NCRAM

Monthly Update

January 5, 2026

US High Yield

The US high yield market gained 0.65% in December, raising full year 2025 performance to 8.50%, as measured by the ICE BofA US High Yield Constrained Index (HUC0). During the month, US Treasury yields rose modestly, and US high yield spreads tightened modestly. In general, December was a fairly quiet month, as the market maintained a positive outlook based on steady growth and falling Fed rates. Q3 GDP was reported at 4.3%, and while this figure overstates the trend due to timing anomalies, the report supports the idea that the US remains in a phase of steady growth around 2.5%. Also in December, the Fed cut rates as expected down to 3.5%-3.75%. CCCs outperformed while BBs underperformed on rising rates. Leisure, Automotive, and Telecommunications were the strongest sectors, while Retail, Healthcare, and Real Estate lagged. The US high yield market ended the year with a yield of 6.62% and spread of 281.

For the full year, BBs were the best performing ratings segment, supported by the fall in the 10-year Treasury yield from 4.57% to 4.17%. Over the course of the year, Treasuries rallied because inflation expectations fell moderately while the Fed cut rates more than expected. Bs were the next best performing ratings segment, while CCCs lagged due to pockets of credit stress and occasional distressed exchanges (also known as Liability Management Exercises, or LMEs). For the year, Telecom, Healthcare, and Real Estate were the strongest sectors, while Transportation, Technology, and Banking lagged. During 2025, yields for US high yield fell from 7.47% to 6.62%, while spreads tightened from 292 to 281.

Looking ahead, some of the key themes in the US high yield market are:

◊ Economic growth: While unemployment has trended up recently, part of this rise is due to DOGE-related government job losses. Meanwhile, weekly unemployment claims have been steady, and some surveys show a slightly rebounding job market. We believe Fed cuts, OBBBA tax cuts, Trump-related deregulation, and AI spending should support steady growth around 2.5% in 2026.

◊ Federal Reserve overnight rates: Under Jerome Powell, the Fed cut rates three times in the second half of 2025 and may be inclined to pause. Trump's appointed Fed chair will take over in May, and the new chair will need to balance Trump's desire for lower rates with incoming economic data and maintaining inflation credibility with the bond market. As of today, the futures market expects two to three more cuts in 2026.

◊ Tariffs: While "Liberation Day" in April shocked the market, tariffs ultimately did not have a meaningful effect on growth or inflation in 2025. Companies found alternative ways to source products, some of the tariffs received relief from the Trump administration, and most imports from Mexico and Canada still arrive tariff-free under the existing United States-Mexico-Canada Agreement (USMCA), giving many products a tariff-free window to the US. Going forward, the delayed impact of existing tariffs and renegotiation of the USMCA could impact risk markets.

◊ AI boom: In 2025, AI meaningfully boosted growth via investment spending in research, data centers and power, and the equity wealth effect. Looking forward, the markets will seek to understand debt required to maintain the pace of investment, the returns on the investment, and the productivity impact of AI on other sectors.

◊ Credit performance: October saw certain frauds revealed in other credit markets (not the US high yield market), most notably First Brands and Tricolor, leading to general questions about credit trends across private debt, leveraged loans, and high yield. While additional frauds did not come to light, markets will continue to monitor credit trends and the prevalence of LMEs among stressed issuers.

Overall, we believe defaults in US high yield will remain contained in a steady growth environment, and yields in the 6.5% range will support attractive returns for the US high yield market.

European and Global High Yield

The European high yield market returned 0.38% (local currency terms) in December, resulting in a 5.47% return for the year, as measured by the ICE BofA European Currency High Yield Constrained Index (HPC0). The holiday-shortened month of December saw European high yield hold steady to end 2025. For the full year, despite some brief volatility in April due to Trump's tariff actions, the market achieved a coupon-like return, supported by strong technicals, central bank easing, and a recovering European economy. During the year, we saw some notable dispersion, with BBs outperforming while CCCs significantly underperformed as investors avoided struggling credits with possible liability management outcomes. Looking forward, we see tailwinds from the positive economic impulse coming from Germany's fiscal stimulus, and a default rate that should remain historically low at close to 2%. Headwinds to performance could include a more robust new issue supply market, tight spreads, and higher Bund rates due to additional issuance from the fiscal stimulus. We also continue to monitor the situation in Ukraine and any progress towards a ceasefire in the region. We believe that a yield of 5.31% for the European high yield market will support an attractive risk-reward for investors over the next 12 months.

Turning to emerging markets, EM hard currency bonds had another month of positive returns in December, leading to double-digit returns for EM sovereign bonds and high single-digit returns for EM corporate credits for the full year 2025. The return of inflows into the asset class and supportive fundamentals were key performance drivers for EM fixed income in 2025. EM sovereign bonds, as proxied by the JPMorgan Emerging Markets Bond Index Global (EMBIG) gained 0.52% in December and 13.45% for the year. High yield sovereign credits, mainly from Latin America and Africa, performed the best with a return of 18.06% in 2025, while investment grade sovereign credits gained 10.16%. Meanwhile, EM corporate bonds, as proxied by the JPMorgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI BD) gained 0.48% in December and 8.73% in 2025, with high yield names slightly outperforming investment grade credits.

David Crall, CFA
NCRAM CEO and CIO

Disclosures

This document is prepared by Nomura Corporate Research and Asset Management Inc. (NCRAM) and is for informational purposes only. All information contained in this document is proprietary and confidential to NCRAM. All opinions and estimates included herein constitute NCRAM's judgment, unless stated otherwise, as of this date and are subject to change without notice. There can be no assurance nor is there any guarantee, implied or otherwise, that opinions related to forecasts will be met. Certain information contained herein is obtained from various secondary sources that are believed to be reliable, however, NCRAM does not guarantee its accuracy and such information be incomplete or condensed. Historical investment performance is no guarantee of future results. There is a risk of loss. Strategy performance references are based on gross of fees performance.

Certain information contained in this document contains forward-looking statements including future-oriented financial information and financial forecasts under applicable securities laws (collectively referred to herein as forward-looking statements). Except for statements of historical fact, information contained herein constitutes forward-looking statements. Although NCRAM believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, it can give no assurance that forward-looking statements will prove to be accurate. These statements are not guarantees of future performance and undue reliance should not be placed on them. Forward-looking information is subject to certain risks, trends, and uncertainties that could cause actual performance and financial results in future periods to differ materially from those projected. NCRAM undertakes no obligation to update forward-looking statements if circumstances or NCRAM’s estimates or opinions should change.

This document is intended for the use of the person to whom it is delivered. Neither this document nor any part hereof may be reproduced, transmitted or redistributed without the prior written authorization of NCRAM. Further, this document is not to be construed as investment advice, or as an offer to buy or sell any security, or the solicitation of an offer to buy or sell any security. Any reproduction, transmittal or redistribution of its contents may constitute a violation of the U.S. federal securities laws.

Performance data is calculated by NCRAM based upon market prices obtained from market dealers and pricing services or, in their absence, an estimate of market value based on NCRAM’s pricing and valuation policy. All performance is historical and assumes reinvestment of dividends, interest and capital gains. Performance data stated herein may vary from pricing determined by an advisory client or by a third party on behalf of the advisory client. Performance data set forth herein is provided for the purpose of facilitating analysis of account assets managed by NCRAM, and should not be used for the purpose of reporting or advertising performance of specific account portfolios to account beneficiaries or to third parties.

An investment in high yield instruments involves special considerations and certain risks, including risk of default and price volatility, and such securities are regarded as being predominantly speculative as to the issuer's ability to make payments of principal and interest.

A copy of NCRAM's Code of Ethics and its Part 2A of Form ADV are available upon request by contacting NCRAM’s Chief Compliance Officer via e-mail at compliancenomuraasset@nomura.com or via postal mail request at Nomura Corporate Research and Asset Management Inc., Worldwide Plaza, 309 West 49th Street, Compliance Department, Attn: Chief Compliance Officer, New York, NY 10019-7316.

The views and estimates expressed in this material represent the opinions of NCRAM and are subject to change without notice and are not intended as a forecast or guarantee of future results. Such opinions are statements of financial market trends based on current market conditions. The views and strategies described may not be suitable for all investors. This material has been prepared for informational purposes only, and is not intended to provided, and should not be relied upon as legal or tax advice.