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Monthly Update

November 4, 2024

US High Yield

US high yield provided a negative return of -0.55% in October, bringing the YTD return to 7.44%, according to the ICE BofA US High Yield Constrained Index (HUC0). US Treasuries sold off during the month by 60 bps for the 5-year Treasury and 50 bps for the 10-year Treasury as investors recalibrated expectations for the economy and for Fed cuts. During the month, employment and consumer spending data pointed to growth that was somewhat better than expected, and Q3 GDP was reported at an annualized rate of 2.8%. Furthermore, inflation as reported by both CPI and PCE was slightly higher than previous months. In addition, public companies reported generally positive earnings, and in particular indicated that the AI spending boom remains underway.

Finally, while the US presidential election remains a toss-up as of this writing, some of the uncertainty around post-election policy also came into focus. For these reasons, investors dialed back expectations for Fed cuts, leading to the Treasury sell-off. The Fed is expected to cut by 25 bps in November and once more in 2024, with five more cuts in 2025, which is 75 bps less in total easing than was expected one month ago. In US high yield, spreads tightened by 15 bps to partially offset the Treasury sell-off, and BBs performed the worst (down -0.89%) due to greater Treasury sensitivity, while CCCs performed the best (up 0.62%) due to greater economic sensitivity. Among sectors in the overall market, Entertainment, Paper, and Telecom performed the best, while Containers, Healthcare, and Hotels performed the worst. US high yield ended the month with a yield of 7.33% and spread of 288.

European High Yield

The European high yield market returned 0.45% (EUR, unhedged) in October and 7.91% for the YTD period, as measured by the ICE BofA European Currency High Yield Constrained Index (HPC0). European high yield struggled to extend its gains during the month as European government rates trended up with US Treasuries. However, the market rallied slowly but steadily as demand for the asset class remained strong. New issuance had its busiest week of the year in the 3rd week of October, but even so, the market was able to absorb the supply with minimal impact to the secondary market. Of note, overall credit quality in the new issue market was slightly lower than we have seen this year as opportunistic issuers looked to tap a market seeking higher coupons.

With regard to earnings, Europe overall is having an inline to slightly better than expected quarter, with some weakness in autos and luxury retail, while chemicals seem to be bouncing along the bottom of a slower than expected recovery. In addition, Eurozone GDP came in better than expected, and inflation continues to signal progress towards the 2% target, which is helpful for the ECB to continue to cut steadily into 2025. Outside the notable risk of the US presidential election outcome, we generally remain positive on the European high yield market going into the end of the year.

Emerging Markets

Emerging markets hard currency bonds posted a negative month in October following five consecutive months of positive returns. An increase in long-term US Treasury yields and higher market volatility ahead of the US elections were the main drivers behind EM performance, particularly for investment grade sovereign credits given their higher sensitivity to US interest rates. EM sovereign bonds, as measured by the JPMorgan Emerging Markets Bond Index Global (EMBIG) declined -1.79% in October (up 6.08% YTD), with investment grade credits down -2.89%, while EM high yield credits were down only -0.28%. A similar pattern was observed in EM corporate bonds, where investment grade credits underperformed with a -1.32% decline, while high yield credits only fell -0.19%, according to the JPMorgan Corporate Emerging Market Bond Index Broad Diversified (CEMBI BD). The CEMBI BD overall was down -0.86% in the month (up 7.57% YTD), outperforming EM sovereigns.

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