High Yield Market Update

Quarterly Commentary // 1Q2024
Data as of 3/31/2024

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MARKET ENVIRONMENT

The high yield market continued its grind tighter in the first quarter, absorbing most of the move higher in US Treasuries. Strong fundamentals and supportive technicals, buoyed by risk-on sentiment across asset classes, helped generate a carry-like return in the quarter. High yield issuers pivoted from the prior two years and issued more than $85bn of bonds during the quarter, with the vast majority being refinancings. Companies are clearly comfortable refinancing debt at interest rates that are more than 150bps lower than they were at the end of October. Investor demand for new issues was also very strong in the quarter as most deals came oversubscribed and priced well through initial price talk. 4Q23 earnings continued the theme for the full year: better than feared. Interestingly, outlooks were viewed more positively than they were in prior quarters as issuers are seeing strong end market demand and inflationary pressures are abating. The default rate ticked lower in the quarter, back below 2%, and the distressed portion of the HY index continues to point to a modest default environment.

The high yield market returned 1.51% in the first quarter (as measured by the ICE BofA US High Yield Constrained Index, HUC0), following 2023's 13.47% return. Spreads tightened 29bps to 335bps and yields increased 0.06% to 7.75% at quarter-end. Lower quality continued its outperformance as CCCs returned 3.27%, single-Bs returned 1.48% and BBs 1.20%. Retail, Energy and Healthcare were the best performing sectors while Telecommunications, Media and Utilities lagged.

The first quarter experienced the strongest issuance volume since 3Q21, pricing 119 bonds for $87.6bn. For context, $87.6bn compares to $40.5bn and $46.5bn for 1Q23 and 1Q22, respectively, and full year 2023 issuance of $175.9bn. Refinancings have accounted for 83% of issuance, with $15bn of net new supply. Year-to-date inflows of +$2.6bn compare to full year 2023 outflows of -$7.9bn, and the asset class has absorbed $19bn of inflows since the beginning of November.

There were four high yield defaults totaling $2.4bn in the first quarter. In 2023 there was a total of $27.5bn in high yield defaults, which compares to 2022's $12.2bn. The trailing 12-month par-weighted default rate decreased to 1.67% from 2.08% at the end of 2023, still well below the long-term average of ~3%. The level of distressed debt in the high yield market remains relatively benign at 1.7%. High yield (HUC0) returned 1.51% in the first quarter and outperformed its fixed income peers; Emerging Markets (EMCB), 1.50%, Investment Grade (C0A0), -0.08%, U.S. Aggregate (D0A0), -0.72%, and 5-year Treasuries (GA05), -0.76%.

FUND PERFORMANCE AND POSITIONING

For the quarter ending March 31, the Integrity High Income Fund returned +1.07% (Class A Shares, net of fees), +0.89% (Class C Shares, net of fees) and +1.14% (Class I Shares, net of fees) compared to its benchmark, the Bloomberg U.S. High Yield Index, which returned +1.48%. The Fund underperformed the benchmark for the three-month period as a result of security selection in the Retailers, Chemicals and Media Entertainment sectors. Conversely, relative performance was enhanced by security selection in the Pharmaceuticals and Consumer Cyclical Services sectors in addition to our underweight to the Wireless sector.

Compared to the benchmark on March 31, the Fund remains overweight in Automotive, Cable Satellite and Consumer Products due to our view of the relative value opportunities within those sectors. The Fund was underweight in Finance Companies, P&C and Technology because we have not found these sectors attractive due to challenging fundamental outlooks or rich valuations. Relative to the benchmark on March 31, the Fund's yield, spread and duration remain lower than those of the benchmark.

MARKET OUTLOOK

Risk-on, strong growth, lower inflation and expected rate cuts have provided a favorable backdrop for high yield. While spreads are trading on the tighter end of their recent range, yields continue to look attractive relative to the post-GFC era. Yields greater than 7.5% support continued demand for the asset class and could move spreads tighter in the near-term.

The non-distressed portion of the market trades near its all-time tights, but consists of only 9% CCCs compared to 17% during the all-time tight in June 2007. Bonds trading wide of 1,000bps account for 6% of the broad market's par value yet 24% of the market's spread-to-worst. This cohort, which is largely idiosyncratic, will need to perform well for the market to move materially tighter and for the asset class to generate returns greater than carry.

It is our expectation that the default rate will finish 2024 around 2%, implying they have already peaked for this cycle. Reinflation, US elections and geopolitical uncertainty remain the key risks for the remainder of the year. Assuming the market's base case assumptions play out, high yield should continue to generate carry-like returns for 2024.

Sincerely,

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&
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The performance data represents past performance, which does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. To obtain performance data current to the most recent month-end, an investor may call toll free 800-276-1262 or visit integrityvikingfunds.com.

All data as of 3/31/2024 unless otherwise indicated. Past performance is not a guarantee of comparable future results. Total return assumes the reinvestment of income.

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Total Returns %

			Annualized			
Share Class	**YTD**	**One Year**	**Three Years**	**Five Years**	**Ten Years**	**Since Incept**
A Shares	1.07	9.09	1.71	3.86	3.96	4.94
Including Sales Charge	-3.27	4.52	0.23	2.96	3.51	4.71
C Shares	0.89	8.27	0.96	3.08	3.19	4.14
I Shares	1.14	9.21	1.96	4.09	n/a	4.79
Bloomberg U.S. Corporate High Yield Bond Index	1.47	11.15	2.19	4.21	4.44	6.60

Performance shown is before tax.

Returns are for the period ended 3/31/2024 and reflect the deduction of the maximum sales load of 4.25% for Class A Shares; Total Annual Fund Operating Expenses are: 1.68% Class A , 2.43% Class C, 1.43% Class I. The Fund's investment adviser has contractually agreed to waive fees and reimburse expenses through November 29, 2024 so that Total Annual Fund Operating Expenses After Fee Waivers and Expense Reimbursements (excluding taxes, brokerage fees, commissions, extraordinary and non-recurring expenses, and acquired fund fees and expenses) do not exceed 0.99%, 1.74% and 0.74% of average daily net assets for Class A, Class C and Class I shares, respectively. This expense limitation agreement may only be terminated or modified prior to November 29, 2024 with the approval of the Fund's Board of Trustees.

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