

# HYI Quarterly Commentary

Horizons Active High Yield Bond (HYI)

Q3 2023

## Market Overview

Government bond yields continued to rise in the third quarter (Q3), with the U.S. 10-year Treasury note moving up from 3.87% to 4.57%. Central banks continued to indicate the need for monetary policy to remain restrictive, with both the Bank of Canada (BoC) and the U.S. Federal Reserve (Fed) raising rates by a further 25 basis points (bps) in July. While stressing the need for sustained higher policy rates, both have moved to a data-dependent, "wait and see" position. Both are expected to remain on hold through to December but continued strong economic data could lead to further rate increases in the future. High-yield credit spreads were more stable in the quarter, trading between +370 bps and +400 bps. (Bloomberg U.S. High Yield Index). The theme of spread compression continued this quarter as lower-rated (B and CCC) bonds again outperformed higher-rated (B+ and BB) bonds.

The yield for the high-yield bond index rose 38 bps over the quarter to 8.88%. New issuance continued at a robust pace with USD\$40 billion placed, bringing the year-to-date total to USD\$136.6 billion. Of note, September was the most active month for issuance since January 2022 with \$USD\$24.6 billion coming to market.

The slowdown in the manufacturing sector continues while growth in the service sector has moderated somewhat. Employment has remained remarkably resilient, although anecdotal evidence of layoffs is mounting. Market expectations for Central Bank easing have now been pushed back into 2024 as both core measures of inflation and wage are improving too slowly to reassure central banks.

## Outlook and Positioning

Positive contributors to performance included Jaguar Land Rover, Norwegian Cruise Lines and Cleveland Cliffs while Community Health, Univision and Delta Airlines were among the detractors. HYI continues to maintain below-average duration exposure and a higher quality credit bias as market conditions are expected to remain volatile throughout the balance of the year. Geopolitical events in early October have certainly born this out. Recent comments from financial institutions suggest they are seeing increased stress from consumers who are coping with higher interest rates, higher rents and higher food and energy prices.

Default rates have risen to 2.11% from 1.65% this year and forecasts are for a further rise to 3% - 3.50% over the next year as companies are impacted by rising costs and narrowing margins.



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