5G networks

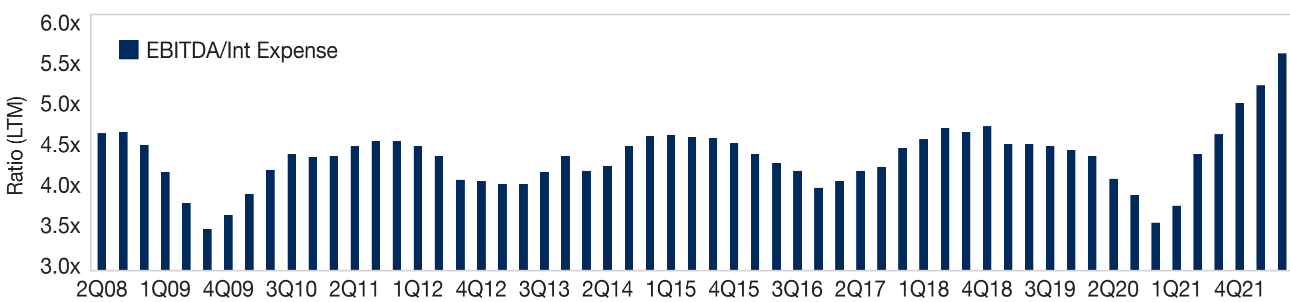
COMPANIES ARE PERFORMING A GREAT BALANCING ACT: LOOK AT THE BALANCE SHEET CASH AND FREE CASH FLOW

Chart 4. High Yield Issuers Maintain $245bn in Cash and Generate $160bn in FCF

HY Issuers Maintain $245bn in Cash & Generate $160bn in FCF

Sector	Debt	Cash	FCF	Cash+ FCF/Debt
Utilities	56,074	2,062	3,804	10%
Telecoms	141,105	5,884	10,787	12%
Packaging/Paper	57,247	4,656	2,687	13%
Food Producers	30,615	2,782	1,800	15%
Cable	153,365	10,072	13,368	15%
Energy	193,536	13,373	27,399	21%
Real Estate	63,254	9,356	4,047	21%
Gaming	72,256	10,534	5,950	23%
Media	122,876	20,132	8,300	23%
Travel	136,840	24,824	7,067	23%
Capital Goods	70,191	13,272	3,883	24%
Retail	108,329	17,237	13,633	28%
Healthcare	211,871	38,570	25,588	30%
Transportation	32,563	9,087	1,168	31%
Chemicals	36,888	7,747	5,876	37%
Technology	47,919	14,516	7,268	45%
Metals	21,203	5,973	5,701	55%
Autos	85,457	35,133	13,707	57%
BB	897,295	150,375	119,316	30%
B	600,833	80,967	41,191	20%
CCC	143,460	13,867	1,526	11%
HY	**1,641,588**	**245,209**	**162,032**	**25%**

Coverage



Source: BofA Global Research 5/20/22, JPMorgan. **Past performance is not indicative of future results.**

TIME TO SAY HI AGAIN TO HIGH YIELD?

Better valuations, stronger earnings yields, historically attractive performance, and solid balance sheets for many issuers may provide a liquidity buffer and downside protection IF we enter an economic downturn.

Chart 5. High Yield May Offer Downside Protection vs. Equities While Allowing Investors to Potentially Still Capture Much of the Upside

				Rolling 3-Year Periods		
7/1/83-6/30/22	**Annualized Return**	**Standard Deviation**	**Return per Unit of Risk**	**Best**	**Worst**	**% Negative**
High Yield	8.13%	8.35%	1.0	26.4%	-7.6%	5%
Large-Cap Equity	10.90%	15.05%	0.7	33.3%	-16.1%	14%
Small-Cap Equity	8.59%	19.40%	0.4	32.0%	-17.8%	11%

The High Yield, Large Cap Equity, and Small Cap Equity Markets are represented by the Bloomberg U.S. Corporate High Yield Index, S&P 500® Index, and the Russell 2000® Index, respectively. Returns were calculated using monthly data and begin with the inception of the Bloomberg High Yield Credit Index on 7/1/83.
Past performance is not indicative of future results.
Source: JPMorgan Research, Standard & Poor's, FTSE Russell, Bloomberg

About Seix Investment Advisors

Seix Investment Advisors is an investment management boutique focused exclusively on managing fixed income strategies since 1992. Seix seeks to generate competitive absolute and relative risk-adjusted returns over the full market cycle through a bottom-up focused, top-down aware process. Seix employs multi-dimensional approaches based on strict portfolio construction methodology, sell disciplines, and trading strategies with prudent risk management as a cornerstone.

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The **J.P. Morgan U.S. High Yield Index** is designed to mirror the investable universe of the U.S. dollar domestic high yield corporate debt market. The **ICE BofA US High Yield Cash Pay Index** is an unmanaged index consisting of all domestic and Yankee high-yield bonds maturing over one year. The quality range is less than BBB-/Baa3 but not in default (DDD1 or less). The index does not reflect the deduction of expenses associated with a mutual fund, such as investment management and fund accounting fees. A fund's performance reflects the deduction of fees for these services. The **ICE BofA US High Yield Index** (H0A0) tracks the performance of U.S. dollar denominated below investment grade rated corporate debt publicly issued in the U.S. domestic market. To qualify for inclusion in the index, securities must have a below investment grade rating and an investment grade rated country of risk. The **ICE BofA BB US High Yield Index** (H0A1) is a subset of the ICE BofA US High Yield Master II Index and includes all securities with a given investment grade rating BB. The **ICE BofA CCC & Lower US High Yield Index** (H0A3) subset includes all securities with a given investment grade rating CCC or below. The **ICE BofA Single-B US High Yield Index** (H0A2) subset includes all securities with a given investment grade rating B. The **Russell 2000® Index** is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The **S&P 500® Index** is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The **Bloomberg U.S. Corporate High Yield Bond Index** is an unmanaged market value weighted index that covers the universe of fixed rate, non-investment grade debt. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and are not available for direct investment.

IMPORTANT RISK CONSIDERATIONS

Credit & Interest: Debt securities are subject to various risks, the most prominent of which are credit and interest rate risk. The issuer of a debt security may fail to make interest and/or principal payments. Values of debt securities may rise or fall in response to changes in interest rates, and this risk may be enhanced with longer-term maturities. **High Yield-High Risk Fixed Income Securities:** There is a greater level of credit risk and price volatility involved with high yield securities than investment grade securities. Foreign Investing: Investing internationally involves additional risks such as currency, political, accounting, economic, and market risk. **Industry/Sector Concentration:** A fund that focuses its investments in a particular industry or sector will be more sensitive to conditions that affect that industry or sector than a non-concentrated fund. **Market Volatility:** The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Price changes may be short- or long-term. Local, regional, or global events such as war (e.g., Russia's invasion of Ukraine), acts of terrorism, the spread of infectious illness (e.g., COVID-19 pandemic) or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio's manager(s) to invest the portfolio's assets as intended. **Prospectus:** For additional information on risks, please see a fund's prospectus.

A Basis Point (bp) is equal to 0.01%.

Not all products or marketing materials are available at all firms.

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