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Fixed Income

US High Yield Outlook

Jack Stephenson, Fixed Income Investment Specialist

What's been happening in the US High Yield market?

After a volatile spring, the US high yield market enjoyed a summer of relative calm. Spreads have grinded tighter, and companies have taken advantage of declining yields to issue bonds, with a heavy flow of supply being met with equally strong demand.

Importantly, net supply remains low, with 70% of year-to-date supply used for refinancing purposes[1]. This came despite continued fears around the inflationary impact of tariffs, a weakening labour market, increasing tension between the White House and key economic institutions, as well as the passing of the One Big Beautiful Bill through Congress set to further widen the already burgeoning deficit over coming years.

On the face of it, markets may appear to be rather complacent, given the high level of uncertainty in the outlook. But delving deeper, there are key factors that have been supporting this rally in US high yield notably continued resiliency in earnings, an abundant supply of capital available to issuers and continued demand from yield buyers drawn to the market by the potentially attractive total returns on offer.

Most importantly, issuer fundamentals remain solid and point towards further containment in overall default rates. That default rate remains at just 0.49% for HY bonds excluding distressed exchanges, or 1.39% including distressed exchanges.[2]

What is the outlook for US high yield?

Although we expect the macro backdrop to remain choppy, the outlook for US high yield remains constructive. It is worth remembering that, whilst spreads appear low in a historical context, they are much less so when adjusted for today's US high yield market composition.
Current spread levels are supported by a near record high percentages of BBs, a near record low percentages of CCCs, a record high percentages of secured bonds at 35%, record low duration and low bid/ask spreads meaning better liquidity[3].

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[1] Source: JPMorgan Research, as of 30 September 2025
[2] Source: J.P. Morgan: Default Monitor 30 September 2025
[3] Source: BofA HY Research, as of 30 September 2025

Even as companies get clarity on the impact of tariffs on their supply chain and margins, there is still a resilient undertone to how high yield companies are coping.
But that is not being felt equally at a sector or issuer level. Impacts are increasingly uneven across those sectors directly impacted by tariffs like Retail, Consumer Goods, Paper/Packaging, Chemicals and Autos, compared to those more domestically focused, low import sectors like Services, Gaming, Technology and Telecom.

In certain cases, tariffs could even offer a potential tailwind in the form of reduced foreign competition, especially when combined with changes to corporate taxation which incentivise domestic capex[4].

Recently there has been greater attention to some notable default stories in the Broadly Syndicated Loan market and investor concern regarding the risk of contagion across credit markets. The theme of liability management exercises will remain prevalent heading into 2026.
Given that we expect overall default activity in high yield to remain modest and likely driven by continued idiosyncratic credit stories, an active and disciplined approach in investing within lower credit quality markets may be warranted.

Where are we seeing opportunities in this environment?

In the current economic context, we believe that investors should consider a nimble and flexible approach to investing in the high yield market.

We believe that short duration securities continue to look attractive given the ability to mitigate both interest rate and spread volatility, whilst focusing on the most liquid part of the market.

Further up the risk spectrum, opportunities continue to be idiosyncratically driven both in terms of names that we own but also, those that we don't own. Here, we are picking spots particularly with regards to large capital structures which contribute a significant amount to overall market yield aiming to consolidate our positioning in the most appropriate part of certain structures which we feel offer the best risk/reward opportunity.

As we look ahead, we expect spreads to remain in a relatively tight range but for our more total return seeking strategies, would look to deploy cash into market weakness like we saw in April.

Thank you for watching and we look forward to keeping you updated on the high yield market.

Source : AXA IM as of October 2025

[4] Capex stands for: Capital Expenditures - funds used by a company to acquire, upgrade, or maintain physical assets

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