

# Global high yield quarterly

Insights  
Q2 2025

Investment  
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## Global high yield: Limited spread upside, steady carry

### Executive Summary:

- Global High Yield (GHY) spreads ended H1 2025 flat, recovering from a sharp 150 bps widening. Risk assets remained buoyant despite tariff shocks, geopolitical tensions, and a US credit downgrade, supported by a soft-landing narrative and expectations of Fed easing.
- HY issuers demonstrated solid earnings and balance sheet strength, with improving EBITDA growth, stable margins, and manageable leverage. Refinancing activity helped mitigate maturity wall concerns, while fund flows rebounded, reinforcing market stability.
- With spreads near historical tights, valuations offer limited cushion for tail risks. However, attractive all-in yields (~7%), healthy corporate fundamentals, investor demand and improving credit conditions continue to support a coupon-like return environment.

### Performance/Market Highlights:

GHY spreads ended the first half of the year flat, despite widening by over 150 basis points at one point in April before sharply reversing. Risk assets, including HY, proved resilient in the face of numerous headwinds — ranging from tariff announcements and Section 899 developments to the US credit rating downgrade, geopolitical tensions, and concerns over debt sustainability.

Markets have largely embraced a soft-landing macroeconomic narrative, anticipating only modest and temporary weakness in the second half of 2025. This outlook is underpinned by expectations that forthcoming Fed easing will be sufficient to restore trend growth by early 2026. As a result, investor sentiment has remained broadly risk-on for much of the year. Growth and income assets have benefited from this backdrop, with the S&P 500 leading the way — posting a year-to-date gain of 6.2%.

**Figure 1: Total Returns of HY in Recent Periods**

Returns	3m (%)	6m (%)	12m (%)	YTD (%)
GHY (\$ - Unhedged)	4.78	6.86	11.81	6.86
GHY (\$ - Hedged)	3.11	4.37	10.13	4.37
GHY (€ - Hedged)	2.51	3.37	8.14	3.37
GHY (£ - Hedged)	3.05	4.38	9.96	4.38
US HY (in \$)	3.57	4.55	10.24	4.55
Euro HY (in €)	2.09	2.75	8.21	2.75
EM HY (in \$)	2.06	4.53	9.75	4.53

Source: State Street Investment Management, BofA.  
As of 30 June 2025.

**Figure 2: Spread Changes by Region**

OAS (bps)	Current Level	Δ 3m	Δ 12m	Δ YTD
GHY	313	-42	-25	6
US HY	296	-59	-25	4
Euro HY	310	-18	-43	-1
EM HY	375	-11	-7	10

Source: State Street Investment Management, BofA.  
As of 30 June 2025.

**Figure 3: Return Breakdown of GHY**

Returns	3m (%)	6m (%)	12m (%)	YTD (%)
GHY (\$-Hedged)	3.11%	4.37%	10.13%	4.37%
Spread Return	1.73%	0.97%	3.99%	0.97%
Treasury Return	1.38%	3.40%	6.14%	3.40%

Source: State Street Investment Management, BofA.  
As of 30 June 2025.

Lower-rated segments underperformed in excess return terms, with BB-rated bonds returning +1.2%, Single-Bs +0.7%, and CCC & lower declining by -0.9% year-to-date. All industries posted positive excess returns except Transportation (-2.5%), which was negatively impacted by escalating global trade tensions that weighed on logistics, shipping, and freight activity.

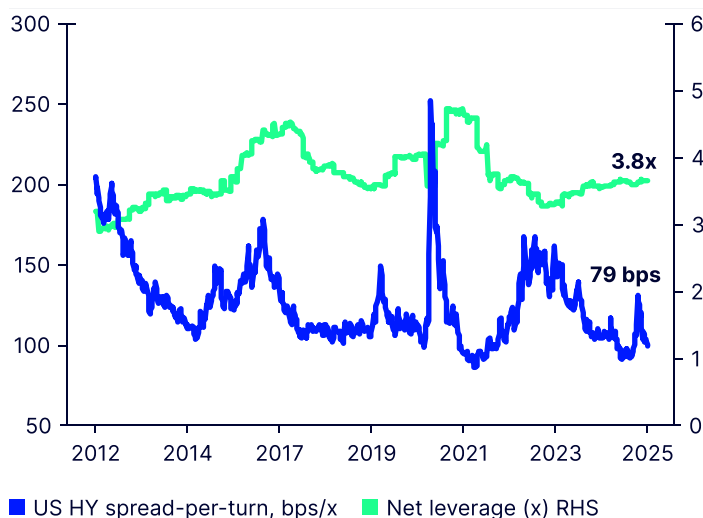
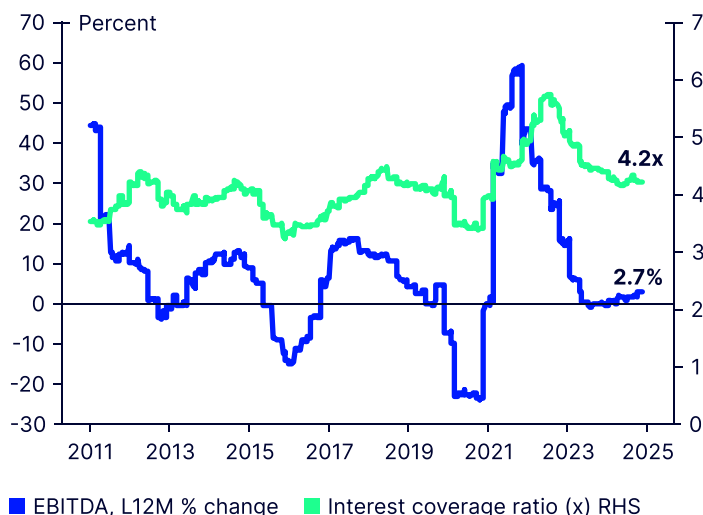
Gross issuance year-to-date reached \$149.3bn in US HY and €47.0bn in EUR HY, though net issuance remained modest at \$54.5bn and €12.0bn respectively, reflecting a continued focus on refinancing. The US HY market saw a trailing 12-month default rate of 1.1%, with the monthly pace remaining below the prior two years. In contrast, EUR HY defaults remained elevated at 3.5%, driven by a few large capital structure failures. However, fund flows rebounded strongly from April's outflows, with US HY attracting +\$7.1bn YTD and EUR HY +€2.8bn YTD.

## Outlook:

Our base case for the second half of the year is a global economic slowdown, accompanied by softer labour markets. This is expected to result from reduced spending by both corporates and households in response to rising tariff-related costs. However, we do not anticipate this will lead to a full-blown recession. Assuming trade tensions do not escalate significantly, we believe GHY will remain well supported. Key drivers include strong issuer balance sheets, improved credit quality, a clear path for further Fed rate cuts, and expansionary fiscal policies in both the US and Europe. Investor demand for HY is likely to stay robust, supported by attractive volatility-adjusted yields and elevated breakeven rates. These factors should help keep spreads near historically tight levels. That said, with markets already pricing in a benign macroeconomic outcome, there is limited cushion for adverse tail-risk scenarios.

HY companies demonstrated notable resilience in their recent quarterly earnings, despite ongoing tariff uncertainty. Twice as many firms exceeded EBITDA expectations as fell short, underscoring strong operational performance. From a fundamental perspective, HY balance sheets held up well in the first half of the year. Trailing 12-month EBITDA growth has gradually improved to 3%, recovering from near-zero levels and avoiding the typical double-digit declines seen during slowdowns. EBITDA margins have remained stable as well. Net leverage stands at 3.7x — up from the record low of 3.3x but still below pre-pandemic levels and the long-term average of 4.0x. While interest coverage has declined to 4.4x from the 4Q22 peak of 5.7x, it remains well above historical norms and stronger than expected. Similar trends are evident among European issuers, with gross leverage in the 3.5–3.7x range — near cycle lows — and coverage ratios close to 4.0x. These are expected to improve further as interest rates decline. (Source: JPM, Morgan Stanley).

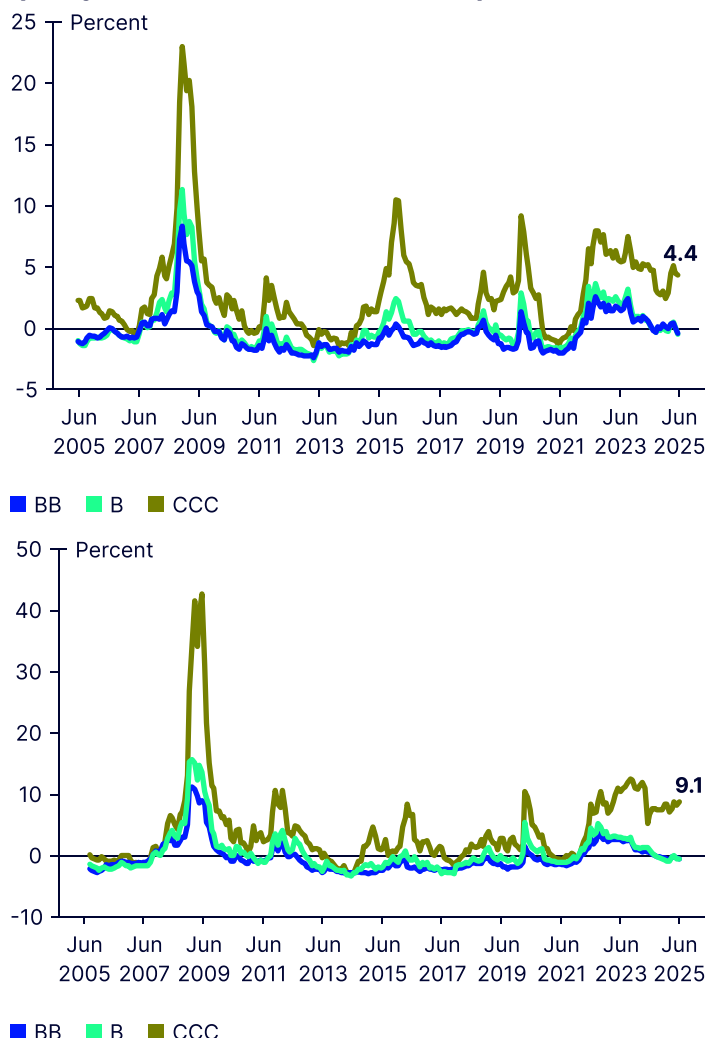
**Figure 4: Corporate balance sheets have retained their strength — US HY**



Source: State Street Investment Management, BofA.  
As of 30 June 2025.

HY issuers, particularly in the US have responded proactively to earlier concerns about an approaching maturity wall amid elevated yields. Many took advantage of recent periods of lower yields and tighter spreads to refinance, improving the market's technical outlook. The in-place refinancing gap — defined as the difference between current market yields and the average coupon on outstanding debt — has narrowed across both US and European HY markets (Fig 5). In Europe, a small tail of distressed credits continues to face refinancing challenges. However, these cases remain largely idiosyncratic and contained, with limited impact on broader market dynamics.

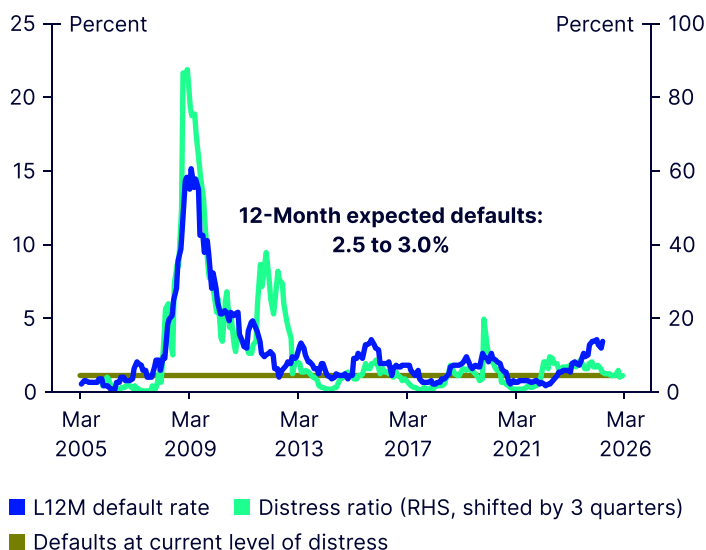
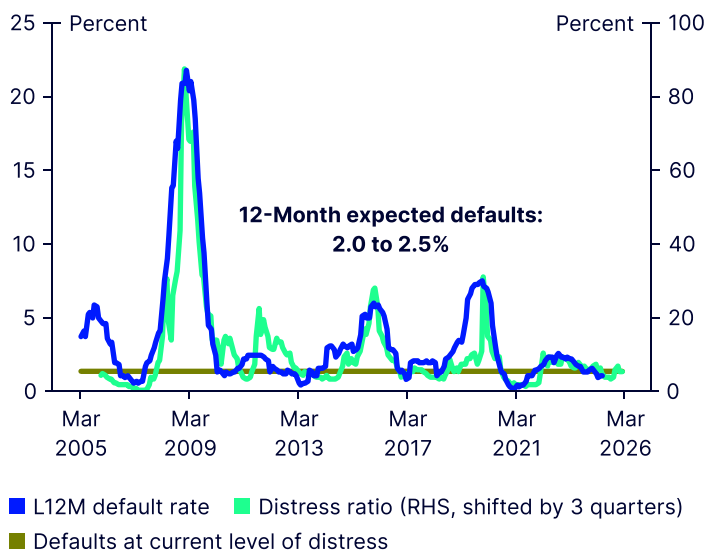
**Figure 5: Divergence in cost to refinance for lower quality issuers between US and Europe**



Source: State Street Investment Management, BofA.  
As of 30 June 2025.

We believe this credit cycle is likely to peak at a lower level of distress than previous ones, supported by the absence of a severe macroeconomic downturn, improving access to capital, easing credit conditions, healthy corporate balance sheets, and conservative investor positioning. Distress levels have remained moderate and stable — hovering around 6–7% — even through the volatility seen in April (Fig. 6), reinforcing our view. Based on our assessment of default watchlists and the most distressed issuers, we estimate US HY defaults over the next 12 months will fall in the 2.0–2.5% range. In Europe, most of the losses tied to restructured capital structures — such as those involving Adler Group and SBB — have already been realized. As the high-rate environment that triggered these defaults recedes, we expect the EUR HY default rate to decline to 2.5–3.0%.

**Figure 6: Absence of distress, a forward-looking indicator of defaults — in both markets**



Source: State Street Investment Management, BofA.  
As of 30 June 2025.

Valuations represent the most significant near-term risk to GHY. With spreads now at 313 basis points — near the richest decile historically — they may not adequately compensate investors for potential downside scenarios, including a sudden repricing of interest rates or spreads triggered by fiscal excess or adverse trade developments.

That said, several factors continue to support the asset class:

- Strong starting points for corporate balance sheets
- Improved ratings quality relative to historical norms
- Limited volume of credit-negative transactions, such as leveraged buyouts or dividend recapitalizations
- Healthy retail inflows
- Attractive all-in yields around 7%

Together, these elements provide a compelling case for total return-oriented investors, even amid elevated valuations.

## Conclusion:

GHY is currently in a balanced position. While yields remain reasonably high — offering attractive carry and rolldown due to the index's short duration — there is limited excess risk premium in spreads to support outsized spread-driven returns. Corporate issuers have weathered several episodes of extreme interest rate and trade policy volatility. As a result, we believe investors will be hesitant to abandon the prevailing 'buy-the-dip' mentality. Looking ahead, markets are optimistic about the potential economic boost from upcoming rate cuts. As long as growth moderates without significantly impacting earnings estimates, the environment should remain supportive for HY to continue delivering coupon-like returns.

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\* This figure is presented as of June 30, 2025 and includes ETF AUM of \$1,689.83 billion USD of which approximately \$116.05 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

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ID3037800-4670204.16.1.GBL.RTL 0825 Exp. Date: 07/31/2026