

CASH IS KING IN YOUR HIGH-YIELD STRATEGY

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As the economic effects of “stay at home/social distancing” policies continue, corporations have been faced with challenging decisions regarding [liquidity](#) and financial solvency. Some corporations are in dire need of cash. As their revenues shrink to unfathomable lows, companies must continue to make interest payments to lenders and cover their capital expenditures, which can only be reduced by so much.

The [Federal Reserve \(Fed\)](#) has certainly been proactive on this front, providing policy responses that were effective during the financial crisis and adding new tools for the playbook: i.e., [buying corporate bonds](#). To weather the short-term impact of this economic shutdown, corporations are beginning to tap this kitchen sink of liquidity vehicles.

We measure liquidity through two means, cash and funding available from standing credit facilities. Another way to access liquidity is through equity or corporate debt issuance. In the U.S. [investment-grade \(IG\)](#) bond market, we have seen record levels of debt issuance in March, but for [high yield \(HY\)](#), bond issuance has been relatively mute.

Let’s explore the access to cash for issuers within HY. We will examine their available cash and the credit facilities they can draw upon. Here we will highlight the liquidity profile of the issuers in WisdomTree’s underlying strategy, the [WisdomTree U.S. High Yield Corporate Bond Index](#), and the issuers in the broad U.S. high-yield bond market as represented by the public issuers in the [ICE BAML U.S. High Yield Index](#).

Median Liquidity Metrics for High Yield Indexes, as of April 14, 2020

Free Cash Flow LTM (\$mm)		Cash (\$mm)		Credit Facilities Available (\$mm)	
WisdomTree U.S. High Yield Corporate Bond Index	ICE BAML U.S. High Yield Index	WisdomTree U.S. High Yield Corporate Bond Index	ICE BAML U.S. High Yield Index	WisdomTree U.S. High Yield Corporate Bond Index	ICE BAML U.S. High Yield Index
\$ 423	\$ 240	\$ 598	\$ 360	\$ 1,099	\$ 850

Source: Factset, as of 4/14/20. You cannot invest directly in an index.

For definitions of terms in the chart, please visit our [glossary](#).

We first highlight that over the past 12 months, the median issuer in the WisdomTree U.S. High Yield Corporate Bond Index generated \$423 million of [free cash flow](#), compared to only \$240 million for the median public issuer in the broad U.S. high-yield debt arena. Considering current economic conditions, we believe it is highly unrealistic to anticipate that the past 12 months will be indicative of the next 12 months. Thus, we emphasize due diligence in corporate liquidity profiles.

The median issuer for WisdomTree’s underlying strategy has \$598 million of cash, compared to \$360 million cash in the broad U.S. high-yield bond market. Lastly, let us consider access to cash through credit facilities. The median issuer in the WisdomTree U.S. High Yield Corporate Bond Index has access to nearly \$1.1 billion, compared to \$850 million for the median public issuer in the ICE BAML U.S. High Yield Bond Index.

The WisdomTree approach tends to have higher cash and credit availability because it invests in the debt of larger U.S. high-yield corporate issuers. Larger companies tend to have less of an issue generating positive free cash than smaller companies. Similarly, they typically have more cash on hand, as well as access to larger credit facilities. The median equity market value for issuers within the WisdomTree U.S. High Yield Corporate Bond Index is \$3.9 billion compared to \$2.2 billion for the median public issuer in the broad U.S. high-yield bond market.

For investors looking for renewed opportunities in the U.S. HY arena, cash availability will more than likely take on heightened importance given the fluid financial market backdrop. The [WisdomTree U.S. High Yield Corporate Bond Fund \(WFHY\)](#), which seeks to track before fees and expenses the price and yield performance of the WisdomTree U.S. High

Yield Corporate Bond Index, offers investors a solution that focuses on such a "[quality screen](#)" while also tilting toward potential income needs.

Unless otherwise stated, data source is Factset, as of April 14, 2020.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. High-yield or "junk" bonds have lower credit ratings and involve a greater risk to principal. Fixed income investments are also subject to credit risk, the risk that the issuer of a bond will fail to pay interest and principal in a timely manner or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline. While the Fund attempts to limit credit and counterparty exposure, the value of an investment in the Fund may change quickly and without warning in response to issuer or counterparty defaults and changes in the credit ratings of the Fund's portfolio investments. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

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You cannot invest directly in an index.

DEFINITIONS

Liquidity : The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid asset.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Corporate bond buying : the act of purchasing corporate bonds.

Investment grade : An investment grade is a rating that signifies a municipal or corporate bond presents a relatively low risk of default.

High Yield : Sometimes referred to as "junk bonds," these securities have a higher risk of default than investment-grade securities.

ICE BofAML US High Yield Index (H0A0) : The ICE BofAML US High Yield Index tracks the performance of the universe of US dollar denominated below investment grade corporate debt publicly issued in the US market.

Free Cash Flow : A measure of how much cash is left in the company after taking into account all the necessary expenses, including net capital expenditures.