HIGH YIELD CORPORATE BONDS

Compression Persists, Fundamentals Hold Firm

This report is excerpted from the Third Quarter 2026 Fixed-Income Sector Views.

New issuance is concentrated in refinancings, bolstered by AI and datacenter transactions.

High yield corporate bonds delivered positive performance in the second quarter amid easing geopolitical concerns, solid macroeconomic data, and resilient corporate earnings. With spreads roughly flat for the year, first half returns largely consisted of coupon income offset by higher rates. Sector and rating dispersion was minimal and gains were broadly distributed, though energy lagged as oil prices fell. New issuance was robust, but was concentrated in refinancings, with net new money largely originating from AI and datacenter issuers.

Sector Commentary

- Spreads on the ICE BofA U.S. High Yield Master II Constrained Index tightened in the second quarter to 275 basis points, reversing the widening in the first quarter.
- The index posted a 2.5 percent total return for the second quarter. Quarterly returns highlight outperformance by lower quality credit, with BB-rated, B-rated, and CCC-rated bonds returning 2.3 percent, 2.8 percent, and 3 percent, respectively.
- New issuance totaled $101 billion in the second quarter, up 32 percent year over year, about 60 percent of which funded refinancing activity while mergers and acquisition/leveraged buyout (M&A/LBO) activity declined to 15 percent. Refinancing has kept the maturity wall manageable, with only 5 percent of the Index maturing through 2027.
- High yield funds attracted $6.4 billion in net inflows in the second quarter of 2026, mainly from exchange-traded funds (ETFs), which provided an additional tailwind for performance.

Investment Themes

- AI and datacenter supply represented about 20 percent of quarterly issuance and is expected to remain robust in the back half of the year.
- Roughly three quarters of the high yield market is trading at spreads inside 300 basis points, a level that remains tight relative to historical averages.
- Buyer demand has strengthened as yields have moved sustainably above 7 percent in recent quarters.
- Credit fundamentals remain strong, with the trailing 12-month par-weighted default rate of 2 percent, well below the 20-year average of 3.5 percent. The distress rate remains modest, and we expect defaults to stay subdued.

By Thomas Hauser and Ravi Tamboli

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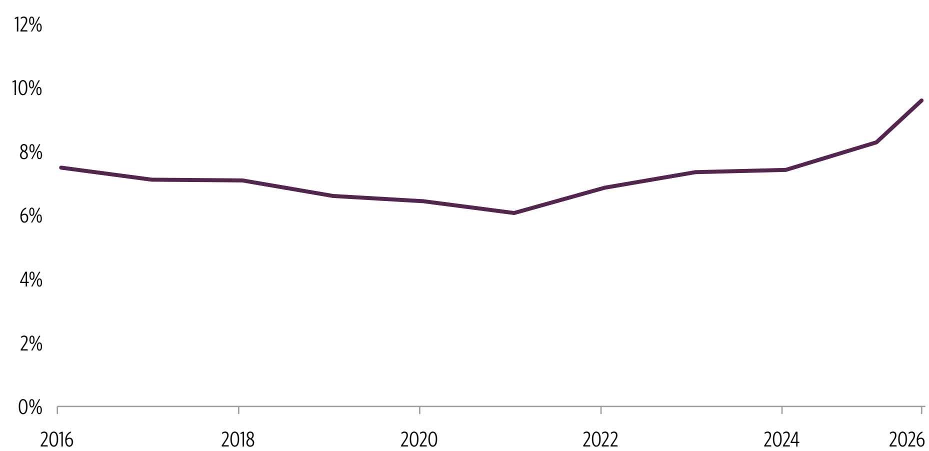
Technology's Share of the High Yield Index Has Increased in Recent Quarters

ICE BofA U.S. High Yield Master II Constrained Index



Source: Guggenheim Investments, ICE BofA. Data as of 6.30.2026. Note: Technology includes AI and data center debt.

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One **basis point** is equal to 0.01%.

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