



Market Commentary
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English Version

A High Yield Primer for Volatile Times

Get guidance on investments, and the major structural factors behind your clients' portfolios.

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“You don’t find out who’s been swimming naked until the tide goes out.”

– Warren Buffet

Fixed income, particularly high yield corporate credit debt, has regained its footing after the 2022 draw-down, helped by the long-anticipated easing cycle and a renewed wave of issuer refinancing activity. With volatility elevated in early 2026, we wanted to take a closer look at the U.S. high yield market to assess how issuers and investors are positioning, what current pricing and flows are signaling, and what this implies for credit conditions over the coming months.

A High Yield Primer for Volatile Times

The high-yield market has regained momentum as issuers show a renewed willingness to return to primary markets, supported by a more constructive macro backdrop and moderated recession concerns.

A noticeable migration of lower-rated issuers toward leveraged loans is reshaping the HY universe and contributing to its higher overall credit quality.

Performance trends show high yield – especially BBs – continuing to outpace investment-grade, underscoring the market’s preference for yield-driven exposures.

Despite this constructive setup, pockets of stress, sector-specific underperformance, and recent defaults underscore the need for disciplined credit selection in a volatile environment.

First, let us refresh the definition of high yield. High yield debt, sometimes referred to as junk bonds, is debt issued by companies whose credit rating is below ‘BBB-’. These issues tend to offer a higher yield to compensate for the lower credit quality of the issuer, which could also involve higher risks for investors.

The renewed appetite for high yield debt has been underpinned by the observed interest from issuers in returning to the market. According to data compiled by Bloomberg Intelligence, 2022 was the year with the smallest total high yield debt issued since 2013; meanwhile, the period between 2023 and 2025 saw a recovery in high yield debt issuance. To put things into perspective, total gross high yield issuance in 2022 stood at ~USD 118bn, which contrasts with the ~USD 368bn issued in 2025. **The return of issuers to the debt market is occurring against a more benign macroeconomic backdrop of relatively resilient economic growth and recession concerns kept at bay.** Still, some inflation and employment fears are looming in the U.S. economy, mainly stemming from

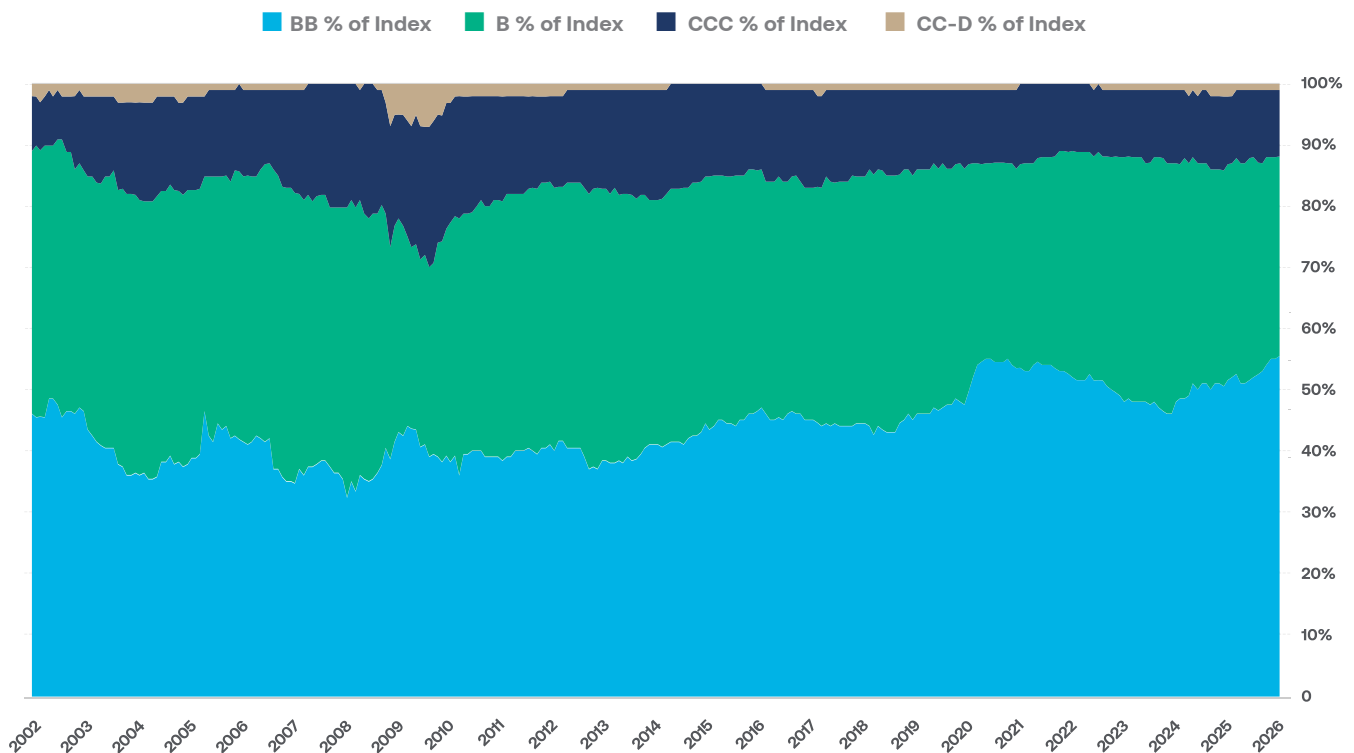
a stickier than expected PCE inflation and a labor market that continues to face downside risks.

Now, let us zoom in on the high yield segment, represented by the Bloomberg US Corporate High Yield Total Return Index. Within the index, the share of BB bonds in the index has increased steadily since the early 2000s and currently makes up 56% (see graph 1). It is also worth noting that, even if it has decreased since the early 2000s, the share of B bonds has remained relatively steady and currently sits at 33%. Comparatively, lower-quality securities have maintained a smaller representation within the index, with CCC bonds being 11% and CC-D securities being the remaining 1%.

Another point worth highlighting is the reduction in the participation of lower-rated names within the debt index. This is a phenomenon that may be partially explained by the observed migration from the high yield market into leveraged loans. **It is important to note that this migration does not remove any previously existing credit risk, it only transfers it to a different segment.** To this point, according to data compiled by Bloomberg Intelligence, as of February 2026, issuance of leveraged loans stood at ~USD 41.7bn, whereas most of that issuance was either refinancing or repricing of loans. It is also worth stressing that most loans issued in February, according to S&P's rating scale, were either 'B-' or 'B' rated. This shift within the high yield debt market has led to, almost inherently, an improvement in issuer quality.

Graph 1: Bloomberg U.S. Corporate High Yield Index Rating Composition

Source: Source: Bloomberg.
Data as of March 2, 2026



In terms of performance, after the pandemic, and even more so after 2022, high-yield debt has been an overperformer, beating IG on a consistent basis. For 2025, the HY debt universe was the sole outperformer, being closely followed by the BB index. Meanwhile, IG debt and, more specifically, BBB bonds, exhibited less stellar performance (see graph 2). It is worth noting that high yield debt is an alternative for investors who have a higher risk tolerance and who, ultimately, are looking to implement what is known as a carry trade – an investment strategy in which returns come primarily from collecting the yield (the “carry”) on a bond, rather than from betting on changes in interest rates or credit spreads.

It is also worth mentioning that carry trades tend to work best during periods of spread stability, which was the case for most of 2025 when, aside from the volatility peak caused by the Liberation Day announcements, the Bloomberg U.S. HY index exhibited an Option Adjusted Spread – OAS – that averaged ~296bps.

Even if the performance of HY debt has been very positive, we would be remiss if we did not stress some factors that could emerge as potential cracks for the public credit markets.

One of the first points we need to stress is that even if the OAS spread from the HY index is still close to its multi-year low, the recent geopolitical events are starting to cause spreads to widen. Taking into account that there is a considerable amount of uncertainty surrounding the duration of the current conflict, it would not be surprising to see a continuation of this widening trend.

Against this backdrop, and even if it sounds counter-intuitive in a sector of the market that is sometimes referred to as “junk”, it is more important than ever to assess quality before investing. This is more important if we consider that, aside from rising geopolitical volatility, the high yield market recently experienced two defaults (Tricolor Holdings and First Brands) at the end of 2025 that already eroded investors’ sentiment.

Graph 2: High Yield Debt Has Been an Overperformer During the Last Decade



Source: Bloomberg.
Data as of March 2, 2026
where 12/31/19 = 100

Additionally, the high yield index for the technology sector, together with the high yield index for finance companies, are the two subsectors with the worst year-to-date performance. This is taking place amid a surge of data center building in the U.S. needed to finance the AI boom that is also being financed by high yield issuers. In addition, private credit concerns have recently rattled the public debt markets through headlines surrounding Blue Owl and the UK's mortgage provider Market Financial Solution (MFS). What stands out even more is the increased participation of debt financing in deals that were typically in the realm of equity financing, but due to the size of said projects, companies need all financing alternatives on deck.

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As we move forward in this rapidly changing environment, where volatility and unexpected events are shaping the way investors position their portfolios, quality becomes the name of the game. We strongly believe that debt from an issuer with solid fundamentals will always be the best alternative for any fixed income portfolio. Through careful, thorough credit selection, one can ensure that investors are compensated and shielded during peak volatile periods. Issuers with a strong capacity to generate operating income and operating cash flows will also be available in the high yield market, with those characteristics serving as their differentiating factor from other issuers. To quote Warren Buffet, “you don't find out who's been swimming naked until the tide goes out”, and investors should not want debt in their portfolios that could be caught swimming naked in fundamental terms. ■



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House Views Matrix

Global Asset Allocation	TACTICAL (UP TO 3 MONTHS)	CYCLICAL (UP TO 12 MONTHS)
	Equities	NEUTRAL
Fixed Income	OVERWEIGHT	NEUTRAL
Cash	OVERWEIGHT	NEUTRAL
US Equities¹	OVERWEIGHT	NEUTRAL
European Equities	UNDERWEIGHT	OVERWEIGHT
Japanese Equities	NEUTRAL	OVERWEIGHT
Emerging Market Equities	UNDERWEIGHT	OVERWEIGHT
Chinese Equities	UNDERWEIGHT	OVERWEIGHT
US Treasuries²	NEUTRAL	NEUTRAL
Investment Grade Fixed Income	NEUTRAL	NEUTRAL
High Yield Fixed Income	NEUTRAL	NEUTRAL
Emerging Market Sovereign	NEUTRAL	OVERWEIGHT
US Dollar	OVERWEIGHT	UNDERWEIGHT
Energy³	OVERWEIGHT	UNDERWEIGHT
Precious Metals	OVERWEIGHT	OVERWEIGHT

¹ Relative to global equities in USD

² Relative to aggregate fixed income markets in USD

³ Relative to an overall commodity allocation

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