High Yield Corporate Bonds

Volatility Pushes Spreads Wider but Fundamentals Remain Solid

This report is excerpted from the Second Quarter 2025 Fixed-Income Sector Views.

Spreads should remain rangebound absent a major economic setback.

Market volatility spiked at the start of 2025 due to tariff uncertainty and weakening consumer sentiment, which led high yield corporate bond spreads to widen nearly 90 basis points from 259 basis points in early January to March. This widening continued into April, pushing spreads to their widest since June 2023. This reflects investor uncertainty rather than credit deterioration. With low default rates and stable corporate fundamentals, we believe spreads can remain contained unless a deeper economic shock occurs.

Sector Commentary

- Spreads on the ICE BofA U.S. High Yield Master II Constrained Index widened from 292 basis points to 347 basis points in the first quarter of 2025. Spreads widened to their historical median levels in the first 10 days of April driven by worse-than-feared reciprocal tariffs.
- Despite spread widening, the high yield index posted a first quarter return of 1.0 percent, up from a return of only 0.2 percent last quarter. The decline in benchmark Treasury yields helped boost performance.
- Year to date, higher quality fixed income is outperforming, with BBs, Bs and CCCs posting returns of 1.4 percent, 0.8 percent, and -0.3 percent.
- As of quarter-end, high yield bonds yield 7.7 percent on average—nearly 100 basis points above the past decade's average—despite a shorter maturity profile.

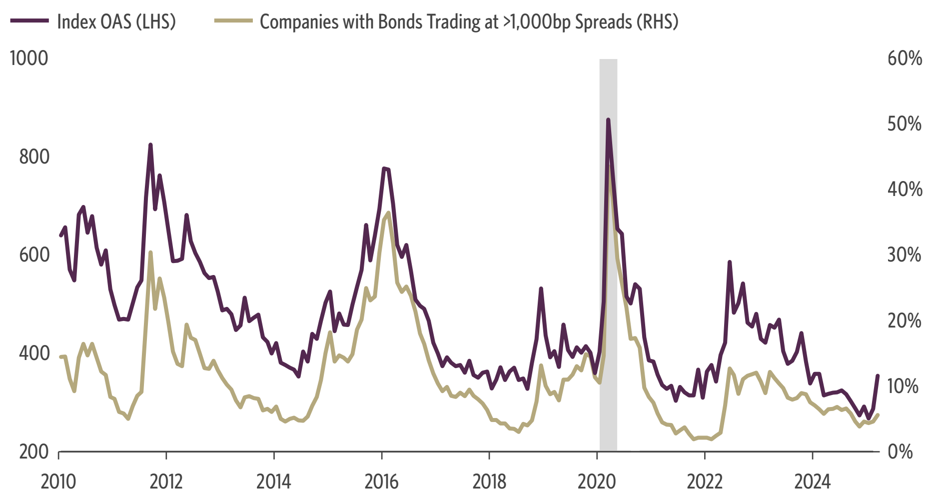
Investment Themes

- Investors continue to find high yield corporate bonds attractive despite high policy uncertainty, as evidenced by strong net fund inflows of $7 billion this year.
- Strong credit fundamentals suggest that weak periods should be seen as attractive entry points to add yield.
- The trailing 12-month par-weighted default rate ended the first quarter at just 1.5 percent, well below the historical average of 4 percent, and is expected to remain below average in 2025.
- Refinancing activity accounted for over 70 percent of primary issuance in 2025 year-to-date. M&A and general corporate activity was anticipated to make up a greater share of primary market activity this year but has been slower than expected amid the uncertain environment.
- We prefer higher quality high yield bonds (rated B or above) due to their stronger fundamentals and lower default risk.

By Thomas Hauser and Maria Giraldo

The trailing 12-month par-weighted default rate ended the first quarter at just 1.5 percent, well below the historical average of 4 percent, and is expected to remain below average in 2025. These expectations were reflected in the high yield index with less than 10 percent of issuers trading at distressed levels at the end of the quarter.

Share of Distressed Companies Remains Very Low



Source: Guggenheim Investments, Bloomberg, ICE index services. Data as of 3.31.2025. Gray area represents recession period.

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

S&P bond ratings are measured on a scale that ranges from **AAA** (highest) to D (lowest). Bonds rated **BBB-** and above are considered investment-grade while bonds rated **BB+** and below are considered speculative grade.