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Monthly Update

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US High Yield

US high yield returned -1.07% in March, bringing the YTD performance to 0.94%, according to the ICE BofA US High Yield Constrained Index (HUC0). January started with optimism for the incoming Trump administration, while February began to show risk awareness, and March reflected more clear anxiety about the outlook for growth. In particular, tariffs began to worry the market in March, with a particular focus on industries with global supply chains such as retail and autos. During the month, Treasuries were relatively stable, and the market continued to price in three Fed rate cuts this year. Within overall high yield, risk premiums widened, and BBs performed the best, while CCCs suffered. At the end of March, the index yield was 7.73% and spread was 355.

Early April has seen the Trump administration announce extremely aggressive tariffs. The announced plan calls for a 10% minimum, with rates as high as 54% (for China), depending on a country's trade balance with the US, with an exemption for energy products. Mexico and Canada were spared additional tariffs, while Asia was hit relatively hard. In some but not all cases, the new tariffs augment existing tariffs, and the blended average is estimated to be in the vicinity of 25%. President Trump believes he can unwind globalization and bring manufacturing back to the US with a "tariff wall" around the US. While this endeavor may partly succeed over time, in the near term it will disrupt companies with global supply chains, and force them to raise prices or reduce profits. Levied on a base of $3.3 trillion of US goods imports, the cumulative tariff hike could be viewed as a US tax increase of at least $500 billion, or 1.3% of GDP. Inflation will increase, though the market pricing for inflation

breakevens in the longer run is falling, as tariffs are considered a one-time hit to inflation. Countries around the world are currently calibrating their responses, and in some cases may seek negotiations before retaliating, but in general US companies will face additional barriers when exporting. The short-term impact is likely a reduction in global growth, and accordingly early April has seen risk sell off, with US high yield down about 1.25% in the month, yields out to roughly 8%, and spreads out to around 425.

Looking forward, there is some hope that tariffs settle somewhat lower after some rounds of negotiation. Trump may face domestic pressure to negotiate, and some administration officials have indicated these tariff rates are a ceiling to begin negotiation. Furthermore, US growth should see some support from the "re-shoring" that Trump seeks, as some companies will aim to place production in the US over time. In addition, Trump's deregulation agenda, especially for the financial and energy sectors, may support growth later in the year. Finally, the Fed will likely cut rates if unemployment rises. At NCRAM, we are focusing on US-centric issuers and high quality, longer duration opportunities. We are being the most careful with sectors that have significant tariff risk, most notably autos, retailers, and consumer products. We also think some caution is warranted with cyclical sectors like energy, chemicals, and transportation, and we are scrutinizing the healthcare sector related to potential Medicaid cuts. We are more comfortable with midstream energy, IPPs, technology, certain financials, services, food, some aerospace, and some telecom.

European High Yield

The European high yield market returned -1.07% (EUR, unhedged) in March, resulting in a 0.65% YTD return, as measured by the ICE BofA European Currency High Yield Constrained Index (HPC0). The European high yield market saw several shocks in March that led to negative returns during the month. Domestically, the changing relationship between the EU and US, amid differences in opinion on how to approach the Ukraine conflict, has caused leaders in the region to drastically change their approach to fiscal spending. In Germany, the newly elected coalition led by Friedrich Merz and the CDU party passed a landmark fiscal package that would circumvent the country's debt brake to invest in both infrastructure and defense. In addition, the EU has pledged to increase its defense spending, in an attempt to re-arm as the United States pulls back from its security commitments to the region. This shift in policy led to a sell-off in the Bund as higher debt issuance, along with expected inflation, shifted the outlook away from a consistent loosening of monetary policy by the ECB. In addition, the continued uncertainty around tariffs caused equity market weakness, as markets fear an economic slowdown. Spreads widened in the US, and although we have seen some spread outperformance in Europe, the weakness did spread to the European high yield market towards the end of the month. In this environment, we saw high quality credits outperform and the auto sector underperform as Trump announced 25% tariffs on auto imports. Overall, spreads widened by almost 40 bps during the month, and the index ended the month with a yield of 6.05% and spread of 336.

Emerging Markets

Emerging markets hard currency bonds saw wider spreads in March among high yield corporates and sovereigns, while investment grade bonds were more stable, reflecting greater investor preference for higher quality credits on economic growth concerns. EM corporate bonds outperformed sovereigns in March with a 0.06% return, according to the JPMorgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI BD), bringing the YTD return to 2.42%. Real estate, pulp and paper, and oil and gas were the best performing corporate sectors during 1Q25. Meanwhile, EM sovereigns posted a -0.54% return in March (up 2.35% YTD) with investment grade bonds outperforming at -0.17%, as measured by the JPMorgan Emerging Markets Bond Index Global (EMBIG). In addition to the overall market tone, idiosyncratic and geopolitical noise weighed on some high yield credits, while US Treasury curve steepening in the back end affected performance in long-dated investment grade sovereigns. Benchmark yields ended March at 6.41% (with 226 bps spread) for EM corporates and 7.48% (with 318 bps spread) for EM sovereigns.

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