

NCRAM

Monthly Update

August 1, 2025

US High Yield

The US high yield market gained 0.40% in July, lifting the year-to-date return to 4.97%, as measured by the ICE BofA US High Yield Constrained Index (HUC0). Performance in July was driven by carry, with yield to worst nearly unchanged on the month at 7.07%. Spreads were 10 bps tighter in July, falling to 286, but US Treasury yields moved incrementally higher.

Second quarter earnings season started positively. Roughly one third of the market has reported through end-July. Thus far, more than five times as many high yield issuers have beat earnings expectations vs. lagged (JP Morgan's analysis). The high yield market has enjoyed year-over-year gains in operating earnings for six consecutive quarters, and 2Q25 appears to be pointed in the right direction. High yield technicals also remain robust. The new issue market was particularly active in July at nearly \$38bn. However, only \$8bn was fresh capital (the remainder was refinancing), supporting solid supply/demand dynamics in both the primary and secondary markets. In July, CCC-rated bonds sharply outperformed BBs and Bs. The media and telecom sectors topped the broader market; chemicals and technology lagged.

President Trump continued to pressure Fed Chair Powell to ease interest rates. While the FOMC held the Fed Funds rate unchanged at the July meeting, two committee members dissented (Waller and Bowman favored a 25 bps cut), the first meeting with multiple dissents since 1993. Expectations for stronger economic growth, the declining likelihood of a tariff-driven recession, and perhaps some fear

of hasty action from the Fed, drove Treasury rates higher in July. Notably, the narrative has shifted in early August, following the release of surprisingly weak July US employment data. Investors now expect two or three cuts in 2025 and four or five over the next 12 months. With the high yield market yielding over 7% in a low default rate environment, continued earnings growth, and a downward bias to interest rates, we expect the asset class to deliver attractive total returns over the balance of 2025 and into next year.

European High Yield

The European high yield market returned 1.15% (EUR, unhedged) in July, resulting in a 3.74% year-to-date return, as measured by the ICE BofA European Currency High Yield Constrained Index (HPC0). The European high yield market performed strongly in July, driven mainly by technicals as new issue volume slowed dramatically into the second half of the month. Inflows into the asset class continued, which led bonds higher in the secondary market.

We saw very limited performance dispersion in July. Returns from BB through CCC-rated bonds were relatively similar. Second quarter earnings were a focus through this period. Results were somewhat mixed, but not weak enough to indicate a broad deterioration of high yield fundamentals. In the rates market, the German bund was slightly weaker, as the market grappled with somewhat hawkish positioning by the ECB. The central bank held rates steady in July, and continued to suggest that the cutting cycle was nearing its end, with inflation returning to the 2% level. The market continued to expect one more cut in 2025, but with a high level of uncertainty given the unknown impact of President Trump's tariffs.

During the month, the EU and the US announced a trade deal consisting of a 15% tariff, including certain sectoral tariffs such as automobiles. While the deal was somewhat worse than expected for Europe, the market welcomed the removal of uncertainty, with the hope that businesses can now adjust to a new normal. In August, we expect very low new issue activity, and somewhat reduced liquidity, which could set up the asset class for another month of positive total returns.

Emerging Markets

Emerging markets hard currency bonds extended gains in July, led by high yield credits. EM corporate bonds, as measured by the JPMorgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI BD) posted a 0.91% return in July (4.98% YTD), with high yield credits outperforming (1.21%). The index spread tightened 25 bps in July to 196 bps over US Treasuries. Oil and Gas, Transport, and Utilities were the best performing sectors in the EM corporate market in July. Meanwhile, EM sovereign bonds, as measured by the JPMorgan Emerging Markets Bond Index Global (EMBIG) posted a 1.18% gain on the month (6.72% YTD). Sovereigns were led by strong performance in high yield credits, which on average tightened 22 bps during the month.



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