

# 3 Global High Yield Myths That Just Don't Hold Up

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Providing a useful source of return, yield and diversification, Global High Yield (GHY) merits serious consideration as a permanent part of most fixed income portfolios. However, the idea of investing via an indexed approach might initially seem disconcerting to some investors. How real are these considerations?

Here, we challenge three common GHY myths and explain why it makes sense for most investors to consider an indexed approach in GHY.

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## **Myth 1: HY Indexing Can't Be Done Successfully Due to High Volatility and Transaction Costs**

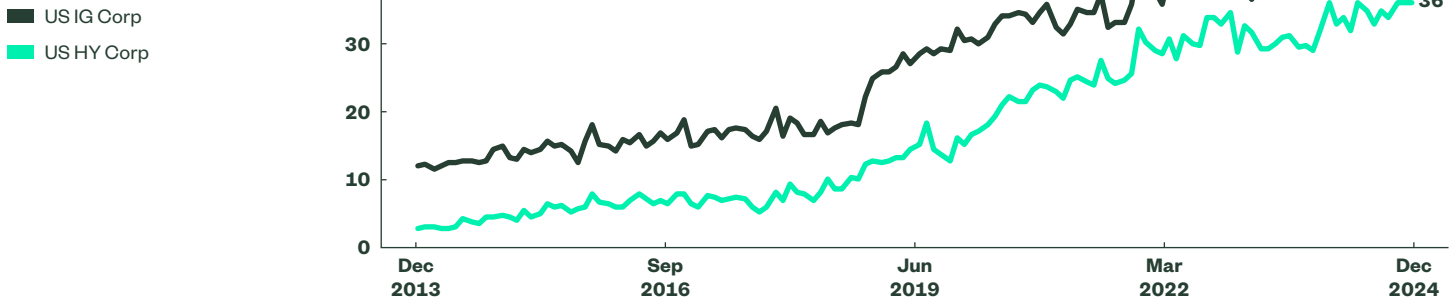
There is a longstanding misconception that index investing works only in markets that are informationally efficient/liquid. Initially that argument was applied against bond market indexing as a whole, but with the increasing adoption and success of indexing in mainstream fixed income, the argument now mainly remains targeted at the more complex fixed income areas, such as GHY.

While GHY has not suddenly become a highly liquid market, the reality is that improvements in market structure, especially for investment grade (IG) and GHY corporate bonds have shifted trading from a dealer-centric to an all-to-all model. This all-to-all market structure expands the universe of available counterparties significantly, resulting in meaningful improvements in liquidity and price discovery while driving down the cost of trading itself.

The success of electronic trading platforms, and their adoption by market participants, have been instrumental in achieving these milestones. Almost a third of traded volumes in US HY now is executed electronically, a tenfold increase from 2014. For US IG corporates, the volume of electronic trading is now close to 50%. Similar trends in HY and IG are observed in Europe and the UK, where electronic trading has averaged 45–50% and 35%, respectively.

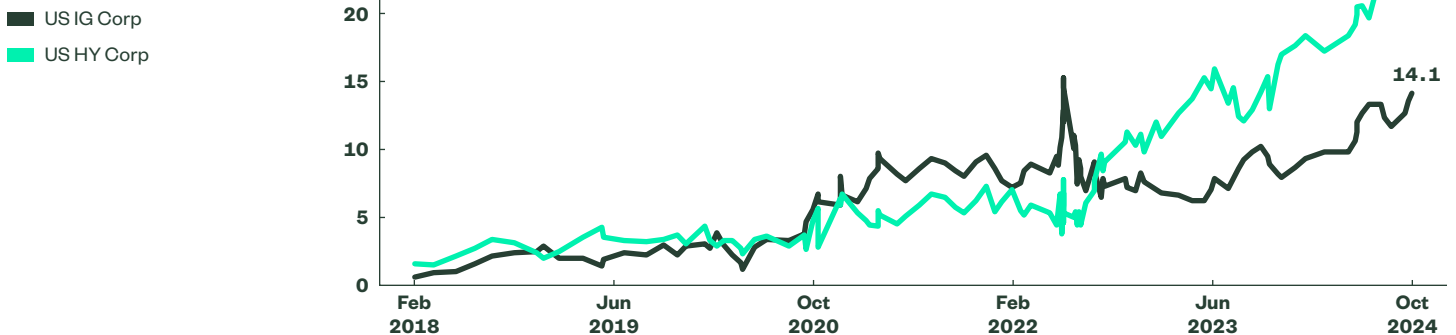
Portfolio trading, a trading protocol derived from the in-kind basketing feature of ETFs has revolutionised how corporate bonds are traded today. This protocol entails investors seeking competitive quotes on a list of bonds and transacting the basket in its entirety with one counterparty. This broadens out what can be traded by including and thereby unlocking less liquid bonds to be traded alongside their more liquid peers. This all-or-nothing execution is a vital development for HY, and allows traders to get better execution certainty and competitive prices at required trade sizes.

Figure 1  
**E-Trading volume is Rising Steadily, Improving Execution**



Source: Greenwich Associates. As of 31 December 2024.

Figure 2  
**Portfolio/Basket Trading Growth Has Been Strong**



Source: Barclays Research. As of 31 October 2024.

The next evolution of technology is emerging, even as Portfolio Trading rises in prominence. Entry of tech-savvy investors into the fixed income ecosystem is supporting the development and usage of machine learning pricing models with prediction engines, as well as various technical and value-based indicators and risk flags available across the HY universe. These in turn make relative-value security selection and sampling decisions by index managers — both among bonds of an issuer as well as between issuers — possible with speed and precision for the broad universe.

These evolutions in liquidity, along with the explosion in data availability and frequency, make indexing in complex exposures such as HY evermore feasible for experienced index managers. Such managers typically trade large volumes of consistent, diversified flows at small trade sizes. We've seen this firsthand in our own large HY book, where we've been able to trade \$800 million to \$1 billion in a single day, and can achieve transaction costs in the range of 25 to 30bp (under normal market conditions) for inflows into a typical global high yield account, a significant improvement from what was possible ten or even five years ago.

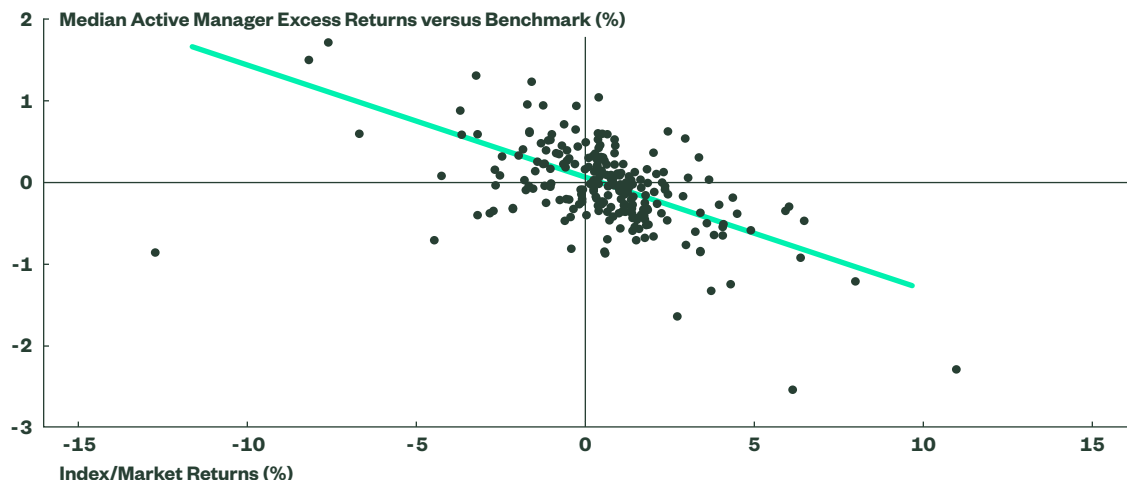
Investors ultimately benefit from all these market structure improvements by having lower realized transaction costs and faster implementation of their investment decisions. Moreover, sophisticated index managers can now access the full breadth of high yield markets, negating the need for liquidity-screened benchmarks, which were criticized for forgoing the illiquidity premium in the past.

## Myth 2 : You Need Active Managers to Protect Capital/ Outperform in a Credit Market Sell-Off

HY has an asymmetric return profile in the short term, in that a sharp turn in sentiment or a credit market freeze and resulting uptick in defaults, could trigger principal losses and wipe out gains from coupon carry quickly. However, it must be remembered that HY returns in normal times tend to be positively skewed in the medium/longer term, and any drawdowns have been historically followed by quick rebounds. It is of course very difficult to predict exact credit cycle turns with precision. In our view, capturing the long-term upside is as important, if not more so, than avoiding the drawdowns in the short run.

As shown in Figure 3, comparing excess returns with benchmark returns, the vast majority of active HY managers promote a defensive approach, positioning themselves as investors who can mitigate downside risks by avoiding defaults, and typically have a structurally lower beta than their benchmark throughout the cycle. The inherent problem with this approach is that there is also a cost, in the form of the loss of upside capture when a company recovers or a cycle turns. These defensive managers may avoid and/or sell deteriorating companies, but they are also unlikely to buy a company at distressed levels to capture upside potential, should a recovery take hold.

Figure 3  
**Active Managers' Outperformance has a Strong Inverse Correlation with Market Returns Themselves, Pointing to a Defensive Beta Allocation**

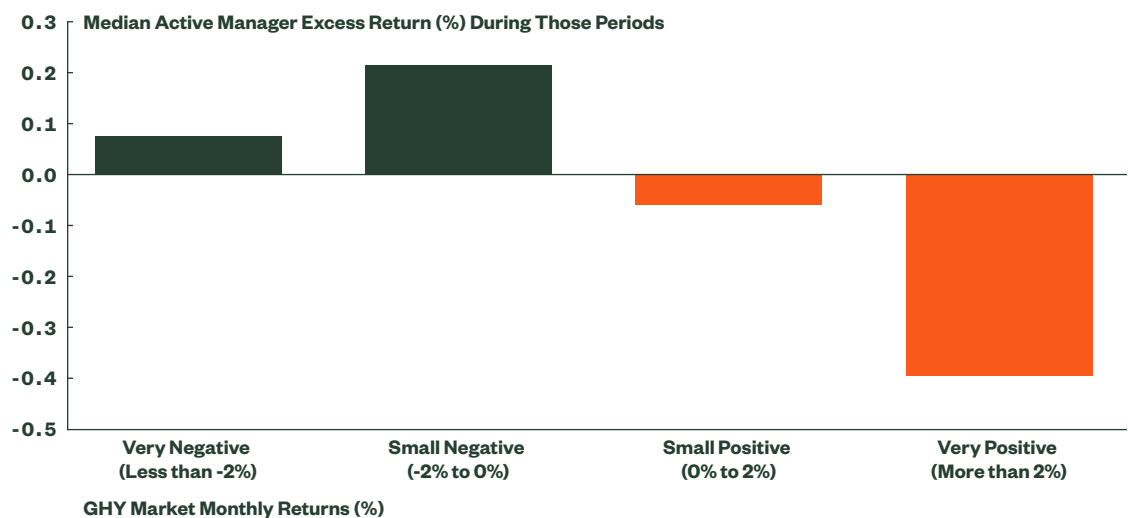


To illustrate the impact of this style bias further, we split the monthly GHY market's returns into four distinct groups as in Figure 4 and observe the median excess return of active managers for each those return groups.

While it is true that active managers avoid drawing down as much in a sell off, in reality — as we can see from the table below Figure 4, the market spends much more time and magnitude on the upswings than in the downturns. The dominance of defensive styles among active managers means that there is propensity to be earlier in the credit/economic cycle to cut beta/risk and not add that back soon enough, thus providing protection during the downside, but failing to capture the rebounds fully.

A corollary to this is that, the median manager and even a part of the top quartile managers fail to outperform the benchmark that they track most of the time, and this struggle to keep up becomes quite clear over longer time periods (Figure 5).

Figure 4  
**Over the Long Run,  
Upside Capture Becomes  
Important**

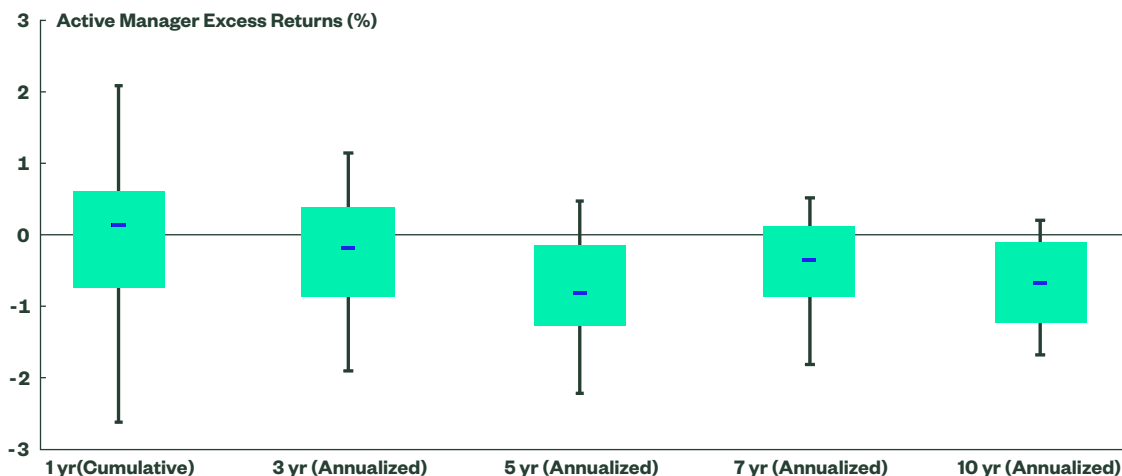


Global HY Market Monthly Returns	Very Negative (Less than -2%)	Small Negative (-2% to 0%)	Small Positive (0% to 2%)	Very Positive (More than 2%)
Median Monthly Excess Return (%)	0.07	0.22	-0.06	-0.39
# of Months	20	51	117	42
Cumulative Market Returns (%)	-96.3	-43.2	111.9	161.8
Average Monthly Market Return (%)	-4.8	-0.8	1.0	3.9

Figure 5

### A Majority of Active Managers Lag Behind Their Benchmark Performance Over Longer Time Periods

5th to 95th Percentile  
 25th to 75th Percentile  
 Median



Source for Figures 3, 4 & 5: Morningstar, based on the EEA Global High Yield Bond Universe of active managers, with funds managed to Unconstrained/Cash, Paris Aligned and Fallen Angel benchmarks removed. As of 28 Feb 2025. Number of funds in the universe as of the latest date after above mentioned adjustments: 69. All returns are net of fees.

### Myth 3: Once a Top-Performing Active Manager is Identified and Selected, Consistent Outperformance is Assured

While active managers can and do perform well over certain periods of time, this tends not to persist. The true measure of successful active management is whether a manager can deliver above-average returns consistently over multiple periods. This ability to outperform consistently is a way to differentiate a manager's skill from pure luck. To evaluate this further, we split the actively managed GHY universe into quartiles based on managers' excess returns and see if the managers who started at the top quartile were able to remain in the top quartile returns over the subsequent three years.

Among top-quartile funds in the Morningstar EEA GHY Universe as of the start of the analysis period (February 2022), no fund remained in the top quartile over the following three years to end February 2025. This points to the difficulty that manager selection teams face in selecting a manager who can consistently deliver and remain a top-performing HY fund.

Figure 6

### Performance Persistence of GHY Managers

	Number / % of Funds Persistent in the Top Quartile as at the End of		
	Feb 2023	Feb 2024	Feb 2025
Fund Count at Start (Feb 2022): 64 16 Funds in top Quartile			
Morningstar EEA Global HY Universe	4/16.0%	0/0.0%	0/0.0%

Source: Morningstar, based on the EEA Global High Yield Bond Universe of active managers, with funds managed to Unconstrained/Cash, Paris Aligned and Fallen Angel benchmarks removed. As of 28 Feb 2025. From the universe of 69, an additional 5 funds were removed as they had inception dates post the starting point of this analysis.

### The Final Word

In conclusion, while HY bonds are often seen as a complex, risky corner of the fixed income market — that doesn't mean indexing can't work in this sector. In fact, evolving market structures, increased electronic trading, and better data tools have made index investing in HY both practical and cost-efficient, and arguably a better way to implement an investment. As we've shown, active managers often underperform over longer time periods, fail to capture upside, and lack consistency — making a strong case for indexing as a smarter, easier-to-implement long-term strategy in HY.

With the improvements in implementation costs along with the effective sampling techniques of sophisticated index managers like SSGA, investors today can efficiently and reliably capture the GHY market's return potential via indexing. Indexing in High Yield can be either used on its own, without the added cost and complexity associated with evaluating and monitoring active managers. It can also be used as a complement to an existing active approach — providing flexibility and efficient access to liquidity, especially to take tactical views during market dislocations.

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\* Pensions & Investments Research Center, as of December 31, 2023.

†This figure is presented as of December 31, 2024 and includes ETF AUM of \$1,577.74 billion USD of which approximately \$82.19 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 Global Advisors are affiliated. Please note all AUM is unaudited.

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