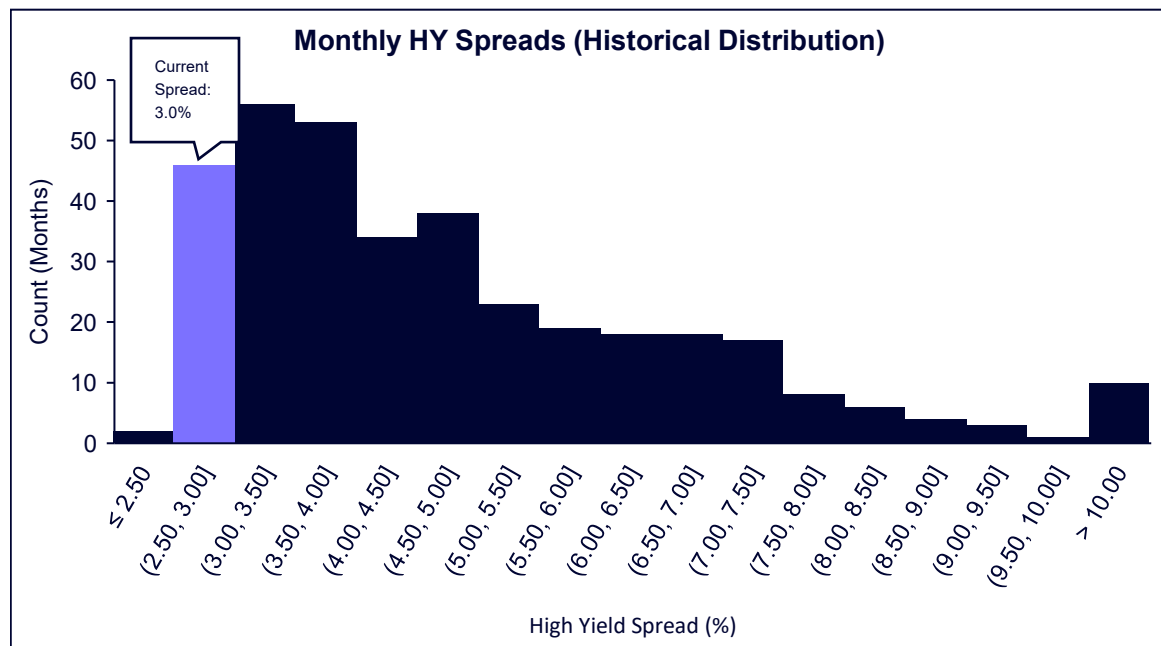


**COMMENTARY**  
November 20, 2025

# Mind on the Market

## Chart of the Week



Source: Bloomberg, FactSet, State Street Investment Management. Monthly data from 11/30/1995 - 10/31/2025. Bloomberg US High Yield Corporate Index used in the analysis.

High yield credit spreads remain near historical tight, reflecting strong macro conditions and resilient corporate earnings that have supported risk assets. While this underscores market confidence, the distribution of historical spreads suggests limited room for further compression. In fact, the probability of widening from current levels is significantly higher. Timing remains uncertain, leaving investors to weigh whether current carry is sufficient compensation before spreads eventually widen out.

## Contact

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## Weekly Highlights

Current High Yield  
Corporate Spread

**3.0%**

Source: Bloomberg, FactSet. As of  
11/19/2025.

Average 1 Month Forward  
**High Yield** Return When  
Spreads Are Less Than 3%

**.28%**

Source: Bloomberg, FactSet, State  
Street Investment Management.  
Monthly data from 11/30/1995 -  
10/31/2025 in USD.

Average 1 Month Forward  
**S&P 500** Return When  
Spreads Are Less Than 3%

**.94%**

Source: S&P, FactSet, State Street  
Investment Management. Monthly data  
from 11/30/1995 - 10/31/2025 in USD.

## Equities vs. High Yield Credit: Understanding Return Distributions at Tight Spread Levels

Equities and corporate credit are close relatives in the public investment markets, both fundamentally tied to company performance, earnings prospects, and default probabilities. Returns in both asset classes often exhibit positive correlation. However, despite this relationship, their return profiles may diverge —especially in environments like today, where high yield (HY) credit spreads are at historically tight levels.

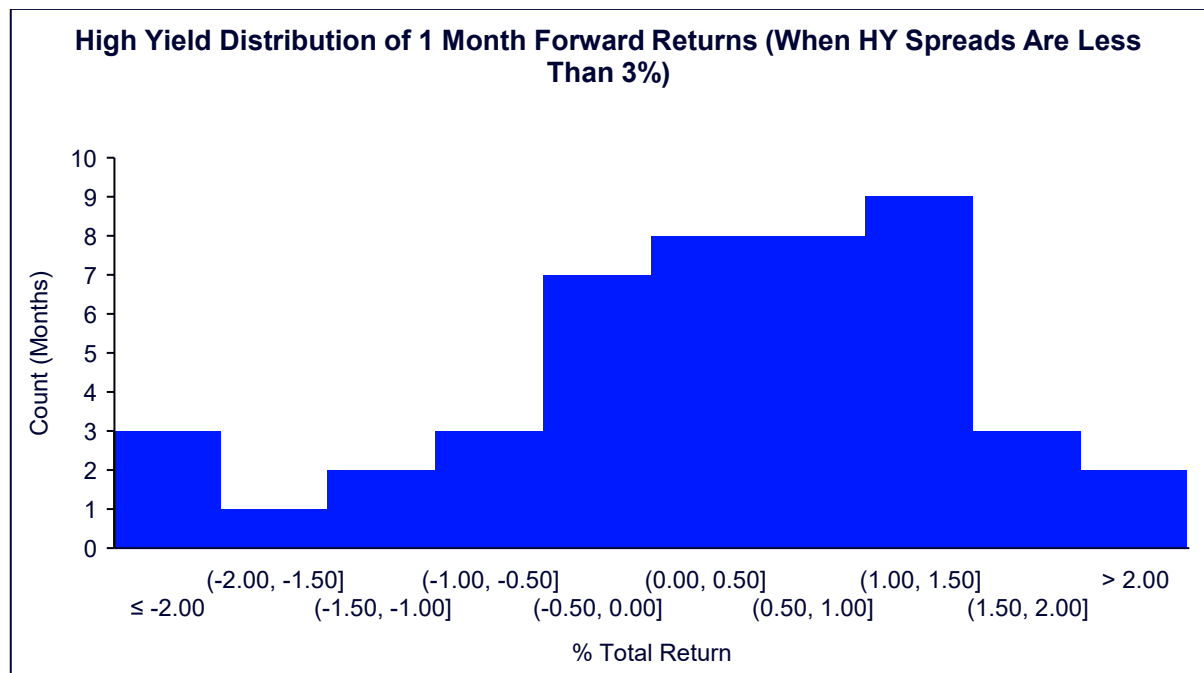
### The Current Landscape: Limited Upside from Spreads

As highlighted in the chart above, HY spreads are currently at 3.0% and have remained below this level for most of the year, placing them near the lower bound of their historical range. While spreads can tighten further, history suggests there is a natural limit to how much compression can occur. This creates an asymmetry: from a spread perspective, upside potential is constrained, while downside risk remains if spreads widen.

That said, HY bonds still offer attractive carry relative to Treasuries. Investors benefit from the passage of time as coupon income accrues, assuming yields remain stable. This carry component is a key reason why HY can deliver modest positive returns when spreads are tight.

## Historical Perspective: What Happens When Spreads Are Tight?

To quantify this, we examined 30 years of data, identifying the 46 month-end periods when HY spreads were below 3%, which mimic today's environment. We then analyzed subsequent one-month total returns to understand the distribution of outcomes. Unsurprisingly, the distribution skews toward small positive returns, reflecting the steady income characteristic of bonds. What's absent, however, is a meaningful right tail—large upside surprises are rare because spreads have little room to tighten further.

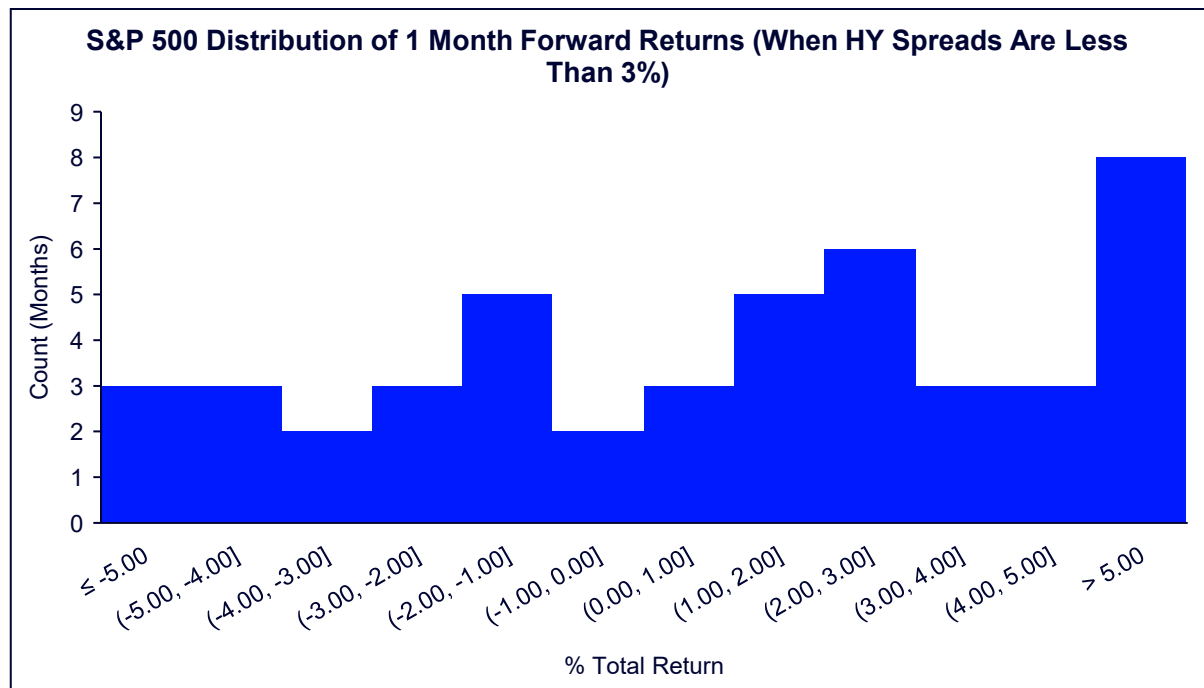


Source: Bloomberg, FactSet, State Street Investment Management. Monthly data from 11/30/1995 - 10/31/2025 in USD. Bloomberg US High Yield Corporate Index used in the analysis.

## Comparing Equities in the Same Environment

How does this compare to equities during these same tight-spread periods? Interestingly, while both asset classes show positive average forward returns (0.94% for equities versus 0.28% for HY) the shape of their distributions differs noticeably. Equity returns exhibit a flatter probability curve, with a wider range

of outcomes and, importantly, a visible right tail. Unlike HY, equities are not constrained by spread compression limits, allowing for upside surges when fundamentals or sentiment improve further.



Source: S&P, FactSet, State Street Investment Management. Monthly data from 11/30/1995 - 10/31/2025 in USD.

This difference underscores a key point: while HY offers stability and predictable carry, equities provide greater potential for outsized gains—even in environments where credit markets signal optimism through tight spreads. Equities themselves are also trading at elevated valuations, and we believe these can persist—much like tight spreads—particularly during periods driven by strong secular growth themes, such as AI.

## Portfolio Implications: Which Is Better?

The answer depends on your investment lens. If you share our constructive outlook for 2026, both asset classes can play a role. While you are taking similar economic risks, the payout probability may differ. HY offers income and lower volatility, while equities provide growth and upside optionality. However, portfolio construction is rarely absolute; it's a relative exercise that balances exposures and risk across the entire allocation. Given our above-consensus growth expectations for 2026—we prefer equities. The potential for higher upside in equities aligns better with our constructive macro view, even as we acknowledge the merits of corporate credit in a diversified portfolio.

Source: FactSet, S&P, Bloomberg State Street Investment Management. Data as of 11/20/2025 unless otherwise stated. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.

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\* This figure is presented as of September 30, 2025 and includes ETF AUM of \$1,848.02 billion USD of which approximately \$144.95 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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Important Risk Discussion

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