

Performance/
Market Highlights

Figure 1
Total Returns
of High Yield in
Recent Periods

Global High Yield Update

Global High Yield spreads widened to highs not seen since August last year, triggered by concerns around an escalating global trade war and prospects of a global slowdown. Total returns were still a modest positive in Q1 though, due to lower treasury yields. There was no significant divergence in performance between US and Euro HY, unlike the disparity seen in equity markets, where European stocks saw significant outperformance relative to the US.

Returns	3m (%)	6m (%)	12m (%)	YTD
GHY (\$- Unhedged)	1.99	0.83	8.01	1.99
GHY (\$- Hedged)	1.22	1.76	8.36	1.22
GHY (€- Hedged)	0.84	0.99	6.60	0.84
GHY (£- Hedged)	1.28	1.83	8.17	1.28
US HY (in \$)	0.95	1.10	7.60	0.95
Euro HY (in €)	0.64	2.43	7.56	0.64
EM HY (in \$)	2.42	2.22	9.96	2.42

Source: State Street Global Advisors, BofA. As of 31 March 2025.

Figure 2
Spread Changes
by Region

OAS (bps)	Current Level	Δ 3m	Δ 12m	Δ YTD
GHY	355	48	14	48
US HY	355	63	40	63
Euro HY	328	17	-30	17
EM HY	386	21	-29	21

Source: State Street Global Advisors, BofA. As of 31 March 2025.

Figure 3
Return Breakdown
of GHY

Returns	3m (%)	6m (%)	12m (%)	YTD
GHY (\$- Hedged)	1.22	1.76	8.36	1.22
Spread Return	-0.77	0.66	2.90	-0.77
Treasury Return	1.99	1.10	5.45	1.99

Source: State Street Global Advisors, BofA. As of 31 March 2025.

Performance by credit quality was beta-driven in excess return terms, with lower quality falling behind (BB: -0.5%, Single-B: -1.0%, CCC & Lower: -2.2%). All industries except Banking and Real Estate were down on the year in excess return terms — with the lowest coming from Services (-1.5%) and Transportation (-1.4%). Gross issuance in 1Q 2025 for US HY totalled \$73.1bn, and for EUR HY they totalled €22.6bn — with the net numbers coming out at \$34.1bn and €6.1bn. For the US, this has been the highest quarterly net new issuance since 1Q 2022, while for Europe they were only slightly above average.

The US HY realized default rate was 1.3% L12M, and 1Q25's US HY defaults/distressed exchanges rank among the lowest in volume since 4Q22. EUR HY defaults have seen a sharp pickup from the ultra-low levels of 2023, following a handful of large capital structures defaulting — with the L12M par default rate steady at 3.5%. The quarter saw healthy fund flows – both in US HY (+\$7.6bn YTD) and EUR HY (+€1.5 bn YTD).

Outlook

Despite the significant widening in GHY spreads from approx. 300bp to 450bp, these are still some ways short of levels consistent with recession expectations, which have historically been around 600bp or greater, such as was last witnessed in 2022. The current situation, which is so politically driven, is therefore quite fluid, with almost no precedent historically for the sudden implementation of tariffs at such high levels. Moreover, tariff decisions on several key sectors such as pharmaceuticals, semiconductors, lumber have also not been announced yet. There also remains uncertainty on exogenous factors such as the Fed response and the medium-term fiscal outlook for the US. Furthermore, energy prices have fallen sharply and they could be a partial offset to inflationary headwinds from tariffs.

To help frame the potential outcomes for HY investors, we evaluate three potential scenarios that might unfold. This exercise can help investors appreciate the impact of certain scenarios on HY bond returns, while also essentially demonstrating how important the entry yield or embedded carry is in determining total returns for HY bond investors.

Bull Case for HY: Lower Growth, Soft Landing Ultimately, Volatility Episodes, but Normal Credit Market Functionality

The US administration tones down on its maximalist stance opening move, and a significant renegotiation of bilateral trade agreements happen with most countries — with the ultimate tariff implementation being a very diluted version of the initial announcements. With almost 50 countries in active negotiations with the US now, despite logistical challenges, this is implemented in a reasonable timeframe, thereby blunting most of the less-optimal economic outcomes. Central banks in major economies are able to nurture a soft-landing and global growth — while drifting further below the over 3% expansion in 2023 and 2024 — still stays robust. HY fundamentals hold up, as muted sentiment keeps aggressive lower quality issuances and M&A low.

Bear Case — Stagflation, Reduced Primary Market Functioning and Increases to Cycle-High Defaults

The trade war gets escalated and drawn-out with retaliatory announcements from most trading partners, and implementation of tariffs closer to the full extent of initial announcements. The probability of a US and global recession rises significantly, as tariffs act like a global tax event in this case, depressing both consumer and business confidence, and paralyzing long-term investment decisions, while also keeping inflation concerns to the fore. Primary markets in HY completely seize up, removing access to credit for all but high quality borrowers and refinancing deals. This significantly affects liquidity, and the lack of issuance translates into dislocations and wider pricing in the secondary market.

Middle Ground Countries, particularly ASEAN countries that were hit with sectoral-specific tariffs, and those without fiscal headroom to use, negotiate some leeway and partially absorb tariffs, leading to a moderate global growth slowdown and underperformance of cyclical sectors with large US dependencies, but without a broader contagion. Impact on the US economy in the form of business bankruptcies and job losses leads to domestic pressure and a partial rollback. Impact on corporate fundamentals and the ability to rollover debt in a timely manner is mixed, with those companies having unsustainable leverage and operational dependencies on highly tariff impacted geographies suffering the most.

We outline below various assumptions about the future levels of spreads, government bond yields, defaults, and recovery rates for US & Euro HY for those scenarios in the table below.

US High Yield	
Effective Yield of US HY (%)	8.5
OAS (bps)	461
5Y UST (%)	3.87
L12M Defaults (%)	1.3
L12M Recovery Rates (%)	59
Effective Duration (years)	3.3
Spread Duration (years)	3.3

Scenarios for 12M Horizon	25%	50%	25%	Probability Weighted
Credit Scenario	Bull	Middle Ground	Bear	
OAS Estimate (bps)	450	500	750	—
5Y UST Estimate (%)	4.5	4.0	2.5	—
Default Rate Estimate (%)	2.0	3.5	5.0	—
Recovery Rate Estimate (%)	50	40	30	—

Yield Carry (%)	8.5	8.5	8.5	—
Return From Treasury Component (%)	-2.12	-0.34	4.56	—
Return From Spread Change (%)	0.36	-1.28	-9.45	—
Loss Given Defaults (%)	-1.00	-2.10	-3.50	—
Expected Total Return (%)	5.75	4.80	0.12	3.90
Expected Excess Returns	4.97	3.33	-4.84	—

Euro High Yield	
Effective Yield of EUR HY (%)	6.3
OAS (bps)	419
4Y Eurozone Govt. Yield (%)	1.99
L12M Defaults (%)	3.5
L12M Recovery Rates (%)	43
Effective Duration (years)	3.0
Spread Duration (years)	3.7

Scenarios for 12M Horizon	25%	50%	25%	Probability Weighted
Credit Scenario	Bull	Middle Ground	Bear	
OAS Estimate (bps)	375	425	600	—
4Y Eurozone Estimate (%)	2.0	2.1	1.0	—
Default Rate Estimate (%)	2.0	2.5	4.5	—
Recovery Rate Estimate (%)	50	40	30	—

Yield Carry (%)	6.3	6.3	6.3	—
Return From Treasury Component (%)	-0.02	-0.42	3.66	—
Return From Spread Change (%)	1.62	-0.22	-6.66	—
Loss Given Defaults (%)	-1.00	-1.50	-3.15	—
Expected Total Return (%)	6.85	4.11	0.10	3.80
Expected Excess Returns	5.81	3.97	-2.47	—

Source: State Street Global Advisors, BofA. As of 7 April 2025.

The results show that for US HY, even in a bear case scenario where spreads widen by 300 to 750 basis points, default rates rise to recessionary levels of 6%, and recovery rates halve to 30% from current levels — total returns for a one-year holding period remain marginally positive. This demonstrates how important the high levels of entry yield are, in cushioning returns from spread widening and defaults, in an adverse scenario. Results were similar for Euro HY. In our middle-ground and bull scenarios, total returns ranged from between 4% to 6%. Therefore, despite the very weak prevailing sentiment for HY and the path for spreads being likely wider from here, HY investors are well compensated at these current high entry yields. Consequently, investors should be prepared to consider increasing their HY allocations, when GHY spreads & yields reach 450–500bp and 8.0–8.5% levels, respectively.

Conclusions

With the latest tariff announcements, HY markets are now repricing the biggest shift in global trading landscape for a century, alongside the impact on corporate pricing power, margins, and fundamental health. Much will depend on how the economic hard data evolves, as well as trade policy developments, central bank responses across the world, and investor willingness to allocate to HY vis-a-vis cash and other risk assets. Should headline yields for GHY increase above 8%, this is a level that significantly prices in a deteriorating global growth outlook and a structurally higher level of credit risk premia that would be comparable to post-COVID averages. Our baseline view is that while a slowdown is unavoidable, a deep US recession remains unlikely in 2025 and GHY provides an appealing lower-risk alternative for equities for investors who can accept some near-term volatility.

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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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