Newsletter

US High-Yield Newsletter – 1Q25

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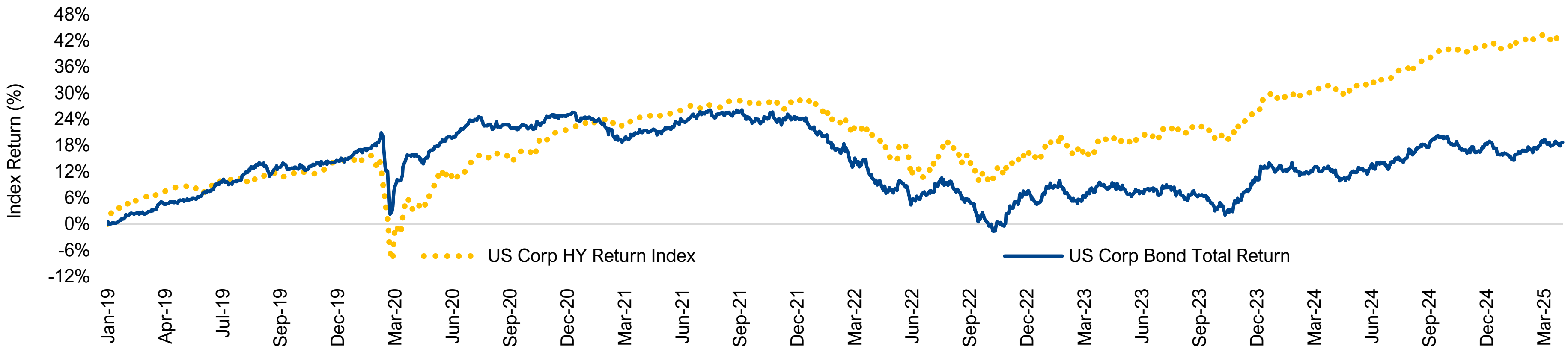
The US High-Yield Bond Market Performance – IG vs. HY Returns

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



Commentary:

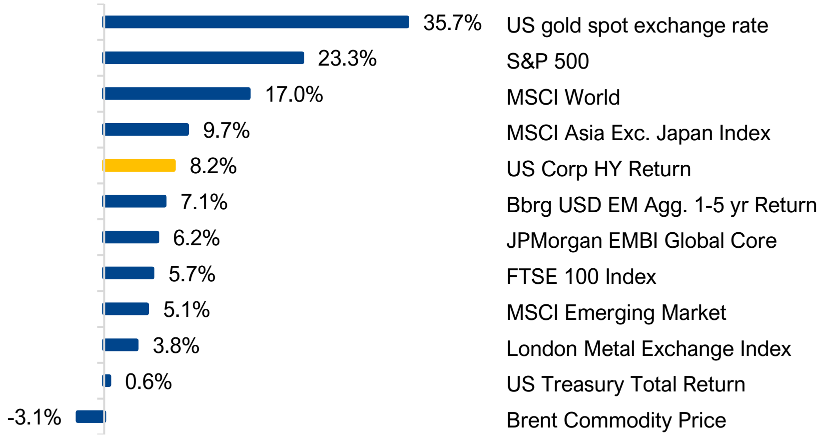
- After the weak performance in 2022 driven by the Fed's tightening policy, the US bond markets recovered over 2023–24 as recession fears waned and credit conditions normalized. Specifically, high-yield (HY) bonds delivered strong risk-adjusted returns in 2024—8.2% vs. 2.1% for investment-grade (IG) 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). HY bonds benefited more due to their higher carry, as tight spreads limited price appreciation, while IG bonds remained a defensive allocation.
- In 1Q25, the return differential flipped: IG returned 2.3% vs. only 1% for HY, with Treasuries outperforming both at 2.9%. This reflected a "risk-off" rotation amid resurfacing economic risks—tariff uncertainty, geopolitical tensions, and supply-chain disruptions—prompting investors to favor safer, higher-quality debt.

Source: *Bloomberg*

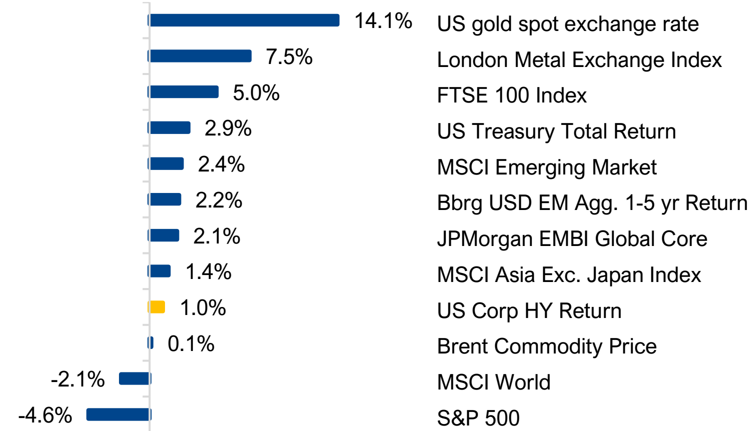
Note: *(1) HY returns calculated on base price of $1,910.52 as on January 2, 2019. IG return calculated on base price of $2,834.08 as on January 2, 2019. (2) 1Q symbolizes 1st Jan to 31st Mar 2025.*

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

2024 Returns Comparison of HY Bonds vs. Other Asset Classes



1Q25 Returns Comparison of HY Bonds vs. Other Asset Classes



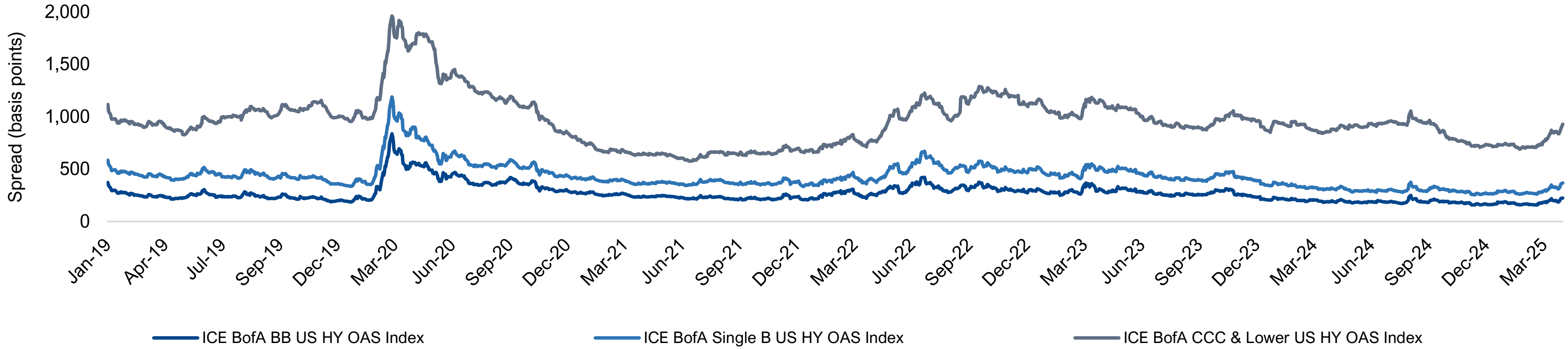
Commentary:

- In 2024, strong macro recovery and higher carry created a favorable backdrop for risk assets. HY bonds outperformed many fixed income peers and ranked among top-performing bond categories. The HY bond rally was driven by a risk-on sentiment where investors favored yield and credit over duration.
- However, market tone reversed in 2025 driven by post-election tariff risks, weaker growth signals, and fears of stagflation. HY bond returns fell to 1.0%, outpaced by safer asset classes like Treasuries and IG bonds, as credit spreads widened modestly.
- In 1Q25, riskier assets underperformed—S&P 500 dropped by 4.6%. HY Corp bonds managed to generate a 1% return, lower compared to the relatively safer US IG and sovereign bonds.
- Gold reported a strong 14.1% return in 1Q25, reflecting heightened demand for safe-haven assets.

Source: *Bloomberg*
(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 March 6, 2025.

The US High-Yield Bond Spread Analysis Across Rating Tranches

Comparison of OAS Bond Spread Trends Across Rating Buckets



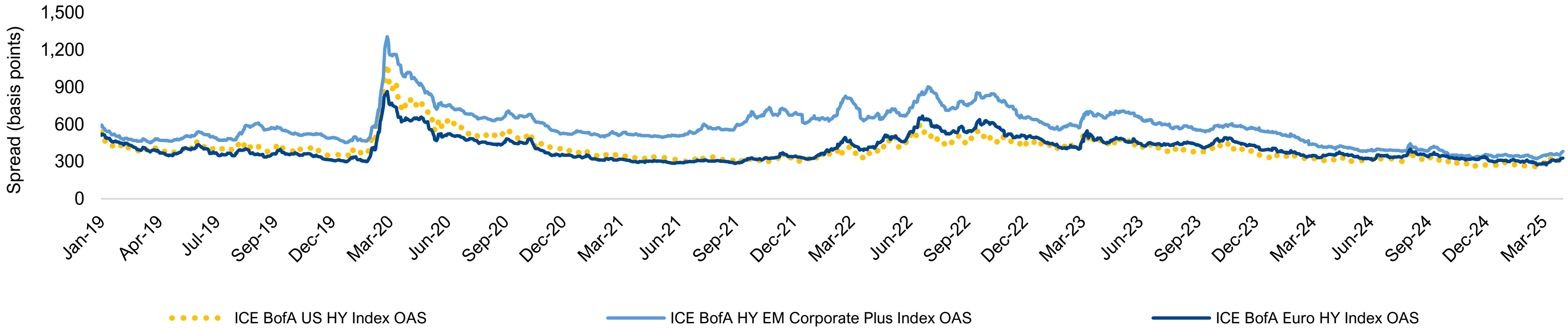
Commentary:

- Spreads have tightened steadily since 2022, with 2024 marking the peak compression driven by strong corporate earnings, stable macros, and a favorable rate outlook. Lower-rated B and CCC bonds reported the sharpest tightening as investors chased higher yields.
- 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). This implies risk-on sentiment across the board.
- 1Q25 began with continued tightening, but the sentiment shifted sharply in March as tariff uncertainty and geopolitical concerns sparked a broad repricing of credit risk. Spreads widened to 224 bps (BB), 368 bps (B), and 928 bps (CCC), highlighting the renewed caution.
- HY markets posted modest outflows in March 2025. Investors started demanding higher spreads to compensate for increased credit risk, especially in lower-rated segments.

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



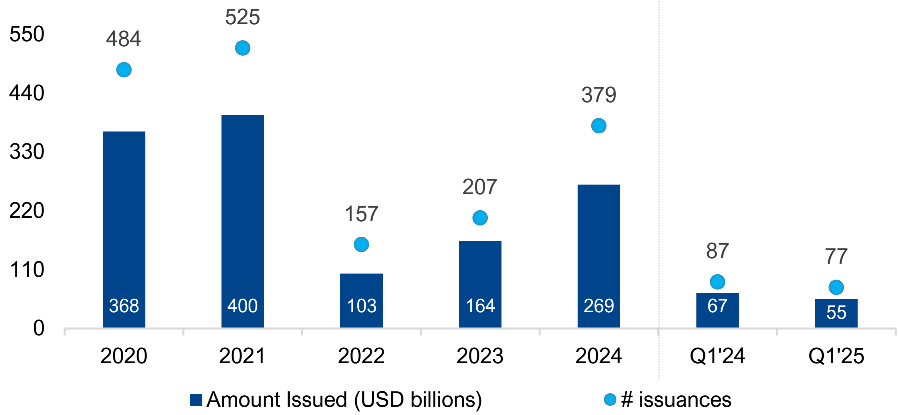
Commentary:

- HY spreads tightened across all 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. 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.
- 1Q25 began with sustained momentum, but volatility returned in March—particularly in the US—triggering a repricing of credit risk and pushing HY spreads wider across all regions.
- As of March 2025, US HY spreads rose sharply to 355 bps, while Eurozone and EM HY spreads stood at 328 bps and 383 bps, respectively. The sharper move in the US spreads signals growing domestic risk aversion and investor caution around macro and political developments.

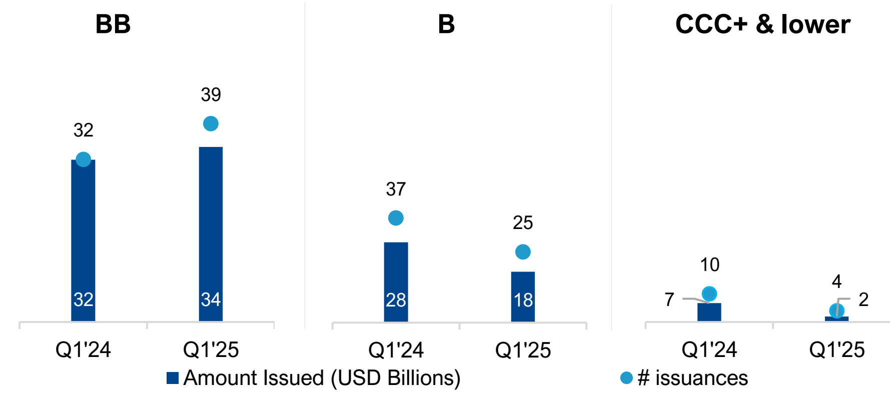
Source: *Federal Reserve Economic Data (FRED) – a database maintained by the Federal Reserve Bank of St. Louis.* https://fred.stlouisfed.org/

The US High-Yield Issuance Trend – 1Q25

Comparison of 1Q US HY Bond Issuances vs. Historical Period



US HY Issuance by Rating Category (1) – 1Q25



Commentary:

- 2024 marked a strong rebound in the US HY bond issuances, driven by a 100 bps Fed rate cut that lowered borrowing costs and unlocked a wave of refinancing activity. Issuance volumes surpassed the 5-year average of $291 Bn, with over 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.
- There was a slowdown in issuances in 1Q25, with volumes down 19% YoY to $55 Bn due to rising spreads, tariff-driven uncertainty, and cautious investor sentiment amid recession concerns. Lower-rated names were hit the hardest by the pullback.
- Despite the softness, BB-rated credits remained resilient, with issuance rising 8% YoY in 1Q25, signaling selective investor appetite for higher-quality names. With the market now anticipating further rate cuts, the issuance momentum could recover in the coming quarters.

Source: *Bloomberg; includes only USD denominated corporate bonds with amount issued above $100mm, excludes bonds issued across financial sector.*
(1) BB includes BB+, BB, and BB-; B includes B+, B, and B-; CCC+ & lower includes CCC+, CCC, CCC-, and DDD+

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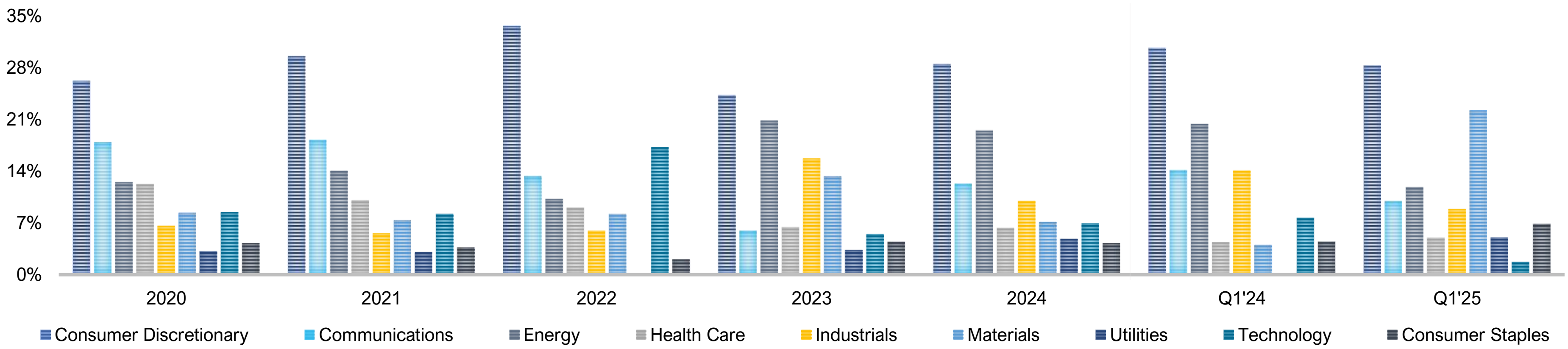
Sector-Wise US High-Yield Issuance Trend – 1Q25

Comparison of US HY Bonds Issuances Across Sectors [1] 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.
- However, market volatility and higher borrowing costs impacted debt issuance activity in all major sectors. However, some sectors witnessed an uptick in issuances in 1Q25, including materials, utilities, and consumer staples. Consumer discretionary (impacted by reduced consumer spending) and energy sectors, despite some declines in 1Q25, remain the largest issuers.
- 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 1Q25 on the next slide.

Source: *Bloomberg; includes only USD denominated corporate bonds with amount issued above $100mm, excludes bonds issued across financial sector.*
(1) Sector based on Bloomberg's BICS Level 1 Classification.

Spotlight on Largest Issuers Among Top Sectors with Highest Activity

Consumer Discretionary

Issuer	Industry	Issue Date	Amt. Out. (bn)	Maturity	BBG Rating	YTM
Carnival Corp (CCL)	Travel & Lodging	Feb-2025	$2.00	Feb-2033	BB-	6.1
NCL Corp Ltd (NCLH)	Travel & Lodging	Jan-2025	$1.80	Feb-2032	B	6.6
Ford Motor Credit Co LLC (F)	Automobiles Manufacturing	Jan-2025	$1.25	Nov-2029	BB+	6.0
Ford Motor Credit Co LLC (F)	Automobiles Manufacturing	Jan-2025	$1.25	Feb-2035	BB+	6.7
Avianca Midco 2 PLC (AVIAGP)	Airlines	Feb-2025	$1.00	Feb-2030	B	10.4

Materials

Issuer	Industry	Issue Date	Amt. Out. (bn)	Maturity	BBG Rating	YTM
Quikrete Holdings Inc (QUIKHO)	Construction Manufacturing	Feb-2025	$3.95	Mar-2032	BB-	6.1
Quikrete Holdings Inc (QUIKHO)	Construction Manufacturing	Feb-2025	$1.50	Mar-2033	B	6.6
Celanese US Holdings LLC (CE)	Chemicals	Mar-2025	$1.10	Apr-2033	BB+	7.2
Cleveland-Cliffs Inc (CLF)	Metals & Mining	Mar-2025	$0.85	Sep-2031	BB-	7.5
Celanese US Holdings LLC (CE)	Chemicals	Feb-2025	$0.82	Apr-2031	BB+	5.2

Energy

Issuer	Industry	Issue Date	Amt. Out. (bn)	Maturity	BBG Rating	YTM
Sunoco LP (SUN)	Refining & Marketing	Mar-2025	$1.00	Jul-2033	BB+	6.2
PBF Holding Co LLC (PBFENE)	Refining & Marketing	Mar-2025	$0.80	Mar-2030	BB-	11.4
Hess Midstream Operations LP (HESM)	Pipeline	Feb-2025	$0.80	Mar-2028	BB	5.7
Chord Energy Corp (CHRD)	Exploration & Production	Mar-2025	$0.75	Mar-2033	BB	6.8
TransMontaigne Partners LLC (TLP)	Pipeline	Feb-2025	$0.50	Jun-2030	CCC+	8.3

Consumer Staples

Issuer	Industry	Issue Date	Amt. Out. (bn)	Maturity	BBG Rating	YTM
Primo Water Holdings Inc (PRMWCN)	Food & Beverage	Feb-2025	$0.75	Apr-2029	BB-	5.7
Primo Water Holdings Inc (PRMWCN)	Food & Beverage	Feb-2025	$0.71	Apr-2029	B-	6.3
Albertsons Cos Inc (ACI)	Supermarkets & Pharmacies	Mar-2025	$0.60	Mar-2033	BB	6.2
Primo Water Holdings Inc (PRMWCN)	Food & Beverage	Feb-2025	$0.46	Oct-2028	B+	4.1
Primo Water Holdings Inc (PRMWCN)	Food & Beverage	Feb-2025	$0.46	Oct-2028	B+	4.0

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

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

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