

# Global high yield quarterly

Insights  
Q1 2026

Investment  
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## Global High Yield at a crossroads: Carry vs. Conflict

### Executive summary

- Risk repriced, not credit broken: Spread widening reflects geopolitics and energy risk, not a collapse in fundamentals or market functioning.
- Carry still does the heavy lifting: Income remains the primary return driver, cushioning volatility in a non recessionary base case.
- Tail risks matter, but aren't priced: Escalation remains the key downside, yet markets continue to assume disruption is contained.

### Performance/Market highlights

Global High Yield spreads widened by 51 bps over Q1, as markets absorbed a sharp rise in geopolitical risk and energy driven inflation uncertainty. The escalation of conflict in the Middle East triggered a pronounced energy shock, with Brent crude closing the quarter at around \$118 per barrel, nearly double end 2025 levels, while European natural gas prices saw comparable increases.

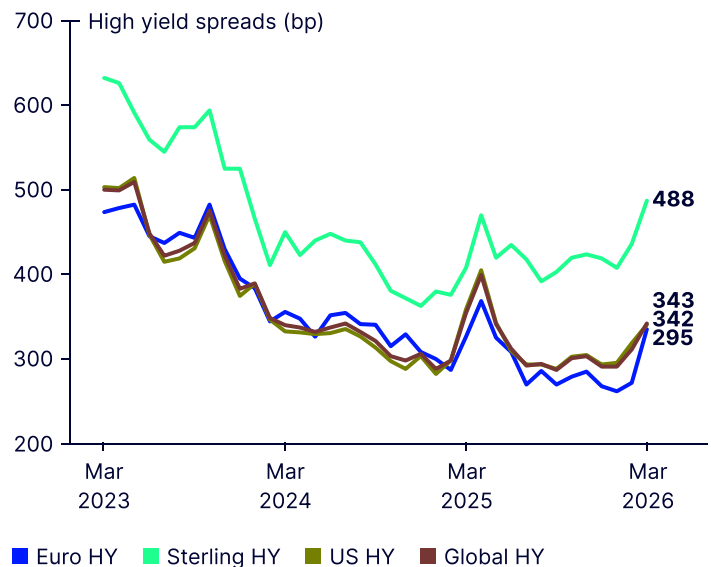
Repricing has been driven less by deteriorating credit fundamentals and more by macro risk premia, as higher energy costs threaten to complicate the inflation outlook and delay monetary easing. Importantly, high yield market functioning has remained orderly. Liquidity continues to be available across primary and secondary markets, albeit at wider bid ask spreads and reduced risk appetite.

Figure 1: Total Returns of HY in Recent Periods

Returns	3m (%)	6m (%)	12m (%)	YTD (%)
Global HY (\$-Unhedged)	-1.09	0.06	7.41	-1.09
Global HY (\$-Hedged)	-0.57	0.69	6.53	-0.57
Spread Return	-0.78	-0.54	2.69	-0.78
Treasury Return	0.21	1.23	3.84	0.21
Global HY (€-Hedged)	-1.06	-0.34	4.18	-1.06
Global HY (£-Hedged)	-0.61	0.62	6.33	-0.61

Source: State Street Investment Management, BofA.  
As of 31 March 2026.

Figure 2: High Yield market spread moves



Source: BoFA, State Street Investment Management.  
As of 31 March 2026.

Defaults are a slow-moving backward-looking indicator, but they are at low levels, with the trailing 12-month global HY rate at 1.8%, continuing its multi-year downtrend. Capital markets were active in the US despite volatility: gross issuance was \$79.8bn, net issuance \$22.8bn for the quarter. Refinancing led use of proceeds (almost 60% of new issuance), although M&A financing saw a notable pickup as well (22% YTD, from a 14% share in 2025). Investors moved into less risky assets and cash over the quarter, with -\$7.9bn of flows out of US HY and -€1.1bn out of Euro HY.

## Outlook

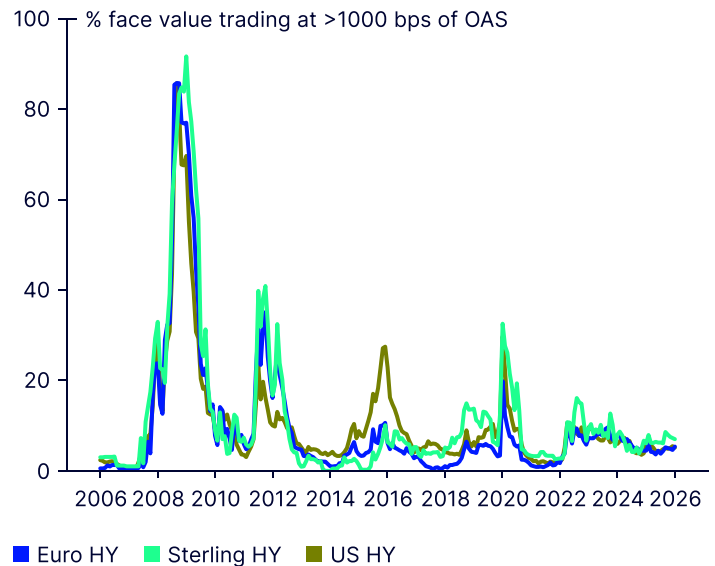
Q1 2026 marked a clear shift in regime for risk assets, with geopolitics and energy security displacing inflation and growth as the dominant macro drivers. Confidence indicators have weakened across all regions, even as hard economic data continue to point to a mixed but non-recessionary global backdrop. For high yield investors, this has translated into a repricing of risk premia, rather than a broad based deterioration in fundamentals. At current levels, Global High Yield spreads still remain below their three year averages and pricing continues to assume that any disruption to the vital Strait of Hormuz would be temporary and containable.

In a **rapid de escalation** scenario (low probability), spreads would remain broadly stable around current levels and defaults would stay in the 1.5–2% range, allowing carry to translate efficiently into total returns. The more likely outcome (**base case**) is a **prolonged but contained conflict**, characterised by elevated energy prices, slower growth, and episodic volatility. In this environment, spreads could drift wider toward the mid cycle range, defaults rise modestly toward ~3%, and total returns would remain positive but more muted, with income doing much of the work.

A **full escalation** scenario, while not the base case, remains the principal downside risk. Under such conditions, a sustained energy shock would raise the probability of stagflation, impair credit market functioning, and push spreads toward stress levels, with defaults potentially rising into the 6–7% range. Scenario analysis suggests that in this outcome, spread widening

and default losses would overwhelm carry over a one year horizon. Importantly, markets are not yet pricing for this outcome, which explains both the resilience of spreads and the sensitivity of risk assets to geopolitical headlines.

**Figure 3: Global HY: A volatility driven repricing without signs of systemic distress**



Source: BoFA, State Street Investment Management. As of 31 March 2026.

## Conclusion

Global High Yield should be viewed as a carry asset operating in a new regime. Returns are likely to be less linear and more episodic than in the immediate post pandemic period, and investors should expect drawdowns during periods of geopolitical stress. Nevertheless, absent a material escalation that disrupts global energy supply for a prolonged period, the combination of income, manageable defaults, and still functional markets supports Global High Yield's role as a strategic income allocation for investors able to tolerate near term volatility.

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