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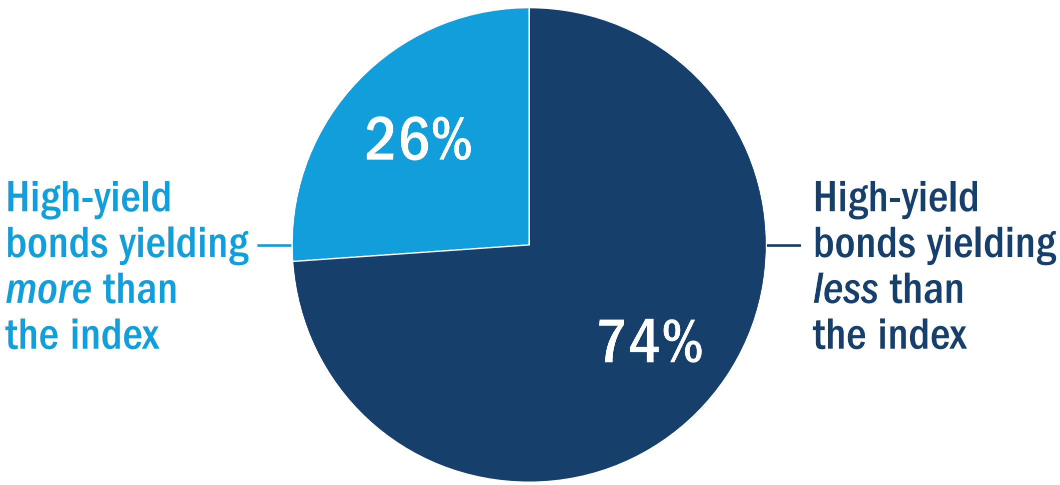
Expecting your high-yield portfolio to match the index yield? Be cautious—most high-yield bonds yield less

A small segment of high-risk bonds drives up the average yield



Source: Bloomberg and Columbia Threadneedle Investments, as of January 31, 2020. High-yield bonds: ICE BofAML US Cash Pay Constrained High Yield Index, which represents below investment-grade U.S. dollar-denominated bonds making coupon payments in cash and that have at least $100 million in outstanding issuance. Past performance is not a guarantee of future results. It is not possible to invest directly in an index.

More than 70% of the high-yield universe currently yields less than the high-yield index (yield to worst: 5.6%). However, a growing share of the market yields upward of 7%, reflecting the increased possibility of defaults within select sectors such as energy, telecommunications, retail and healthcare.

With yields frustratingly low, it can be tempting to stretch for more income by focusing on the highest yielding bonds. But this is a risky move. Many of these high-yielding bonds don't offer enough incremental income over investment-grade bonds to justify the additional risk and volatility.

Yield to worst is the lowest potential yield that can be received on a bond without the issuer defaulting.

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