



Decomposition of August HY returns

Thursday, September 12th, 2019

Appreciation and short covering across most sectors

- Oil & Gas sector only negative contribution to index return
- HY index returns 0.45% in August, constituent short positioning -4.3%
- Utilities only sector to see increased short positioning

The iBoxx USD Liquid High Yield Index returned 0.45% in August, recovering from a 1.5% draw down in the first five days of the month. All component sectors, except one, had a positive August performance. The laggard was the Oil & Gas sector, which returned -2.45%, contributing 31 basis points of loss to the high yield index overall.

Short positioning in constituent issues, using the face value of borrowed bonds as a proxy, declined by 4.3% in August, from \$24.4bn to 23.4bn. The Utilities sector bonds on loan increased by 11% in August; 7 of 8 issuers in the sector increased more than 5% in face value of bonds on loan. Apart from Utilities, every other sector contributed to the decline in short positioning. Consumer Services remains the most shorted sector in nominal terms, \$5bn, while Telecom has the most short positioning as a percentage of total issue value, 4.2%.

iBoxx \$ Liquid High Yield Index - August return contributions by sector and short positioning

Name	% weight (7/31)	August Return	Aug Contribution	Face Value on Loan (8/31)	% Chg on Loan in August	% Issue Value on Loan
<i>iBoxx \$ Liquid HY Consumer Services Index</i>	23%	1.28%	0.29%	\$5.0	-1.4%	3.8%
<i>iBoxx \$ Liquid HY Financials Index</i>	8%	1.24%	0.10%	\$1.4	-9.6%	4.2%
<i>iBoxx \$ Liquid HY Utilities Index</i>	3%	1.17%	0.03%	\$0.7	11.5%	2.8%
<i>iBoxx \$ Liquid HY Industrials Index</i>	12%	0.92%	0.11%	\$2.4	-2.8%	3.0%
<i>iBoxx \$ Liquid HY Consumer Goods Index</i>	7%	0.84%	0.06%	\$2.4	-3.7%	2.9%
<i>iBoxx \$ Liquid HY Basic Materials Index</i>	5%	0.59%	0.03%	\$1.2	-2.1%	2.8%
<i>iBoxx \$ Liquid HY Telecommunications Index</i>	11%	0.59%	0.06%	\$1.9	-4.4%	4.2%
<i>iBoxx \$ Liquid HY Technology Index</i>	6%	0.49%	0.03%	\$1.5	-4.8%	2.1%
<i>iBoxx \$ Liquid High Yield Index</i>		0.45%		\$23.4	-4.3%	3.8%
<i>iBoxx \$ Liquid HY Health Care Index</i>	12%	0.30%	0.04%	\$2.9	-9.6%	2.8%
<i>iBoxx \$ Liquid HY Oil & Gas Index</i>	13%	-2.45%	-0.31%	\$4.3	-6.1%	3.8%

Source: IHS Markit Indices & Securities Finance

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Within the iBoxx USD Liquid High Yield Oil & Gas Index, loss contributions were led by EP Energy, Chesapeake Energy and Whiting Petroleum. EP Energy contributed -6bps to the total index return, the 2nd most negative contributor to overall index returns after Frontier Communications which contributed -7bps of loss to the index. Despite the underperformance of the Oil & Gas sector, short positioning declined by 6%, suggesting reticence to press on the profitable trade. There certainly were some underperforming issuers with increased bonds on loan, including EP Energy, Ensco

Rowan and Nabors. Antero Resources saw the largest increase in face value of bonds on loan in the Oil & Gas sector, increasing by \$70m while the bonds outperformed the benchmark, with a 2% return in August.

iBoxx \$ Liquid HY Oil & Gas Index - August return contributions by sector and short positioning

Ticker	Issuer	% weight (7/31)	August Return	Aug Contribution	Face Value on Loan (8/31)	% Chg on Loan in August	% Issue Value on Loan
iBoxx \$ Liquid HY Oil & Gas Index		13%	-2.45%	-31	\$4,274	-6%	3.8%
EPENEG	EP Energy LLC / Everest Acquisition Finance Inc	0.2%	-30.4%	-6.1	\$91	29%	2.5%
CHK	Chesapeake Energy Corp	0.5%	-9.4%	-4.7	\$456	-13%	7.3%
WLL	Whiting Petroleum Corp	0.3%	-15.2%	-3.9	\$211	-28%	8.3%
CRC	California Resources Corp	0.2%	-17.3%	-2.9	\$368	-7%	16.4%
OAS	Oasis Petroleum Inc	0.1%	-8.8%	-1.3	\$78	-9%	5.5%
MSSCRK	Mass Creek Resources Holdings Inc	0.1%	-9.7%	-1.1	\$5	-46%	0.9%
ESV	EnSCO Rowan plc	0.1%	-12.4%	-1.1	\$44	215%	4.4%
NBR	Nabors Industries Inc	0.2%	-4.7%	-1.0	\$170	26%	8.1%
RIG	Transocean Inc	0.6%	-1.4%	-0.9	\$54	-23%	0.9%
XOG	Extraction Oil & Gas Inc	0.1%	-8.7%	-0.9	\$41	-26%	3.6%

Source: IHS Markit Indices & Securities Finance

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Consumer Services was the best performing sector in the HY Index with a 0.45% monthly return for August, which contributed 29 basis points to HY Index performance. Top contributors to Consumer Services were CCO and CSC Holdings, DISH and Netflix. Short positioning in Consumer Services was virtually unchanged in aggregate, with just over \$5bn in total face value on loan.

iBoxx \$ Liquid HY Consumer Services Index - August return contributions by sector and short positioning

Ticker	Issuer	% weight (7/31)	August Return	Aug Contribution	Face Value on Loan (8/31)	% Chg on Loan in August	% Issue Value on Loan
iBoxx \$ Liquid HY Consumer Services Index		23%	1.3%	29	\$5,005	-1%	3.8%
CHTR	CCO Holdings LLC / CCO Holdings Capital Corp	2.5%	1.6%	3.9	\$236	40%	1.4%
CSCHLD	CSC Holdings LLC	1.9%	1.6%	3.0	\$227	12%	1.6%
DISH	DISH DBS Corp	1.1%	2.1%	2.3	\$674	-6%	7.1%
NFLX	Netflix Inc	1.1%	2.1%	2.2	\$221	-8%	2.6%
SIRI	Sirius XM Radio Inc	0.9%	2.0%	1.8	\$130	-8%	1.8%
MGM	MGM Resorts International	0.8%	1.5%	1.1	\$148	7%	2.5%
ZIGGO	Ziggo Bond Finance BV	0.4%	3.0%	1.1	\$25	-3%	0.8%
HILDOC	Hilton Domestic Operating Co Inc	0.4%	2.1%	0.9	\$33	98%	1.0%
BCULC	1011778 BC Unlimited Liability Company/New Re	0.7%	1.2%	0.8	\$108	-18%	2.7%
IHRT	iHeartCommunications Inc	0.3%	2.7%	0.8	\$52	11%	2.3%

Source: IHS Markit Indices & Securities Finance

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As we mentioned in the opening, Utilities were the only sector to see an increase in short positioning in August, which was pervasive across the sector. The exception was Calpine, though it's worth noting their bonds were already the most shorted out of issuers in the sector at the start of the month, as measured by either face value on loan or percent of issue value on loan. AES corporate bonds saw the largest nominal increase in short positioning, with the face value of bonds on loan increasing by \$23m or 50%. While the increase in short positioning is notable in comparison with other sectors, it is also worth noting that the sector has the lowest weighting in the index. The sector return for August was 92bps, contributing 3bps of return to the index.

iBoxx \$ Liquid HY Utilities Index - August return contributions by sector and short positioning

<i>Ticker</i>	<i>Issuer</i>	<i>% weight (7/31)</i>	<i>August Return</i>	<i>Aug Contribution</i>	<i>Face Value on Loan (8/31)</i>	<i>% Chg on Loan in August</i>	<i>% Issue Value on Loan</i>
	<i>iBoxx \$ Liquid HY Utilities Index</i>	2.8%	1.2%	3.0	\$681	11%	2.8%
<i>NEP</i>	<i>NextEra Energy Operating Partners LP</i>	0.3%	2.3%	0.7	\$34	67%	1.9%
<i>AES</i>	<i>AES Corp/VA</i>	0.6%	0.7%	0.4	\$69	50%	2.3%
<i>VST</i>	<i>Vistra Operations Co LLC</i>	0.4%	0.9%	0.4	\$69	27%	1.7%
<i>TERP</i>	<i>TerraForm Power Operating Llc</i>	0.2%	2.8%	0.4	\$32	19%	2.7%
<i>TLN</i>	<i>Talen Energy Supply LLC</i>	0.3%	-1.4%	-0.5	\$46	16%	2.1%
<i>CWENA</i>	<i>Clearway Energy Operating LLC</i>	0.1%	0.7%	0.1	\$16	9%	1.5%
<i>NRG</i>	<i>NRG Energy Inc</i>	0.3%	1.9%	0.5	\$131	5%	3.4%
<i>CPN</i>	<i>Calpine Corp</i>	0.5%	1.0%	0.5	\$283	0%	5.3%

Source: IHS Markit Indices & Securities Finance

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Conclusion:

Decomposing the index by sector and issuer provides insight to the return drivers, while the addition of securities finance data provides insight to positioning on the short side. The takeaway from August on the return side was overall volatility and the underperformance in the Oil & Gas sector. Short positioning declined in aggregated across the HY index, with Utilities and some some specific issuers seeing increased positioning against the trend. In aggregate August saw increasing bond prices and decreasing short interest, though there was a fair amount of movement beneath the surface.

We intend to make this a monthly note documenting the internals of the HY index return and changes in short positioning implied by bond borrowing. We welcome any feedback or suggestions to that end.

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