Global High Yield Quarterly

Resilient Fundamentals Support a Carry-Driven Market

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Executive summary

- High yield spreads retraced Q1 volatility and finished H1 2026 at near cycle tights, supported by resilient growth and solid corporate fundamentals
- Elevated all-in yields and low default rates position carry as the primary driver of returns in a largely fully valued market
- An up-in-quality bias remains appropriate given increasing dispersion and continued pressure on lower-rated issuers

Performance & market highlights

Global High Yield spreads tightened modestly over the first half of 2026, leaving spreads near the tighter end of their recent trading range. Despite some uncertainty surrounding a potential re-escalation between the US and Iran, US economic data held up and financial conditions remained accommodative. US consumers continued to demonstrate resilience, while a solid Q1 earnings season reinforced confidence in corporate fundamentals.

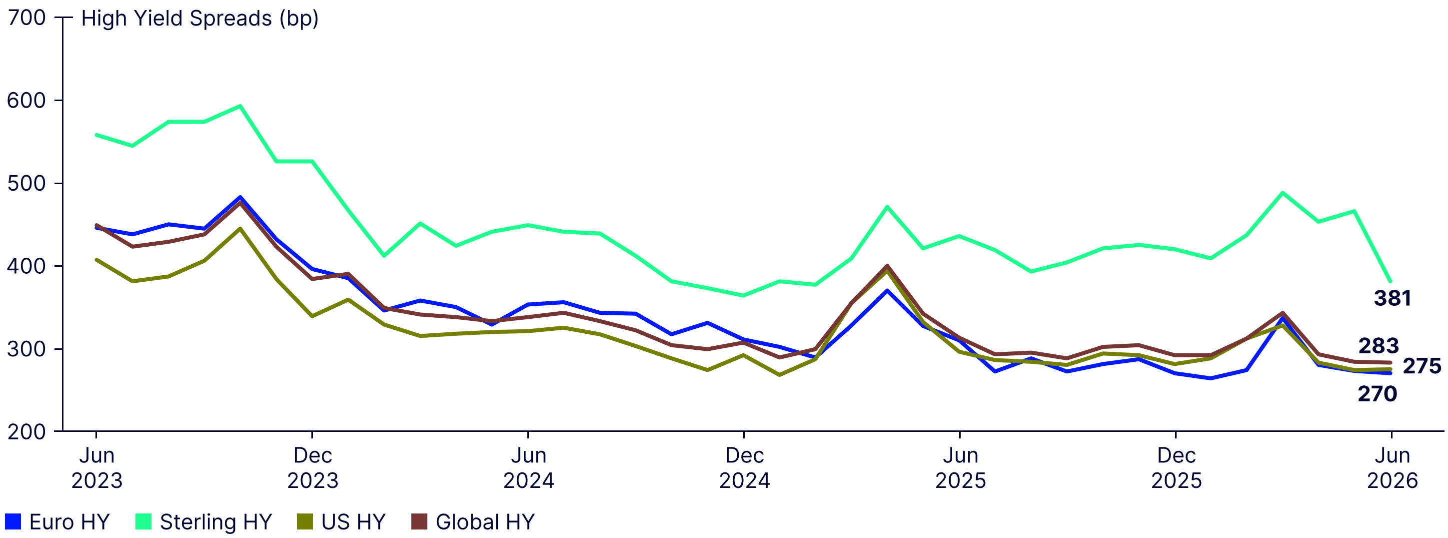
Oil prices (Brent: -40% in Q2) retraced their Iran conflict gains, as flows through the Strait gradually resumed and supply concerns eased. This reversal helped alleviate inflationary concerns and moderated the more hawkish tone that had emerged from central banks earlier in the quarter.

Defaults remained at low levels, with the trailing 12-month GHY rate at 1.97%, continuing to hover around the low ends of its historical range. Capital markets were very active in the US despite volatility: gross issuance was $183.5bn and net issuance $85.2bn for the quarter. Refinancing led use of proceeds (almost 53% of new issuance), although M&A and Capex financing saw a notable pickup as well (35% YTD, from 21% in 2025). Year-to-date, flows for US HY total -$1.3bn, and for Euro HY it was €1.9 bn.

Figure 1: Total returns of high yield in recent periods

Returns	3m (%)	6m (%)	12m (%)	YTD (%)
Global HY ($—Unhedged)	**2.82**	**1.70**	**5.40**	**1.70**
Global HY ($—Hedged)	**3.07**	**2.48**	**6.49**	**2.48**
Spread Return	2.53	1.73	3.51	1.73
Treasury Return	0.54	0.75	2.98	0.75
Global HY (€—Hedged)	**2.61**	**1.52**	**4.29**	**1.52**
Global HY (£—Hedged)	**3.04**	**2.41**	**6.31**	**2.41**

Figure 2: High yield market spread moves



Source: BoFA, State Street Investment Management. As of 30 June 2026.

Outlook

The high yield market has largely absorbed and moved past the Middle East shock, with spreads returning to historically tight levels. As a result, the dominant drivers for the asset class have shifted away from event driven volatility toward carry, technicals, and the durability of the macroeconomic backdrop.

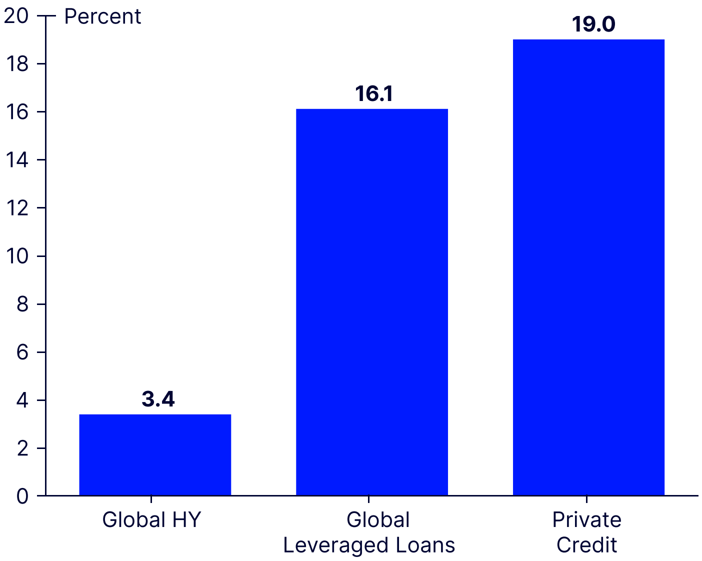
Elevated all in yields continue to provide a meaningful cushion against volatility. High yield effective yields remain near the upper end of their recent range (around 7%), allowing carry to play a central role in total returns even in a scenario of modest spread widening. This supports the view that 2026 is likely to be a “carry-driven” environment.

Fundamentals across much of the high yield universe remain broadly supportive. Balance sheets have generally improved in recent years, aided by earlier refinancing activity and higher nominal growth. The overall credit mix continues to evolve positively, with a higher proportion of BB-rated issuers relative to lower-quality cohorts, providing some structural support to the asset class.

A notable recent area of focus is the impact of AI-related disruption in select segments of the leveraged credit universe, which have led to a rapid build in the distressed universe without a coinciding collapse in fundamentals. This has mostly included Software, an exposure which accounts for a much larger proportion of the leveraged loan and private credit universe (Figure 3). In many of these cases, current balance sheets remain manageable. However, higher borrowing costs and reduced tolerance for weaker credit profiles could limit future market access, particularly as maturities begin to rise from 2028 onwards.

Against this backdrop, a measured, slightly defensive positioning within high yield remains appropriate. With no clear catalyst to reverse the divergence between rating cohorts seen in 1H26, and CCCs continuing to face more downgrades than upgrades, we believe an up in quality bias (e.g. reducing or removing CCC exposure) provides a more balanced risk return profile.

Figure 3: Software Exposure is much higher in Private Credit and Leveraged Loans, compared to HY



Source: BofA, Bloomberg, BIS. As of 30 June 2026.

Conclusion

Global High Yield continues to exhibit resilience in the face of geopolitical uncertainty and a low default environment. While spread levels appear relatively tight, elevated yields, improving credit quality, and still-supportive fundamentals provide a meaningful buffer against volatility—positioning the asset class well as a source of income in investor portfolios.

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ID4598800-4670204.21.1.GBL.RTL 0726 Exp. Date: 07/31/2027