NCRAM

Monthly Update

September 2, 2025

US High Yield

The US high yield market gained 1.22% in August, as measured by the ICE BofA US High Yield Constrained Index (HUC0), raising YTD returns to 6.25%. Spreads were relatively flat on the month, ticking 2 bps lower to 284. US Treasuries fueled the fixed income rally in August, as dovish Fed rhetoric led investors to position for increasingly aggressive easing, likely commencing in September. The 10-yr UST yield fell 15 bps to 4.23%.

High yield bonds remained well-bid in August, supported by lower interest rates and bullish expectations that lower taxes, lighter touch regulations, and AI-derived productivity gains will boost forward profit margins. Lamentably, concerns regarding the future independence of Fed monetary policy dampened further enthusiasm. High yield new issue volume in the first half of August was surprisingly robust, continuing the trend observed in July, before slowing the final two weeks of the month when the traditional summer lull finally arrived. Nearly two thirds of August's new issues were refinancing transactions, holding in place high yield's somewhat supportive technical conditions, as issuer demand for fresh capital has been relatively light, and net inflows to the asset class are positive. There was limited performance dispersion by credit quality in August, but CCCs modestly outperformed BB and B-rated bonds. The Building Materials, Energy, and Healthcare sectors outperformed in August, while Leisure, Packaging, and Technology lagged.

High yield spreads below 300 bps lie at the tight end of the historical range. However, credit quality is currently as strong as ever (55% of the market is rated BB, vs.

only 10% CCC and below). High yield issuer fundamentals are solid, with 2Q25 operating earnings surprising to the upside, following six consecutive quarters of positive year-over-year growth. The US economy remains resilient in the face of heightened geopolitical risk, but signs of employment weakness have raised the odds of Fed rate cuts resuming later this year. NCRAM does not expect to see material spread tightening lift high yield bond prices, but competitive carry with yields close to 7% positions the asset class to potentially deliver attractive returns over the balance of 2025 and into next year.

European High Yield

European high yield was steady in August as the market slowed for the late summer period. The ICE BofA European Currency High Yield Constrained Index (HPC0) gained 0.12% m/m in EUR terms (unhedged), advancing the YTD return to 3.86%. The conclusion of earnings season brought a mixed set of outcomes. We saw a continuation of better-than-feared results for certain cyclical sectors such as autos, offset by lackluster European final-market demand overall. Technically, the market felt somewhat weak as many investors were away from their desks, forcing some high beta or high idiosyncratic risk investments to endure greater downside volatility. Overall, we expect a busy new issue environment when market activity fully resumes in September, which could further pressure technicals. However, continued inflows and robust investor cash positions should support the high yield market in the near term.

Emerging Markets

Emerging markets hard currency bonds delivered another positive monthly return in August, as US Treasury yields declined and spreads tightened marginally. EM sovereign bonds, proxied by the JP Morgan Emerging Markets Bond Index Global (EMBIG), enjoyed the most impactful benefit from the US Treasury rally, gaining 1.53% in August (8.36% YTD). High yield sovereign credits outperformed, rising 1.80%. EM corporate bonds, as measured by the JP Morgan Corporate Emerging Market Bond Index Broad Diversified (CEMBI BD), delivered a 1.29% return in August (6.33% YTD), with high yield credits also outperforming (1.37% in the month). Technical factors remained supportive for the asset class, which also saw a resumption of retail inflows into EM hard currency-dedicated funds. Aggregate index yields ended at close to 6% for EM corporates and 7% for EM sovereigns.

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