Newsletter

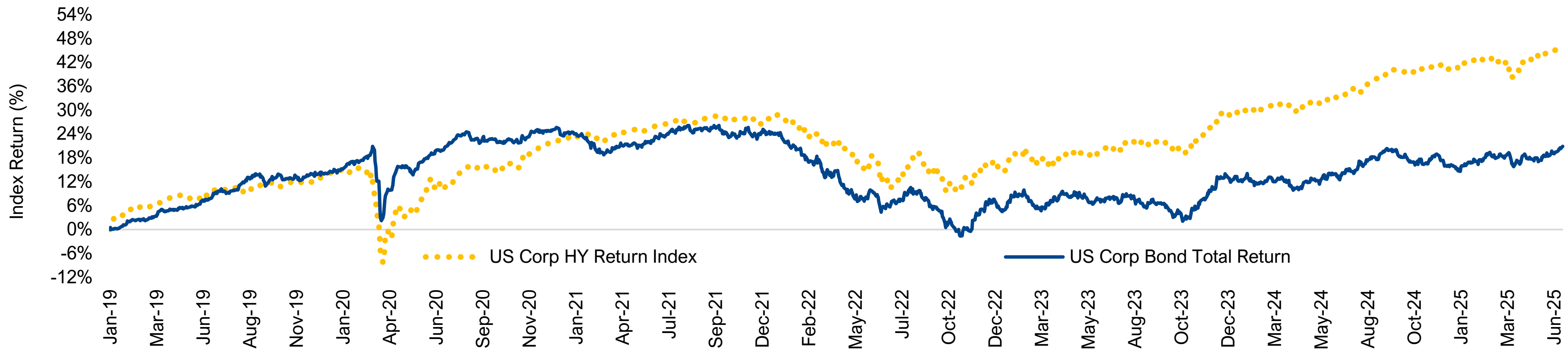
US High-Yield Newsletter – H1’25

July 2025

Contents

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

Comparison of HY vs. IG Corporate Bond Index Returns Since 2019



Commentary:

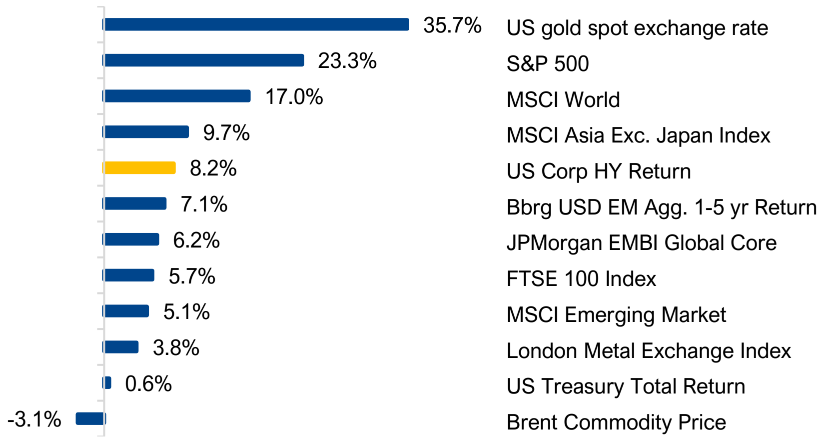
- After the weak performance in 2022 due to the Fed's tightening policy, US bond markets recovered over 2023–24 as recession fears waned and credit conditions normalized. Specifically, US high-yield (HY) bonds delivered strong risk-adjusted returns in 2024 - 8.2% vs. 2.1% for US investment-grade (IG) bonds - fueled by tighter spreads, strong corporate fundamentals, and investors hunting for yield.
- Investors poured record amounts into bond funds in 2024 (vs. net outflows in 2022). US HY bonds benefited more due to their higher carry, as tight spreads limited price appreciation, while US IG bonds remained a defensive allocation.
- In H1'25, the return gap continued to favor high yield, with US HY delivering a 4.6% YTD return compared to 4.2% for US IG. This was largely driven by strong performance of HY bonds in 2Q25 (+3.5% vs. IG's +1.8%.) as easing economic risks encouraged a risk-on shift. Earlier in 1Q25, IG index outperformed (+2.3% vs. HY's 1.0%), driven by tariff uncertainty, geopolitical tensions, and supply chain disruptions.

Source: *Bloomberg*

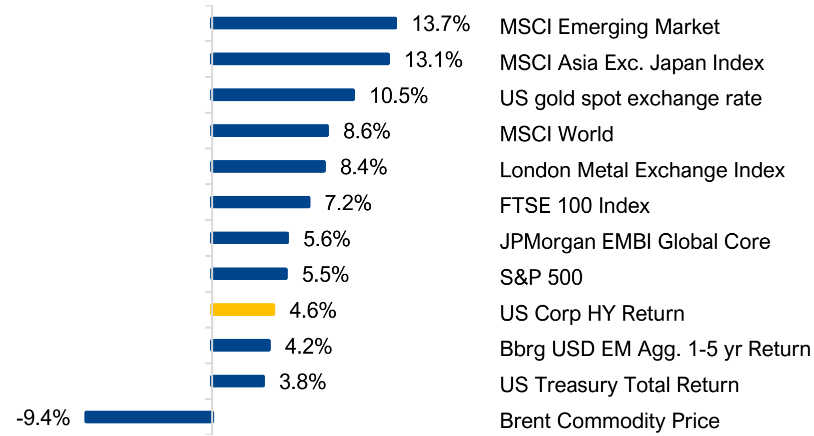
Note: *(1) HY returns calculated on base price of $1,910.52 as on January 2, 2019. IG return calculated on base price of $2,834.08 as on January 2, 2019. (2) H1 symbolizes 1st Jan to 30st Jun.*

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

2024 Returns Comparison of HY Bonds vs. Other Asset Classes



H1'25 Returns Comparison of HY Bonds vs. Other Asset Classes



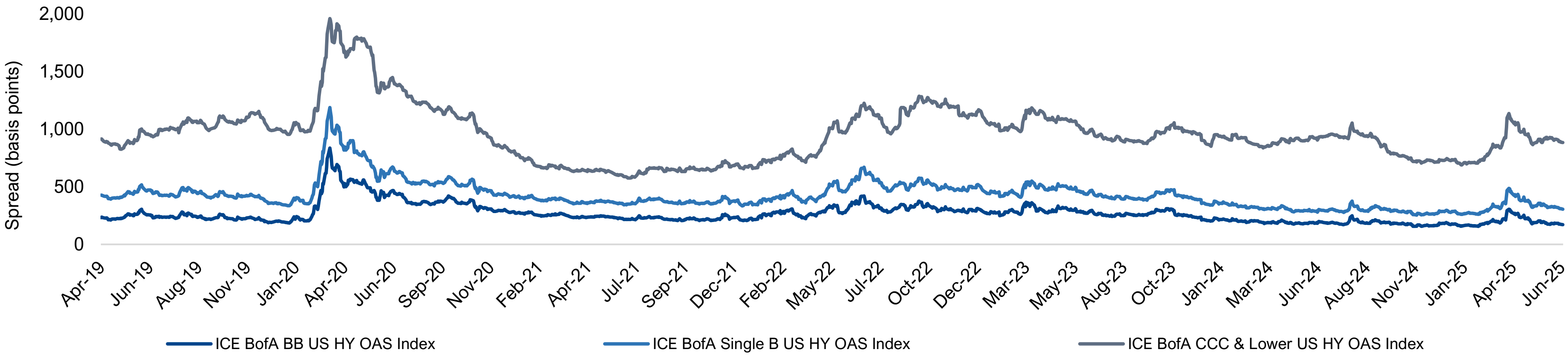
Commentary:

- In 2024, strong macro recovery and higher carry created a favorable backdrop for risk assets. US HY asset outperformed major fixed income peers, led by a risk-on sentiment where investors favored yield and credit over duration.
- In 1Q25, market tone reversed amid post-election tariff risks, weaker growth signals, and fears of stagflation, leading to a modest 1.0% return for US HY bonds. However, in 2Q25, US HY made a comeback leading to a 4.6% return in H1'25 (while still trailing other more riskier asset classes). The recovery in US HY reflects investors' growing confidence and risk appetite amid easing economic risks.
- EM equities emerged as the top performer with over 13% in H1'25, supported by a weaker dollar, signs of a global manufacturing rebound, and more accommodative policy in China. In contrast, oil was a notable underperformer, declining ~10% due to abundant supply and uneven demand across OECD economies.

Source: *Bloomberg*
Note: *(1) HY return calculated on base price of $2,683.14 as on December 31, 2024. IG return calculated on base price of $3,289.5 as on December 31, 2024. (2) YTD returns as of June 30, 2025.*

The US High-Yield Bond Spread Analysis Across Rating Tranches

Comparison of OAS Bond Spread Trends Across Rating Buckets



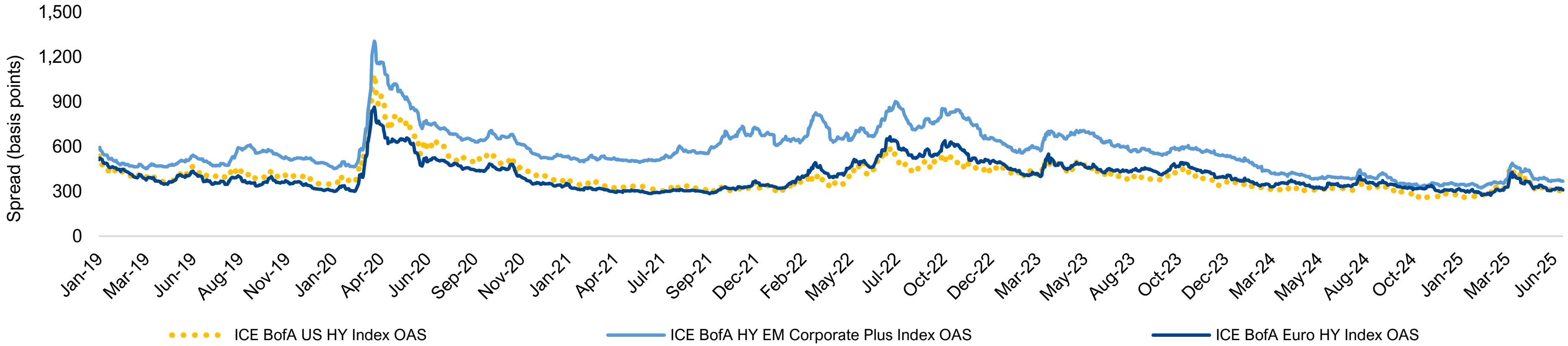
Commentary:

- Spreads have tightened steadily since 2022, with 2024 marking the peak compression, driven by strong corporate earnings, stable macros, and a favorable rate outlook. Average OAS spreads tightened in 2024 - 190 bps (BB), 305 bps (B), and 874 bps (CCC & below) - marking a significant drop from the average 2022 levels of 299 bps (BB), 477 bps (B), and 999 bps (CCC), implying risk-on sentiment across the board.
- In H1'25, spreads continued to remain compressed vs. historical levels. Average US HY OAS spreads stood at - 196 bps (BB), 327 bps (B), and 855 bps (CCC & below). However, there was slight expansion vs. 2024 levels as volatility rose in 2Q25 due to Trump's uncertain tariff measure. The reciprocal tariffs effected in April, which led to upward spike in spreads, only to tighten again after the tariff pause announced on April 9.
- As per the current spreads, BB and B tranche have tightened the most vs. historical levels. CCC- tightened the most in 2025, but spreads remain high relative to historical levels.

Source: *Federal Reserve Economic Data (FRED) – a database maintained by the Federal Reserve Bank of St. Louis.* https://fred.stlouisfed.org/

The US High-Yield Bond Spread Analysis Across Regions

Comparison of OAS Bond Spread Trends Across Regions



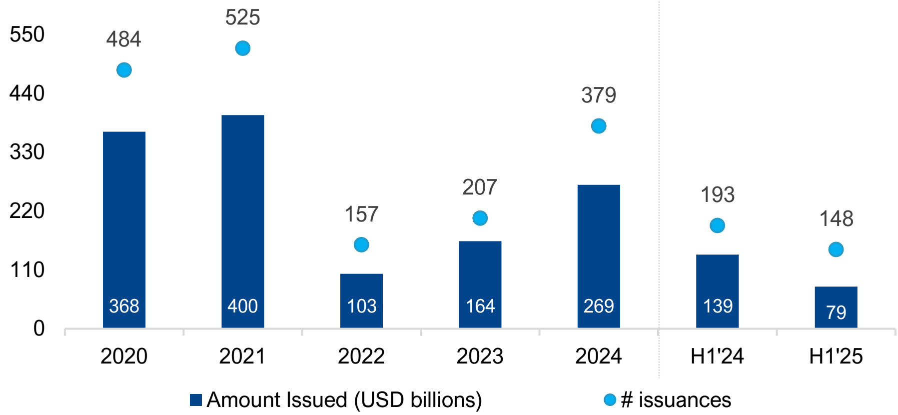
Commentary:

- HY spreads tightened across regions between 2022 and 2024, with Emerging Markets (EMs) reporting the sharpest compression, as the risk appetite surged and global growth sentiment stabilized. Average EM HY spreads fell from 733 bps in 2022 to 406 bps in 2024.
- Investor search for yield and improved fundamentals in EM and Eurozone credits fueled demand, while the US HY market also benefited from strong earnings and low default expectations, with average spreads narrowing to 315 bps in 2024 from 440 bps in 2022.
- High-yield spreads across US, Euro, and EM markets remained steady in beginning of 2025, supported by stable macro fundamentals. In 2Q25, spreads widened notably, led by EM HY amid rising inflation concerns and a more tightening-leaning policy stance by the Federal Reserve. While some recovery occurred by quarter-end, spreads closed higher across regions.
- As of June 2025, US HY spreads stood at 296 bps, while Eurozone and EM HY spreads stood at 369 bps and 310 bps, respectively.

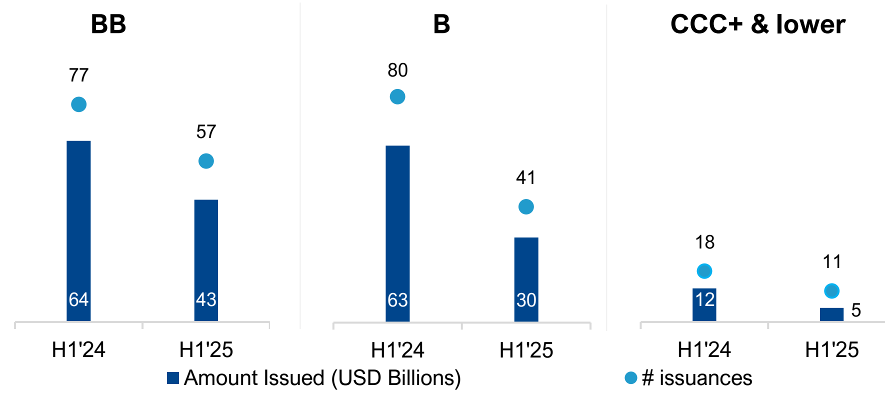
Source: *Federal Reserve Economic Data (FRED) – a database maintained by the Federal Reserve Bank of St. Louis.* https://fred.stlouisfed.org/

The US High-Yield Issuance Trend – H1’25

Comparison of H1 US HY Bond Issuances vs. Historical Period



US HY Issuance by Rating Category – H1’25



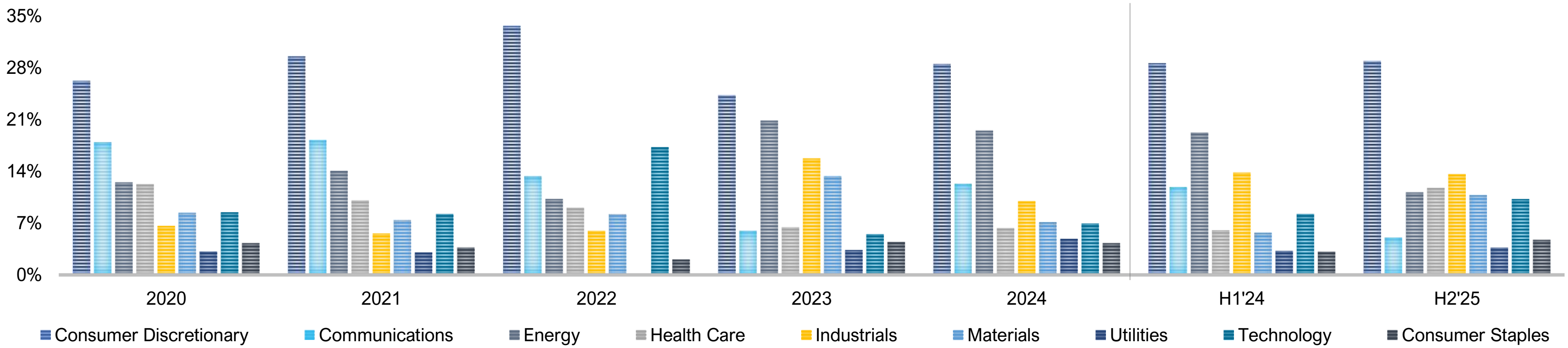
Commentary:

- A strong rebound was noted in the US HY bond issuances in 2024, driven by a 100 bps Fed rate cut that lowered borrowing costs and unlocked a wave of refinancing activity. Issuance volumes surpassed 5-year average of $291 Bn, with >70% of deals focused on refinancing.
- Average YTM fell, encouraging issuers to return to the market and restructure debt at more favorable terms after two muted years.
- During H1’25, US HY issuance volumes declined significantly by 23% YoY to $79 Bn, primarily driven by weak performance in 2Q25. Elevated funding costs, reduced refinancing requirements, and softer investor demand impacted all rating tiers. Issuance volumes across BB and B tranche especially witnessed significant decline in 2Q25.
- Ongoing macroeconomic uncertainty and potential geopolitical risks have further contributed to issuer caution and increased credit scrutiny from investors in H1’25.

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+*

Sector-Wise US High-Yield Issuance Trend – H1’25

Comparison of US HY Bonds Issuances Across Sectors for the Past 5 Years



Commentary:

- In 2024, companies across sectors leveraged favorable market conditions for refinancing. A significant uptick was observed in some sectors, including, communications, utilities, technology, and consumer discretionary, where debt issuances more than doubled in 2024 vs. 2023.
- During H1’25, market volatility and higher borrowing costs weighed on debt issuance across major sectors. Energy issuance fell due to lower refinancing needs and commodity price uncertainty, while communications declined amid high leverage concerns and subdued investor demand. In contrast, healthcare issuance grew over 5%, driven by increased funding for innovation and M&A, and materials benefited from renewed capital spending and improving supply chains. Despite reduced consumer spending, discretionary remained the largest issuer.
- As shifts in risk appetite and sector-specific dynamics continue to influence issuance volumes, we highlight the top issuances across the most active sectors in H1’25 on the next slide.

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

Consumer Discretionary

Issuer	Industry	Issue Date	Amt. Out. (bn)	Maturity	BBG Rating	YTM
Voyager Parent LLC (EVRI)	Casinos & Gaming	May-2025	$1.85	Jul-2032	BB-	8.4
Sabre GLBL Inc (SABHLD)	Entertainment Resources	Jun-2025	$1.33	Jul-2030	B-	9.7
Newell Brands Inc (NWL)	Home & Office Products Manufacturing	May-2025	$1.25	Jun-2028	B+	6.4
Ford Motor Credit Co LLC (F)	Automobiles Manufacturing	Jun-2025	$1.17	Jul-2028	BB+	3.6
Allied Universal Holdco LLC (UNSEAM)	Consumer Services	Jun-2025	$1.05	Jun-2030	B-	6.5

Industrials

Issuer	Industry	Issue Date	Amt. Out. (bn)	Maturity	BBG Rating	YTM
TransDigm Inc (TDG)	Aerospace & Defense	May-2025	$2.65	May-2033	B-	6.3
Herc Holdings Inc (HRI)	Industrial Other	Jun-2025	$1.65	Jun-2030	BB-	6.0
Herc Holdings Inc (HRI)	Industrial Other	Jun-2025	$1.10	Jun-2033	BB-	6.5
Waste Pro USA Inc (WASPRO)	Waste & Environment Services	Jan-2025	$0.85	Feb-2033	B	6.3
WESCO Distribution Inc (WCC)	Electrical Equipment Manufacturing	Mar-2025	$0.80	Mar-2033	BB	5.8

Health Care

Issuer	Industry	Issue Date	Amt. Out. (bn)	Maturity	BBG Rating	YTM
IQVIA Inc (IQV)	Health Care Facilities & Services	Jun-2025	$2.00	Jun-2032	BB	5.7
DaVita Inc (DVA)	Health Care Facilities & Services	May-2025	$1.00	Jul-2033	BB-	6.2
Radiology Partners Inc (RADPAR)	Health Care Facilities & Services	Jun-2025	$0.90	Jul-2032	B-	8.3
MPH Acquisition Holdings LLC (MLTPLN)	Health Care Facilities & Services	Jan-2025	$0.76	Dec-2030	CCC+	10.0
MPH Acquisition Holdings LLC (MLTPLN)	Health Care Facilities & Services	Jan-2025	$0.75	Mar-2031	CCC-	13.8

Energy

Issuer	Industry	Issue Date	Amt. Out. (bn)	Maturity	BBG Rating	YTM
PBF Holding Co LLC (PBFENE)	Refining & Marketing	Mar-2025	$0.80	Mar-2030	BB-	10.4
Excelerate Energy LP (EXCENE)	Pipeline	May-2025	$0.80	May-2030	BB	6.7
Hess Midstream Operations LP (HESM)	Pipeline	Feb-2025	$0.80	Mar-2028	BB	5.3
Civitas Resources Inc (CIVI)	Exploration & Production	Jun-2025	$0.75	Jun-2033	BB-	9.1
Chord Energy Corp (CHRD)	Exploration & Production	Mar-2025	$0.75	Mar-2033	BB	6.3

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*

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2500+
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