

## Resilient returns in a soft-landing scenario

### Executive Summary

- Global HY saw a positive Q3 on resilient growth and Fed easing.
- Defaults fell, high issuance was mostly for debt rollover, and inflows stayed strong.
- Yields remain appealing, though spreads sit in the richest decile.

### Performance/market highlights

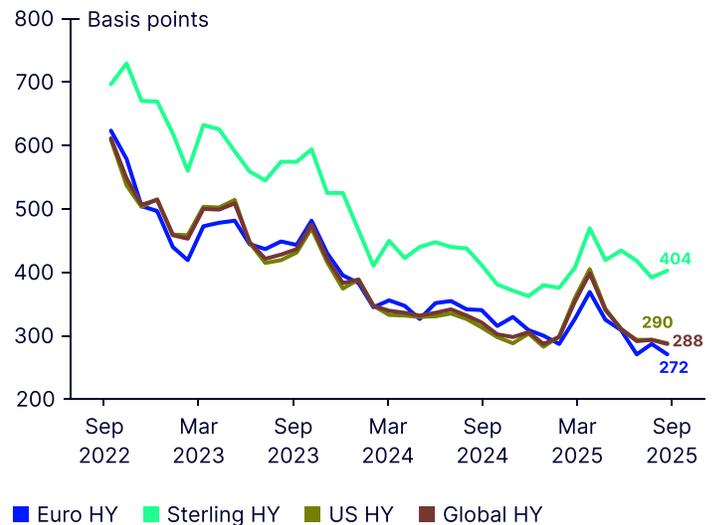
Global high-yield spreads remained near record lows, delivering positive quarterly returns amid strong US growth, resilient consumer spending, and a pre-emptive Fed rate cut. Investors anticipate a soft landing, with only mild weakness in late 2025 and growth rebounding by early 2026. Risk-on sentiment has prevailed, lifting growth and income assets, led by the S&P 500's 14.8% YTD gain.

**Figure 1: Total returns of high yield in recent periods**

Returns	3m (%)	6m (%)	12m (%)	YTD (%)
Global HY (\$-Unhedged)	2.46	7.35	8.24	9.48
Global HY (\$-Hedged)	2.61	5.80	7.66	7.09
Spread Return	1.44	3.23	3.96	2.48
Treasury Return	1.17	2.57	3.70	4.61
Global HY (€-Hedged)	1.98	4.54	5.58	5.42
Global HY (£-Hedged)	2.55	5.68	7.61	7.03

Source: State Street Investment Management, BofA. As of 30 September 2025. **Past performance is not a reliable indicator of future performance.**

**Figure 2: High yield market spread moves**



Source: State Street Investment Management, BofA. As of 30 September 2025. **Past performance is not a reliable indicator of future performance.**

The trailing 12-month default rate for Global HY was 1.6%, continuing its slow downtrend over the last couple of years. High Yield capital markets saw strong activity in 3Q with refinancing leading in terms of use of proceeds, totalling 3/4ths of gross volume. Support in the form of investor interest continued, with YTD flows for US HY totalling \$14.9bn and for Euro HY it was €8bn.

### Outlook

The “Goldilocks” narrative of moderate economic slowdown without a sharp downturn remains the market consensus, supported by softening labour data and expectations of Fed easing. This backdrop should continue to limit macro downside, especially if trade-related disruptions remain modest.

High yield credit remains resilient, underpinned by solid corporate fundamentals, attractive all-in yields

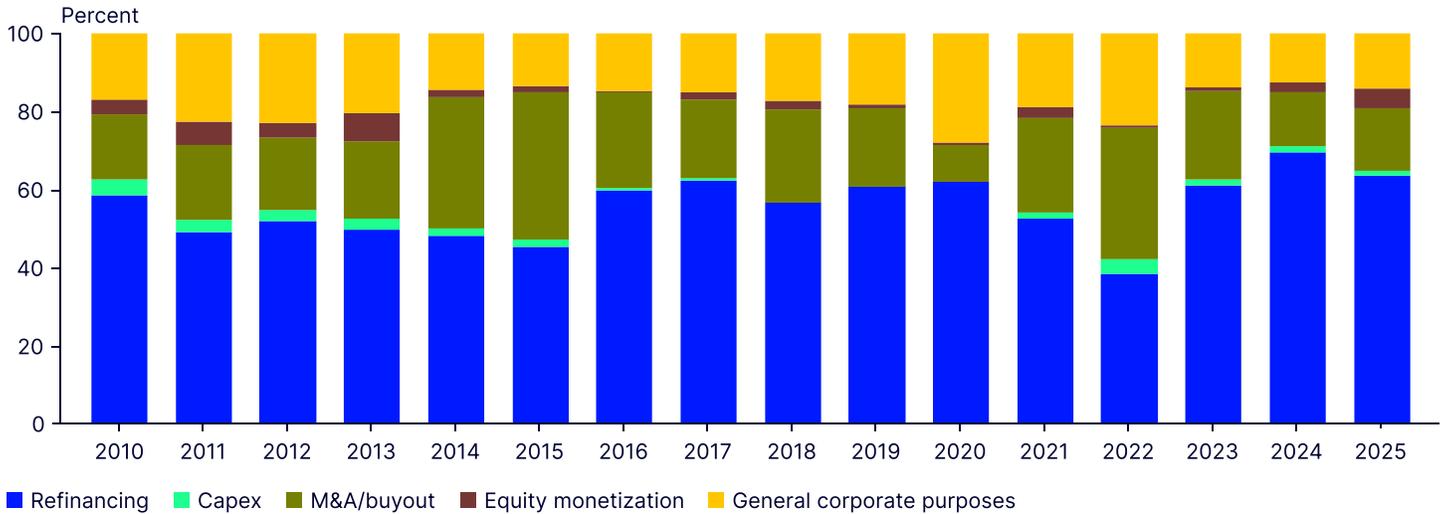
around 6.5%, and a manageable maturity profile. The absence of aggressive issuer behaviour in this cycle further supports the sector, even as spreads remain tight by historical standards.

We believe elevated yields offer a meaningful buffer against any bouts of spread widening, positioning high yield as a relatively stable income-generating asset class in the current shallow default environment.

## Conclusion

Global High Yield remains well-positioned for total return-focused investors, with elevated yields offering attractive carry and roll-down. However, tight spreads suggest limited excess risk premium.

**Figure 3: Recent issuance in the last 3 years has largely been to refinance (US HY)**



Source: State Street Investment Management, Pitchbook/LCD, BoFA. As of 30 September 2025.

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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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