



High Yield 2Q 2026 outlook

From High Yield

After positive returns in January and February, it seemed all but certain that the ICE BofA US High Yield Index would extend its streak of 13 consecutive positive quarters, its longest since 1997. The outbreak of war in Iran put an abrupt end to this. The Index posted a negative 1.2% return in March alongside most asset classes, including a 5.1% loss for the S&P 500. (ICE BofA US High Yield Index has since recouped this loss in April, gaining 1.8% through April 14).

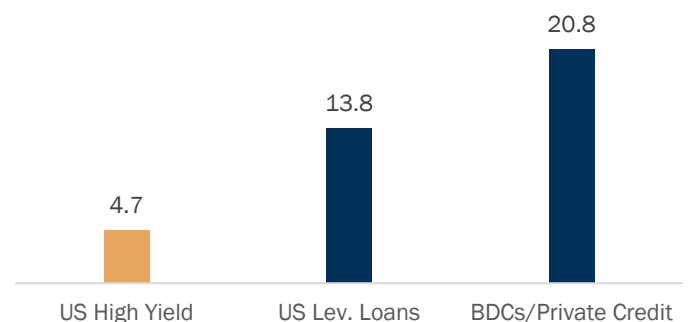
Before the outbreak of conflict took center stage, leveraged credit markets were focused on another risk: the disruptive potential of AI. Fears that AI could displace traditional Software as a Service (SaaS) companies has already been recognized by the markets, and many SaaS companies experienced significant declines in their valuation in 2025; for example, cloud-based software company Salesforce, Inc.'s shares declined about 21% in 2025.¹

In 2026, the AI fears have intensified and spread beyond the "SaaSocalypse". Every recent release of new AI tools by Anthropic or ChatGPT seems to have sparked a new wave of fear in industries beyond software and information technology. For example, the February release of Insurify, a ChatGPT app that enables users to easily compare

insurance quotes, triggered fears of disintermediation of insurance brokers and selling in their bonds.

Financial sponsors have long been drawn to software and IT services companies due to their recurring revenues, high margins, and fragmented nature of those industries. These companies proved to be more resilient during the pandemic and tariffs, which has added to their appeal. As a result, technology, software, and IT services represent a much higher portion of the leveraged loan and private credit markets compared to high yield, as seen in the chart below. The leveraged loan market's exposure is more than twice that of high yield; private credit's nearly four times.

Figure 1: Technology/software weight % of market



Data as of January 31, 2026
Source: J.P. Morgan Research

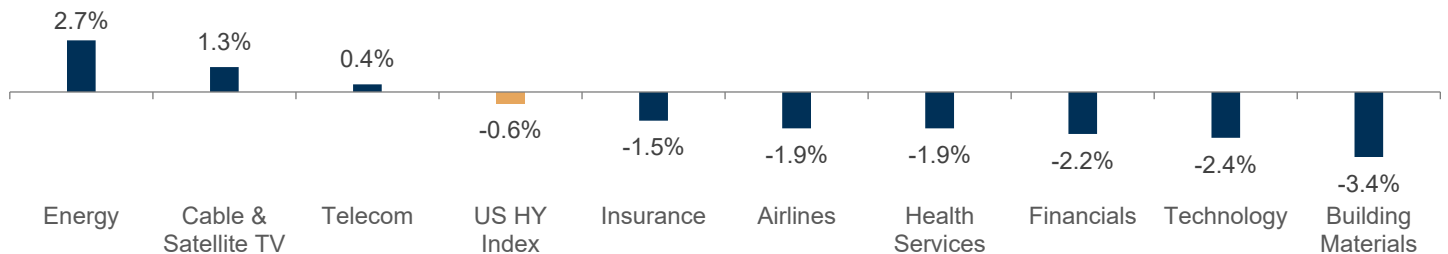
1. Source: Bloomberg

Software companies with high yield bonds have stronger credit profiles than their leveraged loan counterparts. 42% of software high yield bonds are rated BB, compared to just 10% of loans. Meanwhile, 47% of software loans are rated B-, compared to just 19% of bonds.² The credit profiles of the software companies in the private credit markets are likely weaker. As a result, high yield technology bonds performed much better than loans and the Business Development Company Index as seen in the chart below.

Unsurprisingly, riskier bonds underperformed meaningfully given intra-quarter volatility. CCC and below bonds declined 2.1%, compared to modest losses of 0.4% for BBs and Single-Bs.³

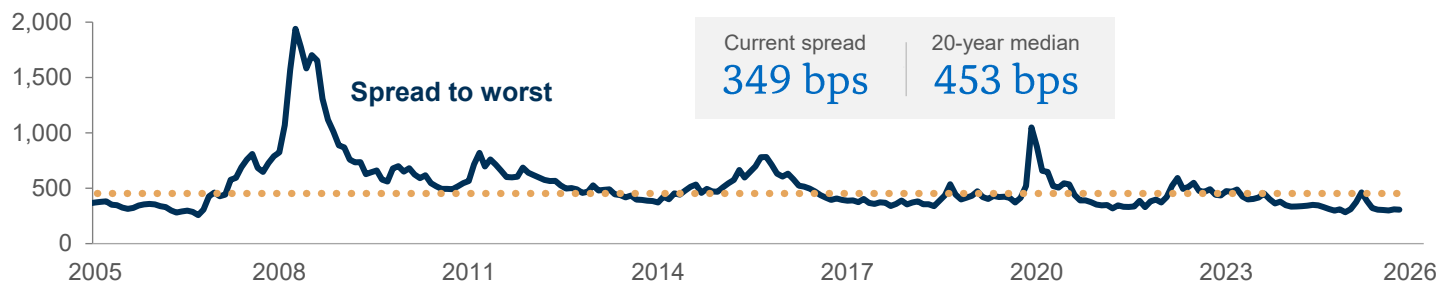
Sector dispersion remained elevated, driven by AI, the Middle East conflict, and sector specific weakness. As seen in the chart below, Energy was the best performing high yield sector as a direct beneficiary of war-induced higher oil prices, which also negatively impacted Airlines. AI disruption fears not only pressured Technology, but also companies within Insurance and Health Services. Outside of AI and war, Financials were lower as certain consumer financing companies were hit by both regulatory concerns and charge-offs due to bad loans. Building Materials companies declined on continued softness in end-market demand.

Figure 3: Q1 2026 performance by sector



Data as of March 31, 2026 Index: ICE BofA US High Yield Index. Source: ICE Data.

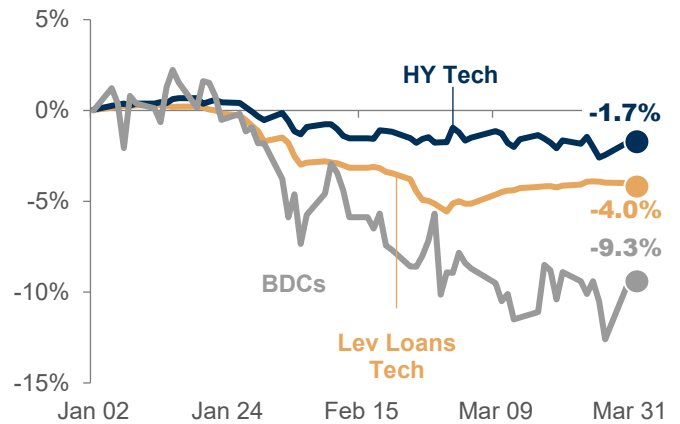
Figure 4: US high yield market spreads



Data as of March 31, 2026. Index: ICE BofA US High Yield Index. Source: ICE Data.

2. Source: JP Morgan
3. ICE BofA Indices

Figure 2: Q1 2026 performance



As of March 31, 2026.

BDC Index is The MVIS® US Business Development Companies Index (MVBDC) - tracks the performance of the largest and most liquid Business Development Companies that are listed and incorporated in the United States. This is a modified market cap-weighted index, and only includes companies that qualify as a Business Development Company. Source: Bloomberg US Leveraged Loans Index, Bloomberg US Corporate High Yield Index

High yield valuations remain elevated. The spread to worst of the ICE BofA US High Yield Index finished Q1 2026 at 349 bps within the post-GFC “non-panic” range of 325-525 bps. (See Figure 4)

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