

Newsletter

Carry & Credit: US High Yield Market Pulse | 9M'26

Performance | Spreads | Issuance | Positioning

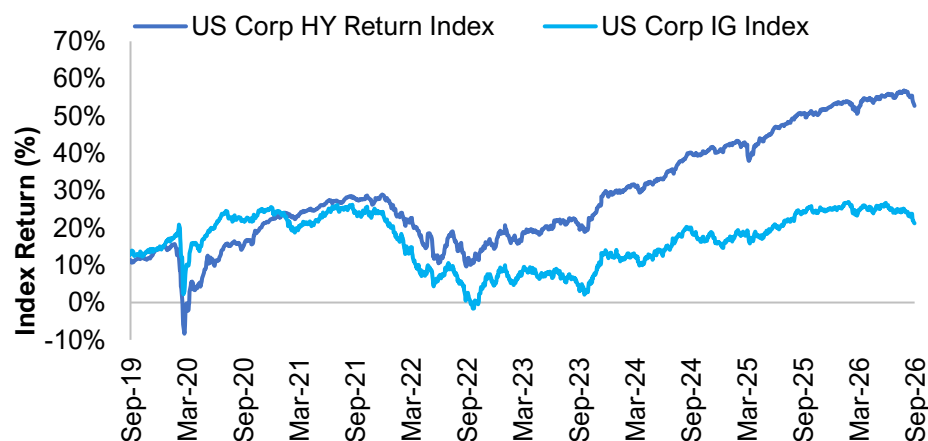


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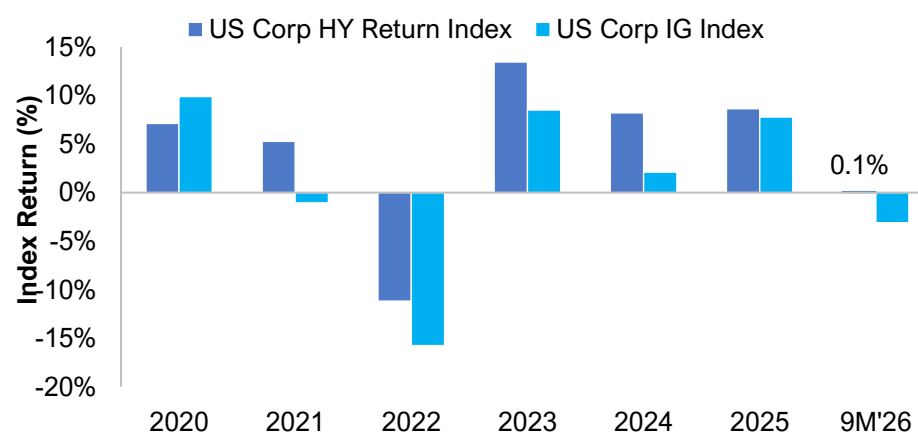
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The US High-Yield Bond Market Performance – IG vs. HY Returns

HY vs. IG Corporate Bond Index Returns Since 2019 ⁽¹⁾



HY vs. IG Corporate Bond Index Returns



- US HY returned 0.1% in 9M'26, as a sharp rise in Treasury yields (26.8% in 9M'26) offset the income advantage from higher coupons, highlighting the asset class's sensitivity to changes in interest-rate expectations.
- Persistent inflation, higher energy prices amid Middle East tensions, and uncertainty over the Fed's policy path have constrained bond-price recovery, despite the income cushion from HY coupons.
- If Treasury yields remain elevated, carry will remain an important return driver, while a further increase in yields could erode returns, particularly for longer-duration and lower-quality credits.



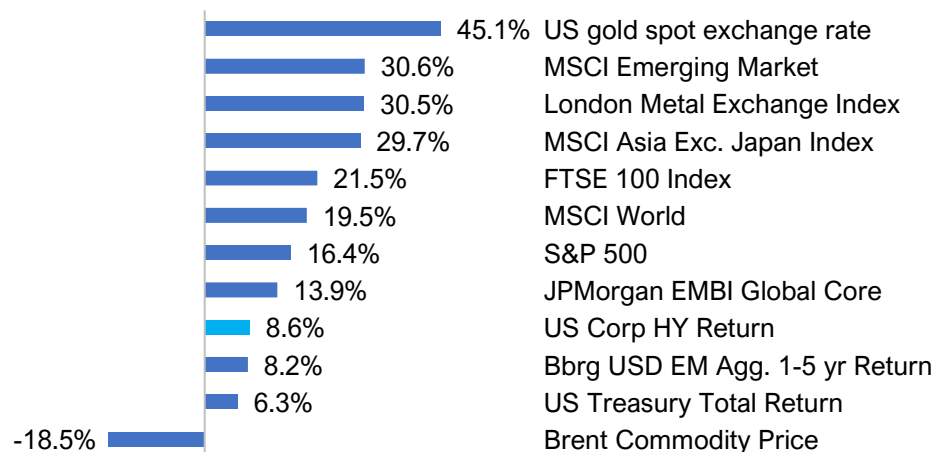
Higher yields are testing the resilience of HY returns, making the trajectory of Treasury yields, coupon carry and credit spreads critical indicators to monitor.

Source: Aranca Research, Bloomberg | 9M'2026 returns is calculated as YTD returns ending September 30, 2026.

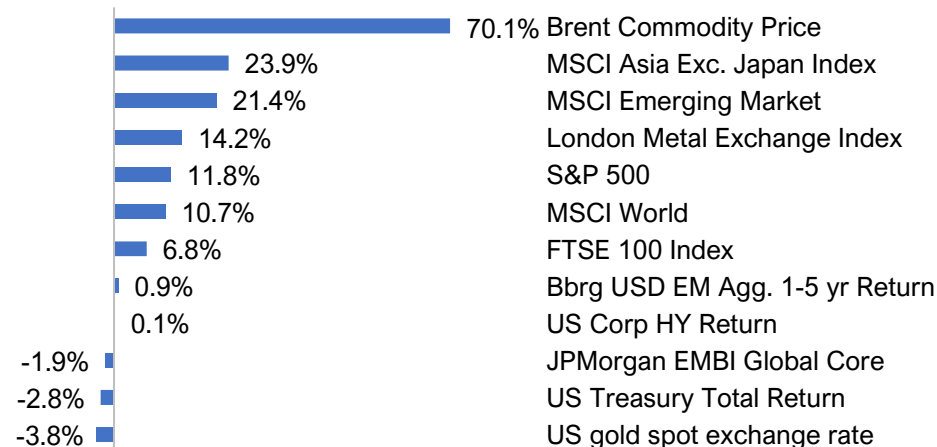
Note: (1) HY returns calculated on base price of \$1,910.5 as on January 2, 2019. IG return calculated on base price of \$2,834.1 as on January 2, 2019.

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

2025 Returns of HY Bonds vs. Other Asset Classes



9M'26 Returns of HY Bonds vs. Other Asset Classes



- In 9M'26, asset-class returns diverged sharply, with US HY (+0.1%) outperforming US Treasuries (-2.8%) as coupon income helped cushion the impact of rising yields. Brent crude (+70.1%) led the returns trajectory, followed by MSCI Asia ex-Japan (+23.9%) and MSCI Emerging Markets (+21.4%). US equities also advanced, with the S&P 500 gaining 11.8%, supported by resilient growth and AI-related investment.
- Gold declined 3.8% as elevated yields and a stronger dollar weighed on performance, while the divergence across asset classes highlighted the influence of energy-market disruptions.
- Investors should monitor real yields, inflation expectations and Fed policy signals to assess whether HY carry can offset further rate-driven price pressure.

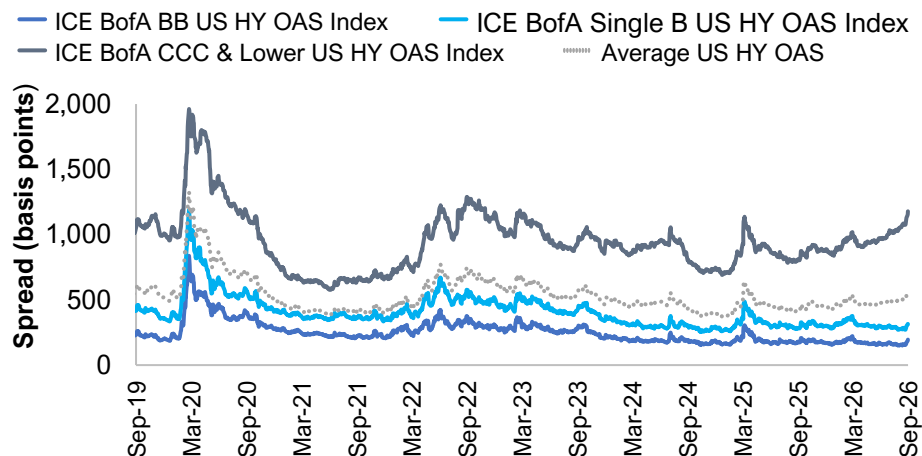


HY's positive return highlights the defensive contribution of carry relative to duration-sensitive bonds, although its opportunity cost has increased against stronger-performing risk assets.

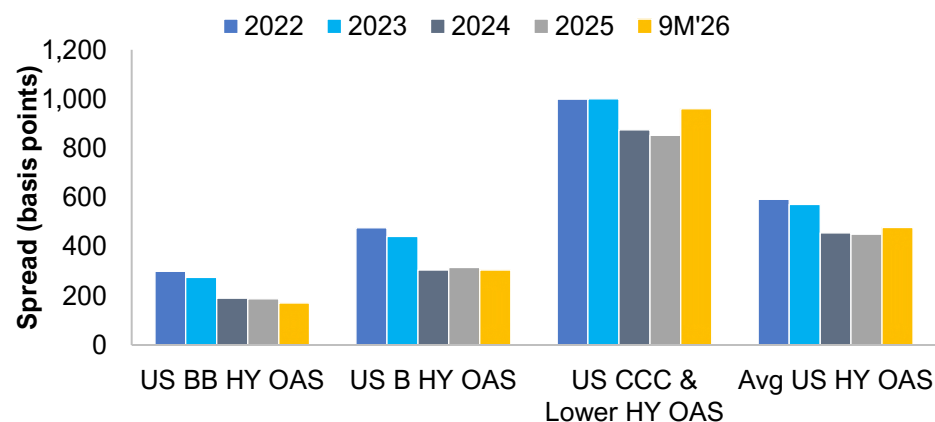
Source: Aranca Research, Bloomberg

The US High-Yield Bond Spread Analysis Across Rating Tranches

US HY OAS Bond Spread Trends Since 2019



Average OAS Bond Spread Trends Per Rating Buckets



- US HY spreads remained relatively contained in 9M'26 despite higher Treasury yields, suggesting that rate-driven bond-price pressure has not translated into an equivalent broad repricing of credit risk.
- Average OAS was ~170 bps for BB, 304 bps for B, and 960 bps for CCC and below. Widening lower-rated spreads signal growing investor caution amid tighter financing conditions and higher refinancing costs. BB spreads remain comparatively tight, suggesting limited compensation for further spread compression, while CCC spreads reflect elevated refinancing, liquidity, and default risks.
- If borrowing costs remain elevated, investors should monitor interest coverage, refinancing requirements, and CCC spread widening for early signs that higher funding costs are translating into credit deterioration.

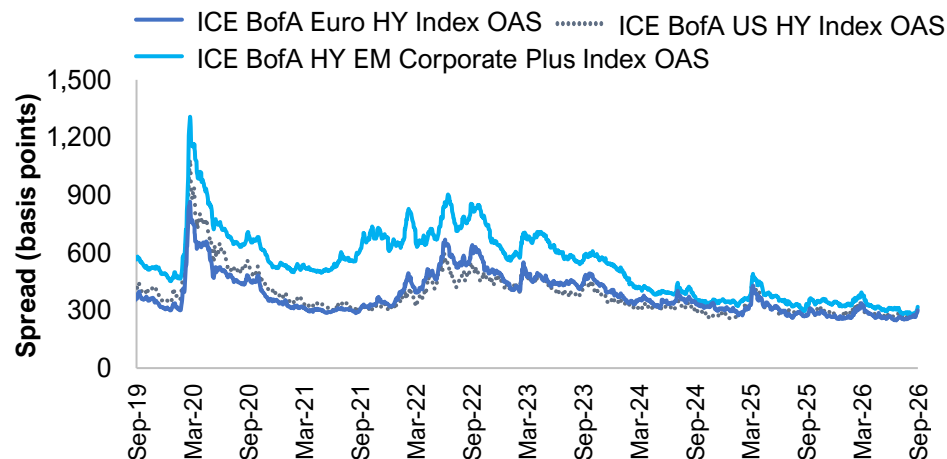


Tight aggregate spreads may mask refinancing vulnerabilities; rating-level spread movements and debt-servicing capacity are critical indicators of emerging HY credit stress.

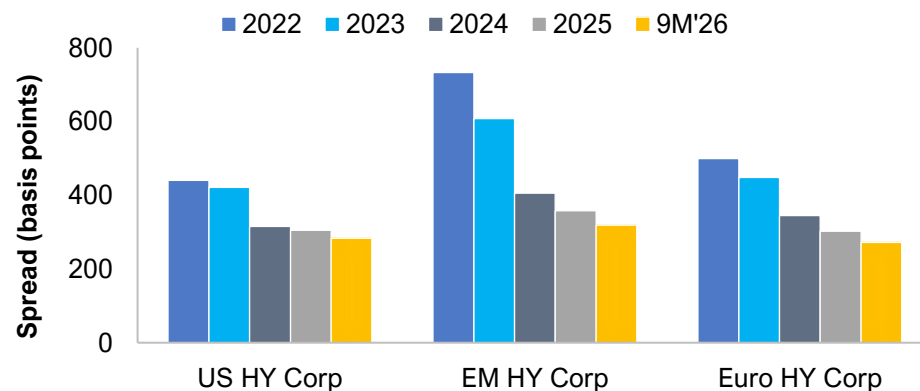
Source: Aranca Research, Federal Reserve Economic Data

The US High-Yield Bond Spread Analysis Across Regions

Global HY OAS Bond Spread Trends Since 2019



Average OAS Bond Spread Trends Per Region



- Global HY spreads continued to ease through 9M'26, remaining well below their 2020 peaks as resilient corporate fundamentals helped absorb geopolitical shocks and uncertainty over the interest-rate outlook.
- Euro HY traded at the tightest average spread (272bps), below US HY (283bps) and EM HY (319bps). EM HY continued to command the highest risk premium due to greater country and macroeconomic risks, while US HY remained supported by resilient corporate fundamentals.
- Investors should evaluate regional allocations against government yield trajectories, monetary policy, currency exposure, and refinancing conditions, as tighter spreads do not always indicate lower risk or better risk-adjusted returns.

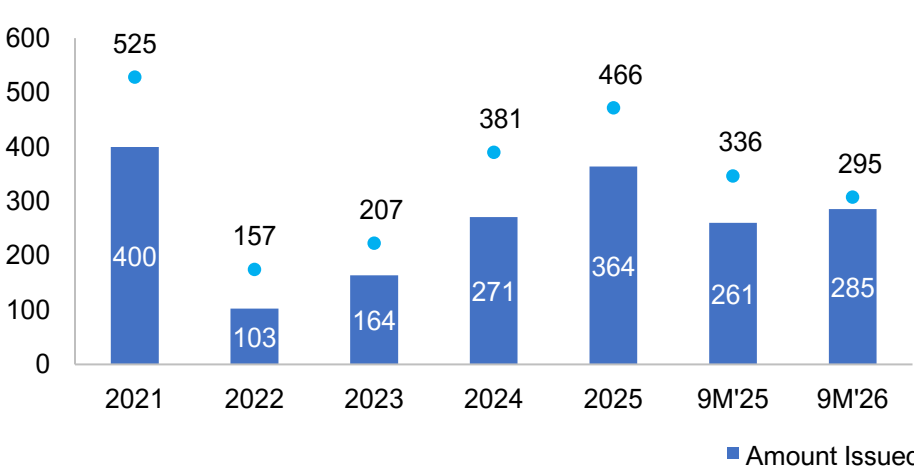


Regional diversification remains valuable, but relative spread attractiveness should be assessed alongside credit quality, sector composition, liquidity and currency exposure.

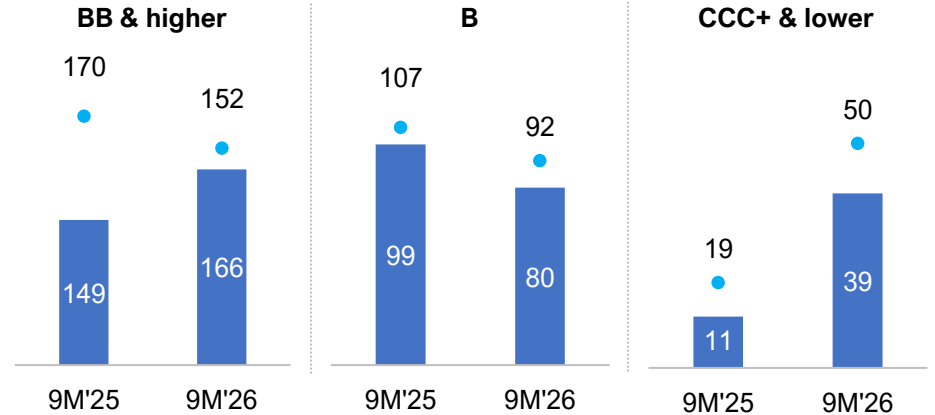
Source: Aranca Research, Federal Reserve Economic Data

The US High-Yield Bond Issuance Trend – 9M'26

US HY Bond Issuances Trend vs. Historical Period



US HY Bond Issuance Per Rating Buckets^{(1) (2)}



- US HY issuance increased to USD 285bn in 9M'26 from USD 261bn in 9M'25; at the same time, deal count declined to 295 from 336, indicating that issuance was driven by fewer but larger transactions and larger average transaction sizes, as AI financing, refinancing, and M&A drove sizeable funding requirements.
- BB and higher-rated issuance increased to USD 166bn from USD 149bn, while B-rated issuance declined to USD 80bn from USD 99bn. CCC+ and lower-rated issuance also rose materially to USD 39bn from USD 11bn.
- The concentration of issuance among higher-rated HY borrowers suggests that market access remains available, but increasingly selective, as elevated borrowing costs favor issuers with stronger credit quality.

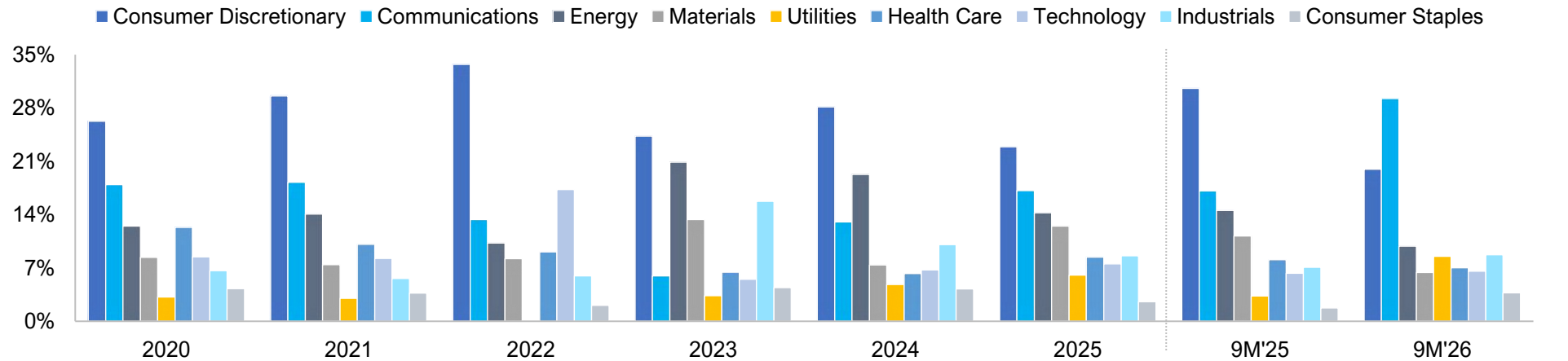


Higher gross issuance masks a more selective market: refinancing demand sustains supply, but access and financing terms increasingly depend on credit quality.

Source: Aranca Research, Bloomberg; includes only USD-denominated corporate bonds with amount issued above \$100mm, excludes bonds issued across the financial sector.
Note: (1) Excludes issuances below USD 100mn. (2) BB includes BB+, BB, and BB-; B includes B+, B, and B-; CCC+ & lower includes CCC+, CCC, CC+, and CC-.

Sector-Wise US High-Yield Issuance Trend – 9M'26

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



- Communications became the largest source of US HY issuance in 9M'26, accounting for 29.3% of supply versus 17.1% in 9M'25, while Consumer Discretionary fell to 19.9% from 30.6%, marking a significant shift in the sectoral composition of borrowing.
- Utilities also gained share to 8.5% from 3.3%, alongside Industrials at 8.7% from 7.1% and Consumer Staples at 3.7% from 1.8%. In contrast, Energy and Materials declined to 9.9% and 6.4% from 14.6% and 11.2%, respectively, while Health Care eased to 7.0% from 8.1%.
- The concentration of supply in Communications and Consumer Discretionary warrants closer examination of refinancing requirements, capital expenditure, acquisition-related borrowing, and issuer-level leverage to distinguish structural funding needs from incremental credit risk.



Sector leadership in issuance has shifted decisively toward Communications, making sector-specific refinancing needs and capital structures increasingly important to HY credit selection.

Source: Aranca Research, 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

Spotlight on Largest Issuers Among Top Sectors

Communications						
Issuer	Industry	Issue Date	Amt. Out. (bn)	Maturity	BBG Rating	YTM
Meridian Arc Holdco LLC (MERIDI)	Wireline Telecommunications Services	Apr-26	\$5.70	Apr-31	BB-	6.2
PR RNO Property Owner 1 LLC (TRACTD)	Wireline Telecommunications Services	May-26	\$4.95	May-31	BB	6.6
Discovery Global Holdings Inc (WBD)	Entertainment Content	May-26	\$4.10	Mar-42	BB	8.1
SV RNO Property Owner 1 LLC (TRACTC)	Wireline Telecommunications Services	Feb-26	\$3.80	Mar-31	BB	6.3
Galaxy Helios Data Centers II LLC (GALAXY)	Wireline Telecommunications Services	Jul-26	\$3.51	Aug-31	BB-	11.1

Consumer Discretionary						
Issuer	Industry	Issue Date	Amt. Out. (bn)	Maturity	BBG Rating	YTM
Stellantis NV (STLA)	Automobiles Manufacturing	Mar-26	\$2.53	Perpetual	BB	6.9
Stellantis NV (STLA)	Automobiles Manufacturing	Mar-26	\$2.07	Perpetual	BB	7.3
Michaels Cos Inc/The (MIK)	Retail - Consumer Discretionary	Mar-26	\$2.00	Mar-33	B-	8.7
Ford Motor Credit Co LLC (F)	Automobiles Manufacturing	Aug-26	\$1.50	Aug-29	BB+	6.2
QXO Building Products Inc (BECN)	Retail - Consumer Discretionary	Jun-26	\$1.50	Jul-31	B+	6.1

Energy						
Issuer	Industry	Issue Date	Amt. Out. (bn)	Maturity	BBG Rating	YTM
Venture Global LNG Inc (VENLNG)	Pipeline	Jun-26	\$1.30	Dec-34	BB-	6.7
Venture Global LNG Inc (VENLNG)	Pipeline	Jun-26	\$1.30	Jun-36	BB-	6.9
Energy Transfer LP (ET)	Pipeline	Jul-26	\$1.10	Jan-57	BB+	7.3
Harvest Midstream I LP (HARMID)	Pipeline	May-26	\$1.00	May-34	B+	6.5
Kodiak Gas Services LLC (KGS)	Oil & Gas Services & Equipment	Mar-26	\$1.00	Apr-31	BB-	5.8

Industrials						
Issuer	Industry	Issue Date	Amt. Out. (bn)	Maturity	BBG Rating	YTM
TransDigm Inc (TDG)	Aerospace & Defense	Sep-26	\$3.00	Jan-35	BB-	6.9
Carrix Inc (CARRIX)	Transportation & Logistics	Jul-26	\$2.50	Aug-33	BB+	6.9
TransDigm Inc (TDG)	Aerospace & Defense	Feb-26	\$1.70	Jul-34	B-	6.2
EquipmentShare.com Inc (EQMSRM)	Industrial Other	Jul-26	\$1.35	Jul-34	B	8.2
Solaris Energy Infrastructure LLC (SOILIN)	Electrical Equipment Manufacturing	May-26	\$1.30	May-31	BB-	6.1

Source: Aranca Research, 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 1 Classification

US High Yield: Attractive Carry, Narrowing Margin of Safety

- Carry remains the primary return driver: HY OAS at 312bps and 8.16% effective yield (30-Sep); limited spread compensation constrains further compression.
- Favor higher-quality HY: as BB spreads (194bps) offer attractive income with materially lower spread risk than CCC spreads (1,179bps).
- Risk management remains critical: 1.84% decline in Sep highlights the sensitivity of returns to both rising Treasury yields and spread widening.

Key Risks from Higher Rates

- Valuations remain relatively tight, with the move from 260bps (28-Aug) to 312bps (30-Sep) reflecting a market reset rather than broad risk aversion.
- Higher rates and wider spreads weighed on returns, contributing to a 1.84% HY decline in September.
- Risks are concentrated among lower-rated issuers, with CCC spreads widening to 1,179bps, indicating growing refinancing pressures.
- Refinancing at higher borrowing costs could strain weaker issuers, particularly for debt maturing during 2026-28.

Where Higher Rates Still Pay

- Current HY spreads provide a larger cushion against market volatility than IG, offering greater protection if conditions weaken.
- Current spread levels appear sufficient to absorb expected default losses, with forecasts remaining below the implied breakeven threshold.
- BB-rated bonds offer a balanced risk-return profile, combining attractive income with higher credit quality within HY.
- An 8.16% yield continues to support returns, although outcomes will remain sensitive to interest rates, spreads, and credit conditions.

Indicators to Watch

CCC Spread Tail

● Elevated

Rate Sensitivity

● Rising

Sector Concentration

● Rotating

2026-28 Maturities

● Building

Breakeven & Carry

● Supportive



Move up in quality within HY: attractive 8.16% yields support income, but elevated CCC spreads (1,179bps) and refinancing risks warrant selectivity.

Source: Aranca Research, Bloomberg, Federal Reserve Economic Data



2500+

Global clients

500+

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multi-disciplinary domains

120+

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researched by our analysis

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Countries where we have
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