

Executive Summary

Both high yield (HY) bonds & leveraged loans posted a slower pace of recovery in June as spiking COVID-19 infections in parts of the US offset optimism around Fed actions & improved economic data. Year-to-date (YTD) leveraged loan returns of -4.49% best those of HY bonds which have returned -6.19% so far.

High Yield Bond Summary & Performance

Source: JP Morgan

The HY bond asset class returned +0.92% in June as yields and spreads decreased 5 bp and 1 bp, respectively, to end the month at 7.57% and 722 bp. This slow down in the pace of spread tightening comes amidst the backdrop of accelerating COVID-19 infections in certain states which could hamper the nascent economic recovery that was starting to take hold across the country. Issuers took advantage of the continued market stability in June to issue a record \$61.5b of debt. This all-time high amount of monthly issuance is well above historical averages for the month and well past the previous record of ~\$55.5b in issuance set back in September 2013. Refinancing transactions led the way in June by representing 60% of gross volume. YTD, refinancings also remain the main driver of issuance by representing 57% of total volume. Including distressed exchanges, the US HY bond default rate stands at 6.61%, up 129 bp month-over-month due in large part to continued weakness in the energy sector.

Best Performing Industries MTD:

- Transportation (+6.49%)
- Retail (+3.08%)
- Automotive (+2.81%)

Best Performing Industries YTD:

- Technology (+0.77%)
- Utility (+0.54%)
- Paper & Packaging (+0.43%)

Worst Performing Industries MTD:

- Broadcasting (-1.58%)
- Food & Beverages (-0.69%)
- Healthcare (-0.40%)

Worst Performing Industries YTD:

- Energy (-22.57%)
- Transportation (-18.71%)
- Broadcasting (-10.78%)

Performance by Ratings MTD:

- CCC-rated bonds (+3.09%)
- B-rated bonds (+0.67%)
- BB-rated bonds (+0.35%)

Performance by Ratings YTD:

- BB-rated bonds (-3.25%)
- B-rated bonds (-6.14%)
- CCC-rated bonds (-7.63%)

Floating Rate Loan Summary & Performance

Source: JP Morgan

Leveraged loans returned +1.22% in June as lower quality loans recovered more lost ground despite increasing COVID-19 infection fears. Gross new loan issuance also continued to gain steam in June with ~\$28m in volume pricing during the month. This marks a four-month high for loan issuance but is well below typical June volumes of \$45b as issuers continue to favor the HY bond market for raising debt. Refinancing activity was the main driver of issuance for the month at 47% of total volume. Given heavy repricing activity at the start of the year and strong refinancing activity during June, refinancing and repricing deals continue to remain the main driver of issuance YTD by representing 69% of total issuance. Gross US CLO (“collateralized loan obligation”) issuance of ~\$8b in June showed continued gains from May but remains below normal volumes for the month in the recent past. Net new issue activity, at 60% of total issuance YTD, remains the largest driver of CLO volumes. Including distressed exchanges, the leveraged loan default rate stands at 4.18%.

Best Performing Industries MTD:

- Energy (+4.38%)
- Retail (+3.89%)
- Transportation (+3.11%)

Best Performing Industries YTD:

- Telecom (-1.25%)
- Utility (-1.60%)
- Chemicals (-1.99%)

Worst Performing Industries MTD:

- Cable & Satellite (-1.00%)
- Broadcasting (-0.27%)
- Food & Beverage (+0.16%)

Worst Performing Industries YTD:

- Energy (-16.07%)
- Transportation (-11.72%)
- Consumer Products (-10.16%)

Performance by Ratings MTD:

- Split B/CCC-rated loans (+4.58%)
- B-rated loans (+1.19%)
- BB-rated loans (+0.14%)

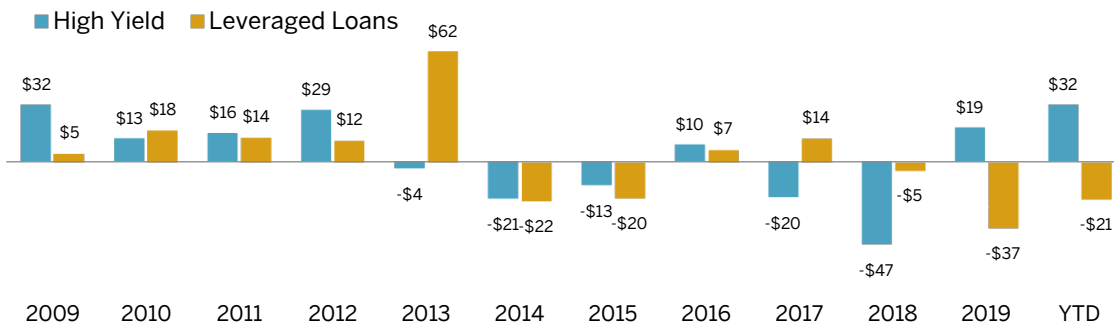
Performance by Ratings YTD:

- B-rated loans (-4.06%)
- BB-rated loans (-4.25%)
- Split B/CCC-rated loans (-16.73%)

As of June 30, 2020	Performance		Characteristics				
	Month	YTD	Spread	YTD Change	Average Price	Yield to Worst	Yield to Maturity
10-Year US Treasuries	-0.03%	12.85%	---	---	---	0.7%	0.7%
Bbg Barclays Aggregate Bond Index	0.63%	6.14%	80 bp	+26 bp	\$110.44	1.3%	1.3%
JP Morgan BB-B Rated Loan Index	1.02%	-5.00%	579 bp	+181 bp	\$93.91	4.2%	---
ICE BofA 1-3 Year BB-B Rated Index	1.09%	-4.75%	595 bp	+336 bp	\$97.64	6.1%	6.2%
ICE BofA BB-B Rated Non-Distressed Index	0.47%	-3.50%	502 bp	+236 bp	\$99.82	5.4%	5.5%
ICE BofA BB-B Rated Index	0.65%	-3.62%	546 bp	+263 bp	\$98.50	5.8%	6.0%
ICE BofA High Yield Index	0.95%	-4.84%	649 bp	+277 bp	\$94.73	6.9%	7.0%

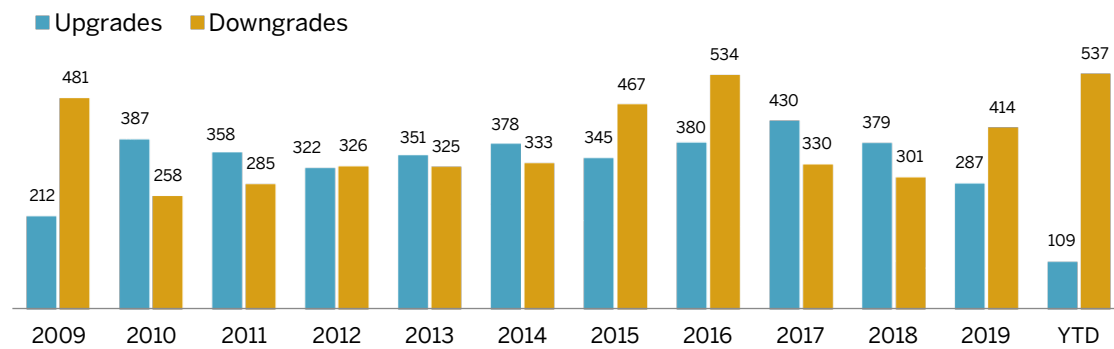
Mutual Fund Flows (\$ Billion)

Source: JP Morgan



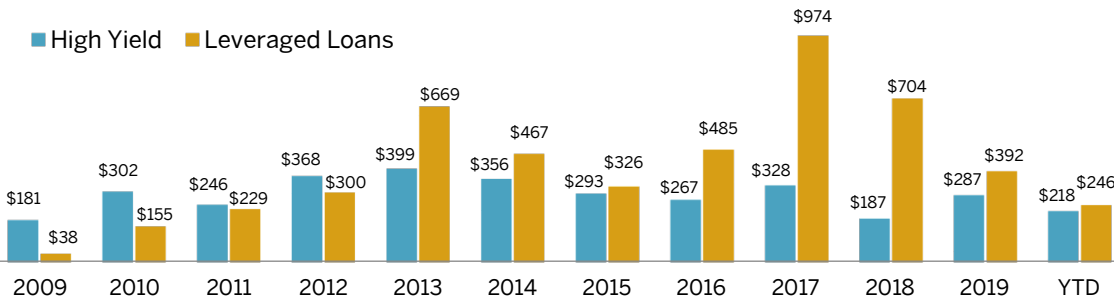
High Yield Upgrades/Downgrades (Issuer)

Source: JP Morgan



Gross New Issuance Volume (\$ Billion)

Source: JP Morgan



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Spreads / Default Rates	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD
ICE BofA BB-B Rated Index	485 bp	612 bp	443 bp	344 bp	434 bp	558 bp	348 bp	297 bp	462 bp	283 bp	545 bp
ICE BofA BB Rated Index	399 bp	503 bp	357 bp	281 bp	336 bp	427 bp	286 bp	228 bp	365 bp	213 bp	473 bp
ICE BofA B Rated Index	573 bp	736 bp	524 bp	417 bp	549 bp	722 bp	432 bp	381 bp	578 bp	370 bp	672 bp
ICE BofA CCC Rated Index	874 bp	1,262 bp	943 bp	766 bp	976 bp	1,648 bp	977 bp	843 bp	1,102 bp	1,012 bp	1,414 bp
JPM HY Default Rate*	2.4%	2.2%	2.0%	2.1%	1.6%	2.8%	5.2%	2.5%	2.8%	3.2%	6.2%