

# Low Default Rates Support Constructive Outlook

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

## High yield bonds extend positive streak supported by strong technicals.

High yield spreads approached historic lows in the third quarter, marking the twelfth consecutive quarter of positive performance for the sector. This momentum was underpinned by strong investor inflows, limited new issuance outside of refinancings, solid credit fundamentals, and low default rates. These factors suggest a constructive outlook for high yield bonds, though investors should remain mindful of potential risks as valuations tighten further.

### Sector Commentary

- Spreads on the ICE BofA U.S. High Yield Master II Constrained Index tightened from 296 to 280 basis points in the third quarter, placing them in the 4th percentile of historical levels.
- The high yield index delivered a 2.4 percent total return for the quarter, marking its twelfth consecutive quarter of positive performance, aided by a modest decline in benchmark Treasury yields.
- Year-to-date performance shows higher-quality segments outperforming, with BB-rated, B-rated, and CCC-rated bonds returning 7.2 percent, 6.7 percent, and 7.0 percent, respectively. CCC-rated bonds led in the third quarter as risk appetite increased.
- New issuance remained strong, totaling \$118 billion in the third quarter and \$263 billion year to date, with approximately 78 percent allocated to refinancing activities.

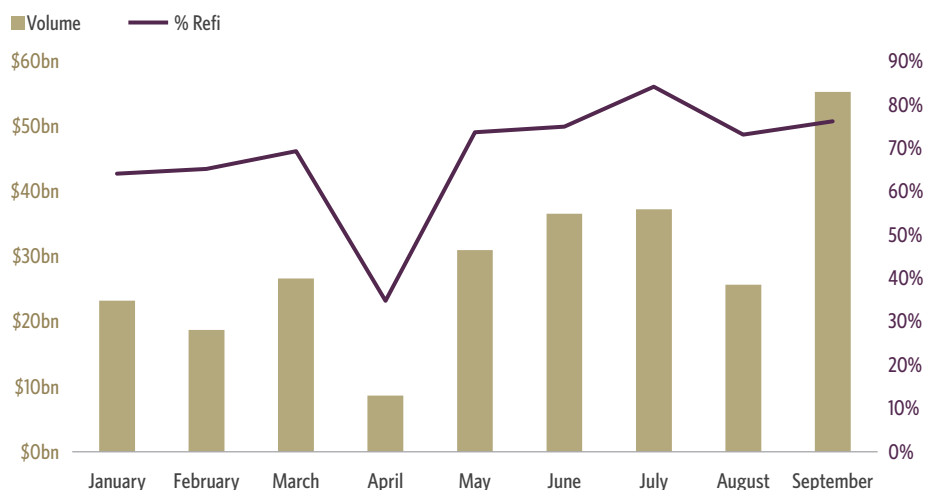
### Investment Themes

- High yield bonds attracted \$14.2 billion in net inflows year to date, including \$4.9 billion in the third quarter, as expectations of Fed rate cuts and high coupons drive investor demand.
- Issuers in the high yield market maintain strong credit fundamentals, with the trailing 12-month par-weighted default rate of 1.2 percent, significantly below the 20-year average of 3.5 percent. Defaults are expected to remain low.
- Refinancing activity dominates primary issuance, keeping net supply constrained and spreads near historically tight levels. The large issuance enabled us to remain selective for investment opportunities.
- Average bond prices have risen approximately 2.6 points this year to about \$98. With nearly half the market trading to their call prices, future returns are likely to be driven primarily by coupon income.

By Thomas Hauser and Ravi Tamboli

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### Refinancing Volumes Shape 2025 High Yield Market Dynamics



Source: Guggenheim Investments, Bloomberg, BAML, Pitchbook. Data as of 9.30.2025.

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

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