

## High Yield Corporate Bonds

# Supportive Technicals Power Strong Year for High Yield

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

## Tight spreads highlight the importance of disciplined credit selection.

High yield clipped coupons in the fourth quarter, marking 13 consecutive quarters of positive performance. For the year, high yield was up 8.5 percent supported by strong investor inflows, limited net issuance, and low default rates. However, CCC-rated credits underperformed in the fourth quarter, reflecting dispersion in lower quality segments. With nearly half the market trading at spreads below 200 basis points, disciplined credit selection will remain critical for managing risks and identifying opportunities in the evolving high yield market.

### Sector Commentary

- Spreads on the ICE BofA U.S. High Yield Master II Constrained Index were largely flat in the quarter at 281 basis points.
- The Bloomberg High Yield Index posted a 1.3 percent total return for the fourth quarter, marking its 13th consecutive quarter of positive performance.
- Full year returns highlight outperformance by higher quality credit, with BB-rated, B-rated, and CCC-rated bonds returning 8.9 percent, 8.4 percent, and 6.5 percent, respectively.
- New issuance totaled \$66 billion in the fourth quarter and \$329 billion for the full year, with approximately 70 percent allocated to refinancing activities.

### Investment Themes

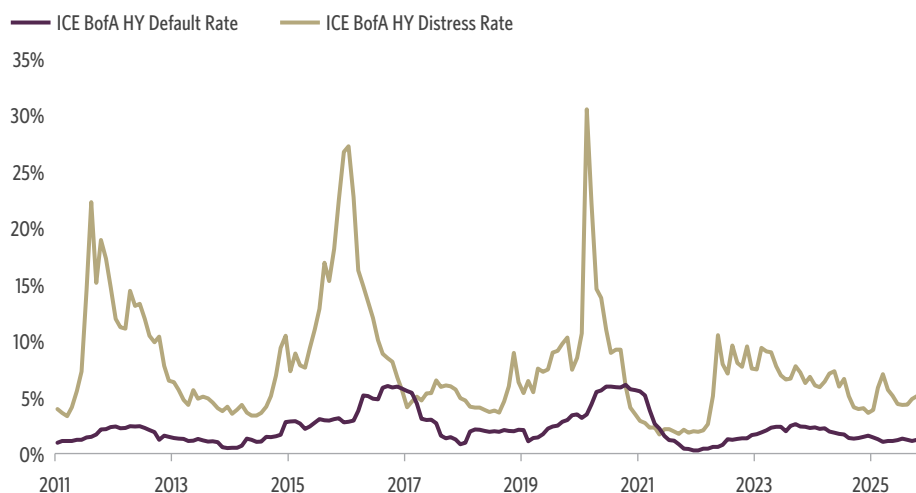
- High yield corporate bonds attracted \$17.9 billion in net inflows in 2025, including \$3.7 billion in the fourth quarter, driven by expectations of Fed rate cuts and attractive coupons.
- Refinancing activity dominates primary issuance, constraining net supply and keeping spreads near historically tight levels. This dynamic supports selective investment opportunities.
- Roughly half of the high yield market is trading at spreads inside 200 basis points. Returns in 2026 are expected to be more muted compared to 2025, emphasizing the importance of disciplined credit selection.
- Issuers in the high yield market exhibit strong credit fundamentals, with a 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.

By Thomas Hauser and Ravi Tamboli

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### Muted Distress Rate Indicates Low Default Expectations Going Forward

Distress rate = bonds trading > 1,000bps option-adjusted spread



Source: Guggenheim Investments, Bloomberg, BAML, Pitchbook. Data as of 12.31.2025.

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

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