High Yield
3Q 2026 outlook

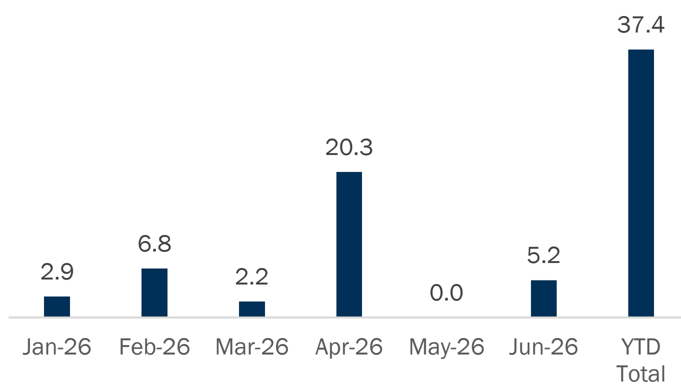
From High Yield

Of the two principal risks in high yield, credit and interest rates, investors have focused mostly on the former in recent years. Beyond the Iran war, the credit spotlight has turned to AI's potential to disrupt industries ranging from software providers to service companies and insurance brokers. It follows that credit concerns are focused on redemptions and potential blowups in the private credit markets, as well as elevated 2028 maturities in the leveraged loan market.

We suspect that discussions of the high yield market will pivot toward supply and demand technicals and "crowding out." The rapid growth in AI data center related debt issuance has the potential to outpace demand, leading to spread widening as debt investors are presented with additional investment options. This year, AI data center issuance has totaled 45% of net issuance.

Notably, SpaceX's $25 billion investment grade issuance has widened significantly since its launch in late June, with the 30 year bond down eight points and 50 bps wider.

Figure 1: YTD AI data center and power US HY issuance ($bn)



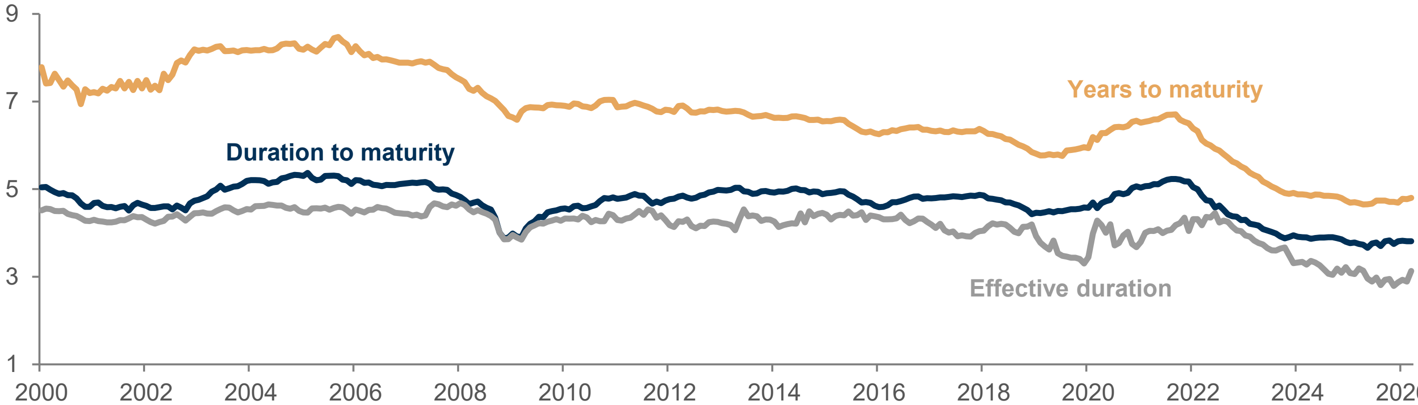
Data as of June 30, 2026
Source: Octus Research

For its part, interest rate risk remains a background concern. The good news is that interest rate risk in the high yield market is much lower than it has been historically.

As shown in the chart on the next page, the average years to maturity of the US high yield market has declined to a historic low. Duration also stands at a historic low last reached during the COVID panic.

.

Figure 2: ICE BofA US High Yield Index — duration & maturity



As of June 30, 2026
Source: ICE Data.

There are two main reasons for this. Given the higher interest rate environment since 2022, the average coupon on high yield bonds has increased over the past several years, as seen in the chart below. Coupons were higher prior to 2009 largely due to the lower quality composition of the market at that time.

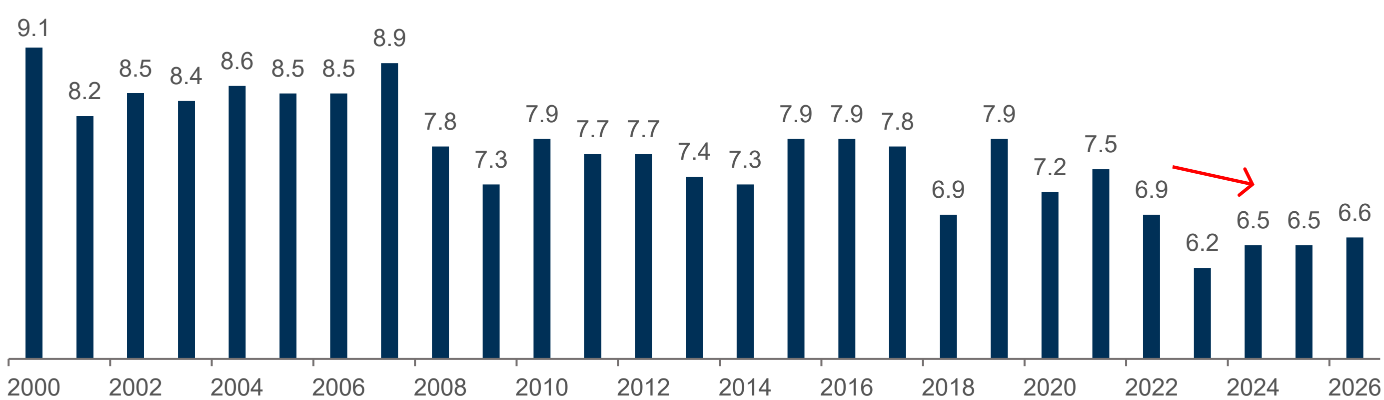
The average maturity of a newly issued high yield bond is also shorter than historical averages, as seen below. Investors who were burned in 2022, when BB high yield bonds declined 10.6% and the ICE BofA US Corporate Index declined 15.5%, suddenly lost their appetite for longer maturity bonds. The flatter, and for a period inverted, yield curve also allowed investors to obtain similar, and in some cases higher, spreads and coupons without taking on additional maturity risk.

There are two other dynamics that have contributed to the shortening of duration in the high yield market. New issuance activity remains well below 2020 and 2021 levels, so the passage of time has naturally shortened the

Figure 3: ICE BofA US High Yield Index — average coupon

As of June 30, 2026
Source: ICE Data.

Figure 4: US High Yield average maturity of new issuance



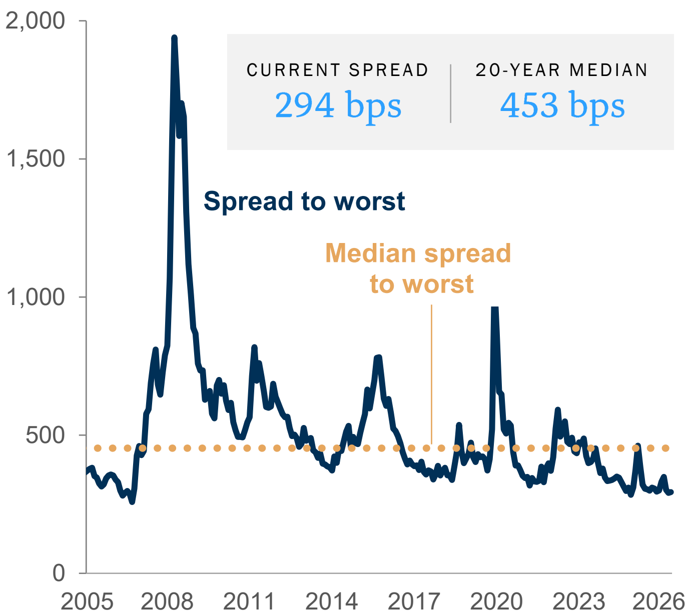
Data as of June 30, 2026
Source: JP Morgan

average maturity of the overall market. In addition, the supply of investment grade bonds that are downgraded into the high yield market as “fallen angels” has dried up, while more high yield “rising stars” are being upgraded and migrating to investment grade. Most recently, a return to more typical eight year issuance has been offset by data center related issuance, the bulk of which has five year maturities.

Refocusing on credit, it seems unlikely that defaults will spike in the foreseeable future, barring a severe recession. Defaults remain low by historical standards, currently 1.5% compared with a 25 year average of 3.4%, and are likely to remain between 2% and 3% for the next several years.

For the broader market, the impact of AI on credit fundamentals will obviously be felt in the software and services sectors. Thankfully, the high yield market is far less exposed to these sectors than the leveraged loan and private credit markets. Still, we are monitoring the potential for AI to affect individual company margins, as varying levels of adoption could allow some participants to operate more efficiently than their competitors.

Figure 5: US High Yield Market Spreads



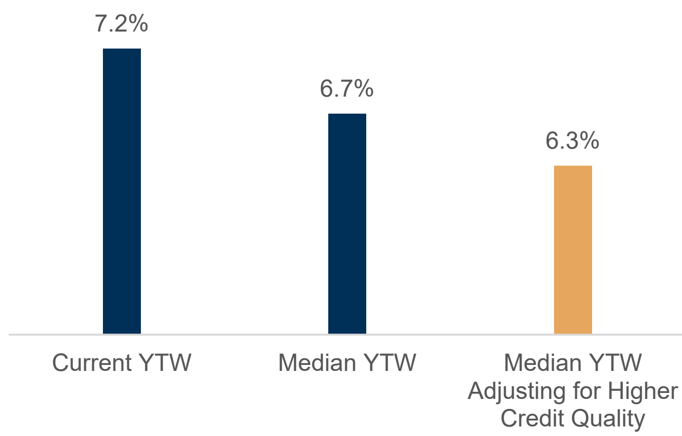
Data as of June 30, 2026. Index: ICE BofA US High Yield Index. Source: ICE Data.

High yield valuations appear stretched. The spread to worst of the ICE BofA US High Yield Index finished Q2 2026 at 294 bps, below the lower end of the post GFC “non panic” range of 325 to 525 bps.

Yields, however, look more compelling on a quality adjusted basis. The current yield to worst of the ICE BofA US High Yield stands at 7.2%, higher than the median level of 6.7% since 2010, but more than 80bps higher than the historical median level of 6.3% when accounting for the significantly higher shift in average quality of the market over the period.

Yields, however, look more compelling on a quality adjusted basis. The current yield to worst of the ICE BofA US High Yield stands at 7.2%, higher than the median level of 6.7% since 2010, but more than 80bps higher than the historical median level of 6.3% when accounting for the significantly higher shift in average quality of the market over the period.

Figure 6: ICE BofA US High Yield Index yield to worst



Data as of June 30, 2026. Median historical yield to worst calculated from 1/1/2010 to 6/30/2026
Source: ICE Data
Index: ICE BofA US High Yield Index

IMPORTANT DISCLOSURE

Availability of this document and products and services provided by MacKay Shields LLC may be limited by applicable laws and regulations in certain jurisdictions and this document is provided only for persons to whom this document and the products and services of MacKay Shields LLC may otherwise lawfully be issued or made available. None of the products and services provided by MacKay Shields LLC are offered to any person in any jurisdiction where such offering would be contrary to local law or regulation. It does not constitute investment advice and should not be construed as an offer to buy securities. The contents of this document have not been reviewed by any regulatory authority in any jurisdiction.

This material contains the opinions of the High Yield team of MacKay Shields LLC but not necessarily those of MacKay Shields LLC. The opinions expressed herein are subject to change without notice. This material is distributed for informational purposes only. Forecasts, estimates, and opinions contained herein should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Any forward-looking statements speak only as of the date they are made and MacKay Shields assumes no duty and does not undertake to update forward-looking statements.

Information included herein should not be considered predicative of future transactions or commitments made by MacKay Shields LLC nor as an indication of current or future profitability. There is no assurance investment objectives will be met.

Past performance is not indicative of future results.

NOTE TO UK AND EUROPEAN UNION AUDIENCE

This document is intended only for the use of professional investors as defined in the Alternative Investment Fund Manager's Directive and/or the UK Financial Conduct Authority's Conduct of Business Sourcebook. To the extent this document has been issued in the United Kingdom, it has been issued by NYL Investments UK LLP, 200 Aldersgate Street, London UK EC1A 4HD, which is authorised and regulated by the UK Financial Conduct Authority. To the extent this document has been issued in the EEA, it has been issued by NYL Investments Europe Limited, 77 Sir John Rogerson's Quay, Block C Dublin D02 VK60 Ireland. NYL Investments Europe Limited is authorized and regulated by the Central Bank of Ireland (i) to act as an alternative investment fund manager of alternative investment funds under the Alternative Investment Fund Managers Directive (Directive 2011/61/EU) and (ii) to provide the services of individual portfolio management, investment advice and the receipt and transmission of orders as defined in Regulation 7(4) of the AIFMD Regulations to persons who meet the definition of "professional client" as set out in the MiFID Regulations. It has passported its license in additional countries in the EEA.

This document only describes capabilities of certain affiliates of New York Life Investment Management and/or MacKay Shields LLC. No such affiliates will accept subscriptions in any funds not admitted to marketing in your country or provide services to potential customers in your country, including discretionary asset management services, except where it is licensed to do so or can rely on an applicable exemption.

MacKay Shields LLC is a wholly owned subsidiary of New York Life Investment Management Holdings LLC, which is wholly owned by New York Life Insurance Company. "New York Life Investment Management" is both a service mark, and the common trade name of certain investment advisers affiliated with New York Life Insurance Company. Investments are not guaranteed by New York Life Insurance Company or New York Life Investment Management.

NOTE TO CANADIAN RECIPIENTS

The information in these materials is not an offer to sell securities or a solicitation of an offer to buy securities in any jurisdiction of Canada. In Canada, any offer or sale of securities or the provision of any advisory or investment fund manager services will be made only in accordance with applicable Canadian securities laws. More specifically, any offer or sale of securities will be made in accordance with applicable exemptions to dealer and investment fund manager registration requirements, as well as under an exemption from the requirement to file a prospectus, and any advice given on securities will be made in reliance on applicable exemptions to adviser registration requirements.

Information included herein should not be considered predicative of future transactions or commitments made by MacKay Shields LLC nor as an indication of current or future profitability. There is no assurance investment objectives will be met. Past performance is not indicative of future results.

NOTE TO JAPANESE RECIPIENTS

In Japan, this is issued by New York Life Investment Management Asia Limited (Financial Instruments Business Operator, Kanto Local Finance Bureau (FIBO) No. 2964, Member of the Investment Management Association of Japan and the Type 2 Financial Instruments Firms Association) for institutional investors only. As costs and/or fees to be borne by investors vary depending on circumstances such as products, services, investment period and market conditions, the total amount nor the calculation methods cannot be disclosed in advance. All investments involve risks, including market fluctuation and investors may lose the principal amount invested. Investors should obtain and read the prospectus and/or information set forth in Article 37-3 of the Financial Instruments and Exchange Act carefully before making investment decisions. SOURCE INFORMATION:

"Bloomberg®", "Bloomberg Indices®", Bloomberg Fixed Income Indices, Bloomberg Equity Indices and all other Bloomberg indices referenced herein are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the indices (collectively, "Bloomberg") and have been licensed for use for certain purposes by MacKay Shields LLC ("MacKay Shields"). Bloomberg is not affiliated with MacKay Shields, and Bloomberg does not approve, endorse, review, or recommend MacKay Shields or any products, funds or services described herein. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to MacKay Shields or any products, funds or services described herein.

All ICE Data indices referenced herein (each such index, the "Index"), are products of ICE data indices, LLC ("ICE Data"), and are used with permission. ICE® is a registered trademark of ICE Data or its affiliates, and BofA® is a registered trademark of Bank of America Corporation licensed by Bank of America Corporation and its affiliates ("BofA") and may not be used without BofA's prior written approval. ICE Data, its affiliates and their respective third party suppliers disclaim any and all warranties and representations, express and/or implied, including any warranties of merchantability or fitness for a particular purpose or use, including the indices, index data and any data included in, related to, or derived therefrom. Neither ICE Data, its affiliates nor their respective third party suppliers shall be subject to any damages or liability with respect to the adequacy, accuracy, timeliness or completeness of the indices or the index data or any component thereof, and the indices and index data and all components thereof are provided on an "as is" basis and your use is at your own risk. Inclusion of a security within an index is not a recommendation by ICE Data to buy, sell, or hold such security, nor is it considered to be investment advice. ICE Data, its affiliates and their respective third party suppliers do not sponsor, endorse, or recommend MacKay Shields LLC, or any of its products or services.

For more information
nylim.com
mackayshields.com