

## The Case for High Yield Today

Transcript of a video recorded 10/17/19

The high yield market is typically misunderstood by investors. When you think about high yield, it has characteristics of stocks or the equity market, but it also has characteristics of high-quality bonds.

Because it's a hybrid, its returns will generally fall in between those two large benchmarks. In fact, today, if you look back over the last 10 years, the high yield market has performed very close to how a balanced portfolio—about 40% stocks, 60% bonds—would perform. That's actually the inverse of where it was before the crisis, but it really is a hybrid. And we think that makes sense.

So, if the equity markets were to do very, very well, if we were coming out of a recession, you would expect stocks to outperform, and they generally do. You would expect high yield to do well, though not as well as the broad equity markets, but to still generate fairly strong returns, with Treasuries lagging behind. And that's what we've seen over history.

At the same time, going into recession you would expect stocks to somewhat underperform. You would expect Treasuries to do very well, and that's what we've seen. Again, high yield is a hybrid of the two and comes in second.

So, when you think about high yield, it's perpetually out of favor. The street calls it high yield, the press calls them junk bonds, but it's really the interaction of risk and reward that we think is important. We think you're being well paid for taking that risk today. We expect that going forward you're going to get more income than is available in the equity markets, but with less participation on the upside, and you will get even more income than Treasuries, with less interest rate sensitivity.



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