

# PGIM HIGH YIELD BOND FUND, INC. (ISD)

MARCH 31, 2019

FORMERLY NAMED

PGIM SHORT DURATION HIGH YIELD FUND, INC.

## DESCRIPTION OF FUND

The PGIM High Yield Bond Fund (the "Fund") is a closed-end fund that trades on the NYSE under the symbol ISD. The Fund seeks to provide a high level of current income by investing primarily in below investment-grade fixed income instruments. The Fund may invest in instruments of any duration or maturity.

## MARKET REVIEW

In the first quarter, the U.S. high yield market posted a total return of +7.40%. Over the same period, spreads tightened 128 bps and are now 89 bps above the post-crisis tight of 316 bps that was reached in early 2018.

By quality, while CCCs led the way in Q1 with a total return of +7.40%, they have only partially recouped the Q4 2018 total return of -10.35%. Meanwhile, BBs and Bs generated total returns of +7.38% and +7.27%, respectively in Q1. Energy was the top performing sector in Q1, helped by a 29% bounce in oil prices as Saudi Arabia and Russia pledged to cut production. Airlines was the weakest performer on margin pressure associated with higher oil prices.

Default activity continued to fall globally. According to Moody's, the trailing 12-month global speculative grade issuer default rate ended February at 2.1%, down from 2.3% at year-end 2018. Looking ahead, Moody's expects the global default rate to continue its downward trend, predicting that the global speculative-grade default rate will fall to 1.5% by the end of Q1 2020.

Demand for U.S. high yield turned positive in the first quarter on generally positive market sentiment. In aggregate, retail bond funds reported quarterly inflows in excess of \$13 billion. The new issue pipeline has been generally slow to develop in 2019 with U.S. high yield gross issuance totaling just \$65 billion. Despite lower gross issuance as refinancing activity has declined, net new issuance has jumped by 35% from last year due to a pickup in acquisition-related volume. The quality of the new issue calendar also continued to improve this year, with about 10% of volume coming from split-B- or CCC-rated issues. Issuance in these low-rated categories has not dipped below 10% since 2002. The high yield market also has issued a greater number of senior secured bonds as the Fed's dovish tilt drove a demand to shift to fixed-rate paper, which diminished the level of secured loan issuance.

## QUARTER

For the first quarter, the PGIM High Yield Bond Bloomberg Barclays U.S. High Yield Index (1% issuer capped) on a gross basis.

Having more risk on in the Fund relative to the benchmark was the primary driver of returns on the quarter.

Overall industry selection boosted performance on the quarter and was driven primarily from the Fund's overweight to the technology sector. An underweight to transportation & environmental services also positively impacted results. This was partially offset by overweights to media & entertainment and retailers & restaurants which limited results.

Security selection also positively contributed to returns on the quarter. Despite a negative impact from industry selection, positioning in media & entertainment and retailers & restaurants added to performance. Positioning in metals & mining also boosted returns. This was partially offset by issue selection within the upstream energy sector which hurt performance.

The Fund's use of leverage added to both NAV performance and shareholder distributions, as the cost of borrowing was in excess of the returns of the securities purchased, and the income earned on the securities exceeded the cost of borrowing.

## PORTFOLIO OUTLOOK

We remain constructive on U.S. high yield as a result of solid fundamentals (strong earnings and low defaults), favorable supply technicals, dovish central banks, and our view that visible risks (U.S./China trade dispute, Brexit, U.S. fiscal stimulus cliff in 2020, etc.) will not cause a recession in the next 18 months. We're opportunistically adding to out-of-benchmark positions, such as European reverse Yankee issues, high-grade bank loans, and select fallen angel candidates. We're also tactically moving out the spread curve as we seek to take advantage of its steepness and are maintaining overweights to independent power producers and U.S. consumer-related names. We remain cautious on commodities.

The Fund returned 10.25% based on market price total return over the quarter, outperforming its NAV total return of 6.96%. The Fund's market price ended the quarter at a 13.3% discount to NAV. The average high yield closed end fund discount widened to 5.6%.

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## FUND INFORMATION (AS OF 3/31/2019)

Portfolio Statistics	
Leverage Adjusted Duration	3.4
Leverage %	21.1%

Distribution Information	
Current Distribution (Monthly)	\$0.1000
Distribution Rate on NAV	7.33%
Distribution Rate on Market Price	8.46%

On March 8, 2019 the Fund declared monthly distributions of \$0.1000 per share for March, April, and May.

Top 3 Sector Overweights		
Sector	Portfolio	Benchmark
Building Materials & Construction	7.06	3.94
Technology	10.71	7.85
Gaming	5.33	3.25

Top 3 Sector Underweights		
Sector	Portfolio	Benchmark
Other Energy	6.23	10.03
Health Care & Pharma	5.74	8.09
Consumer	1.26	3.48

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AVERAGE ANNUAL RETURN AS OF 3/31/2019						
Total Returns (without sales charges)	Quarter (Cumulative)	YTD (Cumulative)	1-year	3-year	5-year	Since 4/30/2012
Market Price	10.25	10.25	8.14	5.04	3.47	3.30
NAV	6.96	6.96	6.93	6.86	4.70	5.54

**Past performance does not guarantee future results, and current performance may be lower or higher than the past performance data quoted. The investment return and principal value will fluctuate, and shares, when sold, may be worth more or less than the original cost. For the most recent month-end performance, visit [pgiminvestments.com](http://pgiminvestments.com).**

**Total return** describes the return to the investor after net operating expenses but before any sales charges are imposed. **Market Price Total Return** shows the actual return to investors and is based on the Market Price. **NAV Price Total Return** shows the return based on the NAV price. All returns assume share price changes as well as the compounding effect of reinvested dividends and capital gains. Returns may reflect fee waivers and/or expense reimbursements. Without such, returns would be lower. All returns 1-year or less are cumulative.

The Fund invests in **high yield ("junk") bonds**, which are subject to greater credit and market risks; **derivative securities**, which may carry market, credit, and liquidity risks; **foreign securities**, which are subject to currency fluctuation and political uncertainty; and emerging markets securities, which are subject to greater volatility and price declines. **Fixed income investments** are subject to interest rate risk, where their value will decline as interest rates rise. There are fees and expenses involved with investing in the Fund. Diversification does not assure a profit or protect against a loss in declining markets. There is no guarantee that dividends or distributions will be paid.

**Distribution Rates** are calculated by annualizing the amount of the most recent distribution paid, excluding special distributions, divided by the previous day's closing market price or NAV. **Special Distributions** are any distribution made by the Fund in addition to the regular periodic distribution. The Fund estimates that the most recent distribution will be paid from: 100% investment income; 0% realized capital gains; and 0% return or capital. The Distribution Rate is subject to change and is not a quotation of Fund performance. For more information about a distribution's composition, refer to the distribution press release or Section 19 notice located at [www.pgiminvestments.com](http://www.pgiminvestments.com). Please consult your tax advisor for further information. **Leverage Adjusted Duration** is the fund's average duration and includes the impact of leverage. Duration is a measure of investment risk that takes into account both a bond's interest payments and its value to maturity. **Market Price** is the closing price of a closed-end fund on the New York Stock Exchange (NYSE), as of the trading day noted. **NAV** is total assets less total liabilities, divided by the number of shares outstanding. **Premium/Discount** is the percent difference between the Market Price and the NAV. There is no guarantee that you will receive the stated Premium/Discount and additional fees may result from individual broker fees and transaction costs in the secondary market. **Brexit** refers to Britain's departure from the European Union.

**LIBOR (1 Month LIBOR - London InterBank Offered Rate)** is the 1-month reference rate based on the interest rates at which banks borrow unsecured funds from other banks in the London wholesale money markets.

Source for spreads: Barclays. **Bloomberg Barclays U.S. High Yield Ba/B 1-5 Year Index (1% issuer capped)** is an unmanaged, issuer-constrained version of the Barclays U.S. Corporate High Yield Index that covers the U.S. dollar denominated, non-investment grade, fixed-rate, taxable corporate bond market. The Index follows the same construction rules as the uncapped index, but limits issuer exposure to maturities 1-5 years credit quality of Ba/B and a maximum 1% and redistributes the excess market value index-wide on a pro-rata basis. **Broad high yield index: BofAML US High Yield Master II Constrained Index** tracks the performance of US dollar denominated below investment grade rated corporate debt publically issued in the US domestic market. **Bloomberg Barclays U.S. High Yield 1% Issuer Capped Index** is an unmanaged, issuer-constrained version of the Bloomberg Barclays U.S. Corporate High Yield Index that covers the U.S. dollar denominated, non-investment grade, fixed-rate, taxable corporate bond market. The Index follows the same construction rules as the uncapped index, but limits issuer exposure to a maximum 1% and redistributes the excess market value index-wide on a pro-rata basis. **Credit Default Swap Index (CDX)** are indices that represent the most liquid baskets of names covering North American Investment Grade, High Yield, and Emerging Markets single name credit default swaps. An investment cannot be made directly into an index. An investment cannot be made directly into an index. **VIX** represents the CBOE Volatility Index, which shows the market's expectation of 30-day volatility. A **Reverse Yankee Bond** is a bond, mostly of a higher grade, issued by a U.S. company outside the U.S., and denominated in a currency other than the U.S. dollar.

The views expressed herein are those of PGIM Fixed Income at the time the comments were made, may not be reflective of their current opinions, and are subject to change without notice.

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