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JPMorgan Asset CEO Warns of Private Credit Froth, Touts High-Yield Debt

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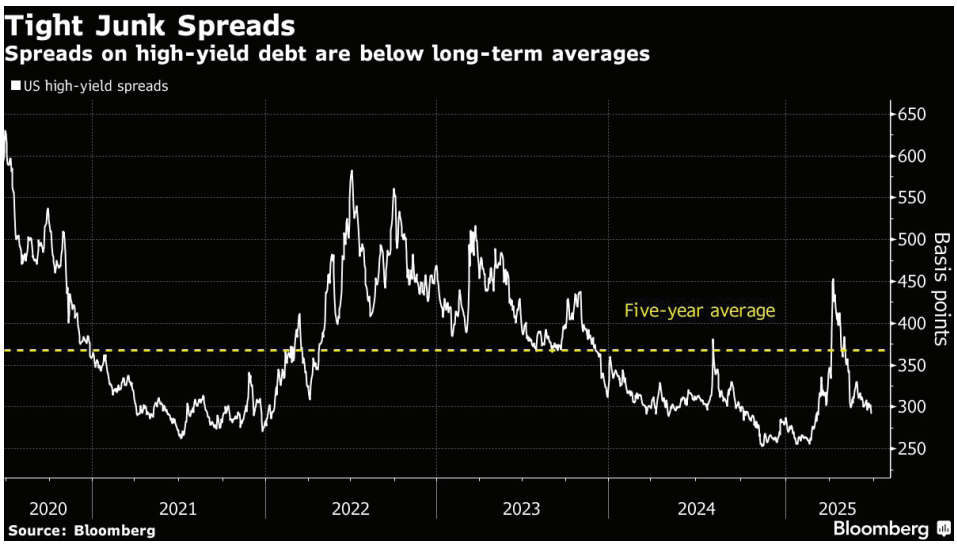
Froth in the red-hot private credit marketplace is creating opportunities in the world of public high-yield debt, according to George Gatch, JPMorgan Asset Management's chief executive officer.

That's part of the pitch behind the new JPMorgan Active High Yield ETF (JPHY), which begins trading on Wednesday. The actively managed fund will dedicate at least 80% of its portfolio to junk-rated bonds and launches with a $2 billion anchor investment, according to a press release.

While junk bond spreads to Treasuries are "tight," yields are attractive relative to equities and default rates in the sector are low, Gatch said. Additionally, typical alternatives to high-yield debt – specifically, private credit – are becoming crowded as investors big and small flock to the space. Against that backdrop, the liquidity advantages and lofty yields of publicly traded bonds offer a good entry point, according to Gatch.

"There's a lot of money and investors chasing finite opportunities in the private credit market. You also have liquidity tradeoffs," Gatch said in an interview. "You take those two things in combination and on a marginal basis, I would put my marginal dollar in public high-yield rather than private credit."

US high-yield spreads currently sit at about 292 basis points, well below the five-year average of 368 basis points, data compiled by Bloomberg show. Meanwhile, the average US junk yield is currently 7.13%, compared to a benchmark 10-year Treasury yield of 4.3%.



JPHY is launching with a $2 billion seed from one of the firm's "largest, most sophisticated institutional clients," Gatch said, while declining to name the investor. That sum means that the ETF's portfolio will be close to fully allocated at launch, and may make it easier for new investors – who may have restrictions on how much of a fund they can own – to buy into JPHY.

That massive initial investment should help further cement JPMorgan as the fastest-growing active fund manager. The firm, which oversees $3.7 trillion, has taken in four times the amount of inflows of its rivals, rocketing it the fourth spot in overall active fund assets, Bloomberg Intelligence data show.

Much of JPMorgan's success has come from its suite of derivative-income ETFs, headlined by the blockbuster $41 billion JPMorgan Equity Premium Income ETF (JEPI). However, Gatch forecasts that assets in actively managed fixed-income ETFs will surpass passive bond ETFs within the next decade, and JPHY's launch is a statement of intent that JPMorgan plans to be at the forefront.

"We've put a lot of our resources into being the best active manager on the planet," Gatch said. "We are seriously focused on bringing our best investment capabilities and our best ideas to ETFs."

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