High Yield Fixed Income

High Yield Fixed Income is the below investment-grade corporate bond market in the US. Unlike Interest Rate Sensitive Fixed Income which has a high correlation with Treasury rates, High Yield Fixed Income has historically had a negative correlation with Treasury rates and a positive correlation with the equity markets.

Returns are heavily influenced by credit developments at highly leveraged companies whose performance is tied to factors that affect equity markets (economic outlook, earnings, cash flow, valuations, etc.)

IMD House View:

With the revised Interim SAAP effective 4/1/17 in which the target for High Yield Fixed Income was cut to 2% from 4%, we have a modest overweight in High Yield Fixed Income. The U.S. high yield market has had an unusually long credit cycle, which began with an upturn in 2009. With an improved business outlook and strong global demand for yield buoying the high yield market, we believe that defaults will likely remain low for the foreseeable future and the credit cycle will remain elongated. High Yield Fixed Income will likely outperform Interest rate Sensitive Fixed Income in the near-term. That being said, we have been reducing our weighting in High Yield Fixed Income to fund the expansion of our investments in Private Debt, an asset class which offers significantly higher expected returns with lower volatility.

Weighting vs. Revised Interim SAAP Effective 4/1/17:	**Overweight**
ASRS Actual Weighting (May 31, 2017)	2.7%
Pro Forma High Yield Fixed Income Interim Adj. Policy	2.4% (0-6% range)