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Marketing communication: Investment involves risk, including loss of capital
Recorded on 22 October 2025

What's been happening in the US High Yield market?
Jack Stephenson, Fixed income Investment Specialist

00:00:06:46 - 00:00:08:40
After a volatile spring,

00:00:08:40 - 00:00:10:10
the US high yield market

00:00:10:10 - 00:00:12:10
enjoyed a summer of relative calm.

00:00:12:10 - 00:00:13:49
Spreads have grinded tighter,

00:00:13:49 - 00:00:15:34
and companies have taken advantage

00:00:15:34 - 00:00:18:09
of declining yields to issue bonds,

00:00:18:09 - 00:00:19:47
with a heavy flow of supply being

00:00:19:47 - 00:00:21:47
met with equally strong demand.

00:00:21:47 - 00:00:24:28
Importantly, net supply remains low,

00:00:24:28 - 00:00:28:43
with 70% of year-to-date supply used for refinancing purposes.

Commented [NS1]: Source: JPMorgan Research, as of 30 September 2025

00:00:28:43 - 00:00:30:42
This came despite continued fears

00:00:30:42 - 00:00:33:10
around the inflationary impact of tariffs,

00:00:33:10 - 00:00:34:48
a weakening labour market,

00:00:34:48 - 00:00:37:06

increasing tension between the White House

00:00:37:06 - 00:00:38:45
and key economic institutions,

00:00:38:45 - 00:00:40:00
as well as the passing

00:00:40:00 - 00:00:42:41
of the One Big Beautiful Bill through Congress

00:00:42:41 - 00:00:44:02
set to further widen

00:00:44:02 - 00:00:45:31
the already burgeoning deficit

00:00:45:31 - 00:00:46:48
over coming years.

00:00:46:48 - 00:00:48:01
On the face of it,

00:00:48:01 - 00:00:50:37
markets may appear to be rather complacent,

00:00:50:37 - 00:00:52:27
given the high level of uncertainty

00:00:52:27 - 00:00:53:26
in the outlook.

00:00:53:26 - 00:00:54:40
But delving deeper,

00:00:54:40 - 00:00:56:26
there are key factors that have been

00:00:56:26 - 00:00:59:00
supporting this rally in US high yield

00:00:59:00 - 00:01:01:44
notably continued resiliency in earnings,

00:01:01:44 - 00:01:03:27
an abundant supply of capital

00:01:03:27 - 00:01:05:07
available to issuers

00:01:05:07 - 00:01:07:19

and continued demand from yield buyers

00:01:07:19 - 00:01:09:18
drawn to the market by the potentially

00:01:09:18 - 00:01:11:18
attractive total returns on offer.

00:01:11:18 - 00:01:12:40
Most importantly,

00:01:12:40 - 00:01:15:01
issuer fundamentals remain solid

00:01:15:01 - 00:01:16:48
and point towards further containment

00:01:16:48 - 00:01:18:22
in overall default rates.

00:01:18:22 - 00:01:21:40
That default rate remains at just 0.49%

00:01:21:40 - 00:01:24:49
for HY bonds excluding distressed exchanges,

00:01:24:49 - 00:01:28:30
or 1.39% including distressed exchanges,

Commented [NS2]: Source: J.P. Morgan: Default Monitor 30 September 2025

What is the outlook for US high yield?

00:01:32:45 - 00:01:34:45
Although we expect the macro backdrop

00:01:34:45 - 00:01:36:19
to remain choppy,

00:01:36:19 - 00:01:39:08
the outlook for US high yield remains constructive.

00:01:39:08 - 00:01:40:35
It is worth remembering that,

00:01:40:35 - 00:01:43:48
whilst spreads appear low in a historical context,

00:01:43:48 - 00:01:45:44
they are much less so when adjusted

00:01:45:44 - 00:01:48:18
for today’s US high yield market composition.

00:01:48:18 - 00:01:49:47
Current spread levels are supported

00:01:49:47 - 00:01:53:08
by a near record high percentages of BBs,

00:01:53:08 - 00:01:55:48
a near record low percentages of CCCs,

00:01:55:48 - 00:02:00:16
a record high percentages of secured bonds at 35%,

00:02:00:16 - 00:02:03:34
record low duration and low bid/ask spreads

00:02:03:34 - 00:02:05:13
meaning better liquidity.

Commented [NS3]: Source: BofA HY Research, as of 30 September 2025

00:02:05:13 - 00:02:07:04
Even as companies get clarity

00:02:07:04 - 00:02:08:18
on the impact of tariffs

00:02:08:18 - 00:02:10:30
on their supply chain and margins,

00:02:10:30 - 00:02:12:31
there is still a resilient undertone

00:02:12:31 - 00:02:14:33
to how high yield companies are coping.

00:02:14:33 - 00:02:18:08
But that is not being felt equally at a sector or issuer level.

00:02:18:08 - 00:02:20:15
Impacts are increasingly uneven across

00:02:20:15 - 00:02:23:03
those sectors directly impacted by tariffs

00:02:23:03 - 00:02:25:49
like Retail, Consumer Goods, Paper/Packaging,

00:02:25:49 - 00:02:27:41
Chemicals and Autos,

00:02:27:41 - 00:02:30:15
compared to those more domestically focused,

00:02:30:15 - 00:02:32:35
low import sectors like Services,

00:02:32:35 - 00:02:35:02
Gaming, Technology and Telecom.

00:02:35:02 - 00:02:36:24
In certain cases,

00:02:36:24 - 00:02:38:46
tariffs could even offer a potential tailwind

00:02:38:46 - 00:02:41:30
in the form of reduced foreign competition

00:02:41:30 - 00:02:43:19
especially when combined with changes

00:02:43:19 - 00:02:47:11
to corporate taxation which incentivise domestic capex.

Commented [NS4]: Capex stands for: Capital Expenditures - funds used by a company to acquire, upgrade, or maintain physical assets

00:02:47:11 - 00:02:49:23
Recently there has been greater attention

00:02:49:23 - 00:02:51:15
to some notable default stories

00:02:51:15 - 00:02:53:19
in the Broadly Syndicated Loan market

00:02:53:19 - 00:02:55:26
and investor concern regarding the risk

00:02:55:26 - 00:02:57:42
of contagion across credit markets.

00:02:57:42 - 00:03:00:08
The theme of liability management exercises

00:03:00:08 - 00:03:03:12
will remain prevalent heading into 2026.

00:03:03:12 - 00:03:06:29
Given that we expect overall default activity in high yield

00:03:06:29 - 00:03:09:02
to remain modest and likely driven by

00:03:09:02 - 00:03:11:29
continued idiosyncratic credit stories,

00:03:11:29 - 00:03:13:38
an active and disciplined approach

00:03:13:38 - 00:03:17:29
in investing within lower credit quality markets may be warranted.

Where are we seeing opportunities in this environment?

00:03:21:40 - 00:03:23:40
In the current economic context,

00:03:23:40 - 00:03:25:44
we believe that investors should consider

00:03:25:44 - 00:03:27:29
a nimble and flexible approach

00:03:27:29 - 00:03:29:28
to investing in the high yield market.

00:03:29:28 - 00:03:33:26
We believe that short duration securities continue to look attractive

00:03:33:26 - 00:03:37:45
given the ability to mitigate both interest rate and spread volatility,

00:03:37:45 - 00:03:40:47
whilst focusing on the most liquid part of the market.

00:03:40:47 - 00:03:42:33
Further up the risk spectrum,

00:03:42:33 - 00:03:46:13
opportunities continue to be idiosyncratically driven

00:03:46:13 - 00:03:48:24
both in terms of names that we own

00:03:48:24 - 00:03:50:17
but also, those that we don’t own.

00:03:50:17 - 00:03:52:23
Here, we are picking are spots

00:03:52:23 - 00:03:55:04
particularly with regards to large capital structures

00:03:55:04 - 00:03:59:04
which contribute a significant amount to overall market yield

00:03:59:04 - 00:04:01:04
aiming to consolidate our positioning

00:04:01:04 - 00:04:04:05
in the most appropriate part of certain structures

00:04:04:05 - 00:04:07:09
which we feel offer the best risk/reward opportunity.

00:04:07:09 - 00:04:08:22
As we look ahead,

00:04:08:22 - 00:04:12:03
we expect spreads to remain in a relatively tight range

00:04:12:03 - 00:04:14:39
but for our more total return seeking strategies,

00:04:14:39 - 00:04:17:34
would look to deploy cash into market weakness

00:04:17:34 - 00:04:19:04
like we saw in April.

00:04:19:04 - 00:04:20:14
Thank you for watching

00:04:20:14 - 00:04:22:12
and we look forward to keeping you updated

00:04:22:12 - 00:04:23:28
on the high yield market.

Source: AXA IM as of October 2025

Disclaimer