High Yield 1Q 2026 outlook

From High Yield

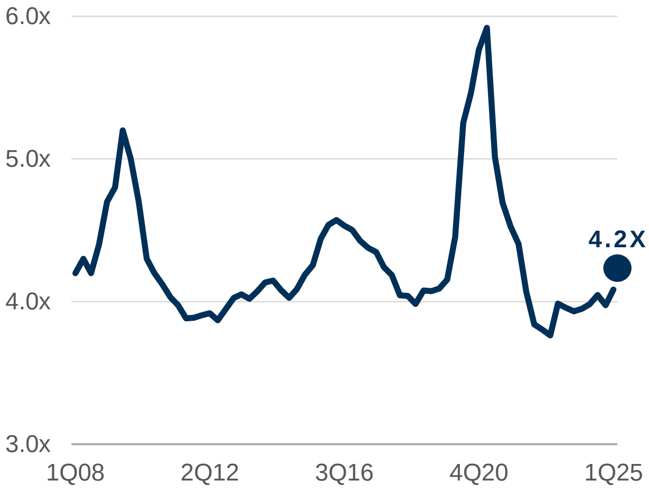
Further growth in the supply of high yield bonds may be on the way. After several subdued years, corporate M&A activity has shown renewed signs of life. Large-scale LBO activity, which had also been dormant, has picked up as well. Video game maker Electronic Arts recently announced plans to go private in what would be the largest LBO in history. The $55 billion enterprise value includes $20 billion of debt, which is expected to be financed in the leveraged loan and high yield markets.

High yield supply may also come from an unexpected source: AI infrastructure. Earlier this year, AI computing power provider and first-time high yield issuer CoreWeave sold $3.75 billion of high yield holding company bonds to help finance its purchase of computer power from Nvidia. Cryptocurrency miner and another debut issuer, TeraWulf, announced plans to raise $3.2 billion of high yield bonds to finance part of a data center expansion.

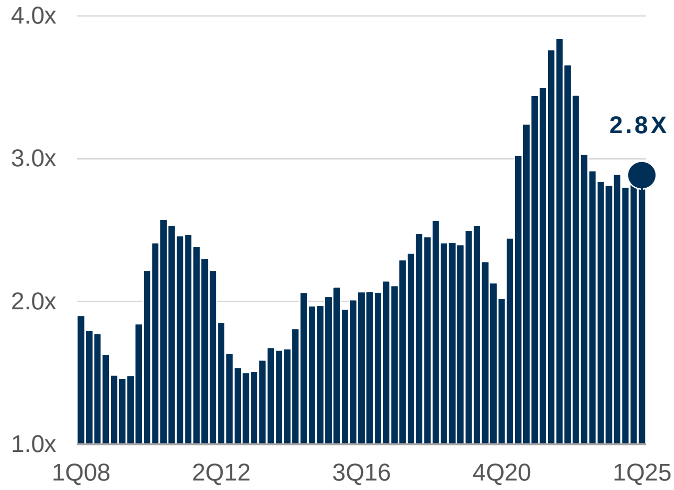
In recent years, bullish investor sentiment toward credit has led to a sharp compression in the liquidity premium—the extra yield on top of the premium for credit risk that investors demand to hold smaller, private, or less transparent companies. Historically, investors required meaningful additional yield to compensate for this risk. Today, many are rushing into private credit, willing to sacrifice liquidity for the prospect of modestly higher returns. Tricolor and First Brands serve as cautionary reminders that this premium should probably be higher.

Overall high yield credit fundamentals remain strong. High yield issuers are mostly exposed to the U.S. economy, which has avoided a recession. As shown below, the leverage ratio for high yield companies has declined below the historical average and the interest coverage ratio remains higher than past levels.

High yield leverage | LTM debt/EBITDA



High yield interest coverage | EBITDA-CapEx/interest expense

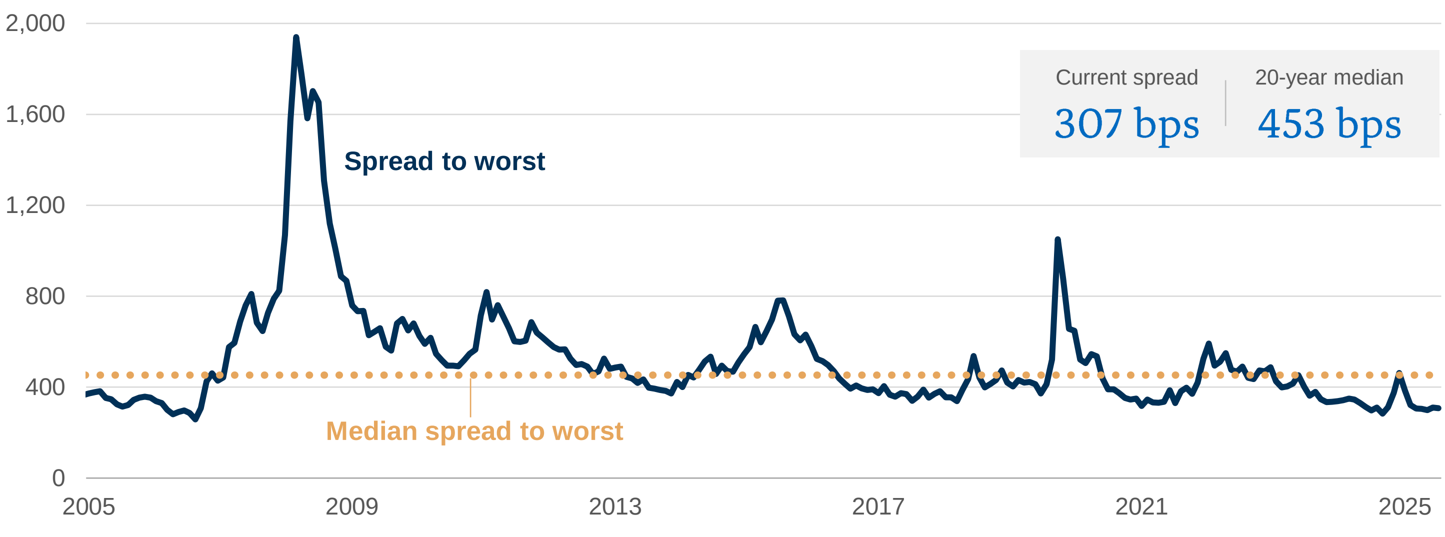


Data as of June 30, 2025.
Source: J.P. Morgan, US High Yield Universe

Valuations fully reflect the combination of favorable supply/demand, strong credit fundamentals, and bullish investor sentiment. As of November 30, 2025. the ICE BofA U.S. High Yield Index spread-to-worst of 307 bps is lower than its historical median and the post-GFC "non-panic" range of 325-525 bps, as illustrated below

While tighter-than-average high yield spreads are consistent with the current “everything rally” environment, overall yields in U. High Yield remain attractive. Current yields of 6.7% compare favorably to the post-2009 average yield of approximately 6.5% on the ICE BofA U.S. High Yield Index, especially when factoring in the improved credit quality of the market over that period.

US high yield market spreads



Data as of November 30, 2025
Index: ICE BofA US High Yield Index
Source: ICE Data.

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