



NCRAM

Monthly Update

February 4, 2026

US High Yield

The US high yield market gained 0.48% in January, as measured by the ICE BofA US High Yield Constrained Index (HUC0). The year has begun with optimism in the outlook for economic growth, as data like retail sales, existing home sales, and ISM manufacturing (in early February) point to a steadily improving economy. Meanwhile, the dollar was weaker, potentially due to global investors losing some confidence in the Trump administration's aggressive foreign policy. A stronger economy with a weaker dollar has helped commodities perform well, including gold hitting an all-time high. Amidst this commodity rally, oil, the most important commodity for high yield, bounced up from \$57 to \$65 for WTI crude, and was also supported by tension in Iran. Late in the month, Trump nominated Kevin Warsh to replace Jerome Powell as Fed Chair in May. Warsh is viewed as relatively hawkish and credible compared to other possible Trump nominees, and this sentiment helped stabilize the dollar in early February.

While the old economy is generally on an upswing, cross-currents are seen in the tech sector. AI spending continues unabated, which supports the old economy indirectly, even as the ROI on the AI spending appears unclear. Meanwhile, the fear of disruption has been hitting the software sector both in January and especially in early February. Software is around 3% of the high yield market, while it's a much higher percentage of the leveraged loan and private credit markets. The overall pace of AI spending and its impact on other sectors will be a major topic in the coming year.

Thanks to the improving economy, Treasury yields increased a few basis points, and US high yield spreads were relatively stable in the month. BBs and B-rated bonds performed in line with the market, while CCCs underperformed. The leading sectors in the overall market were Energy, Consumer, and Telecom, while Technology and Financials lagged. The US high yield market ended the month with a yield of 6.74% and spread of 288. Looking forward, we continue to believe that high yield can offer an attractive yield with moderate default rates in an improving economy.

Global High Yield

The European high yield market returned 0.81% (EUR, unhedged) in January, as measured by the ICE BofA European Currency High Yield Constrained Index (HPC0). New issues were relatively light, leading to investors buying bonds in the secondary market. We expect new issues to continue to ramp up throughout 2026, although we see stable demand for European high yield. Toward the end of the month, software names traded off, following the US market, as concerns over AI's impact on the sector became more topical. European high yield spreads tightened slightly to 276 bps on the month and remain close to the recent lows. Distress in the market remains contained and specific to idiosyncratic situations, and we believe this environment, as well as a solid economic backdrop underpinned by German fiscal stimulus, bodes well for high yield market returns in 2026.

EM hard currency bonds started the new year with positive returns across sovereign and corporate names, led by high yield credits. Continuing inflows into the asset class and a weaker USD supported EM fixed income in January. EM sovereign bonds, as proxied by the JPMorgan Emerging Markets Bond Index Global (EMBIG), gained 0.56% in January, driven by a 1.60% gain in high yield credits, while investment grade issuers underperformed (-0.20%) with weaker US Treasuries. Similarly, high yield credits also outperformed among EM corporates. According to the JPMorgan Corporate Emerging Markets Bond Index Diversified (CEMBI BD), EM corporate bonds gained 0.74% in January, with high yield names up 1.39% and investment grade corporates up 0.30%. The Real Estate and Industrials sectors saw the best index performance, while Financials underperformed. Metals and Mining outperformed over Oil and Gas credits.



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