Q3 2025 Global High Yield Outlook

Transcript

[Music]

Rob Fawn, Deputy Head of the European Leveraged Finance: Global high yield spreads ended the first half at almost exactly the same level they started 2025, but that doesn't tell the complete story. In February, spreads hit their post-GFC tights, in April, tariff volatility blew spreads out nearly 200 wider to the mid-400s, and then rallied aggressively back just inside 300 by quarter-end, as the more extreme tariff outcomes were taken off the table. Despite this roller coaster ride, global high yield markets meaningfully outperformed equity returns during the April sell-off. And this resilience, combined with attractive yields, continues to draw investors to the asset class. Looking forward, we expect global high yield spreads to remain resilient in the third quarter, driven by two key factors. Firstly, a strong technical backdrop with limited net new supply and continued inflows into the asset class. And secondly, a solid fundamental backdrop, with the vast majority of the market being high-quality, performing businesses with appropriate debt levels and market access to refinance maturities, which is keeping defaults at relatively benign levels. Whilst we are more constructive than when we entered the second quarter, caution is still warranted. Macro risks remain elevated, and geopolitical tensions and tariff noise could easily create pockets of volatility. Accordingly, we maintain our relatively close-to-home risk positioning and continue to back our top relative value picks to generate alpha. The complexity of the backdrop continues to drive dispersion in the tail of the market, and we think there remains a solid opportunity for active managers with strong credit selection skills and relative value frameworks to generate alpha for investors.

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Source(s) of data (unless otherwise noted): PGIM Fixed Income, as **July 2025**.

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