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NCRAM Monthly Update

March 3, 2026

US High Yield

The US high yield market gained 0.16% in February, bringing the YTD return to 0.65%, as measured by the ICE BofA US High Yield Constrained Index (HUC0). So far, the year has seen improved sentiment in the traditional, industrial economy, as evidenced by the ISM Manufacturing Index rising above 52 for two straight months. Tariff disruptions are fading (i.e. pre-buying followed by inventory drawdowns), and the traditional economy is providing “picks and shovels” for the AI boom. Meanwhile, as AI spending by the hyperscalers continues stronger than ever, unease is growing about the impact AI will have on sectors like software and other industries tied to the analysis and dissemination of information. Beyond these macro trends, February also saw risk aversion in certain niches of the credit markets. In particular, private credit BDCs are trading poorly as there are concerns about both current defaults and software exposure in those vehicles (the Cliffwater BDC Index is down roughly -11.5% YTD and -20% in the 12 months ending February). Due to these factors, higher credit quality outperformed in US high yield, with CCCs underperforming, and spreads widening by 24 bps. The US high yield market ended the month with a yield of 6.84% and spread of 312.

Global High Yield

The global high yield market returned 0.33% in February (USD hedged), as measured by the ICE BofA Global High Yield Index (HW00). Like US high yield, the global high yield market softened somewhat on uncertainty regarding the impacts of AI on the future outlook for the certain sectors. In this environment, emerging market high yield outperformed, given the market’s limited exposure to AI themes and high concentration of hard asset companies such as commodities and energy. Brazil was a weak spot after Raizen, an integrated fuel distribution and refiner, suffered a nine-notch downgrade from investment grade, but we don’t believe the troubles in Brazil pose systemic risk to the markets overall. Europe slightly outperformed the broader market, as technicals continued to support the asset class with limited new issuance and continued inflows. US high yield was the weakest region due to the software sell-off. Toward the end of the month, we saw another case of fraud in the banking and private credit markets (MFS Financial, a UK based mortgage lender). While this instance did not directly affect high yield, it contributed to risk dispersion in the markets, with BBs outperforming and CCCs underperforming. The global high yield market ended the month with a yield of 6.55% and spread of 312.

Iran War Comments

Over the weekend, we entered a new phase for the market as the US and Israel attacked Iran. This development has spiked Energy prices, and Brent crude briefly touched \$80 before settling in the high \$70s, up more than \$5 from Friday’s close. WTI prices were up roughly \$4 to \$71, a more muted increase given that the US does not rely on Middle Eastern imports. The US dollar was 1% stronger on Monday (as measured by the DXY index), which is a typical reaction in a crisis. More surprisingly, US Treasury yields were higher, with the 10-year UST yield up 10 bps to 4.04%, as they did not experience flight-to-quality demand. The reason could be that the 10-year US Treasury yield declined -15 bps last week as tensions mounted in the Gulf Region, so there could have been “sell the news” activity on Monday. In addition, there could be fears that an extended conflict could reinvalidate inflation.

Among the high yield markets:

- US high yield opened US trading Monday down roughly ½ point, with little differentiation by rating, but prices crept higher later in the day to close down roughly ¼ point. Energy issues were stronger, while airline bonds came under pressure. Treasury sensitive bonds were weaker.
- European high yield markets moved broadly with the US market on Monday. In theory, a disruption in energy supply from the Middle East would impact European growth and inflation, given the high market share of oil and gas exports from this region. European energy stockpiles remain low and we have seen a spike in spot LNG prices. A prolonged conflict, with accompanying higher natural gas prices, would increase costs for energy intensive industries such as chemicals and packaging.
- EM corporate bonds were relatively stable, but Middle East bonds underperformed on the day.

Market Outlook


Looking forward, we are closely watching developments in the Iranian conflict. President Trump initially warned of four to five weeks of operations, while US military leaders noted the timeline could be shorter or longer. So far, there are no confirmed attacks on oil production facilities in the region, but shipping via the Strait of Hormuz is effectively closed, impacting about 20% of global crude oil and LNG supply. The key open questions remain the duration of the conflict, and Iran’s reaction to further efforts to force regime change. While an energy and trade disruption measured in weeks is manageable for the global economy, a longer disruption or escalation of conflict cannot be discounted.

NCRAM’s high yield portfolios are overweight energy and commodities, and are modestly long duration.

In addition, among credit markets, US high yield is relatively well-positioned to deal with volatility related to Iran, AI, or other factors for the following reasons:

- US high yield has seen improving average ratings as LBOs have migrated to the leveraged loan and private debt market.
 - 58% of the US high yield market is now rated BB, an all-time high, while less than 10% is rated CCC and below, an all-time low (Source: ICE BofA).
- US high yield has a favorable mix of industries, with heavy exposure to energy and power companies and companies with hard assets, and less software and service companies exposed to AI disruption.
 - Software comprises only 3% of the US high yield market, compared to 14% of the US loan market and 21% of the private debt market (Source: JPMorgan).
- As a fixed rate asset class, US high yield benefits more from past and future interest rate cuts, while loan and private debt will see their coupons fall.
 - The Fed Funds futures market currently expects two more cuts by the end of this year.
- The high yield market is more diversified by issuer than typical loan and private debt portfolios.

At this time, these strengths have supported both US and global high yield, and the reaction to the war has been muted. As events play out, NCRAM will guide our portfolios through the changes, and we believe high yield can deliver an attractive return for the risk in the coming year.



David Crall
NCRAM CEO and CIO

Selected Credit Market Statistics

February 2026	US High Yield (HUC0)	Global High Yield (HW00)	US Leveraged Loans (LSTA)
MTD Return	0.16%	0.33%	-0.78%
YTD Return	0.65%	1.04%	-1.08%
Yield	6.84%	6.55%	7.18%
Spread (bps)	312	312	507

MTD Top Returns by Industry

Energy	1.14%	Energy	1.09%	Materials	1.25%
Consumer Goods	0.82%	Real Estate	0.90%	Household Products	1.02%
Utilities	0.76%	Banking	0.81%	Semiconductors	0.88%

MTD Bottom Returns by Industry

Technology	-1.25%	Technology	-1.28%	Software	-3.72%
Insurance	-1.20%	Insurance	-1.18%	Insurance	-1.94%
Services	-0.77%	Financial Services	-0.53%	Services	-1.18%

YTD Top Returns by Industry

Energy	2.78%	Energy	2.63%	Household Products	2.11%
Consumer Goods	1.51%	Real Estate	2.09%	Materials	1.19%
Real Estate	1.39%	Banking	1.56%	Consumer Goods	1.17%

YTD Bottom Returns by Industry

Technology	-2.23%	Technology	-2.06%	Software	-6.08%
Insurance	-0.85%	Insurance	-0.82%	Insurance	-1.82%
Financial Services	-0.58%	Services	-0.20%	Services	-1.68%

MTD Returns by Rating

BB	0.52%	BB	0.54%	BB	0.17%
B	-0.07%	B	0.11%	B	-1.11%
CCC	-1.06%	CCC	-0.84%	CCC	-3.06%

YTD Returns by Rating

BB	1.02%	BB	1.19%	BB	0.24%
B	0.45%	B	0.78%	B	-1.50%
CCC	-0.98%	CCC	-0.27%	CCC	-5.10%

LTM Default Rates

	US High Yield	European High Yield	US Leveraged Loans
Including distressed exchanges	1.97%	2.75%	2.78%
Excluding distressed exchanges	1.12%	1.90%	1.41%

Sources: NCRAM, ICE BofA US High Yield Constrained Index (HUC0), ICE BofA Global High Yield Index (HW00) in USD hedged terms, Morningstar LSTA US Leveraged Loan Index (LSTA), Bloomberg, JPMorgan default rates.
Index data as of February 28, 2026, default data as of January 31, 2026.

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