NCRAM

Monthly Update

October 1, 2025

US High Yield

The US high yield market gained 0.76% in September, raising YTD returns to 7.06%, as measured by the ICE BofA US High Yield Constrained Index (HUC0). September capped a bullish Q3 during which US high yield returned 2.4% and the S&P 500 returned 8.1%. Strong markets have been supported by a view that US growth remains stable, yet the Fed is cutting rates.

US GDP growth was reported at 3.8% annualized for Q2, though 2.1% growth year-over-year is probably a better measure of the trend given the tariff disruptions. Meanwhile, the labor market has softened despite the GDP growth, with lackluster non-farm payroll growth of 27,000 per month over the last four months. Deteriorating labor markets have given the Fed a reason to cut rates, which they did in September, while hinting at two more cuts this year. The futures market expects four to five more cuts in total before the end of 2026, which if consummated would bring the Fed Funds rate down to the 3% area. Prospective Fed cuts led the 10-year US Treasury yield to fall slightly in September to 4.15%, down from 4.57% to start the year. Fed cuts are also expected to support continued real GDP growth around 2%.

Beyond the macro dynamic, the AI boom is also clearly supporting markets, even as there are signs of excess exuberance. As the various LLMs compete to provide the best AI products, certain companies are beneficiaries of the capital expenditures, and the entire economy is expected to benefit from productivity gains. In the strong market, Bs were the best performing ratings category in September. The US high yield market ended the month yielding 6.74% with a spread of 280.

Looking forward, US high yield should be supported by steady economic growth and relatively few defaults. We are also seeing a good amount of M&A announcements that benefit high yield companies. Overall lighter regulation should also benefit certain sectors. Key risks include continued tariff disruption or a pull-back in AI investments. We believe yields are favorable given the Fed cutting cycle, and US high yield can deliver attractive risk-adjusted returns over the next year.

European High Yield

The European high yield market returned 0.45% (EUR, unhedged) in September, resulting in a 4.34% year-to-date return, as measured by the ICE BofA European Currency High Yield Constrained Index (HPC0). In September, secondary markets were well-supported, but a deluge of new issues kept prices generally flat. During the month, we saw noticeable decompression as market participants avoided idiosyncratic risk, while sticking to higher quality credits. As a result, BBs outperformed while CCCs significantly underperformed the market.

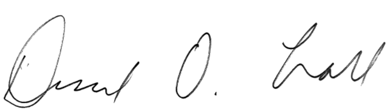
In terms of new issuance, we observed a significant amount of refinancing activity, as companies tapped the market to refinance maturities through 2027. Interestingly, auto parts manufacturers took advantage of market strength to issue new bonds in Europe and the US to extend their maturity runways to 2028, which is a significant positive for those credits.

From a macro perspective, the market mostly shrugged off the political volatility surrounding France and the inability of the incumbent government to negotiate a new budget, particularly given that credit quality of French issuers in the European high yield market tends to be quite high. Overall, we continue to believe that market technicals will support new issuance into the end of the year, which positions the market for another low default rate year in 2026.

Emerging Markets

EM hard currency bonds delivered strong returns for September and 3Q25, supported by lower US Treasury yields, persistent USD weakness, investor appetite for high yield fixed income, and supportive technical factors, including the return of inflows into dedicated EM funds. EM corporate bonds, as measured by the JPMorgan Corporate Emerging Markets Bond Index Diversified (CEMBI BD), gained 0.95% in September, 3.18% in 3Q25, and 7.34% YTD, mainly led by investment grade credits. Transportation, Oil & Gas, and Real Estate were among the best performing sectors during the month, while Financials and Industrials underperformed the broader index.

Meanwhile, EM sovereign bonds, as measured by the JPMorgan Emerging Markets Bond Index Global (EMBIG), benefited the most from the US Treasury rally, gaining 1.62% in September, 4.39% during 3Q25, and 10.11% YTD. Investment grade sovereigns, aided by the US Treasury rally ahead of the Fed's initial rate cut, outperformed with returns of 1.83% during the month.



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