US High Yield Outlook

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What's been happening this market?

The US high yield market has come full circle from a very strong start to the year through to a volatile April and, more recently, a big recovery from April's drawdownto sit today on roughly a 3% YTD return[1].

High yield bond prices came under pressure in April following the Liberation Day tariff announcements and spreads widened to reach a peak of around 460bps.

Following the subsequent 90-day pause announced on tariffs, the market rallied and spreads today are back to levels slightly above 300bps. At the height of April's volatility, there was a clear differentiation in returnsfrom those companies more directly impacted versus those that were not.
The worst performing sectors on the month included Consumer Goods and Retail, as well as Energy which was negatively impacted by Opec's announcement to hike output. More domestically focused sectors liked Services were the outperformers.

What is the outlook for US high yield

Markets and companies do not enjoy such heightened uncertainty and, with soft data showing a decline in consumer and business sentiment, some companies have pushed out near-term earnings guidance to the second half of the year. That said, the hard data, for now, remains relatively resilient, but the extent to which companies cope with a weaker economic environment warrants close attention.

Despite the potential for further near-term widening, spreads should continue to be well anchored by a default rate that remains low and potential valuation buyers looking for more attractive entry points.

We continue to believe that defaults will remain slightly below or in line with long-term historical averages and to be idiosyncratically driven, noting the potential impact of several large issuers who are either currently engaged, or may become engaged, in restructuring discussions with creditors.

This actually creates opportunities for us as an active manager to benefit from our security selection as a potential source of alpha.

[1] Source: AXA IM, Bloomberg as of 30 May 2025

It is trickier to know how investors ’market perception will change. The more calls there are for an economic slowdown and potential recessions,the more the top-down driven expectations will start to demand a higher risk premium on high yield bonds. Overall, we continue to believe that the attractive income offered by high yield through the all-in yield does offer a fair compensation for the uncertainty, even if the road ahead will remain bumpy.

Where are we seeing opportunities in this market?

Over the past two years, the lower quality part of the US high yield market has outperformed the higher end. So far in 2025, there has been a reversal of this trend, and the BB-rated segment has been the strongest performing part of the market. With uncertainty likely to continue, investors may wish to look at opportunities at the higher quality end of the market. Bond yield levels remain attractive but, in the current environment, some caution is warranted.
So, for those wishing to mitigate interest rate and credit spread risk as well as seeking attractive yields, short duration high yield bonds by their nature can potentially help with this.

At the other end of the high yield risk spectrum, April’s market weakness allowed us to start rotating our more dynamic, high conviction strategies from a defensive positioning into higher total return seeking opportunities, and, where eligible, a slight increase in leverage by credit default swaps.
This might appeal to investors seeking a replacement for more volatile equity exposure or as a complement to existing high yield strategies.

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

Source: AXA IM as of June 2025

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