

Newsletter - Euro High-Yield Bond Market Monitor 9M26

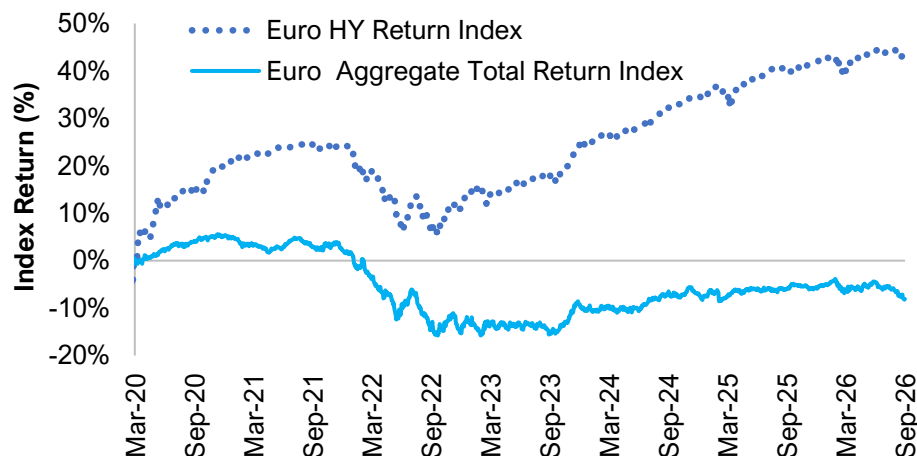


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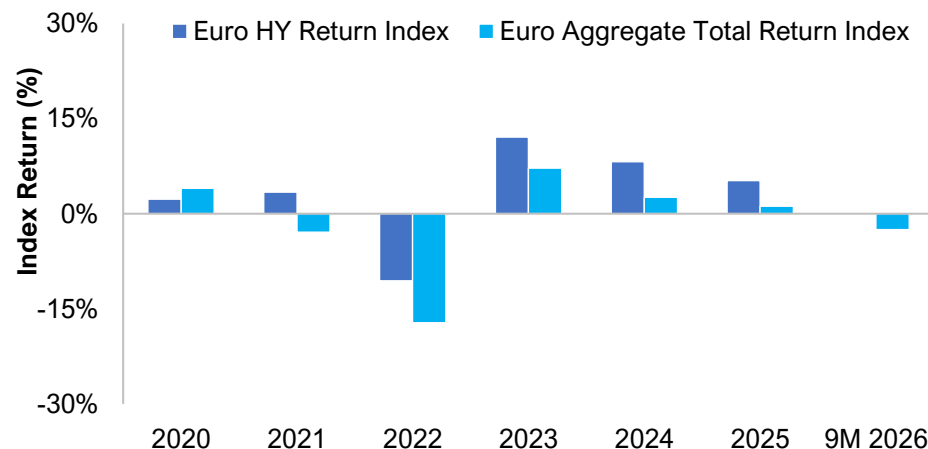
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Euro High-Yield Bond Market Performance – HY vs IG Returns

Euro HY vs IG Market Returns Trend⁽¹⁾



Euro HY vs IG Market Returns – Annual Performance



- Euro HY continued to outperform the broader IG Euro Aggregate Index in 9M26, delivering a 0.2% return vs. -2.5% for the latter. However, the outperformance gap narrowed to 270 bps from 364 bps in 9M25, indicating diminishing relative returns despite the additional credit risk associated with HY bonds.
- Q3 losses erased most of the gains recorded in 1H26, reducing cumulative HY returns from 1.8% in 1H26 to 0.2% in 9M26, implying a standalone Q3 return of -1.6%. Higher government bond yields and widening credit spreads pressured bond valuations, more than offsetting coupon income.
- Higher yields have improved prospective carry, but sustained refinancing costs could increasingly differentiate issuer performance. Stronger cash flows, adequate liquidity and manageable debt maturities remain critical to limiting downside risks and supporting returns.



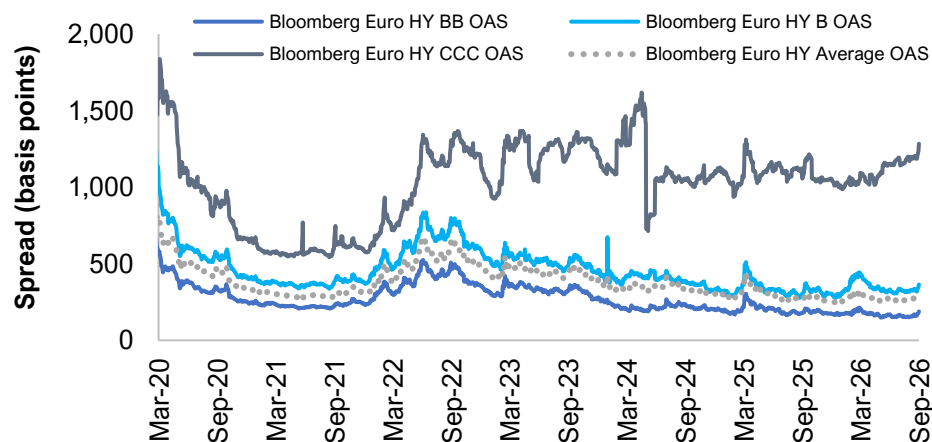
Euro HY maintained its outperformance despite Q3 losses amid widening spreads and market volatility.

Source: Aranca Research, Bloomberg

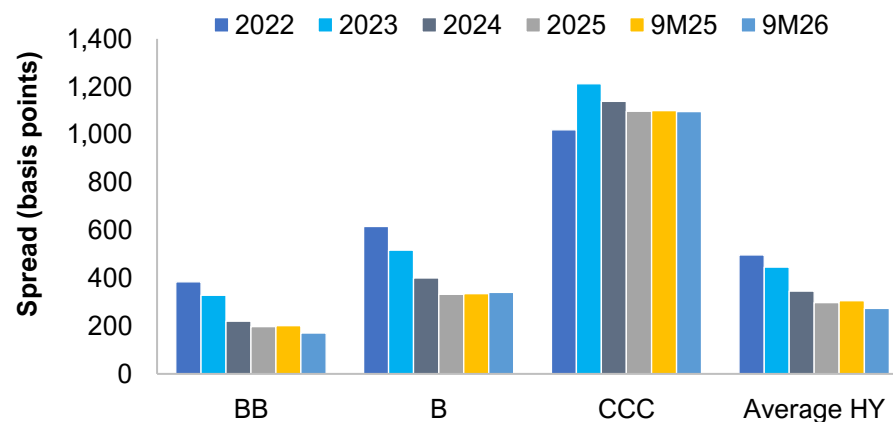
Note: (1) HY and IG returns since 2020 are measured using 31 March 2020 as the base; (2) The scope of this newsletter is restricted to EUR-denominated high-yield bonds issued by European risk entities

Euro High-Yield Bond Spread Analysis Across Rating Buckets

Euro HY OAS Bond Spread Cycle Trends



Average OAS Bond Spread Trends by Credit Rating



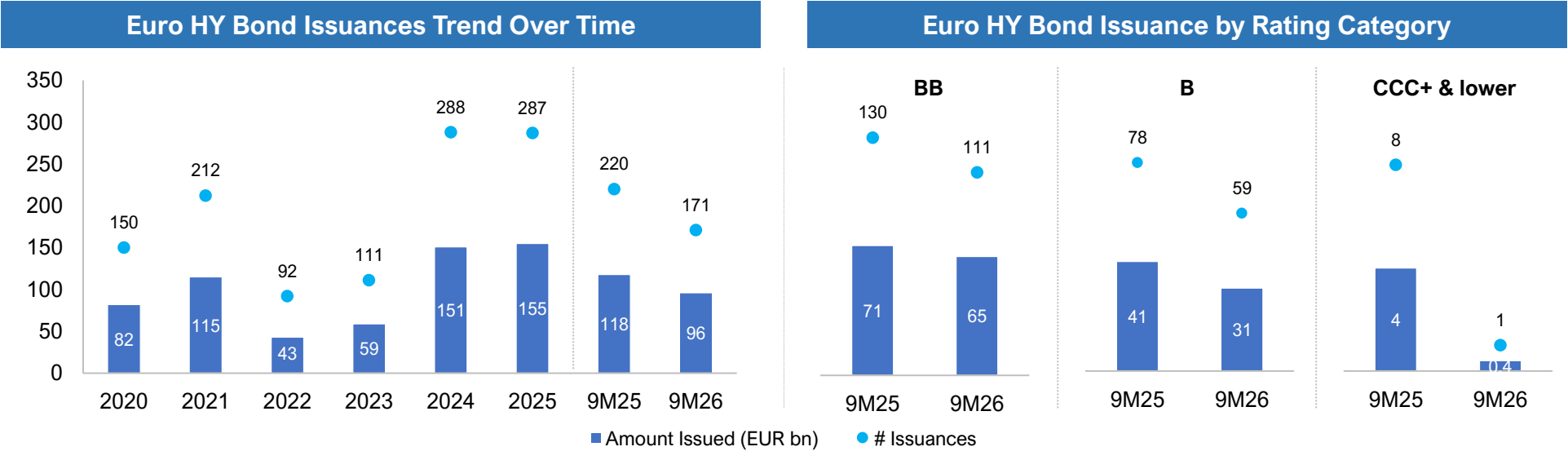
- European HY spreads widened by end-September 2026 amid renewed inflation concerns, energy market volatility and broader bond market uncertainty. CCC rated bonds recorded the largest widening (+232 bps), followed by B rated (+58 bps) and BB rated (+14 bps) since the start of the year, reflecting higher credit risk premia and increased investor caution towards weaker credits.
- Despite late-Q3 widening, average BB rated spreads remained tighter in 9M26 compared with 9M25, while B rated spreads widened marginally and CCC rated spreads remained broadly stable, reflecting investor preference for higher-quality HY credits.



European HY spreads widened at end-September 2026, with lower-rated credits seeing sharper repricing amid increased investor caution.

Source: : Aranca Research, Bloomberg

Euro High-Yield Bond Issuance Trend



- HY issuance remained subdued during 2022–2023 amid geopolitical uncertainty and elevated interest rates. Issuance recovered in 2024–2025, largely driven by refinancing activity, with issuance remaining broadly stable at €155bn in 2025 (+0.5% YoY).
- 9M26 issuance fell 18.5% YoY to €96bn across 171 deals (–22.3%), signaling fewer, larger transactions. Higher yields, Middle East inflation pressures and ECB tightening stalled the Q2 refinancing recovery in August, while September’s rebound proved insufficient amid increasingly selective investor demand.
- BB rated issuers dominated 9M26 issuance at €65bn, more than double the €31bn raised by B rated issuers, reflecting stronger investor demand for higher-quality HY credits offering an attractive balance of yield and relatively lower default risk.

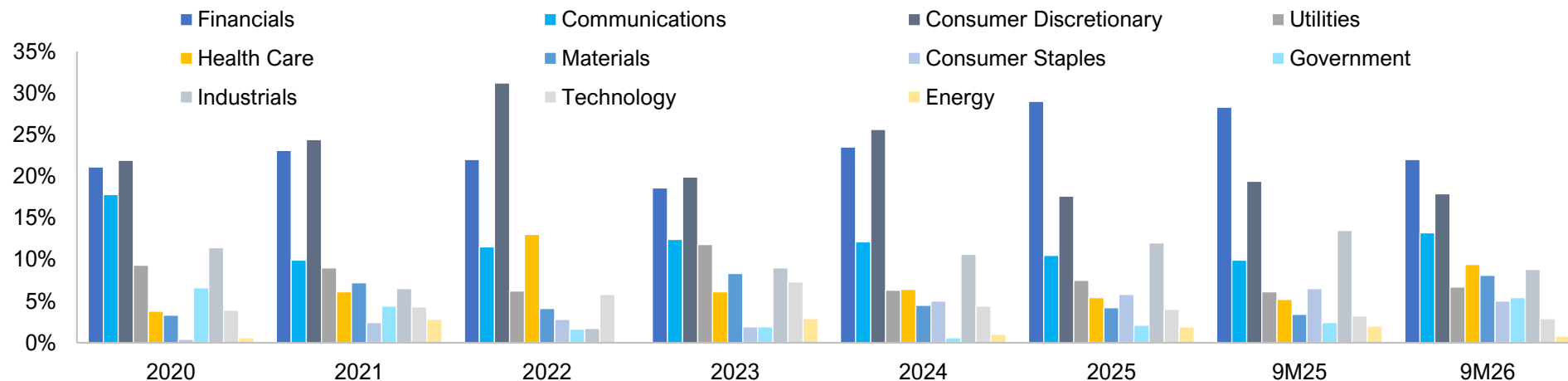


Euro HY issuance in 9M26 was supported by refinancing activity, while rising borrowing costs and market uncertainty constrained new bond supply.

Source: :: Aranca Research, Bloomberg; includes only EUR-denominated bonds with amount issued above EUR 100mm, excludes zero-coupon bonds; (2) BB includes BB+, BB, and BB-; B includes B+, B, and B-; CCC+ & lower includes CCC+, CCC, CCC-, CC+, CC, CC-, C, DDD+, DDD, DD+, D, and NR

Sector-Wise Euro High-Yield Issuance Trend

Sector-wise Trends in European High-Yield Bond Issuance⁽¹⁾



- Financials retained their lead, but issuance concentration declined. Their share fell to 22.0% in 9M26 from 28.3% in 9M25, indicating a sharper contraction in financial-sector issuance than in the broader HY market. Consumer Discretionary remained the second-largest contributor, highlighting continued concentration in these two sectors despite a more balanced issuance mix.
- Non-financial sectors gained prominence despite weaker overall issuance. Communications, Healthcare and Materials collectively accounted for 30.6% of the total in 9M26 vs. 18.5% in 9M25. This shift reflects stronger relative issuance activity in these sectors, offsetting the reduced contribution from financial issuers.



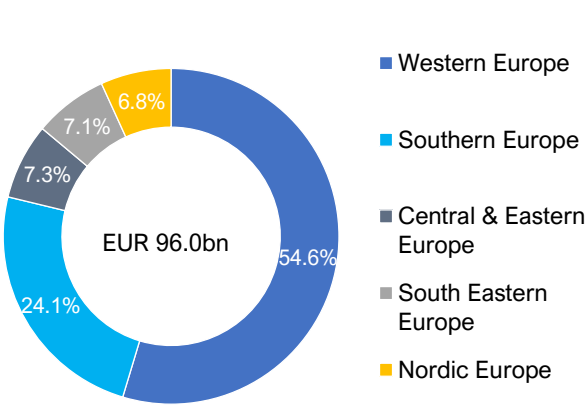
Sector mix demonstrates that Euro HY supply is shaped by broader corporate funding cycles, with different sectors accessing the market at different stages of the credit and refinancing cycle.

Source: Aranca Research, Bloomberg; includes only EUR-denominated bonds with amount issued above EUR 100mm; excludes zero-coupon bonds

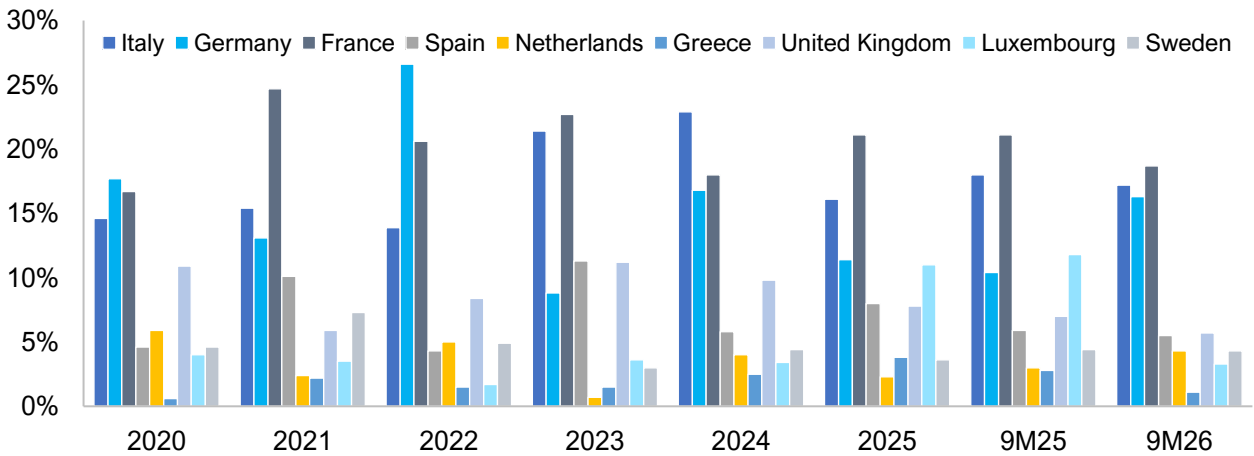
Note: (1) Sector based on Bloomberg's BICS Level 1 Classification

Region- and Country-Wise Euro High-Yield Issuance Trend

Euro HY 9M26 Issuance by Region



Euro HY Issuance Trends Across Major Countries for the Past 6 Years



- Western and Southern Europe accounted for nearly 78.8% (€75.7bn) of Euro HY issuance in 9M26. However, issuance declined 22.3% and 27.9% YoY, respectively, exceeding the broader market contraction and highlighting a sharper slowdown across Europe's established issuance markets.
- Southeastern European issuance nearly doubled to €6.9bn, while Central & Eastern Europe remained broadly stable at €7.0bn. Their combined market share increased to 14.4% from 8.9% in 9M25, reflecting stronger relative issuance activity outside the dominant Western and Southern European markets.



Euro HY issuance weakness was concentrated in Western and Southern Europe, while smaller markets showed greater resilience.

Source: : Aranca Research, Bloomberg; includes only EUR-denominated bonds with amount issued above EUR 100mm; excludes zero-coupon bonds

Spotlight on Largest Issuers Among Top Sectors – 9M26

Financials						
Issuer	Industry	Country	Amt. Issued (Mn)	Maturity	BBG Rating	YTW
Deutsche Bank AG	Diversified Banks	Germany	1,250	Perpetual	BB	7.4%
Deutsche Bank AG	Diversified Banks	Germany	1,250	Perpetual	BB	6.6%
OTP Bank Nyrt	Banks	Hungary	1,000	Dec-36	BB+	4.7%
UniCredit SpA	Banks	Italy	1,000	Perpetual	BB	5.9%
UniCredit SpA	Banks	Italy	750	Perpetual	BB	6.8%

Communication						
Issuer	Industry	Country	Amt. Issued (mn)	Maturity	BBG Rating	YTW
Fibercop SpA	Wireline Telecommunications Services	Italy	1,500	Apr-31	BB+	4.4%
United Group BV	Cable & Satellite	Slovenia	1,130	Jan-33	B	4.8%
Zegona Finance PLC	Wireless Telecommunications Services	United Kingdom	1,100	Jan-32	BB	5.0%
Telefonica Emisiones SA	Wireline Telecommunications Services	Spain	900	Perpetual	BB	4.7%
Eutelsat Communications SACA	Wireless Telecommunications Services	France	850	Mar-31	BB-	5.0%

Consumer Discretionary						
Issuer	Industry	Country	Amt. Issued (Mn)	Maturity	BBG Rating	YTW
Verisure Holding AB	Consumer Services	Sweden	1,000	Jan-32	BB+	4.9%
ZF Europe Finance BV	Auto Parts Manufacturing	Germany	1,000	Feb-32	BB-	5.7%
Betclic Everest Group SAS	Casinos & Gaming	France	1,000	Dec-31	BB-	4.6%
Birkenstock Group BV & Co KG	Apparel & Textile Products	Germany	900	Jun-33	BB+	4.5%
Lottomatica Group Spa	Casinos & Gaming	Italy	765	Apr-32	BB	4.4%

Utilities						
Issuer	Industry	Country	Amt. Issued (mn)	Maturity	BBG Rating	YTW
Enel SpA	Power Generation	Italy	1,250	Perpetual	BB+	4.5%
Electricite de France SA	Power Generation	France	1,000	Perpetual	BB	6.4%
Elia Group SA/NV	Utilities	Belgium	900	Perpetual	BB+	4.6%
Energia Group Roi Financeco DAC	Utilities	Ireland	850	Oct-32	BB+	5.6%
Enel SpA	Power Generation	Italy	750	Perpetual	BB+	4.8%

Source: Aranca Research, Bloomberg; includes only EUR-denominated fixed or variable coupon bonds with amount issued above EUR 100mm

Note: Industry based on Bloomberg's BICS Level 2 Classification; YTW as of 5 Oct 2026

Higher Rates Expose Credit Vulnerabilities

**2.50%**
ECB deposit rate
+50 bps from two hikes in 2026

**3.0%**
Inflation forecast
Keeps input costs elevated

**0.9%**
GDP growth
Subdued demand limits pricing

**2028–30**
HY maturity wall
Where HY maturities cluster

KEY CREDIT RISKS

1

**Funding & input costs squeeze cash flow**
Weak demand limits input-cost pass-through, squeezing margins, particularly for energy-intensive and consumer-facing HY issuers.

2

**Higher rates heighten refinancing risk**
Early refinancing can ease near-term maturity pressure, but higher yields raise debt servicing costs and may restrict market access for lower-rated issuers.

3

**Default and recovery risks mount**
S&P expects rising speculative-grade defaults; sharply wider CCC spreads signal higher risk premiums.**IMPLICATIONS FOR INVESTORS**

**Weaker cash flow and tighter interest coverage**
Higher coupons and costs leave less headroom to deleverage or invest, raising weaker credits' reliance on external financing.
Monitor: FCF after interest, EBITDA margin resilience, interest coverage

**Costlier refinancing, more selective markets**
Elevated yields lift refinancing costs and weigh on bond valuations; weaker issuers face higher new-issue premiums, tighter access.
Monitor: ECB rate expectations; new-issue yields vs existing debt costs

**Wider credit differentiation, lower recovery prospects**
Wider spread dispersion signals risk aversion; extra spread may not compensate where recovery, collateral and covenants are weak.
Monitor: CCC–BB spread gap, default rates, expected recovery values

MARKET SIGNALS**European speculative-grade default rate**
S&P forecast, trailing 12-month

2.6%	3.0%	4.5%
Jun 2026	Jun 2027 base	Jun 2027 downside

**+217 bps**
Widening of the CCC–BB spread gap from the start of 2026 to end-September.

**INVESTOR TAKEAWAY**

Higher interest rates increase credit differentiation in European HY markets

 **Strength:** resilient cash flow, liquidity, manageable refinancing

 **Vulnerabilities:** weaker credits, with greater spread volatility & default risk

Source: Aranca Research, Bloomberg, S&P, ECB



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