PGIM FIXED INCOME

Q1 2025 Global High Yield Outlook

Transcript

[Music]

Jennifer Herrera, CFA, Portfolio Manager, U.S. High Yield Bonds: In the back half of 2024, U.S. high yield spreads tightened further, following the U.S. election result. And though Europe initially widened, it rallied into year end. Global high yield locked in positive total and excess returns for 2024 of 8% and 5% respectively. CCCs topped the market, risk-adjusted, clipping more than double those returns. With the Trump trade in full swing, we've observed an uptick in C-suite bullishness and optimism, boding well for the US economy, corporate profits, and asset prices. We believe par-weighted defaults, including distressed exchanges, will fall below historic levels in 2025, at around 1.5%. Though we expect fewer rising stars and an increase in the new-issue supply through a pick-up in M&A, technicals should remain supportive, as private and broadly syndicated loans take share. With over 75% of 2024 gross issuance steered towards refis, we also believe the maturity wall is manageable over the near term. We expect spreads to remain range-bound in the first quarter and are optimistic overall about the fundamental backdrop, though the uncertainty surrounding tariffs and immigration under the Trump administration, heightened geopolitical risks, and fiscal risks in Europe, notably in France and Germany, are concerns at current valuations. In summary, given our view that spreads are roughly at fair value, presenting a carry environment, we are running market neutral levels of risk, overweight in the front end and slightly down in quality. Yields north of 7% remain attractive for investors, supporting positive technicals, but at or near post-GFC spread tights, careful credit underwriting, and a focus on relative value opportunities will be key to generate alpha and mitigate tail risk. And that's our outlook for global high yield.

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

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