Foraging for value

In a world where global growth is stable, but slowing…

**ANNUALIZED GDP GROWTH**

- **Europe**
- **US**
- **UK**
- **China**

...high yield bond default rates could gradually tick up over time.

**GLOBAL DEFAULT RATES: HISTORIC AND EXPECTED**

Source: Moody's and Insight as at December 31, 2018.

At this stage of the credit cycle, as with mushroom picking, careful stock selection is crucial in high yield.
While economic growth appears to be slowing, we do not believe we are likely to be headed over a cliff edge in a manner similar to 2008. While markets sold off aggressively in the fourth quarter, they have since stabilized and we think it is unlikely the U.S. will fall into recession this year.

We believe when growth is slowing it can stop company management teams from being impulsive; they become more cautious and careful in their borrowing and spending, in our view.

We think investing in the current high yield bond market can be likened foraging for mushrooms – it’s all about the selection. You cannot pick any mushroom in the woods and expect to be ok upon consumption but if you are discerning and do your research you can improve your chances.

Over the past two years, there were so many buyers of high yield fixed income that it was easier for less robust companies to sell securities. In the current market environment, we think it wise to be pickier than ever and to not be constrained by a benchmark. For example, if we don’t like a high yield sector, as with mushrooms, we avoid it altogether.

_Uli Gerhard, portfolio manager, Insight Investment, a BNY Mellon company_
All investments involve risk, including the possible loss of principal.

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**Bonds** are subject to interest rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines.

**High-yield bonds** involve increased credit and liquidity risk than higher rated bonds and are considered speculative in terms of the issuer’s ability to pay interest and repay principal on a timely basis.

**GDP**: Gross Domestic Product is a monetary measure of all the final goods and services produced by a country over a period of time, often annually.

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