

## High Yield Month in Review

High yield bonds returned -0.70% for the month, underperforming the 10-Year Treasury -0.66% and the Barclays Aggregate Bond Index -0.29% while outperforming equities (the S&P 500 returned -1.67%).

The spread of the JP Morgan Global High Yield Index increased 29bps to 567bps. The yield to worst for the JP Morgan Global High Yield Index increased 44bps to 7.36% while the yield on the 10-year Treasury increased 11bps to 3.16%.

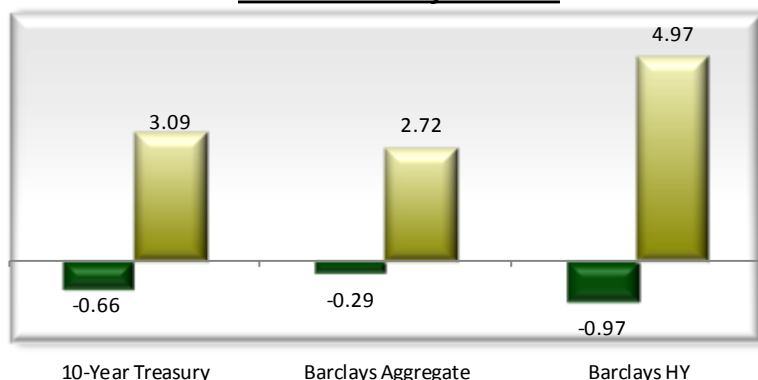
Double-B rated bonds returned -0.62% for the month, outperforming Single-B rated bonds and Triple-C rated bonds which returned -0.68% and -1.04% respectively. Year to date, Triple-C rated bonds have returned 6.14%, outperforming Single-B rated bonds and Double-B rated bonds which have returned 5.70% and 4.81% respectively.

There were 47 new issues priced in the primary markets during the month totaling approximately \$19.9 billion. Year to date, 394 new issues have priced totaling approximately \$182.0 billion.

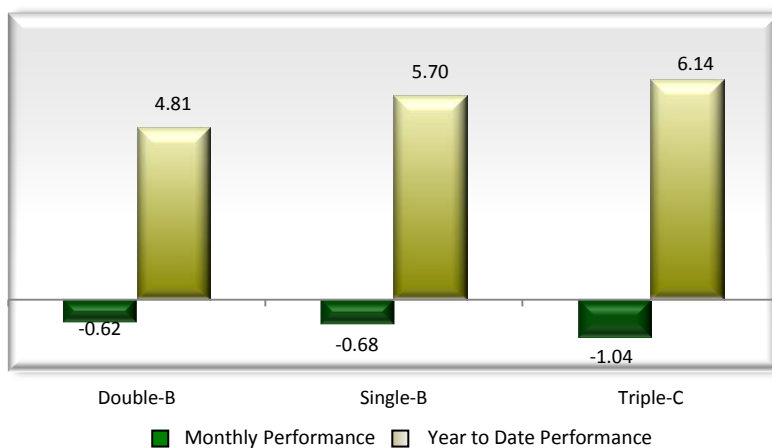
Approximately \$6.1 billion flowed out of high yield mutual funds during the month. Year to date, approximately \$4.7 billion has flowed into high yield mutual funds.

The Moody's 12-month default rate (Global Percentage of Issuers) as of May 31, 2011 was 2.4%.

## Asset Class Performance



## High Yield Credit Quality Performance



Index Performance	MTD	YTD	Spread	YTD Change	Average Price	YTW
BofA ML BB-B US Non-Distressed HY	-0.86%	4.77%	468bp	+3bp	\$104.01	6.65%
BofA MLHY Master II Constrained	-1.00%	4.93%	543bp	-1bp	\$102.15	7.34%
JP Morgan High Yield Bond	-0.70%	5.48%	567bp	-10bp	---	7.36%
Barclays High Yield Bond	-0.97%	4.97%	570bp	-8bp	\$102.31	7.32%
Barclays Aggregate Bond	-0.29%	2.72%	88bp	-4bp	\$105.93	2.83%
10-Year Treasury	-0.66%	3.09%	---	---	---	3.16%

Historical Spread & Defaults	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD
JP Morgan HY (Year End Spread)	861bp	958bp	484bp	344bp	378bp	317bp	589bp	1,731bp	657bp	577bp	567bp
Double-B (JP Morgan)	471bp	591bp	292bp	210bp	256bp	206bp	412bp	1,280bp	459bp	421bp	425bp
Single-B (JP Morgan)	733bp	858bp	462bp	328bp	356bp	313bp	563bp	1,831bp	629bp	592bp	602bp
Triple-C (JP Morgan)	2,351bp	2,368bp	1,033bp	718bp	822bp	606bp	963bp	3,305bp	1,082bp	989bp	930bp
Moody's 12-Month Default Rate (US)	11.1%	7.3%	5.4%	2.9%	2.1%	1.7%	1.0%	4.4%	13.2%	3.5%	2.6%*
Moody's 12-Month Default Rate (Global)	10.6%	8.4%	5.3%	2.4%	1.7%	1.7%	0.9%	4.0%	12.5%	3.3%	2.4%

\* As of April 2011

Historical Yield to Maturity	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Current
BofA MLHY Master II Constrained	12.79%	12.01%	8.02%	7.43%	8.27%	7.96%	9.60%	19.53%	9.22%	7.87%	7.66%

New Issuance Activity	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD
Volume (\$billions)	\$94.7	\$67.9	\$151.6	\$158.2	\$106.1	\$149.1	\$147.9	\$52.9	\$180.7	\$302.0	\$182.0
Number of Issues	300	260	504	583	375	335	321	115	408	653	394

Upgrades/Downgrades Analysis	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD
Upgrades (issues)	230	194	214	280	301	547	376	237	212	387	33
Downgrades (issues)	586	597	439	330	287	496	392	448	481	258	24

Sources: JPMorgan Global High Yield Market Strategy; BofA Merrill Lynch; Bloomberg

**Mr. Christian M. Noyes**  
Senior Managing Partner, Director of Marketing & Client Services  
(215) 302-1501, teamnoyes@penncapital.com