

US High Yield continues to offer a compelling combination of carry, relatively low duration and resilient credit fundamentals.

Current all-in yields remain attractive from an absolute perspective, especially compared to most other liquid fixed income segments. At the same time, the asset class offers a duration profile below 3 years, materially lower than government bonds and investment grade credit, where duration is often 6 years or more.

This matters in the current environment.

If inflation proves more persistent, partly driven by higher energy prices or fiscal expansion, rate volatility could remain elevated. In that scenario, long duration assets remain vulnerable. US High Yield is structurally less exposed to this risk because a much larger part of total return comes from carry rather than duration.

Compared to US investment grade, the difference in risk composition is also important.

US investment grade has become increasingly concentrated in large cap technology and hyperscaler issuers. A significant share of recent issuance has come from companies such as Microsoft, Amazon, Alphabet and Meta. Spreads in investment grade remain historically tight, while duration risk remains elevated.

US High Yield provides exposure to a different part of the US economy:

- * industrials
- * energy
- * services
- * healthcare
- * telecom
- * mid-sized domestic businesses

In equity terms, this is closer to value exposure than to large cap growth.

As a result, US High Yield can also serve as a diversification tool within broader US allocations, particularly for portfolios already heavily exposed to US mega cap growth through equities and investment grade credit.

An additional point that is often underestimated is the long-term return profile of the asset class.

Historically, long-term annualised returns of US High Yield have been relatively close to US equities:

- * US High Yield: approximately 7% to 8%
- * US Equities: approximately 9% to 10%

The return differential over long periods has therefore been relatively modest, while volatility has historically been materially lower in High Yield than in equities.

Drawdowns have also historically been shallower, with recovery periods generally shorter than for equities. This is partly due to the contractual income component, the pull-to-par effect and the refinancing flexibility available to issuers during normal credit cycles.

Importantly, today's US High Yield market is also significantly higher quality than many investors still assume.

The market currently has one of the strongest average credit profiles in its history:

- * more than 50% of the market is BB rated
- * CCC exposure is near historical lows at around 10% or below

This has meaningful implications for expected defaults.

Consensus default expectations for US High Yield remain relatively contained and are significantly below current expectations in leveraged loans and parts of private credit. Loan markets are increasingly facing pressure from:

- * weaker documentation
- * aggressive leverage structures
- * refinancing challenges
- * liquidity constraints

Public High Yield generally benefits from:

- * stronger transparency
- * broader investor participation
- * more efficient price discovery
- * better secondary market liquidity

This could become increasingly relevant over the coming years.

If institutional capital gradually reallocates away from stressed parts of private debt and leveraged loans, public US High Yield could benefit from additional demand and stronger technical support.

In summary, US High Yield currently offers:

- * attractive absolute carry
- * relatively low duration
- * lower sensitivity to rising rates
- * diversification away from concentrated large cap growth exposure
- * historically strong average credit quality
- * equity-like long-term returns with lower volatility
- * supportive technical dynamics relative to loans and private credit

In the current environment, this creates a compelling role for US High Yield within broader institutional portfolios.