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Monthly Update

March 5, 2025

US High Yield

US high yield returned 0.65% in February, bringing the YTD performance to 2.04%, according to the ICE BofA US High Yield Constrained Index (HUC0). During the month, the Trump administration embarked on aggressive actions that revealed the scope of their ambitions, and the market has started to digest the potential impacts. There is a case for solid growth in the longer run, as deregulation remains a priority, and tax cuts for domestic manufacturing and individuals is being proposed. Growth is also supported by the continuing AI boom, as well as some efforts to move manufacturing to the US. On the other hand, government spending cuts, lower immigration, and tariffs are likely to slow growth in 2025. Tariffs in particular seem unpredictable at this point, without a clear plan. Beyond this, Trump's approach to geopolitics is upsetting historic relationships. During February, the market focused on these headwinds to growth and potential sources of disinflation, and the 10-year Treasury rallied from 4.54% to 4.21%. In addition, market expectations for Fed cuts this year moved up to roughly three. In this environment of risk awareness, the price and yield of US high yield bonds was roughly stable, and spreads widened as Treasuries rallied. Among the ratings categories, BB-rated bonds performed the best. Among sectors, Healthcare performed the best, despite prospective government spending cuts, thanks to credit specific events, while Banking and Real Estate performed well. Energy lagged as prices sagged on geopolitical developments, while Retail and Transportation were pressured by upcoming tariffs. The US High Yield market ended February with a yield of 7.16% and spread of 287.

European High Yield

The European high yield market returned 1.19% in February, resulting in a 1.74% year-to-date return, as measured by the ICE BofA European Currency High Yield Constrained Index (HPC0 in EUR, unhedged). The European high yield market continued to perform strongly in February with very little new issue activity during the month, while consistent inflows into the asset class supported demand. Eurozone economic activity continued to be stable, and overall corporate earnings were slightly better than expected, adding confidence in the outlook for the year. Sentiment around political risk also improved as the German elections concluded as expected. While negotiations around the war in Ukraine remain volatile, a sense that Europe will increase defense spending regardless of the outcome has increased the probability of some fiscal impulse in the coming years. Tariffs remain top of mind, but so far the Trump administration has not taken any concrete action against Europe. As a result, European equities outperformed, buoying risk assets such as European high yield. Yields ended February at 5.55%, and spreads tightened to 297 bps during the month.

Emerging Markets

EM hard currency bonds delivered positive returns in February with investment-grade credits outperforming thanks to lower US Treasury yields. EM Corporates, as measured by the JPMorgan Corporate Emerging Market Bonds Broad Diversified Index ("CEMBI BD") gained 1.55% in February (up 2.36% YTD), led by a 1.65% gain in investment-grade credits. Real Estate was the best performing sector thanks to a strong recovery in some China and Hong Kong developers, followed by good performance in the Oil & Gas and Metals & Mining sectors. Meanwhile, EM Sovereign bonds, as measured by the JPMorgan Emerging Markets Bond Index Global ("EMBIG"), gained 1.65% in February (and 2.90% YTD), with most of the return contribution coming from investment-grade names, up 2.26%, while high yield EM credits saw some volatility and underperformed with a return of 85 bps. Overall, EM hard currency bonds benefited from supportive market technicals, including inflows into the asset class in late February despite uncertainty about tariffs.

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