Newsletter

Carry & Credit: US High Yield Market Pulse | 1Q26

Performance | Spreads | Issuance | Positioning

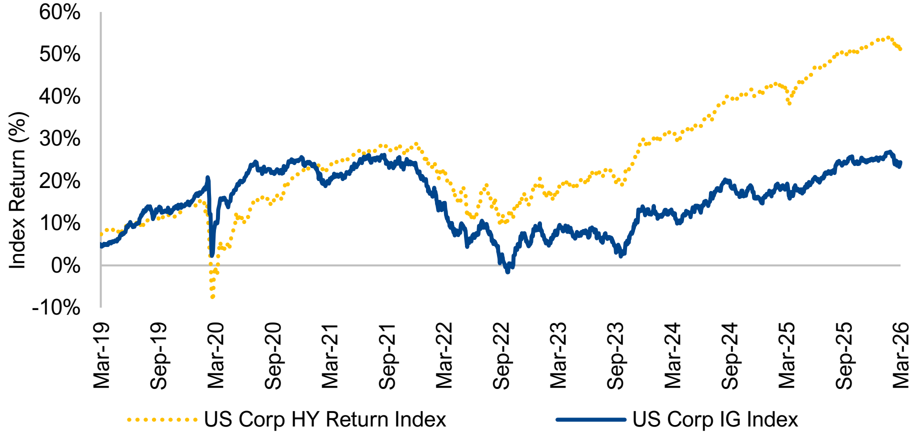
aranca

May 2026

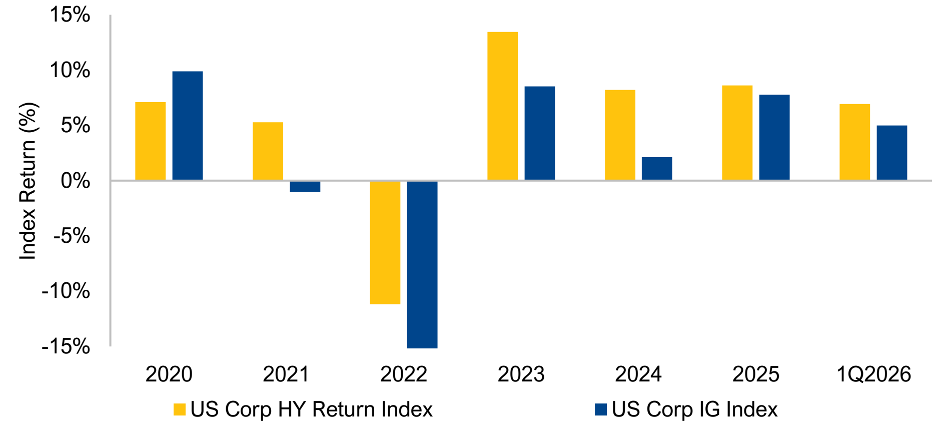
Contents

The US High-Yield Bond Market Performance – IG vs. HY Returns

HY vs. IG Corporate Bond Index Returns Since 2019 [1]



HY vs. IG Corporate Bond Index Returns – YoY Comparison



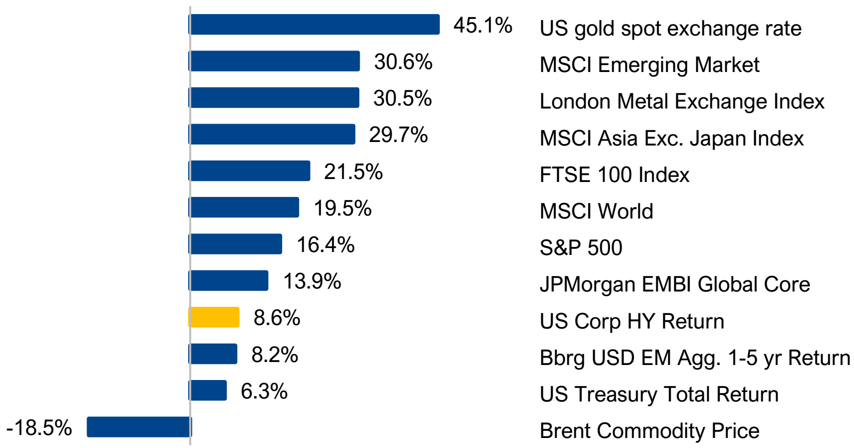
- US high-yield (HY) bonds continued to outperform investment-grade (IG) bonds on a total-return basis through 1Q26, with the gap driven by carry rather than further spread compression.
- 1Q26 saw a modest pullback in HY returns as the Middle East conflict triggered an oil-driven inflation shock, prompted a hawkish Fed hold, and pushed Treasury yields higher; coupon income absorbed most of the spread-widening drag.
- With OAS near multi-year tights at the start of the quarter, scope for further compression is limited, reinforcing HY's role as a carry asset rather than a directional risk trade.

✓ *HY's coupon carry buffered the 1Q26 oil-shock drawdown - preserving relative outperformance over IG even as spread-tightening upside narrowed.*

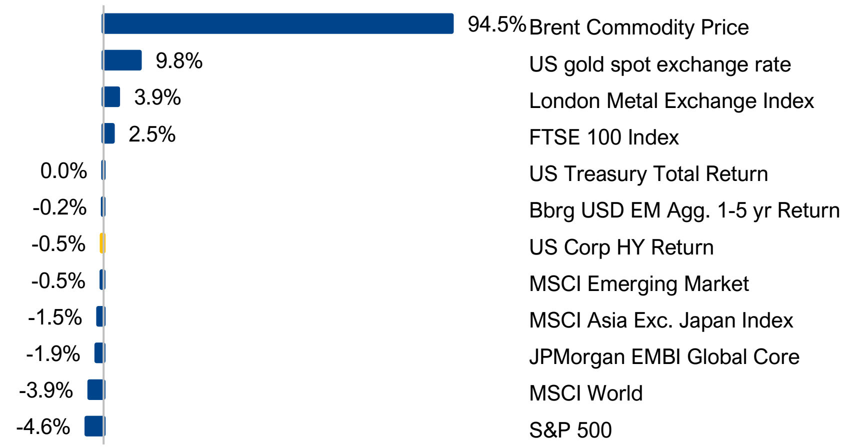
Source: *Bloomberg*
Note: *(1) HY returns calculated on base price of $1,910.5 as on January 2, 2019. IG return calculated on base price of $2,834.1 as on January 2, 2019.*

The US High-Yield Bond Market Performance – Multi-Asset Returns

2025 Returns of HY Bonds vs. Other Asset Classes



1Q26 Returns of HY Bonds vs. Other Asset Classes



- In 2025, risk assets rallied broadly, led by gold (+45.1%), EM equities (+30.6%), and base metals (+30.5%). US HY (+8.6%) delivered solid carry-driven gains, outperforming Treasuries (+6.3%) and short-dated EM debt (+8.2%) but lagging higher-beta equity exposures.
- Evidently, 1Q26 produced a sharp risk-asset reversal: Brent surged +94.5%, and gold rose +9.8% on the US-Iran conflict and Strait of Hormuz disruption, while the S&P 500 fell -4.6% and MSCI World fell -3.9% on the resulting stagflation scare.
- US HY returned -0.5% for the quarter - a shallow drawdown that held up better than every major equity index and broadly in line with short-duration EM debt (-0.2%).

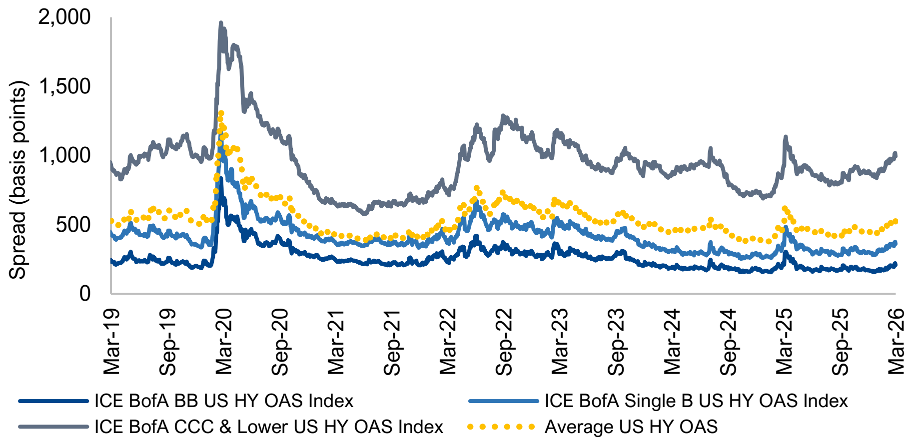
✓ *In a risk-off 1Q26, HY's coupon carry absorbed the spread widening, keeping it ahead of equities and in line with short-duration EM debt.*

Source: *Bloomberg*

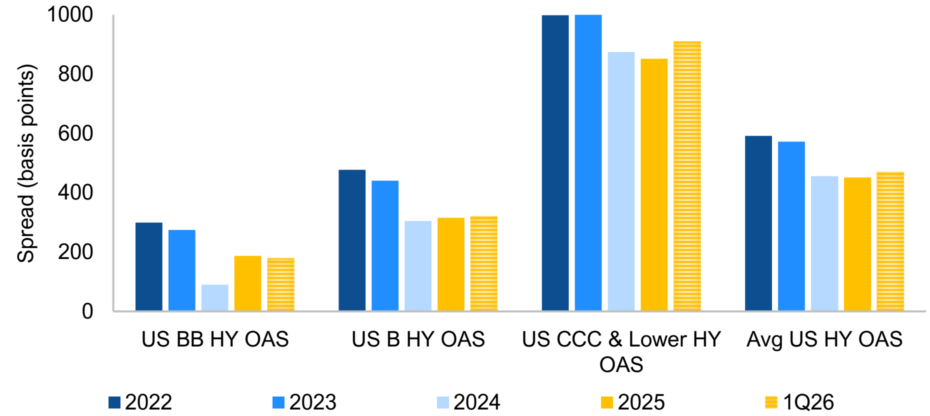
aranca

The US High-Yield Bond Spread Analysis Across Rating Tranches

US HY OAS Bond Spread Trends Since 2020



Average OAS Bond Spread Trends Per Rating Buckets



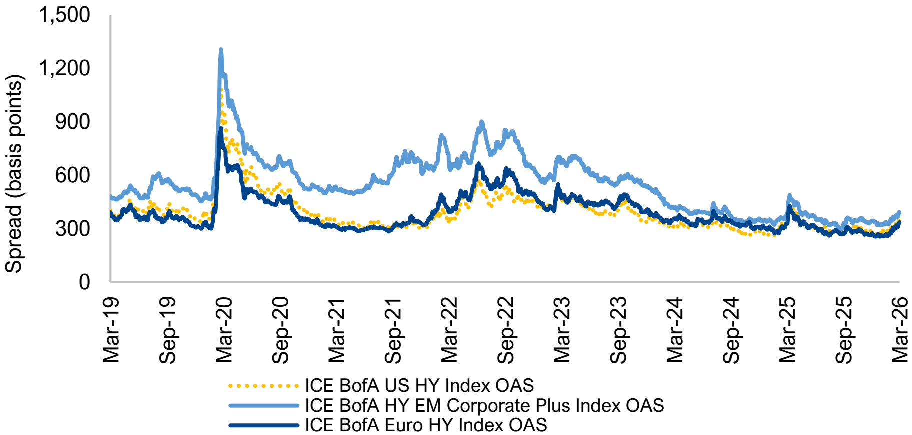
- 1Q26 saw a clear re-emergence of rating dispersion: BB absorbed the Middle East-driven oil shock through pricing power and diversified revenue bases, while CCC concentrated in leveraged cyclicals and oil-services, saw direct margin and interest-coverage pressure.
- Hawkish Fed hold and higher Treasury yields raised the refinancing bar precisely as the 2026-2028 maturity wall came into focus; BB retained primary-market access ($162 Bn issued in 1Q26), while CCC printed only $2 Bn, with spread widening pricing rollover risk.
- Average 1Q26 OAS 179 bps (BB), 321 bps (B), and 910 bps (CCC & below) remain well inside the 2022 averages of 299 bps, 477 bps, and 999 bps, but the BB/CCC ratio has widened back out from late-2025 lows.

✓ *Rating dispersion in 1Q26 reflects two distinct credit cycles inside HY — BB anchored by demand and pricing power, CCC repricing for the 2026 maturity wall.*

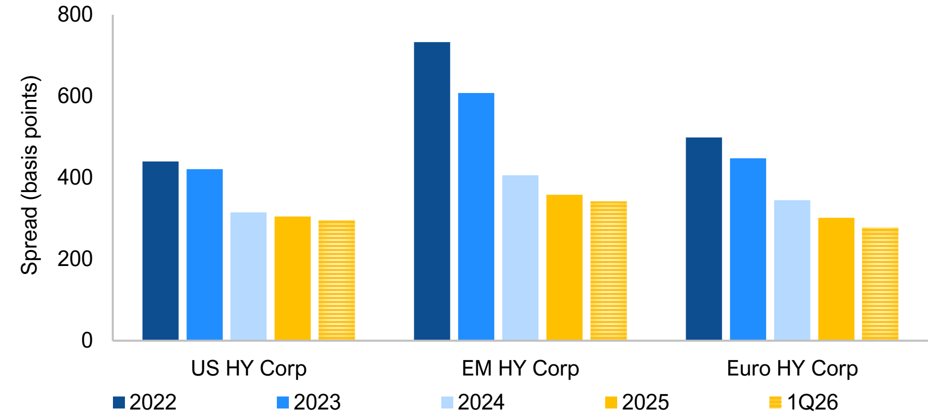
Source: *Federal Reserve Economic Data*

The US High-Yield Bond Spread Analysis Across Regions

Global HY OAS Bond Spread Trends Since 2019



Average OAS Bond Spread Trends Per Region



- From 2022 to 2024, HY spreads tightened across the US, Euro, and EM markets on improving global risk appetite following the Fed pivot, with EM HY compressing the most as China property defaults and EM sovereign stress receded from 2022 peaks.
- Through 2025, spreads were broadly steady on stable macro fundamentals. In 1Q26, the picture diverged: US and Euro HY spreads were largely contained, while EM HY widened as the Middle East shock and firmer dollar pressured energy-importer EM credits.
- Regional dispersion has reasserted itself: EM HY now screens structurally wider than US and Euro counterparts, with the gap re-widening through the quarter, while developed-market HY continues to demonstrate relative stability.

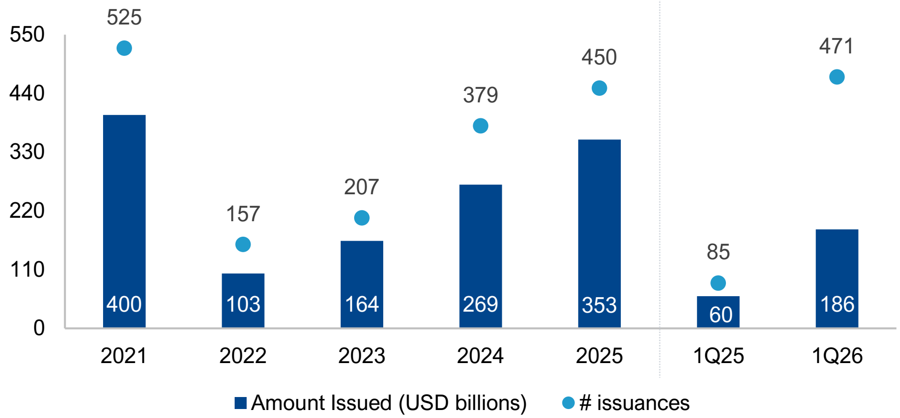
KEY TAKEAWAY

✓ *Developed-market HY remained resilient; EM HY became the regional pressure point as the Middle East shock pushed energy-importer credits wider.*

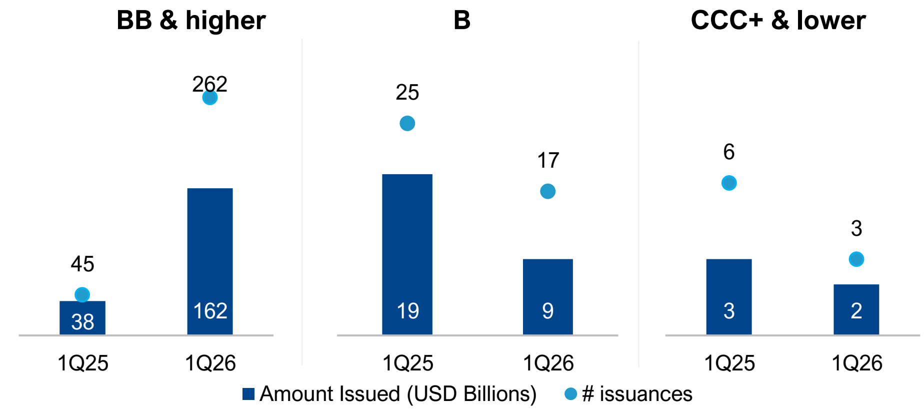
Source: *Federal Reserve Economic Data*

The US High-Yield Bond Issuance Trend – 1Q26

US HY Bond Issuances Trend vs. Historical Period



US HY Bond Issuance Per Rating Buckets



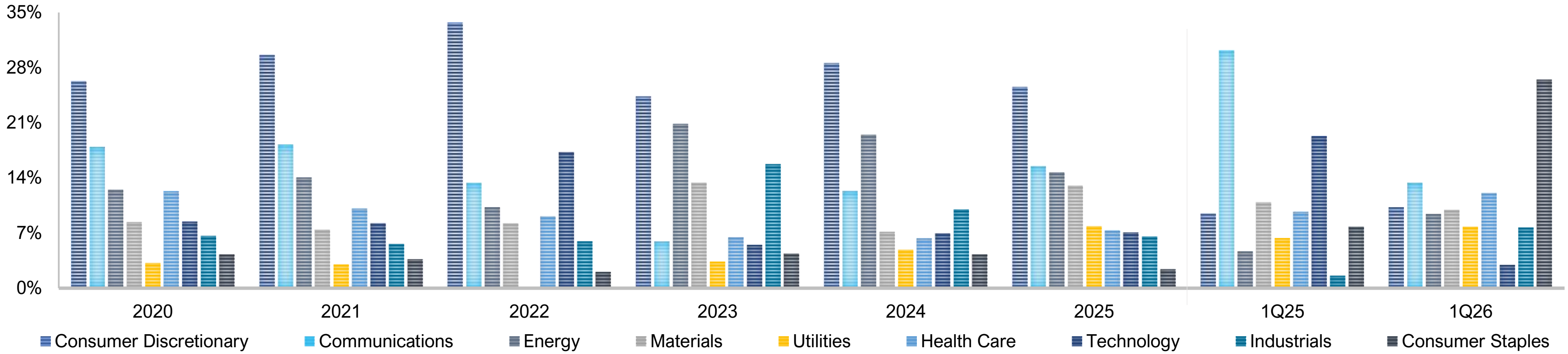
- In 2025, issuance reached $353 Bn, up ~31% YoY driven predominantly by refinancing activity rather than incremental leverage.
- Momentum carried decisively into 1Q26: issuance reached $186 Bn, more than 3x of $60 bn printed in 1Q25, supported by tight spreads early in the quarter and a strong refinancing pull-forward ahead of the 2026-2028 maturity wall. Activity moderated in March as Middle East-driven volatility temporarily widened new-issue concessions.
- The 1Q26 surge was driven almost entirely by the BB & higher cohort, while B issuance roughly halved and CCC+ & lower fell - a clear up-in-quality bias.

✓ *Supply set a record refinancing pace but stayed exclusively up-in-quality - high-grade HY issuers termed out the maturity wall while leveraged issuers were effectively shut out.*

Source: *Bloomberg; includes only USD denominated corporate bonds with amount issued above $100mm, excludes bonds issued across financial sector.*

Sector-Wise US High-Yield Issuance Trend – 1Q26

Comparison of US HY Bonds Issuances Across Sectors for the Past 6 Years (1)



- Issuance mix in 1Q26 tilted decisively defensive: Utilities and Consumer staples gained meaningful share on rate-base stability and inflation-resilient cash flows, while Consumer discretionary and Materials (cyclical sectors) lost share as the oil shock and softening demand re-priced cyclical-credit risk. Industrials and Technology held a moderate share, and Energy supply stayed contained despite the Brent rally as cash-flow-rich large-caps self-funded and leveraged E&P/oil-services names faced effectively closed primary markets.
- The rotation reflects credit selection rather than supply scarcity - investors funded defensive carry through the quarter while penalizing cyclical leverage exposed to the oil-driven inflation re-acceleration.

✓ *Issuance rotated into defensives - investors funded inflation-resilient cash flows while pulling back from cyclical credit exposed to the oil shock.*

Source: *Bloomberg; includes only USD denominated corporate bonds with amount issued above $100mm, excludes bonds issued across financial sector.*
Note: *(1) Sector based on Bloomberg's BICS Level 1 Classification; (2) BB includes BB+, BB, and BB-; B includes B+, B, and B-; CCC+ & lower includes CCC+, CCC, CCC-, and DDD+*

Spotlight on Largest Issuers Among Top Sectors

Utilities

Issuer	Industry	Issue Date	Amt. Out. (bn)	Maturity	BBG Rating	YTM
Constellation Energy Generation LLC (CEG)	Power Generation	Jan-2026	$0.94	Jan-2028	BBB+	4.3
NextEra Energy Capital Holdings Inc (NEE)	Utilities	Feb-2026	$0.90	Feb-2056	BBB	4.9
PacifiCorp (BRKHEC)	Utilities	Mar-2026	$0.90	Apr-2036	BBB+	5.4
Oncor Electric Delivery Co LLC (ONCRTX)	Utilities	Mar-2026	$0.90	Mar-2056	A	5.9
Virginia Electric and Power Co (D)	Utilities	Mar-2026	$0.90	Mar-2056	A-	5.9

Industrials

Issuer	Industry	Issue Date	Amt. Out. (bn)	Maturity	BBG Rating	YTM
Caterpillar Financial Services Corp (CAT)	Machinery Manufacturing	Feb-2026	$1.00	Feb-2029	A	4.1
Columbus McKinnon Corp/NY (CMCO)	Machinery Manufacturing	Jan-2026	$0.87	Feb-2033	B+	6.9
WESCO Distribution Inc (VEGLPL)	Electrical Equipment	Feb-2026	$0.87	Apr-2034	BB	5.5
Itron Inc (ITRI)	Electrical Equipment	Feb-2026	$0.85	Mar-2032	--	0.1
Jacobs Solutions Inc (J)	Industrial Other	Mar-2026	$0.80	Mar-2031	BBB-	5.0

Consumer Discretionary

Issuer	Industry	Issue Date	Amt. Out. (bn)	Maturity	BBG Rating	YTM
Toyota Motor Credit Corp (TOYOTA)	Automobiles	Jan-2026	$0.92	Apr-2032	A+	3.5
Toyota Motor Credit Corp (WULF)	Automobiles	Mar-2026	$0.89	Mar-2033	A+	4.7
CompoSecure Holdings LLC (COMPOS)	Consumer Services	Jan-2026	$0.88	Feb-2033	BB-	6.0
Hyundai Capital America (HYNMTR)	Automobiles	Jan-2026	$0.88	Jan-2029	A-	4.6
General Motors Financial Co Inc (APLD)	Automobiles	Jan-2026	$0.85	Jan-2031	BBB	4.8

Communications

Issuer	Industry	Issue Date	Amt. Out. (bn)	Maturity	BBG Rating	YTM
AT&T Inc (T)	Wireless Telecom	Mar-2026	$0.75	Mar-2036	BBB	4.6
Alphabet Inc (BWY)	Internet Media	Mar-2026	$0.75	Mar-2032	AA	1.0
T-Mobile USA Inc (SOLEIN)	Wireless Telecom	Feb-2026	$0.70	Feb-2035	BBB	4.0
T-Mobile USA Inc (ARGID)	Wireless Telecom	Feb-2026	$0.70	Feb-2032	BBB	3.6
Airbnb Inc (ABNB)	Internet Media	Mar-2026	$0.60	Mar-2031	BBB+	4.6

Source: *Bloomberg; includes only USD denominated corporate bonds with amount issued above $100mm, excludes bonds issued across financial sector.*
Note: *Industry based on Bloomberg's BICS Level 2 Classification*

aranca

2500+
Global clients

500+
Strong, professional team across multi-disciplinary domains

120+
Sectors and sub-sectors researched by our analysis

80+
Countries where we have delivered projects

ABOUT ARANCA

Growth Advisory & Procurement
CXOs in Strategy, SBUs, Sales, Marketing, CI/MI, Innovation

Valuation & Financial Advisory
CFOs in Start-ups, PE/VC Firms, Corporate M&A Teams, Mid-market Companies

Technology | IP Research & Advisory
R&D, Tech Scouting, Open Innovation, IP Teams, Product Development

Investment Research & Analytics
Brokerage, Hedge Funds, IRPs, I-Banks, AMCs, Investor Relations

Decide Fearlessly

From startups to the Fortune 500, private equity and global financial firms, Aranca is the trusted research and advisory partner for over 2500 companies

www.aranca.com

aranca