NCRAM

Monthly Update

November 3, 2025

US High Yield

The US high yield market gained 0.20% in October, raising YTD returns to 7.27%, as measured by the ICE BofA US High Yield Constrained Index (HUC0). Spreads in US high yield widened modestly in October, ending the month 14 bps wider at 294. Yields for the market increased 9 bps to 6.82%, as US Treasury yields inched lower on the month. Part of the spread widening was related to caution after certain frauds were revealed in other credit markets (but not the high yield market), including First Brands and Tricolor. Furthermore, the Fed was incrementally less dovish than expected after lowering rates on October 29, and cautioned that a further rate cut in December is not assured. Of course, with a new Fed Chair expected in May, rates are still expected to fall to the 3% area by the end of 2026. While Chair Powell noted some stability in the economy, there is anecdotal evidence of more layoffs and a press narrative about a weaker labor market. Collectively, these events contributed to modest risk aversion in US high yield, even as the AI spending boom powered on and the S&P 500 hit record highs. Accordingly, BBs performed the best and CCCs lagged. For the month, the Healthcare, Steel, and Metals & Mining industries performed the best, while Packaging, Consumer, and Cable performed the worst, generally for credit-specific reasons.

Looking forward, high yield fundamentals remain resilient, with issuers seeing positive annual operating earnings growth for five consecutive quarters, and the third quarter earnings season has commenced with encouraging results so far. The high yield default rate remains historically low at 0.6% (1.4% including distressed exchanges), supported by operating earnings growth among high yield issuers, stable net leverage below 4x, and an increasingly strong credit quality profile, with 55% of the market rated BB, and only 10% rated CCC. For 2026, we have an optimistic outlook for the US economy, with growth in the 2.5% range as lower interest rates, tax cuts, less regulation, and gains from AI investment are likely to support stronger growth, particularly in a midterm election year, when more fiscal stimulus is likely. We are monitoring risks including tariff impacts, softening employment (including AI-related payroll reductions), and declining consumer confidence among lower end consumers. Overall, however, we expect continued economic growth to support strong corporate earnings and low defaults. We believe yields in the 6.5-7% range position the US high yield market to deliver competitive returns over the next 12 months.

European High Yield

The European high yield market returned 0.06% in October, resulting in a 4.40% YTD return (EUR, unhedged), as measured by the ICE BofA European Currency High Yield Constrained Index (HPC0). European high yield saw continued decompression in October as higher quality BBs and Bs significantly outperformed lower quality and idiosyncratic risk during the month. While BB spreads were relatively unchanged, B spreads widened during the month. Demand for higher quality credits was apparent as the market experienced a brief bout of volatility after the Trump/China trade-related escalation, but BBs bounced back quickly and even traded tighter than prior to the news. Among the more volatile sectors, the Chemicals sector in particular remained unsteady, as the industry conditions and outlook remain challenged.

Looking forward, the ECB appears likely to hold rates at current levels through the end of the year. French political risk remains in the background, although the impact on high yield credits has been negligible. Key uncertainties will be the pace and impact of German fiscal spending as well as continued trade tensions with both China and the US. Overall, we believe the default rate for European high yield should remain low over the next 12 months, supporting positive returns for the asset class.

Emerging Markets

EM hard currency bonds posted positive returns in October, with high yield sovereign credits outperforming. EM sovereign bonds, as proxied by the JPMorgan Emerging Markets Bond Index Global (EMBIG), gained 2.20% in October (12.53% YTD), led by strong gains in high yield credits, up 3.74% in the month (15.63% YTD). Positive developments in Argentina and expectations of political change in some small Latin American countries boosted market performance. The EMBIG index ended the month with a spread of 236 bps over US Treasuries and 6.58% yield.

Meanwhile, EM corporate bonds, as proxied by the JPMorgan Corporate Emerging Markets Index Broad Diversified (CEMBI BD), gained 0.56% in October (7.95% YTD), with more balanced performance between high yield and investment grade credits. The CEMBI BD spread remained roughly unchanged in October at 189 bps.

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