NCRAM

Monthly Update

July 1, 2025

US High Yield

The US high yield market was up 1.86% in June, bringing the YTD performance to 4.55%, according to the ICE BofA US High Yield Constrained Index (HUC0). After the early April tariff panic, risk markets including high yield delivered a strong and broad recovery for the remainder of the second quarter. This strong performance came in spite of some signs of lackluster growth. For example, unemployment claims, housing starts, and ISM manufacturing indicate slow growth in the US, likely suppressed by tariff confusion. Despite this data, markets have shown confidence in the outlook for a few reasons:

- Inflation has been muted over the last three months, tariffs notwithstanding, raising the likelihood of Fed cuts beginning in September. The market currently expects five cuts by the end of 2026, which would bring the overnight rate from 4.25%-4.5% down to 3.0%-3.25%.
- After the US bombed Iran and paused the war in the Middle East, and NATO committed to increased defense spending, geopolitical risk premiums may have fallen.
- Thanks partially to developments in the Middle East, oil prices are relatively low at $65 WTI, which is a mediocre level for drilling activity but supportive of real economic growth without high inflation.

Driven by these three factors, Treasuries have rallied throughout 2025, with 10-year Treasury yields falling by 34 bps YTD and 19 bps in June. Beyond lower rates and lower oil prices, the outlook for growth in 2026 is also supported by the AI spending boom and the Trump administration's deregulation of banking. The ultimate level of tariffs is expected to be manageable through re-sourcing and targeted price increases. As of today, the Republican OBBB tax and spending bill has been passed by the US Senate but not yet the House of Representatives. If it passes, the tax cuts are front-loaded, while the spending cuts are skewed later, so some modest fiscal stimulus may be coming.

As Treasuries rallied even while the growth outlook improved, high yield returns benefited from both the falling rates and tighter spreads. B-rated issues were the best performing ratings segment. Consumer Products, Energy, and Retail were among the best performing sectors, while Gaming, Leisure, and Insurance were among the laggards. The US high yield market ended June with a yield of 7.05% and spread of 296. Year-to-date, yields have fallen with Treasuries, while spreads are roughly where they began the year. Looking forward, we believe the yield on the asset class will support an attractive total return as growth rebounds while the Fed begins cutting.

European High Yield

The European high yield market returned 0.34% (EUR, unhedged) in June, resulting in a 2.56% year-to-date return, as measured by the ICE BofA European Currency High Yield Constrained Index (HPC0). The European high yield market was steady in June even as geopolitical risks were elevated. A flurry of new issues came to market during the month, including a mix of both refinancing and net new supply. While the market was generally able to digest the new issues, we saw some minor weakness in the secondary market as investors sold bonds near recent highs to fund new purchases. On the macro front, the ECB cut their benchmark rate by 25 bps, but did appear somewhat hawkish and signaled that the rate-cutting cycle was most likely coming to an end. The target rate was adjusted to 2%, with inflation in the Eurozone hovering around the same level. Risks to inflation in the region include the impact of tariffs, energy prices, and upcoming fiscal stimulus. Spreads continued to tighten during the month, with Bs outperforming the market and CCCs underperforming as investors continued to shun idiosyncratic risk in the market.

Emerging Markets

EM hard currency bonds continued their march higher in June, fueled by a rally in US Treasury bonds, muted impact from the developments in the Middle East, and supportive technical factors, as a surge in new issuance was well-absorbed by the market. EM sovereign bonds led the gains in the EM hard currency universe, given their higher average duration, with a 2.28% return in June and 5.48% YTD, as measured by the JPMorgan Emerging Markets Bond Index Global (EMBIG). High yield rated sovereigns outperformed with a 2.68% return in June (6.19% YTD) as spreads tightened 25 bps, with strong performance from oil-related credits. Meanwhile, EM corporates gained 1.39% in June and 4.03% YTD, with similar performance between investment grade and high yield credits, as measured by the JPMorgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI BD). Pulp & Paper, Metals & Mining, and Transportation were the top performing sectors in June, while Financials and Real Estate were the main underperformers. The CEMBI BD spread ended the month at 221 bps over US Treasuries, 15 bps wider YTD, suggesting potential room for further spread compression.

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