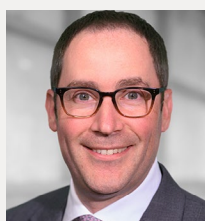


High-Yield Bonds: Not Your Parents' Market



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The discourse on “tight high-yield bond spreads” is both technically factual and potentially misleading. Spreads, at around 300 basis points (bps), aren’t much to shout about, but they must be considered against a high-yield market that has dramatically risen in quality.¹ Over 55% of the U.S. high-yield bond market is now rated BB, the highest sub-investment grade credit rating. **(See Figure 1.)** That’s a record level, and around 10 percentage points more than it was a decade ago. Meanwhile, bonds rated CCC and below constitute 12.1% of the market, compared to the long-term average of 17.2%.² In short, the high-yield market is about as good quality as it has ever been.



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Fallen angels (i.e., bonds downgraded from investment grade to high-yield) also present a potentially favorable tailwind for the high-yield market’s overall quality. Barclays anticipates \$70-90bn of fallen angels in 2026, with a number of large BBB-rated bonds at risk of being downgraded and ultimately swelling the BB-rated portion of the high-yield market.³

With quality up, defaults are down. The high-yield bond default rate currently stands at 1.8%, compared to the post-Global Financial Crisis average of 2.5%.⁴ Simply put, that’s allowed high-yield investors to enjoy more of their contractual returns. Moreover, more high-yield bonds are now being issued in senior secured format, which may support greater recoveries for those bonds that default.



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However, a higher-rated market doesn’t mean managers should relax their underwriting standards. Ratings aren’t a perfect guide to quality and avoiding defaults remains the name of the game. Get that right and the high-yield market can present attractive contractual income with manageable credit risk.

Figure 1: BB-Rated Bonds Now Dominate the High-Yield Market



Source: ICE U.S. High-Yield Constrained Index, as of November 30, 2025; represents percentage of bonds rated BB and above, by face value.

Endnotes

1. ICE U.S. High-Yield Constrained Index, as of December 12, 2025.
2. ICE U.S. High-Yield Constrained Index, bonds rated CCC and below as a percentage of total market face value. Long-term average measured between January 2001 and November 2025.
3. Barclays; Rising Star and Fallen Angel 2026 Outlook, as of October 24, 2025.
4. JP Morgan Default Monitor, 12-month trailing default rate, as of December 1, 2025.

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