



High Yield 4Q 2026 outlook

From High Yield

The ICE BofA US High Yield Index was down 1.8% in 3Q26, including a 2.49% loss in the month of September, its worst monthly performance since September 2022. After 13 consecutive quarters of positive returns through Q4 2025, the index has posted negative returns in two of the first three quarters of 2026. Year-to-date gains stand at just 0.04%, raising the prospect of the high yield market's first losing year since 2022.

Higher interest rates

Clearly, the abrupt and significant rise in interest rates has hurt: 10-year U.S. Treasury yields increased 85 bps in the third quarter alone, reaching a 20-year high of 5.29% at quarter end. Longer-duration BBs (those with a duration greater than four years) underperformed, declining 3.56%.

Heavy net primary issuance

The heavy supply of new high yield bonds - as well as the expectation of future issuance of AI-related debt - also played a factor in the market's poor performance in September (which has continued into October).

The reversal in sentiment toward AI-related debt has unfolded over the past year. After being met with insatiable investor demand from late 2025 through mid-2026, some AI-related bonds started weakening in the summer. The

Figure 1: CoreWeave | 9.75% notes due 2031



Data as of October 14, 2026
Source: Bloomberg

bonds of CoreWeave, an AI cloud computing company with over \$35bn in high yield bonds and loans and significant future funding needs, have performed especially poorly.

Investors are wary of heavy AI related issuance in the future and are being more selective. AI-related bonds already represent about 4% of the high yield index; some forecast that number to be as high as 7% to 10% in the next twelve months.



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Issuance away from AI has been heavy as well. On September 30, 2026, Paramount Skydance priced approximately \$52 billion in debt financing, including \$11.4 billion in U.S. dollar high-yield bonds, to help fund its acquisition of Warner Bros. Discovery and refinance certain existing debt. Skydance, already a large issuer, will become the high yield market's largest issuer on November 1 when it enters high yield indices with a weighting of approximately 1.9%.¹

Poor CCC performance

CCC-rated bonds also performed poorly, declining 3.52% during the quarter. (CCC bonds have little to do with AI; most data center bonds are rated BB). CCC spreads have widened to 1,180 bps, and the gap between CCC and BB spreads is at its widest level since May 2020.²

In theory, CCCs are less sensitive to interest rates because of their wider spreads and lower duration, but they are more exposed to credit risk. Credit fundamentals,

Figure 2: CCC-BB spreads



Data as of September 30, 2026
Source: ICE BofA

however, remain stable: the U.S. economy and corporate earnings are strong, high yield default rates are historically low, and the S&P 500 is near its all-time high.

Are CCC spreads sending a signal? Some believe they are foreshadowing broader weakness in the credit markets, while others believe it may be a good time to buy credit risk.

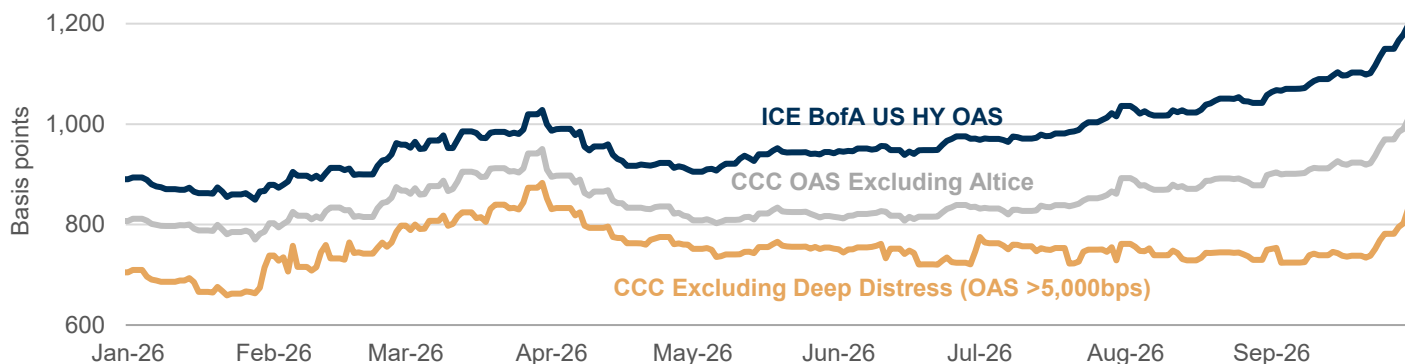
They may not be saying much at all. For starters, CCC bonds are a smaller part of the high yield market than they used to be. CCC-rated bonds represented just 8% of the ICE BofA US High Yield Index as of September 30, compared to 11% just five years ago. Positively for the overall market, CCCs are also a smaller share of new issuance, averaging only 4% since 2022 compared to a longer-term average of roughly 9%.

The widening in CCC spreads this year has been driven largely by a handful of large capital structures, primarily Altice International and Altice USA, which together account for approximately 12% of the CCC segment. Excluding the two Altice issuers would reduce the spread of the CCC segment by approximately 200 bps, to 979 bps.

Spreads still trade at fairly tight levels. The spread to worst of the ICE BofA US High Yield Index is still only at 347 bps and at 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 8.3%, higher than the median level of 6.7% since 2010, but more than 200 bps 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 3: CCC Segment OAS | ICE BofA US High Yield Index



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

1. Source: JP Morgan
2. ICE BofA

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