

HIGH YIELD CORPORATE BONDS

From Compression to Dispersion

This report is excerpted from the *Second Quarter 2026 Fixed-Income Sector Views*.

Prolonged geopolitical disruption could pressure more cyclically exposed issuers.

High yield experienced negative quarterly performance for the first time since 2022 amid rising geopolitical concerns, reversing much of the spread tightening in 2025. Sector dispersion, which was benign in 2025, became more prevalent. Energy was a top performer, while rate sensitive sectors faced headwinds. Technology underperformed on concerns around AI disruption. The primary market was active, though pulled back during periods of volatility.

Sector Commentary

- Spreads on the ICE BofA U.S. High Yield Master II Constrained Index rose in the first quarter to 328 basis points.
- The high yield index posted a -0.5 percent total return for the first quarter, the first negative quarterly performance since 2022.
- Quarterly returns highlight outperformance by higher quality credit, with BB-rated, B-rated, and CCC-rated bonds returning -0.3 percent, -0.7 percent, and -1.3 percent, respectively.
- New issuance totaled \$80 billion in the first quarter, with approximately 60 percent allocated to refinancing activities. There were a few large merger and acquisition deals, which made up approximately 25 percent of issuance.

Investment Themes

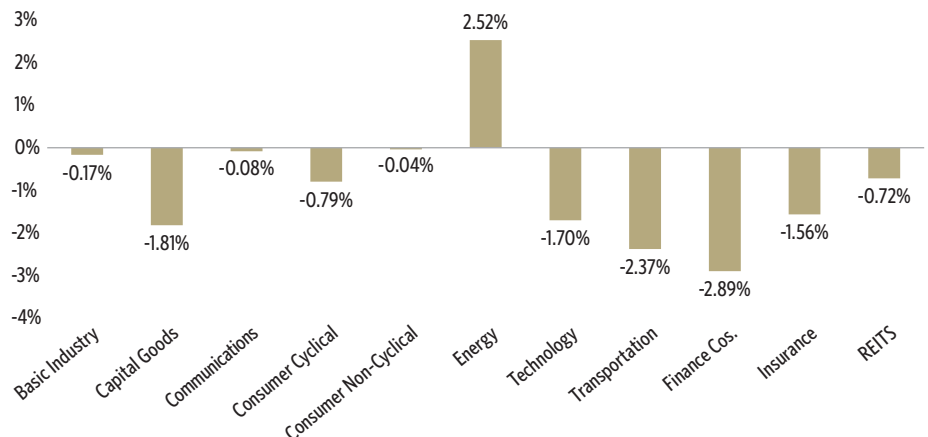
- High yield experienced \$8.5 billion in net mutual fund outflows in the first quarter of 2026, mainly from ETFs.
- Despite negative total returns, coupon income partially offset price declines, reinforcing carry as the primary return driver.
- Refinancing activity dominated primary issuance, constraining net supply, though spreads widened from relatively tight levels as geopolitical risks intensified. This dynamic supports selective investment opportunities.
- Roughly two-thirds of the high yield market is trading at spreads inside 300 basis points, a level that remains tight relative to historical averages.
- Fundamentals remain strong, with the trailing 12-month par-weighted default rate of 1.2 percent well below the 20-year average of 3.5 percent. The distress rate remains modest and we expect defaults to remain subdued, though prolonged geopolitical disruption could pressure more cyclically exposed issuers.

By Thomas Hauser and Ravi Tamboli

Sector dispersion, which was benign in 2025, became more prevalent. Energy was a top performer, while rate sensitive sectors faced headwinds. Technology underperformed on concerns around AI disruption.

High Yield Energy Was the Only Positive Performer in the First Quarter

High Yield Corporate Bond Index Q1 2026 Total Return, by Industry



Source: Guggenheim Investments, Bloomberg. Data as of 3.31.2026.

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One **basis point** is equal to 0.01%.

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