Investing in U.S. High Yield

A Conversation with AXA Investment Managers

Why should an investor consider U.S. high yield?

The U.S. high yield asset class offers attractive long term total return potential and high levels of coupon income. Long term returns of U.S. high yield compare favorably to many other asset classes. The U.S. high yield market has experienced significant growth in recent years and is a mature, established asset class which is often included within a typical global asset allocation.

Does active management add value in the U.S. high yield asset class?

We believe that active management can add value for investors in the U.S. high yield asset class. The potential benefits of active management in high yield can include outperformance, lower volatility of returns and avoidance of significant losses and defaults. While there are multiple U.S. high yield exchange traded funds (ETFs) available, an analysis of the historical return and volatility profiles of the largest U.S. high yield ETFs demonstrates that it is very difficult to successfully invest in the U.S. high yield market using a passive strategy. These large U.S. high yield ETFs have underperformed both the broad U.S. high yield market and AXA IMs' core high yield strategy over the long term. Also, these large ETFs have experienced higher volatility as compared to the broad U.S. high yield market and AXA IMs' active strategy over this same long term period. In summary, we believe that active management based on detailed fundamental credit analysis is the most effective way to invest in the U.S. high yield market.

How is your strategy differentiated from other U.S. high yield offerings in the marketplace?

AXA IMs' core high yield strategy is managed by an experienced, highly knowledgeable group of U.S. high yield portfolio managers which is supported by a dedicated team of credit analysts, traders and a strategist, in addition to global resources. The underlying investment philosophy of the strategy has always been that the key to superior long term returns in the U.S. corporate credit market is compounding current income and avoiding principal loss through fundamental credit analysis that focuses on bonds of companies with improving credit trends. The strategy is based on the combination of bottom-up, fundamental credit research, which drives security selection, and top-down portfolio analysis which aims to optimize macro risk positioning.

How can high yield bonds be expected to perform during periods of rising interest rates?

While many fixed income asset classes can be negatively impacted when interest rates rise, U.S. high yield has historically outperformed most other fixed income asset classes during these periods. This is due to several reasons, including that U.S. high yield has a lower duration as compared to some other fixed income asset classes and its higher yields and spreads allow for potential spread compression as risk free rates increase. Finally, periods of rising interest rates tend to correspond with stronger economic growth which is supportive of underlying issuer fundamentals and can drive spread compression.

Q&A with Carl “Pepper” Whitbeck, CFA, Head of U.S. High Yield, AXA Investment Managers

Pepper Whitbeck joined AXA Investment Managers, Inc. in 2002 as a U.S. high yield credit analyst. Prior to joining AXA IM, Pepper was an analyst in the investment banking division of Lehman Brothers, where he performed financial analysis on companies in the consumer and retail sectors, and worked on a variety of mergers and acquisitions and high yield transactions.

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