

Newsletter

Carry & Credit: US High Yield Market Pulse | 2025

Performance | Spreads | Issuance | Positioning

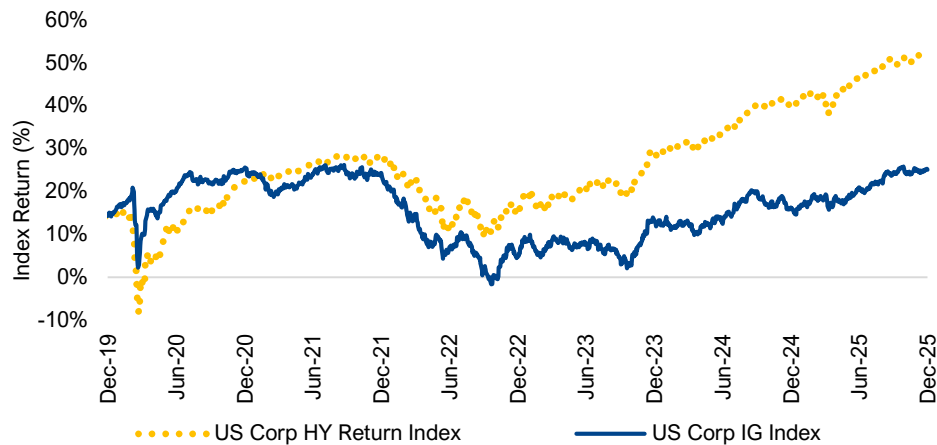


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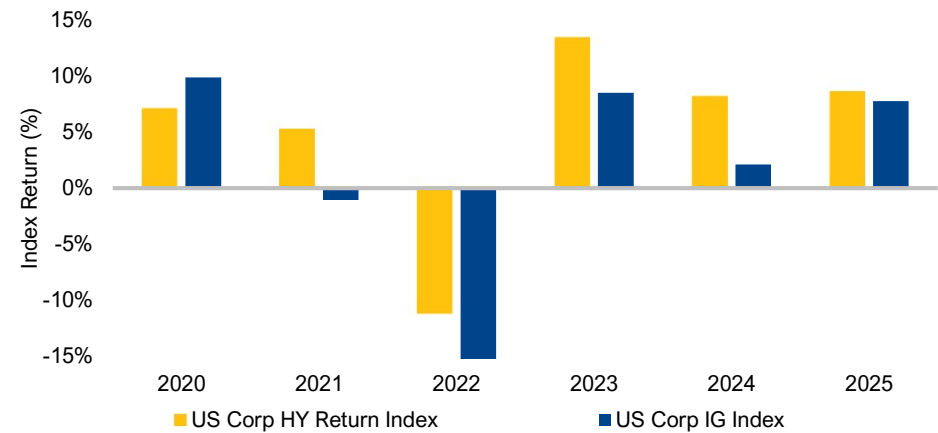
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The US High-Yield Bond Market Performance – IG vs. HY Returns

HY vs. IG Corporate Bond Index Returns Since 2020 ⁽¹⁾



HY vs. IG Corporate Bond Index Returns – YoY Comparison



- US high-yield (HY) bonds continue to outperform investment-grade (IG) bonds on a total return basis, driven primarily by carry rather than spread compression.
- The 2022 drawdown reflected aggressive Fed tightening rather than credit deterioration. Since then, HY performance has stabilized as recession risks faded and corporate fundamentals remained resilient.
- In 2025, HY returns have been positive but more volatile, underscoring a shift from beta-driven gains to income-led performance.
- At current spread levels, upside from further compression is limited, reinforcing HY's role as a carry asset rather than a directional risk trade.



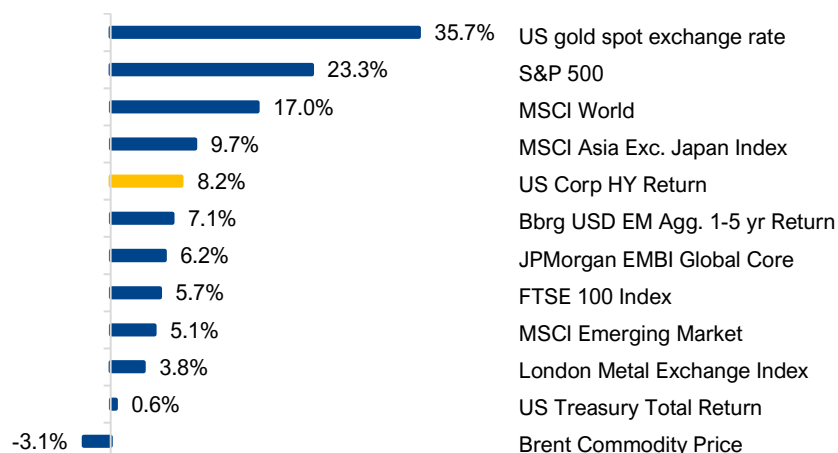
✓ HY outperformance has been carry-driven rather than spread beta - limiting upside but cushioning drawdowns

Source: Bloomberg

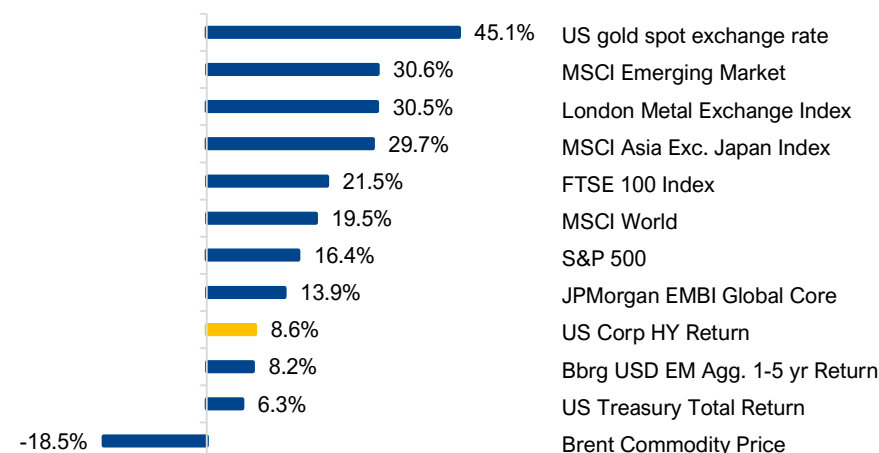
Note: (1) HY returns calculated on base price of \$1,910.5 as on January 2, 2019. IG return calculated on base price of \$2,834.1 as on January 2, 2019.

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

2024 Returns of HY Bonds vs. Other Asset Classes



2025 Returns of HY Bonds vs. Other Asset Classes



- 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.
- Market sentiment reversed in 1Q25 amid tariff risks, weak growth signals, and renewed stagflation fears.
- US HY rebounded in the following quarters delivering competitive risk-adjusted returns versus other fixed income assets, while lagging higher-beta risk assets such as equities and gold. This reflects HY's positioning as an income-oriented allocation and not a pure risk-on vehicle.

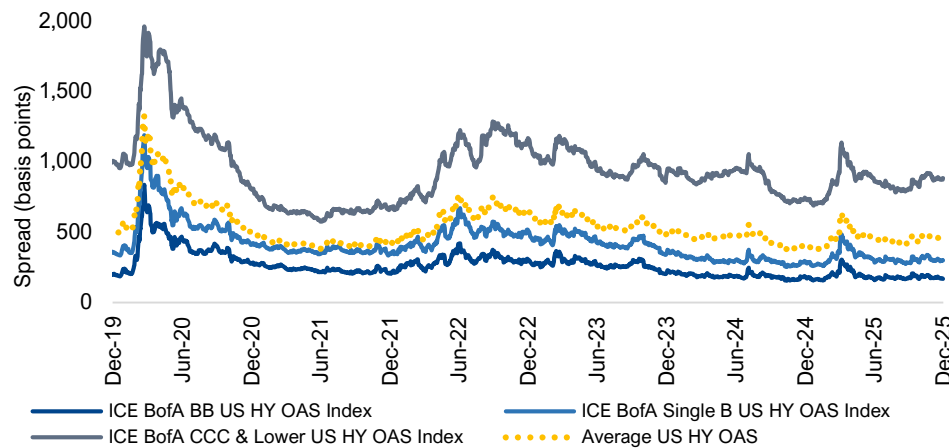


✓ HY underperformed equities but delivered superior risk-adjusted income versus duration-heavy fixed income.

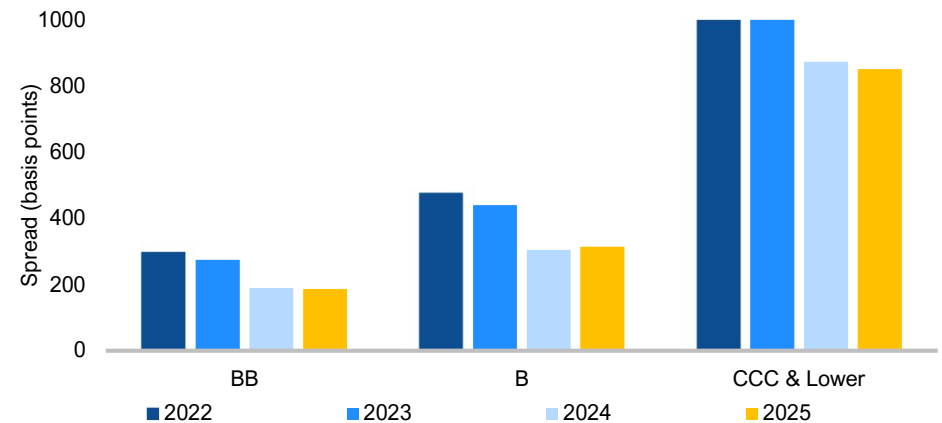
Source: Bloomberg

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



- Spread compression since 2022 has been uneven across the capital structure, with BB and B rated credits leading the tightening cycle.
- HY spreads remained tight through 2025 on strong earnings and disciplined supply, and sustained investor preference for higher-quality HY. In contrast, CCC spreads lagged, reflecting continued aversion to lower-quality risk.
- Average OAS spreads in 2025 stood at 187 bps for BB, 315 bps for B, and 852 bps for CCC & below – highlighting a significant drop from the average 2022 levels of 299 bps (BB), 477 bps (B), and 999 bps (CCC).

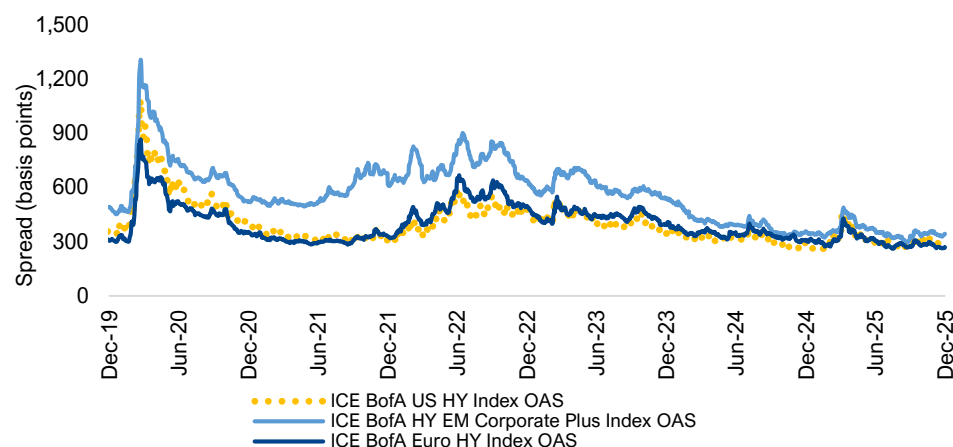


✓ Divergence highlights late-cycle behavior: investors are selectively rewarded for quality risk, while leverage risk remains penalized.

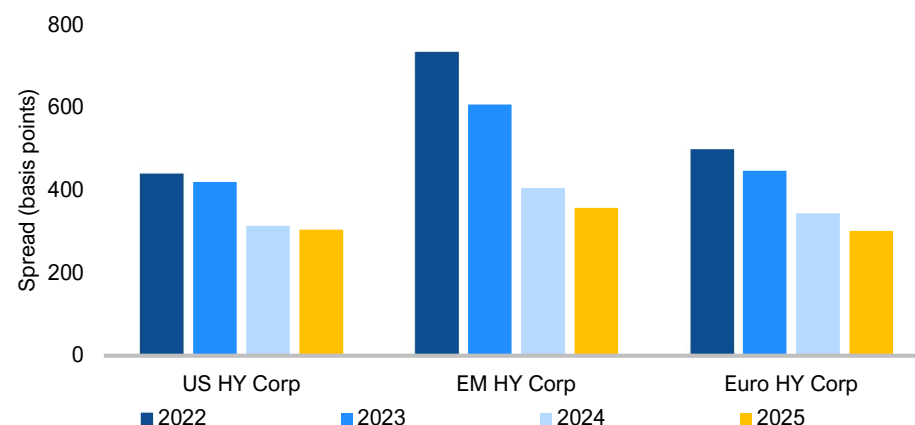
Source: Federal Reserve Economic Data

The US High-Yield Bond Spread Analysis Across Regions

Global HY OAS Bond Spread Trends Since 2020



Average OAS Bond Spread Trends Per Region



- HY spreads tightened across regions from 2022 through 2024 as global risk appetite improved, with EM credits tightening the most.
- Spreads remained steady in early 2025, supported by stable macro fundamentals. However, in 2Q25, average OAS widened driven by tariff-related uncertainty. Spreads tightened in the following quarters, reflecting easing inflation, steady growth, and monetary policy loosening.
- Overall, 2025 witnessed an increase in regional dispersion. EM HY spreads widened amid inflation concerns, USD strength, and macro volatility, while US and Euro HY remained comparatively stable.

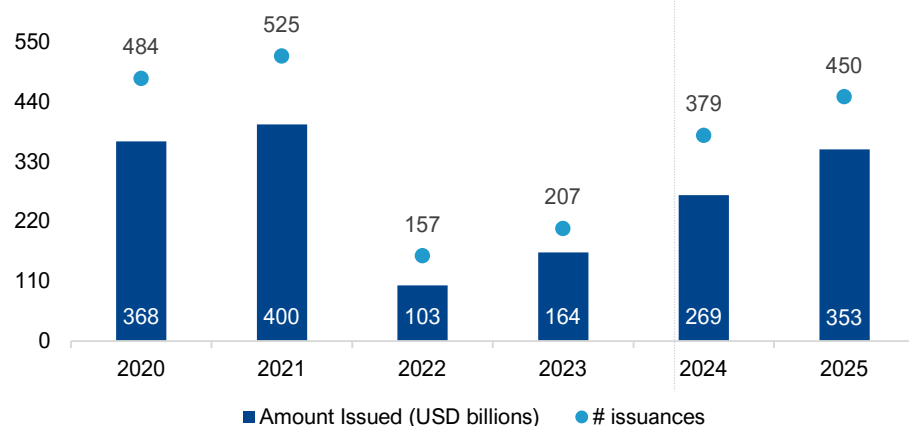


✓ Euro HY screens cheapest on a spread basis; US HY looks fair; EM HY increasingly macro-sensitive.

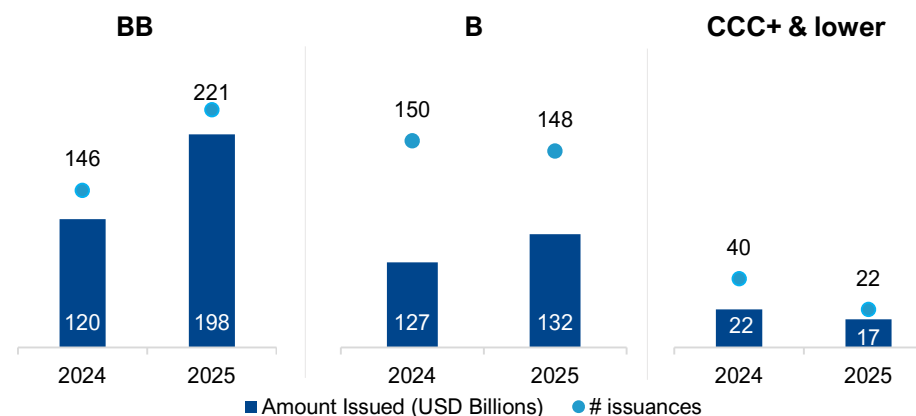
Source: Federal Reserve Economic Data

The US High-Yield Bond Issuance Trend – 2025

US HY Bond Issuances Trend vs. Historical Period



US HY Bond Issuance Per Rating Buckets



- US HY issuance recovered from 2022 lows, surging in 2024 as rate cuts reduced funding costs and drove refinancing activity.
- Momentum continued in 2025, as US HY issuance volumes increased by 31% YoY, driven predominantly by refinancing activity rather than incremental leverage. Issuance volumes surpassed 6-year average of \$276 Bn.
- BB-rated issuance surged on strong demand for higher-quality credit and increased refinancing activity, while B-rated issuance remained steady as the core HY driver. CCC-rated issuance lagged due to investor risk aversion and a focus on quality.

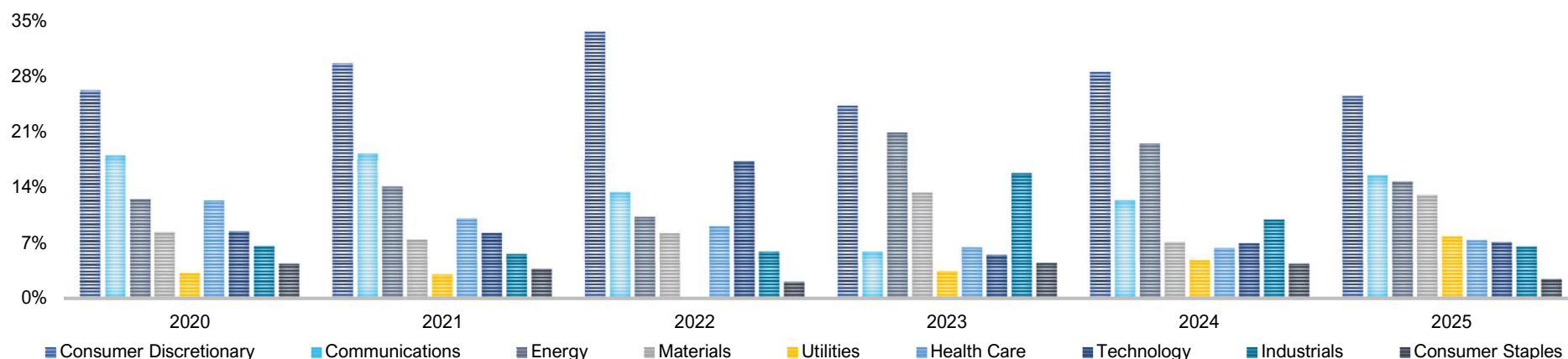


- ✓ 2025 issuance is largely balance-sheet defensive, not growth-driven.
- ✓ CCC issuance remains constrained - risk capital is selective

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 – 2025

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



- Sector issuance patterns in 2025 reflected refinancing needs and shifting investor preferences. Materials, utilities, communications, and healthcare recorded notable increases, driven largely by liability management rather than growth financing.
- Energy issuance declined in 2025 amid reduced refinancing needs, while cyclically exposed sectors saw muted activity due to macro uncertainty.
- Despite sector-level variation in 2025, issuance remained concentrated in discretionary, communications, and energy, reinforcing the importance of issuer-level credit selection.



✓ Issuance skewed toward BB/B in communications and materials, reinforcing the quality bias of 2025 HY supply.

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
Carnival Corp (CCL)	Travel & Lodging	Jul-2025	\$3.00	Aug-2032	BB	5.5
QXO Building Products Inc (QXO)	Retail - Consumer Discretionary	Apr-2025	\$2.25	Apr-2032	BB-	6.1
Beach Acquisition Bidco LLC (SKX)	Apparel & Textile Products	Jul-2025	\$2.20	Jul-2033	B-	10.0
Carnival Corp (CCL)	Travel & Lodging	Feb-2025	\$2.00	Feb-2033	BB	5.8
PetSmart LLC / PetSmart Finance Corp (PETM)	Retail - Consumer Discretionary	Aug-2025	\$1.95	Sep-2032	B+	7.5

Energy

Issuer	Industry	Issue Date	Amt. Out. (bn)	Maturity	BBG Rating	YTM
Venture Global Plaquemines LNG LLC (VEGLPL)	Pipeline	Jul-2025	\$2.00	Jan-2036	BB	5.9
Venture Global Plaquemines LNG LLC (VEGLPL)	Pipeline	Jul-2025	\$2.00	Jan-2034	BB	5.7
Venture Global Plaquemines LNG LLC (VEGLPL)	Pipeline	Dec-2025	\$1.75	Dec-2030	BB	5.6
Sunoco LP (SUN)	Refining & Marketing	Sep-2025	\$1.50	Jan-1900	B+	7.8
Venture Global Plaquemines LNG LLC (VEGLPL)	Pipeline	Apr-2025	\$1.25	May-2035	BB	6.0

Communications

Issuer	Industry	Issue Date	Amt. Out. (bn)	Maturity	BBG Rating	YTM
Warnermedia Holdings Inc (WBD)	Entertainment Content	Jun-2025	\$4.12	Mar-2042	BB	7.1
WULF Compute LLC (WULF)	Wireline Telecommunications Services	Oct-2025	\$3.20	Oct-2030	BB	6.9
Warnermedia Holdings Inc (WBD)	Entertainment Content	Jun-2025	\$2.70	Mar-2032	BB	5.8
Level 3 Financing Inc (LVLT)	Wireline Telecommunications Services	Aug-2025	\$2.42	Mar-2034	B+	6.7
APLD ComputeCo LLC (APLD)	Wireline Telecommunications Services	Nov-2025	\$2.35	Dec-2030	BB-	9.2

Materials

Issuer	Industry	Issue Date	Amt. Out. (bn)	Maturity	BBG Rating	YTM
Quikrete Holdings Inc (QUIKHO)	Construction Materials Manufacturing	Feb-2025	\$3.95	Mar-2032	BB-	5.7
Mauser Packaging Solutions Holding Co (BWY)	Containers & Packaging	Nov-2025	\$2.64	Apr-2030	B	7.8
Olympus Water US Holding Corp (SOLEIN)	Chemicals	Oct-2025	\$1.58	Feb-2033	B-	7.1
Ardagh Group SA (ARGID)	Containers & Packaging	Nov-2025	\$1.56	Dec-2030	B-	7.5
Quikrete Holdings Inc (QUIKHO)	Construction Materials Manufacturing	Feb-2025	\$1.50	Mar-2033	B	6.1

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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