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NCRAM Monthly Update

April 1, 2026

US High Yield

The ICE BofA US High Yield Constrained Index (HUC0) slid -1.19% in March, bringing the YTD performance to -0.55%. The sell-off was caused by the Iran war, and Iran effectively closing the Strait of Hormuz. The prospect of an energy shortage caused the spot price of WTI oil to jump from \$67 to over \$100, while European natural gas and LNG prices are up 50% to \$14/mmbtu and \$17/mmbtu, respectively. The war and rising energy prices had a noticeable impact on the US Treasury market, due to rising inflation expectations, the fear that central banks will need to be more hawkish, and anticipated fiscal spending for the war, leading 5-year Treasury yields to increase 44 bps and 10-year Treasury yields to increase 38 bps.

While US high yield suffered from the Treasury sell-off, spread widening was relatively muted, rising only 16 bps. High yield spreads have been relatively well-controlled for a few reasons:

- The US economy is a large energy producer and thus relatively insulated from higher energy costs. For example, US natural gas prices have largely remained unchanged around \$3/mmbtu, reflecting ample inventory in storage, strong production, and limited ability to export additional natural gas. In addition, the US economy has positive forces such as tax cuts mitigating the higher energy costs.
- The US high yield market is increasingly a higher credit quality market, with 59% of the market rated BB, and it has substantial Energy sector exposure of 11%.
- The war is expected to end within one to three months. The Trump administration is reportedly looking for an off-ramp, and for this reason the future price of oil is not up as much as the spot price, with 12-month WTI up to \$70.

Among credit quality segments, B-rated bonds performed the best in March. Rising Treasury yields led BBs to underperform, while CCCs lagged on fears of economic disruption. Travel-related sectors and interest rate sensitive industries like Building Materials were laggards on the month. In addition to the Energy sector, non-cyclicals such as Cable TV outperformed. Technology also recovered somewhat from February's sell-off related to AI disruption concerns. The US high yield market ended the month with a yield of 7.44% and spread of 328.

Beyond the war, outflows among private credit BDCs were also a key topic during the month. While a slowdown in demand for private credit might hurt the economy on the margin, we don't expect substantial contagion from private credit to the broader risk markets. In particular, the vast majority of bank exposure to private credit funds and firms is senior and overcollateralized, and we don't expect widespread losses for the banking system.

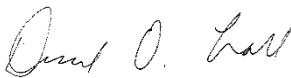
Global High Yield

The global high yield market returned -1.59% in March, bringing the YTD return to -0.57% (USD hedged), as measured by the ICE BofA Global High Yield Index (HW00). Global high yield felt the impact of the Iran war during the month, as rates sold off and global energy prices skyrocketed. US high yield was the best performing region, as the economic and inflationary impacts of the Middle East conflict are perceived to be less severe due to US energy independence. The European high yield market underperformed as higher energy prices are expected to negatively impact economic growth, given the region's greater dependence on imported natural gas, while higher inflation increases the probability of a hike in rates from the ECB. The ECB will seek to avoid the mistakes of 2022 in letting inflation run rampant after the start of the Ukraine-Russia war. As a result, we saw weakness across the credit spectrum in European high yield, with spreads widening from 287 bps to 349 bps. Emerging markets also posted a negative return, as Middle Eastern real estate sold off significantly as a result of Iran's attacks on GCC nations during the month. However, overall technical demand in EM remained healthy, as the sell-off has been orderly and liquidity has been maintained in the market. As of the end of March, the overall spread for the global high yield market was 343 bps, only about 30 bps wider from the beginning of the month, which signals continued confidence in the health of the credit

conditions in the market and resilience to most impacts from the Iran war. With overall yields now at 7.31%, we believe this all-in yield provides significant cushion for continued geopolitical volatility and attractive upside in the scenario that the conflict in Iran is resolved in a timely fashion.

Market Outlook

Looking forward, while the war is disruptive and may have unpredictable effects, NCRAM's base case is that the conflict in the Middle East will de-escalate during the second quarter. Polymarket odds suggest that hostilities will cease in the May-June time frame. In this scenario, we believe the US economy will continue to grow at over 2% this year, and credit conditions in the US high yield market will remain stable. Energy prices will likely decline at the conclusion of ongoing military activity, but will probably settle at a higher level vs. pre-conflict due to the risk of renewed attacks on energy facilities or transport. This could have a modest forward impact on growth and inflation. NCRAM views the Energy and Aerospace & Defense sectors as the key beneficiaries of tensions in the Middle East. Conversely, airlines, cruise lines, hotels and consumer-driven segments are at risk from rising energy prices and a potential slowdown in travel demand, and housing-related issuers would suffer from persistently higher mortgage rates. We are closely monitoring developments associated with the conflict and its impact on energy prices, economic growth, inflation, and corporate profitability. High yield issuers continue to generate strong operating earnings, balance sheets are solid, and the market's aggregate credit quality remains at record high levels. If the Trump administration's ongoing efforts to find an off-ramp to the conflict are successful, the first quarter's increase in yield and spread creates a more compelling entry point for US high yield.



David Crall
NCRAM CEO and CIO

Selected Credit Market Statistics

March 2026	US High Yield (HUC0)	Global High Yield (HW00)	US Leveraged Loans (LSTA)
MTD Return	-1.19%	-1.59%	0.54%
YTD Return	-0.55%	-0.57%	-0.55%
Yield	7.44%	7.31%	7.16%
Spread (bps)	328	343	505

MTD Top Returns by Industry

Energy	-0.09%	Energy	-0.47%	Healthcare	1.36%
Technology	-0.17%	Technology	-0.67%	Insurance	1.22%
Insurance	-0.65%	Insurance	-0.68%	Software	1.15%

MTD Bottom Returns by Industry

Automotive	-2.45%	Transportation	-3.56%	Household Products	-0.78%
Transportation	-2.27%	Real Estate	-3.34%	Food & Staples	-0.70%
Basic Industry	-1.93%	Automotive	-2.84%	Materials	-0.46%

YTD Top Returns by Industry

Energy	2.69%	Energy	2.18%	Energy	1.81%
Telecommunications	0.34%	Utility	-0.51%	Real Estate	1.52%
Utility	0.00%	Telecommunications	-0.20%	Household Products	1.32%

YTD Bottom Returns by Industry

Technology	-2.40%	Technology	-2.61%	Software	-5.00%
Financial Services	-2.23%	Transportation	-1.94%	Services	-1.06%
Services	-1.58%	Financial Services	-1.84%	Insurance	-0.62%

MTD Returns by Rating

BB	-1.37%	BB	-1.79%	BB	0.47%
B	-0.79%	B	-1.42%	B	0.61%
CCC	-1.46%	CCC	-1.36%	CCC	0.17%

YTD Returns by Rating

BB	-0.37%	BB	-0.62%	BB	0.71%
B	-0.35%	B	-0.66%	B	-0.90%
CCC	-2.43%	CCC	-1.62%	CCC	-4.94%

LTM Default Rates

US High Yield

European High Yield

US Leveraged Loans

Including distressed exchanges	2.07%	3.08%	3.04%
Excluding distressed exchanges	1.19%	2.24%	1.46%

As of March 31, 2026

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

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