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High Yield's Quiet Upgrade: Why Today's Market Isn't the High Yield You Remember

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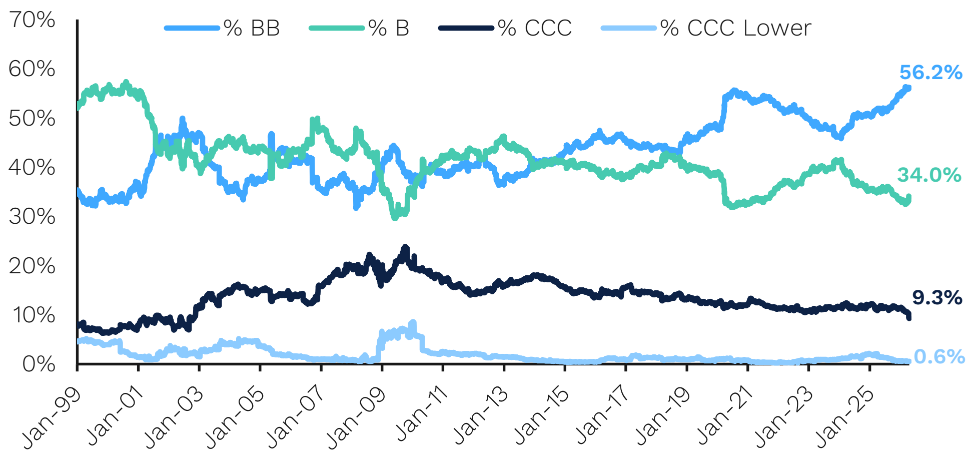
Featured Views and Insights

For many investors, the phrase "high yield" still carries associations rooted in an earlier chapter of the market's history: issuers with limited financial flexibility, spreads that widened sharply in periods of stress, and a market perceived as among the first to reprice when sentiment turned. Those associations were not unfounded, particularly in the cycles leading up to and through the Great Financial Crisis (the "GFC"). In our view, however, it no longer reflects the market that exists today. While high yield remains a risk asset, it has undergone a structural transformation that most investors have yet to fully price into their thinking, and the distance between perception and reality has become, in itself, analytically significant.

A Market Reconstituted: Ratings, Structure, & Issuer Behavior

The U.S. high yield index of 2026 has evolved meaningfully from its pre-GFC profile, most visibly in its ratings composition. The proportion of BB-rated credits (the highest tier within high yield, and in some cases just a single notch below investment grade) has grown substantially relative to prior periods, while CCC-rated names represent a smaller share of the market than they have historically.

U.S. High Yield Index: Ratings Distribution Over Time[1]

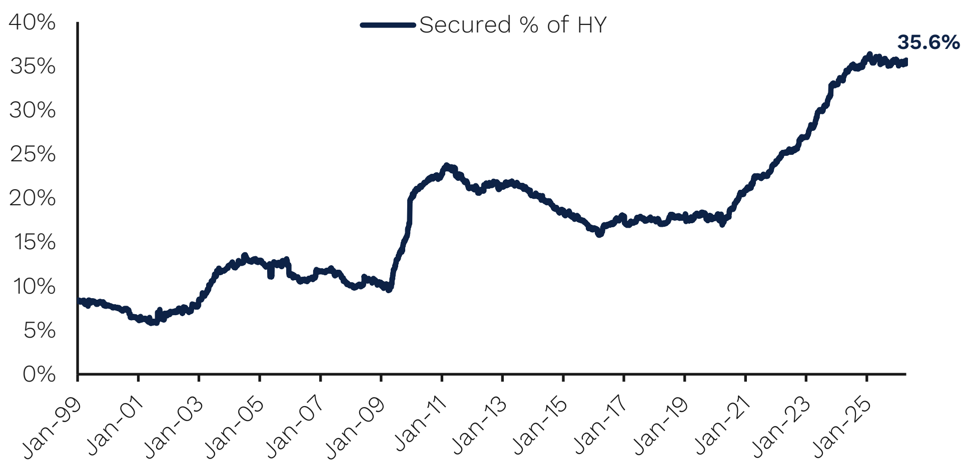


While ratings describe the probability of impairment, structure often determines what happens when impairment occurs. The composition of the U.S. high yield market has shifted meaningfully at the instrument level, with a growing share of issuers coming to market with first-lien or senior secured structures, rather than unsecured notes alone. The implications for recovery are significant. U.S. senior secured high yield bonds have historically recovered materially more than unsecured: 52.9% vs. 32.4% on a 25-year annualized basis, and 28.3% vs. 9.4% over the last twelve months.[2] Accordingly, two bonds with the same rating but different structural seniority are not the same investment; they can trade differently, and in a stress scenario, recover differently.

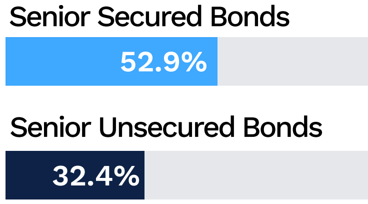
Jason Horowitz
Senior Managing Director, Senior Portfolio Manager, and Head of U.S. High Yield Bond Investments

Mr. Horowitz brings 31 years of investment experience to CIFC. Previously, he worked at Millennium Management, where he served as Portfolio Manager for a long/short corporate credit strategy with an emphasis on U.S. High Yield. Before that, Mr. Horowitz spent 13 years at Muzinich & Co., most recently as the lead Portfolio Manager overseeing a long/short corporate credit hedge fund recognized for its outperformance by numerous industry awards throughout his tenure. Prior to that, he served as an equity and high yield research analyst at Credit Suisse. Mr. Horowitz earned a B.A. in Sociology from Yeshiva University and an M.B.A. in Finance from the Yale School of Management.

Rising Secured Share: U.S. High Yield Index[3]



Average Recovery Rates by Seniority, (25-yr annualized)[2]

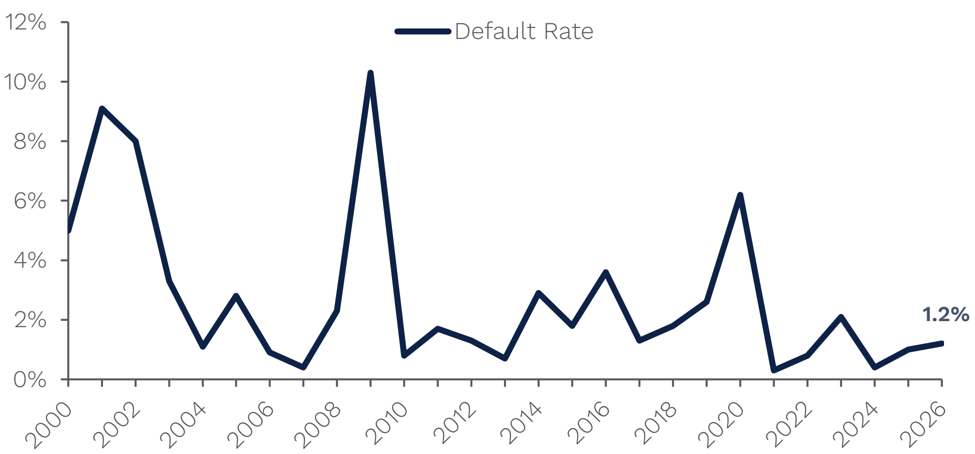


Another element currently supporting U.S. high yield is increased M&A. In 2025 and year-to-date 2026, we identified 58 companies representing approximately $140 billion of index bonds (roughly 10% of the current value of the U.S. high yield market) that were either acquired or announced as targets.[4] The prevalence of corporate acquisition activity is not incidental: in our view, it implies the presence of equity value in the underlying businesses. A market in which a significant share of issuers attract strategic buyers is one in which bond coverage is, broadly speaking, supported. M&A outcomes are not uniformly positive for bondholders, but for managers with a rigorous understanding of covenant structures, we believe these situations have historically represented a source of incremental return rather than impairment. We expect this trend to continue as larger companies look for ways to drive growth.

~$140B in index bonds acquired or announced as M&A targets in 2025–2026 YTD, roughly 10% of the current value of the U.S. high yield market.[4]

The improvement in credit quality is also reflected in default experience. The trailing twelve-month default rate for the U.S. high yield market currently stands at approximately 1.2%, compared to a long-run average of 2.7%.[2] We would not expect default rates to remain at current levels indefinitely, but their sustained moderation, in our view, is consistent with a market whose underlying credit quality has genuinely improved rather than one that has solely benefited from a benign macro environment. Default rate normalization, if and when it occurs, is unlikely to be uniform. The conditions most likely to drive it are precisely those in which credit selection is most consequential.

Sustained Moderation in Default Rates[2]



The explanation for the overall improvement in credit quality lies partly in the profile of borrowers. In our opinion, today's issuers include larger, more established businesses[5] that access the U.S. high yield market, in many cases, by choice rather than necessity. For many BB-rated issuers, the rating reflects what we view as a deliberate leverage posture: financing decisions made to optimize returns to equity holders rather than any constraint on the underlying business. The distinction matters, as a company that chooses to be levered is a fundamentally different credit risk than one that has no alternative.

The transparency of that issuer base reinforces the point. Approximately 70% of the U.S. high yield index by market value comprises publicly reporting companies,[5] with an average market capitalization of approximately $11.5 billion.[3] These are established enterprises whose financial condition is subject to regular disclosure, audit, and public scrutiny. In our view, the regularity and depth of public disclosure has contributed to a more transparent asset class whose risk profile can be assessed with greater precision today than in many other periods.

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The structural improvement in U.S. high yield extends beyond credit quality to the mechanics of return. The decline in average bond maturity across the index has, in our view, improved visibility into repayment timing and reduced price sensitivity to interest rate movements. Since the financial crisis, 90% of non-defaulted U.S. high yield bonds were redeemed or exchanged prior to maturity, reflecting how high yield issuers proactively refinance their debt; the asset class has averaged an annual default rate of approximately 4.3% over the same period.[6] For investors, shorter maturities also enhance the pull to par dynamic, which has historically worked in bondholders' favor.

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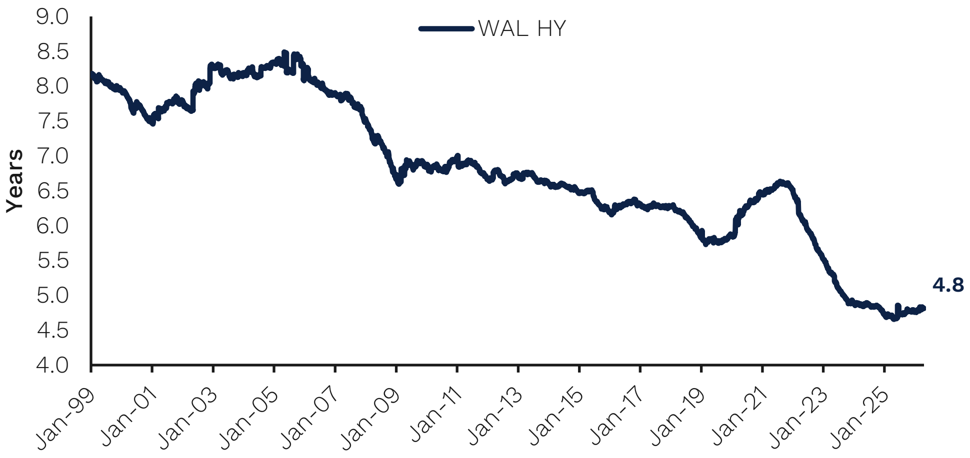
How the Maturity Profile of U.S. High Yield Has Evolved[3]



Even within a higher-quality index, meaningful dispersion persists across the U.S. high yield market. In our view, this dispersion represents an important part of the opportunity set today. Over the trailing twelve months, returns across the 21 sub-sectors have varied considerably.[7] While fundamental credit analysis remains critical, we believe near-term price action in U.S. high yield is typically driven by specific themes and technicals playing out across the market, often reflecting complacency or differences in how individual segments trade. In our experience, investors who rely on carry alone may overlook a meaningful dimension of return, as carry tells you what a bond pays through its life but may not fully capture the near to medium term total return opportunity. For the same reason, the index return can understate the range of outcomes available to an active investor.

How Sub-Sector Returns Have Diverged Across U.S. High Yield[7]

Sub-sector	Total Return	% of Index
Energy	11.7%	10.9%
Steel	10.1%	0.9%
Telecom	9.6%	6.9%
Healthcare	8.8%	8.8%
Containers	4.0%	2.0%
Building Materials	3.1%	2.0%
Technology	2.7%	5.2%
Cable & Satellite	1.7%	3.6%

Rethinking the Risk Budget

In our view, many institutional investors still carry an implicit risk budget that treats all of high yield as a single, highly speculative exposure sitting just above equities in the capital structure hierarchy. We believe that framework made more sense when the market was populated by a higher share of CCC-rated, unsecured bonds. Applied to the current market, the result is an underallocation to a segment whose risk-adjusted profile is, in our view, better than its historical reputation suggests.

None of this is to suggest that high yield is without risk. Some companies operate in challenged sectors, carry overlevered capital structures, generate inconsistent free cash flow, or possess deteriorating business models. These are risks that are not captured by the asset class's aggregate improvement, and we believe it is precisely this dispersion that makes credit selection the operative variable. In our view, the degree to which a manager can identify and avoid deteriorating credits, while capturing the market's structural improvements, is a meaningful source of alpha.

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Ultimately, top-down characterizations of U.S. high yield often lag the compositional shifts within the market itself. The asset class is higher quality at the rating level, more secured at the instrument level, and more resilient in its credit profile than it has been in decades. In a market this internally differentiated, we believe investors anchored to an earlier era's framework are mispricing today's U.S. high yield market and underestimating what disciplined credit selection can capture within it.

End Notes

1. Source: Barclays, data as of April 22, 2026. Please see below for a description of the index.
2. Source: J.P. Morgan Research, Default Monitor (High Yield and Leveraged Loan Research), data as of March 31, 2026. Recovery rates are issuer-weighted and based on price 30 days after default date. 2009 adj. recoveries are based on year-end prices. Long-run average default rate refers to the 25-year annualized average default rate.
3. Source: J.P. Morgan, as of April 22, 2026. Please see below for a description of the index.
4. Source: CIFC, data as of March 31, 2026.
5. Source: J.P. Morgan, data as of March 31, 2026. Please see below for a description of the index.
6. Source: Citi Research. Data covers U.S. high yield bonds over the period January 1, 2009 through May 5, 2026 and includes distressed exchanges.
7. Source: Bloomberg. Trailing twelve-month period reflects May 19, 2025 through May 15, 2026. Each sub-sector shown represents a distinct ICE BofA U.S. High Yield sub-index: Energy (J0EN), Steel (J0ST), Telecommunications (J0TC), Healthcare (J0HL), Containers (J0CT), Building Materials (J0BL), Technology (J0TY), and Cable & Satellite (J0CV). Sub-sectors shown represent the best- and worst-performing segments from a broader universe of 21 ICE BofA U.S. High Yield sub-indices.

Index Definitions

The **Bloomberg US Corporate High Yield Bond Index (LF98STAT)** measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on the indices' EM country definition, are excluded. The US Corporate High Yield Index is a component of the US Universal and Global High Yield Indices. The index was created in 1998, with history backfilled to July 1, 1983.
The **ICE BofA Merrill Lynch US Cash Pay High Yield Index (J0A0):** The BofA Merrill Lynch US Cash Pay High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt, currently in a coupon paying period, that is publicly issued in the US domestic market.

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