

## Insights

## Managing known unknowns in the high yield market

Listing the risks in a bond issue is a relatively straightforward task since every prospectus includes an extensive compilation of disclosures. However, it is crucial to differentiate between risks that can be reasonably estimated and priced and those that, due to their inherent nature, are extremely challenging to quantify. Certain industries are particularly susceptible to "tail risks," which can result in exceptionally severe losses.

One of the main reasons for our High Yield strategy's past success is that we consider multiple types of risk when we analyze an issuer's bonds, with some risks being less obvious than others. That is especially true when investing in financial issuers. In this article, we cover a partial list of risks we consider before investing, and why we always avoid the banking sector and financial intermediaries who rely on short-term funding. The rapid collapse of Silicon Valley Bank (SVB) in March of 2023 will serve as an exemplary case study of why our avoidance of the sector is justified.

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