



Japan's Impact on the Global High Yield Market

March 18, 2011

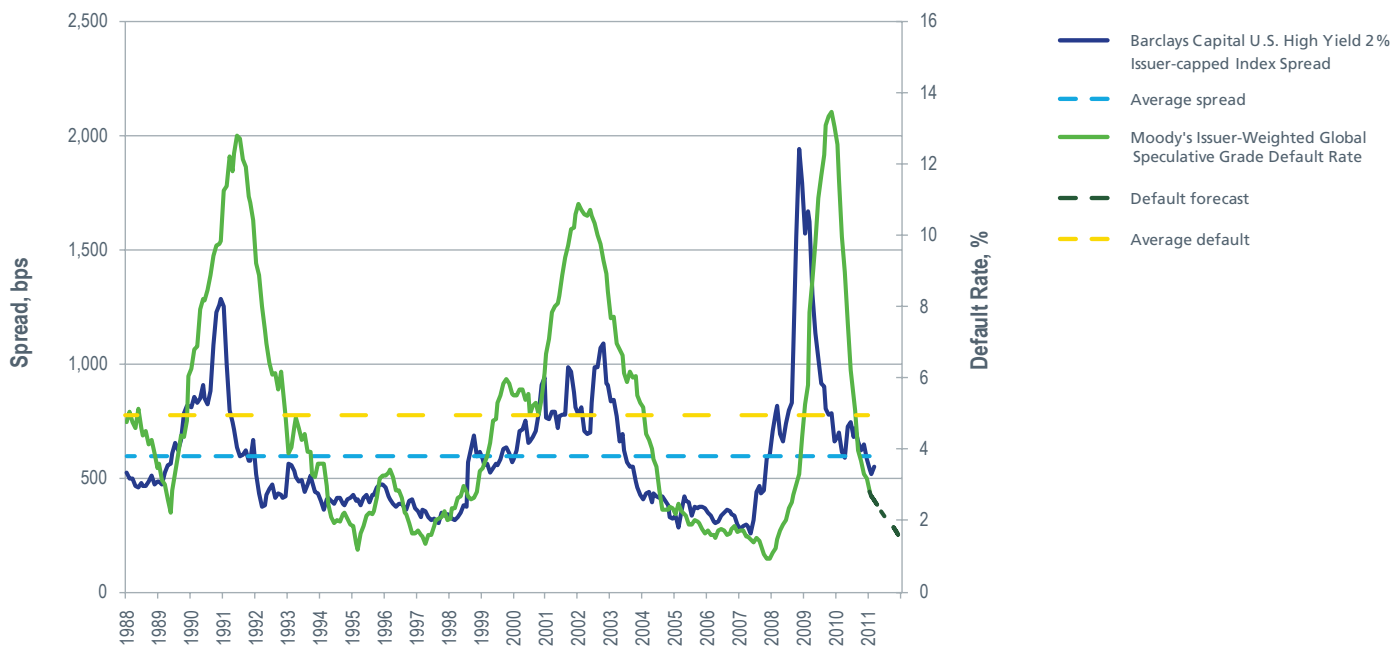
We are sympathetic to the loss of lives and massive destruction, though we believe the direct impact on the global High Yield market will be negligible and we maintain our Marketweight recommendation on the asset class.

From a fundamental perspective, the impact of the Japanese earthquake and aftermath on the global economy will be minimal. A few data points include: US exports to Japan only account for 0.4% of US GDP; Japanese visitation to Las Vegas is less than 1% of total visitation; Japan accounts for roughly 8% of the global steel output, however, only 9% of their capacity is reportedly affected by the earthquake/tsunami. Similarly, the direct exposure of high yield issuers to the Japanese economy is inconsequential. Of the largest high yield issuers that have Asian revenue exposure, less than 3% of their revenues are derived from Japan.

From a technical standpoint, our estimates peg the amount of Japanese assets invested in the High Yield market at approximately \$50 billion - roughly 5% of the \$1 trillion asset class. By going to the extreme and assuming repatriation of half of this amount, the market would still be able to absorb this sell pressure with existing cash balances, which are estimated in the 2-3% range. A 'risk off' trade does not appear to be in the works and we view the modest high yield mutual fund outflows of \$471 million over last week as a knee jerk reaction.

Due to continued strengthening fundamentals combined with below average default rates, resilient technicals, and a very low impact from Japan, we reiterate our Marketweight recommendation for the asset class and a 7-9% total return estimate for 2011. We would view a spread widening event, based on current information, as an opportunity to add exposure to the high yield asset class with an emphasis on the higher quality (BB and B) tiers.

Tightening Spreads and Falling Default Rates



Source: Bloomberg; Barclays Capital; 1/31/1988 - 3/16/2011

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Sources: Barclays Capital; AMG Data Services; Moody's;