NCRAM

Monthly Update

June 2, 2025

US High Yield

The US high yield market was up 1.68% in May, bringing the YTD performance to 2.64%, according to the ICE BofA US High Yield Constrained Index (HUC0). The high yield market was boosted by the Trump administration's continued de-escalation of their tariff threats, especially with China. The market is reflecting a view that overall the tariffs will be manageable for most companies – partially absorbed and partially mitigated by finding new sourcing. Late in the month, the US Court of International Trade ruled that many Trump tariffs were not legal, and while the ruling is under appeal, it helped allow the markets to look beyond tariffs. Also in May, we heard from technology companies that the tech and AI boom remains underway, supporting general economic growth.

During the bullish month, CCCs had the best performance among ratings categories, though they still trailed YTD. Among sectors, smaller sectors like publishing, broadcasting, and airlines had the best performance, while steel, aerospace and banks lagged. The US high yield market ended the month with a yield of 7.53% and spread of 332 bps.

In summary, this month the markets exhibited confidence in the outlook for both economic growth and earnings, and we continue to expect slow but positive growth. Core PCE inflation was reported at 0.12% for April and 2.5% year over year, evidence of gradual disinflation which could support the case for Fed cuts later in the year. Looking forward, we believe the yield on the asset class will support an attractive total return during a period of slow growth and gradual Fed cuts.

European High Yield

The European high yield market returned 1.40% (EUR, unhedged) in May, resulting in a 2.22% YTD return, as measured by the ICE BofA European Currency High Yield Constrained Index (HPC0). The European high yield market recovered during the month; investors reduced tariff-related risk premia, as the Trump administration took incremental steps to de-escalate the rhetoric, particularly with China. We saw spreads recover to pre-April 2025 levels, with Bs and CCCs outperforming. Given the strength in the market, we saw significant new issue supply in May, although net new supply to the market still remained limited. The market absorbed the supply, and most new issues priced tight with minimal new issue premium. Yields ended the month at 5.78% and spreads at 336 bps, spreads about 40 bps tighter versus the end of April.

Emerging Markets

EM hard currency bonds continued to recover in May from the volatility seen in April and ended the month with positive returns despite higher US Treasury yields. EM corporate bonds, as measured by the JPMorgan Corporate Emerging Market Bond Index Broad Diversified (CEMBI BD), posted a 0.61% return in May (2.61% YTD) led by high yield credits, up 1.19% in the month. Infrastructure, oil & gas, and consumer were the best performing sectors, while real estate underperformed, and spreads tightened by 30 bps in the month to 230 bps. We expect default rates for EM corporates this year to remain well below 2%. Meanwhile, EM sovereigns, as measured by the JPMorgan Emerging Markets Bond Index Global (EMBIG), gained 0.85% in May (3.13% YTD). Higher UST yields and a steeper curve led to flat returns for EM investment grade sovereign credits, while high yield sovereigns outperformed with a 2.0% gain in the month.

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