

Global High Yield Outlook for 2017

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We continue to be very positive on fundamentals for global HY market and a big factor driving market returns in 2017 will be currency.

How do you view valuations between U.S. and global High Yield?

At this point, global High Yield sectors are roughly in-line, as opposed to the beginning of the year when European High Yield was trading very rich compared to the U.S. and Emerging Markets. However, I think a bigger factor driving market returns this year will be the currency; and if the dollar continues to be strong, that will make things harder for the European High Yield market.

What is your outlook for the High Yield market in 2017?

We continue to be very positive on fundamentals. Global growth seems solid and is continuing to accelerate. That should be good to keep defaults relatively low. However, spreads have come in at a tremendous amount over the last 12 months and that can strain return potential. Likewise, yields seem to be experiencing some upward pressure as we start seeing some reacceleration in inflation and growth and that also constrains. So we expect High Yield to continue to outperform other core less risky sectors, but we do not expect to see the returns we experienced in 2016.

As significant components of High Yield indices, what is your view on Energy and Metals & Mining?

Those have been huge drivers of returns this year but we have very different views on both those sectors. Energy has had extreme amounts of defaults, due to the low price in oil, but what that has really allowed companies to do is to get their balance sheet in order. So as long as we don't see another retrenchment in oil prices again, we would expect to see returns similar to the overall market and if oil prices rise, potentially higher. Metals and mining is more difficult because they also performed very well this year but they are still experiencing a lot of problems with supply and demand imbalances. We expect to see corrections in a lot of metal prices next year and that will put pressure on the sector.

What is your opinion on liquidity within global High Yield markets?

Liquidity is a problem and it is something that we actively manage. I think a lot of the concerns about liquidity are exaggerated due to the increased monetary transparency and the better pricing versus a change in the market we had 10 or 20 years ago. However, liquidity is always a priority when we manage the funds, it is something that you must be concerned with. We cannot affect liquidity so we have to manage the risks and make sure it's not something that hurts us as the year goes on.

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