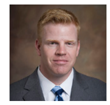
ASSET ALLOCATION INSIGHTS

The Search for Yield

August 2020



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KEY INSIGHTS

- In an uncertain environment with low interest rates, stock dividends are sparse and bond yields have plunged.
- High yield bonds—supported by the rebound in oil prices and marked improvement in the quality of issuers—could offer compelling yields in our view.

Recently, equity markets have moved sideways, and until a widely distributed vaccine for the coronavirus is available, we believe that the U.S. faces a slow economic recovery. In this environment, investors seeking consistent yield in their portfolios may want to consider high yield bonds.

As outlined in the yield comparisons chart below, yield has become scarce in recent months. Government bond yields have plunged as interest rates have remained extremely low, and stocks also have offered relatively meager dividend yields—with many companies forced to suspend dividend payments due to uncertainty. High yield bonds, on the other hand, may offer investors compelling yields, in our view.

It is important to note that the potential to earn higher yields comes with higher risk. The sharp decline in economic activity means the probability of default is higher than normal. Several high yield issuers have already experienced downgrades. However, we believe that there are reasons for optimism.

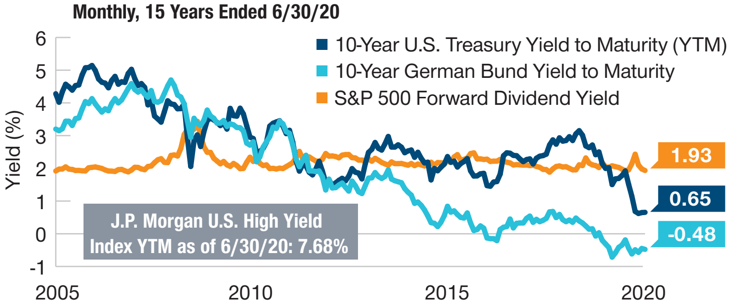
Although oil prices are still below pre-crisis levels, the rebound since April has benefited high yield bonds, given that the energy sector represents a substantial portion of the market. The gradual reopening of global economies and drastic production cuts have sharply improved the supply/demand dynamics of the oil market, which could be supportive near term. Further, the overall quality of high yield issuers has improved meaningfully over the past two decades, as the number of issues rated BB or better—one notch below investment grade—has notably increased.

Despite the risk of default, some companies will be able to manage through the economic crisis better than others. With strong security selection, active managers could help mitigate potential risks and offer additional value for high yield investors.

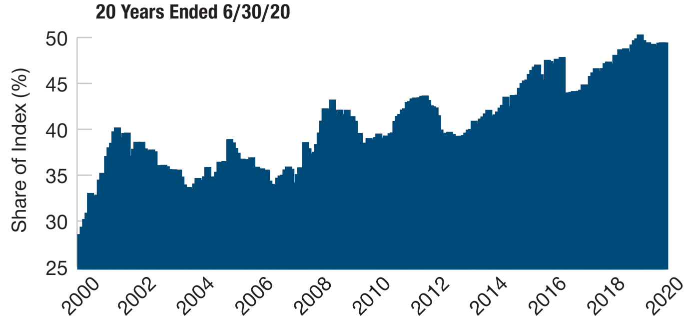
Opportunities in High Yield

A good yield is hard to find

Yield Comparisons
Monthly, 15 Years Ended 6/30/20



Share of J.P. Morgan U.S. High Yield Index Rated BB or Higher
20 Years Ended 6/30/20



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