

Global high yield quarterly

Insights
Q3 2026

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High yield: A rates reset, not a credit event

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- The Q3 repricing was primarily rates-led, with resilient growth, low defaults and healthy corporate fundamentals providing limited evidence of broader credit deterioration.
- Elevated all-in yields provide a meaningful income cushion, positioning carry as the principal driver of potential returns while spreads remain relatively tight.
- A measured, up-in-quality approach remains appropriate as higher funding costs and growing dispersion create greater pressure on lower-rated, refinancing-dependent issuers.

Performance/market highlights

Global High Yield spreads widened over the third quarter of 2026, with spreads increasing by 29bps to 312bps. Effective yields rose to 7.8%, largely reflecting the increase in underlying government bond yields, while the asset class returned -1.92% over the quarter.

Market conditions weakened sharply in September as escalating conflict in the Middle East and hawkish Federal Reserve rhetoric pushed US Treasury yields higher. Brent crude moved back above \$100 per barrel as renewed attacks threatened regional energy supplies, adding to inflationary concerns. US HY posted its weakest monthly return since September 2022, while decompression continued as CCC spreads widened by 117bps in September.

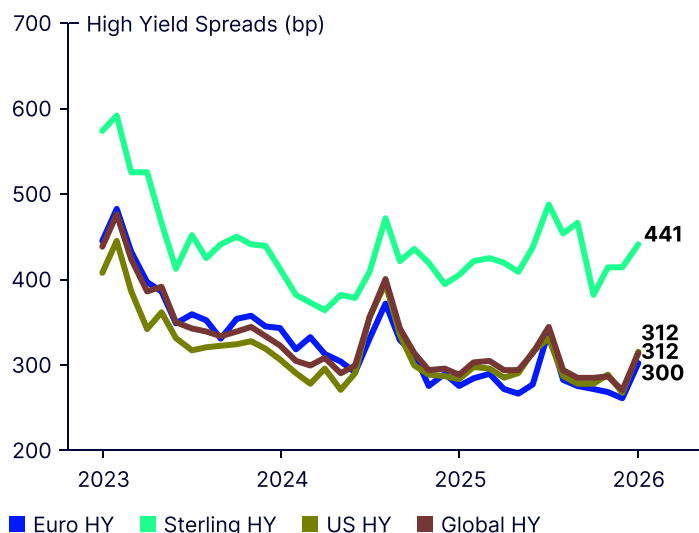
Defaults remained at low levels, with the trailing 12-month global HY par-weighted default rate at 2.0%. Capital markets remained active: US HY gross issuance was \$83.0bn and net issuance was \$19.3bn in Q3. Refinancing remained the largest use of proceeds YTD at 48%, while M&A and project financing together represented approximately 41% of issuance. US HY funds recorded \$4.7bn of outflows in September, bringing YTD flows to -\$3.4bn, while European HY funds recorded €3.8bn of net inflows.

Figure 1: Total returns of HY in recent periods

Returns	3m (%)	6m (%)	12m (%)	YTD (%)
Global HY (\$ - Unhedged)	-1.92	0.85	0.90	-0.25
Global HY (\$ - Hedged)	-1.71	1.31	2.01	0.73
Spread Return	-0.44	2.05	1.53	1.26
Treasury Return	-1.27	-0.74	0.49	-0.53
Global HY (€ - Hedged)	-2.13	0.43	0.08	-0.64
Global HY (£ - Hedged)	-1.75	1.23	1.86	0.61

Source: State Street Investment Management, BofA.
As of 30 September 2026.

Figure 2: High yield market spread moves



Source: BoFA, Bloomberg, JPM, State Street Investment Management. As of 30 September 2026.

Outlook

The sharp rise in global government bond yields has put downside risks back in focus. So has renewed tightening from both the Federal Reserve and the ECB in September. We see this as a rates-led reset in valuations, not a fundamental break. Central banks are tightening into resilient growth rather than slowing demand, and that difference matters for High Yield.

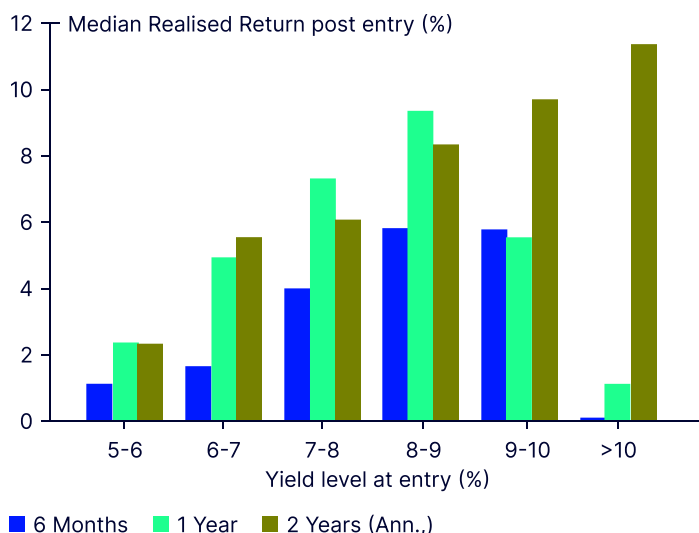
The global macroeconomic backdrop remains supportive. The Fed points to solid expansion and resilient domestic spending. The ECB has raised its growth projections even as it tightens. Credit fundamentals absorb higher rates more easily when they reflect stronger growth than when they come with a slowdown. That said, energy-driven inflation is likely to keep policy rates high for longer. A higher cost of capital will weigh most on the more leveraged, refinancing-dependent issuers. We therefore expect dispersion to widen even while index-level averages stay stable.

In US HY, EBITDA grew 9.0% against debt growth of 3.1%. Net leverage is contained at 3.6x and interest coverage is a healthy 4.3x. (Source: BofA) The improvement seen in issuer fundamentals in recent quarters is likely to level off as higher rates feed through. We see this as manageable and do not expect defaults to rise meaningfully above our 2026 expectation of 2.0–2.5% for Global High Yield. Unless rates volatility stays elevated through year-end, or 3Q earnings show inflation- or consumer-led deterioration (neither is our base case), supportive fundamentals and technicals argue for spreads to stabilise over time.

The case for Global High Yield now is yield, not spread. Spreads at 312 bps (end of Sep) remain at the richest decile despite the rating-mix improvements in GHY over time, so we do not argue that GHY is cheap on spread alone. All-in yields are a different matter though, and starting yield has historically been the most reliable guide to forward HY returns (Figure below). Current yield levels of 7.8% (end of September) provide a meaningful income cushion against further rate or spread volatility. For investors who have been underweight the asset class, this is a reasonable point to start rebuilding strategic allocations gradually.

We continue to prefer a measured, up-in-quality approach. The case is clearest in the fundamentals: US CCC issuers cover their interest costs just 1.5x, against 5.7x for BBs. The recent rise in Treasury yields has pushed borrowing costs for CCC & lower-rated US companies to around 17%, the highest since May 2020, and their risk premium to roughly 12 percentage points, the highest since 2022. Market access remains open, but investors are becoming more selective, and these pressures fall hardest on leveraged, refinancing-dependent issuers. We therefore believe a BB/B exposure offers a more balanced risk-return profile.

Figure 3: Entry yield and forward returns



Source: Bloomberg, Ice Indices, State Street Investment Management.
As of 30 September 2026.

Conclusion

Global High Yield remains supported by resilient corporate fundamentals and a low default environment despite renewed geopolitical and rates volatility. While tight spreads limit the scope for further valuation gains, elevated all-in yields provide a meaningful income cushion and support the asset class as a source of carry. We continue to favour a measured, up-in-quality approach, given the greater sensitivity of lower-rated issuers to higher funding costs and refinancing risk.

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