

	Monthly Return (%)	Year-to- Date Return (%)	Yield (%)	Option-Adjusted Spread (BPS)			
	09/30/25	09/30/25	09/30/25	09/30/25	12/31/24	12/31/23	12/31/22
Investment-Grade Corporate Bonds	1.44	6.90	4.75 ¹	70	77	93	121
Single A Bonds	1.46	6.85	4.68	61	68	85	109
BBB Bonds	1.52	7.03	4.99	92	97	121	159
1-3 Year Credit	0.41	4.56	4.07	41	48	58	61
7-10 Year Credit	1.37	8.34	4.86	82	89	112	152
Long Credit	3.15	7.78	5.53	91	100	117	157
Bank Loans ²	0.44	4.63	7.60	396	463	405	580
BB Loans ²	7.44	4.72	6.70	259	255	305	349
B Loans ²	28.14	4.72	7.77	394	413	454	614
High Yield	0.82	7.22	6.70 ¹	267	287	323	469
BB Bonds	0.82	7.40	5.71	168	179	201	295
CCC Bonds	0.98	8.07	9.99	604	558	776	1008
Intermediate High-Yield Bonds	0.72	7.09	6.69	267	287	323	471
Long High-Yield Bonds	5.56	13.79	7.14	274	302	341	401

Source: Bloomberg and Morningstar as of 09/30/25.

Investment-grade corporate bonds represent the Bloomberg US Credit Index and index components. This index measures the performance of investment grade, US dollar-denominated, fixed-rate, taxable corporate and government-related debt with at least ten years to maturity. **Bank loans** represent the Credit Suisse Leveraged Loan Index and index components. This index is designed to mirror the investable universe of the U.S. dollar-denominated leveraged loan market. **High yield** represents the Bloomberg US Corporate High Yield Index and index components. This index covers performance for U.S. high-yield corporate bonds. An **option-adjusted spread (OAS)** is the measurement of the spread of a fixed-income security rate and the risk-free rate of return.

¹Yield quoted is yield-to-worst. **Yield-to-worst** is a measure of the lowest possible yield from purchasing a bond apart from a company defaulting.

²Yields represent four-year effective yields. The **effective yield** is a financial metric that measures the interest rate (or coupon rate) return on a bond.

Highlights

Investment Grade

- Morgan Stanley Strategy on 2Q IG fundamentals: "IG fundamentals were stable on the quarter with leverage unchanged from 1Q25 levels and within the narrow range observed since 2021. Notably, though, cash-to-debt levels have hit new lows since Covid. Capex was the largest driver of increased cash usage in 2Q, driven by the high-quality cohort. Interest coverage is a bright spot, improving q/q." ¹
- Seaport Strategy latest bullish views on IG: "the IG Index is set to grind toward the mid-60s on supportive technicals and "good enough" fundamentals. Strong retail inflows continue, with expectations to accelerate in the coming months as the Fed cuts rates, fueling demand for "yieldier" BBB and BB front-end paper. Annuity inflows remain robust despite lower yields YTD, driven by demographics and catch-up after muted COVID-era demand. ETF and mutual fund inflows totaled a solid \$42.3bn over the past seven weeks. Institutional demand: consistent appetite, particularly for 7-10 yr paper, driven in part by the potential for rolldown return. Overseas inflows are picking up, with expectations that this may continue to climb as Fed rate cuts lower hedging costs. Several PMs note new mandates from Europe, and while Asia flows remain muted YTD, they have improved in recent weeks. Net supply is likely to remain manageable into year-end." ²
- JP Morgan Strategy on September supply: "High Grade issuance in September was active with \$214bn of supply, up 61% versus the past 4y average of \$133bn. This was the fifth largest issuance month on record. HG net issuance also climbed to \$130bn, the highest since Feb 2024. The long-end issuance share rose to 15% (\$33bn) versus the YTD average of just 11%. Thus, the average tenor of new issues YTD ticked up to 9.4yrs though it still remains at the lowest since 2011. Reverse Yankee supply rose in tandem with overall supply at \$14.5bn, a 3m high. This brings the YTD tally to \$130bn. M&A funding in HG markets was also active in September with \$17bn priced, the highest since March, but as a share of total supply it was only 8%, the lowest since May. YTD gross supply totals \$1.3tr, which is 86% of our \$1.5tr forecast. YTD issuance is now up 3% YoY after lagging modestly in the prior month. Supply in 3Q was \$397bn, 23% higher than the prior 4y average of \$231bn. In 3Q25, the coupon gap between new issues versus maturing bonds was 120bp, a 3y low. Looking forward, supply in October has averaged \$95bn over the past 4 years." ³

Bank Loans

- Barclays Strategy on 2Q loan fundamentals: "Fundamentals are holding steady. For the majority of the market, interest coverage ratios have stabilized at stronger levels, and net leverage metrics remain range-bound. The LLI's interest coverage sits at 2.0x/2.5x unadjusted/adjusted EBITDA, while net leverage has shown resilience around 5.9x/4.6x. Profitability metrics appear solid. Gross and OpCF margins appear healthy, having stabilized in recent quarters. The proportion of issuers experiencing severe EBITDA declines has diminished, but so has the proportion of issuers with the most rapid EBITDA growth trajectories, indicating a more balanced earnings environment for most borrowers. However, the weak tail still exists. Despite strength for the majority of issuers, the lowest-quality segments of the market still face fundamental headwinds. For many borrowers down the quality spectrum, liquidity metrics appear challenged and operating cash flow coverage remains problematic. As of 2Q25, over 40% of CCC issuers reported an OpCF coverage ratio below 1.0x." ⁴
- JPM Strategy on number of loan issuers: "a collapse in non-refi related capital market activity, rising defaults, and surge in private credit growth has fueled a -251 (or 17%) decline in the number of leveraged loan issuers to 1,227 since the beginning of 2022, led by a decline in loan-only issuers (-232). For context, the loan issuer base contracted in 2020 for the first time in a decade. Notably, 2025 has seen a more gradual decline in issuers (-25) amid an increase in net issuance and a balanced mix of issuers returning to syndicated from private markets as exiting." ⁵
- DB Strategy on loan recovery rates: "At 67%, the average recovery rate in 2025 year-to-date is amongst the highest seen in recent years. This "market-implied" rate reflects the price of each of the 92 loans/bonds 30 days after the default date is first reported in a CLO trustee report. The market-implied recovery metric exhibits significant dispersion, ranging from 1% to par. Recoveries continue to be supported by distressed exchanges and strong demand for leveraged loan paper. The trailing 12-month recovery rate stands at 68%, a level last seen in H1 2022 and noticeably higher than the long run average (60%)." ⁶

Highlights

Bank Loan (Continued)

- JPM Strategy on loan market size: “The institutional leveraged loan universe has grown \$94bn or 6% since YE23 to \$1.66trn after contracting by \$84bn (or 5%) in 2022-23. Specifically, the institutional loan universe has grown by \$79bn year-to-date after expanding by \$15bn in 2024. Driving 2025’s expansion in outstanding has been the increase in non-refi/repricing activity (+30% y/y) and a more balanced mix of issuers returning to syndicated from private markets as exiting. Of course, 2022-23’s contraction was due to a collapse in supply and cannibalization by the private credit universe. Note robust capital markets, steady demand from CLOs, and a surge in the number of loan-only borrowers caused the loan market to grow at a 11% CAGR between 2012 and June 2022. How has the balance between supply and demand been? Year-to-date, gross new issuance (\$784bn) exceeds paydowns (\$223bn) and repricing (\$420bn) activity by \$142bn. Meanwhile, CLO issuance ex-refi/resets has been resilient totaling \$144bn YTD. With retail inflows of +\$6.2bn YTD, the leveraged loan product is producing a modest supply deficit in 2025 totaling -\$8.6bn following three consecutive years of sizeable supply deficits (-\$182bn aggregated).”⁷

High Yield

- Barclays Strategy on 2Q HY fundamentals: “Net leverage for the US high yield index increased marginally, to 5.5x from 5.4x, marking the highest level since early 2022, but still in line with pre-COVID averages. The move was fairly contained at the ratings level. Interest coverage improved slightly, driven by BBs. While single-B interest coverage remained flat q/q at 4.0x, BBs experienced an increase of 0.3x in 2Q25, rising to 5.3x. Spread per turn of leverage is near its lowest on record. This is particularly the case for BBs, for which spread-per-turn-of-leverage remains near its lowest on record at below 40bp. At the sector level, Basic industries and energy deleveraged the most and experienced increases in interest coverage. Capital goods, communications, transportation, and technology increased leverage q/q.”⁸
- Citi Strategy on HY supply: “September, typically the strongest month of the year for issuance, delivered with \$57.6bn pricing, the third best month on record and only \$1.7bn shy of March 2021’s \$59.3bn. YTD supply reached \$266bn, 12.7% ahead of 2024. Refinancing comprised 74% of the calendar last month. M&A accelerated, representing 19% of the calendar with a few GCP deals filling out the rest of September’s calendar. The wide-open primary market has enabled increased unsecured issuance, which was the overwhelming majority (76%) in September. This represents the lowest secured issuance month since April 2022. History suggests that the pipeline slows in October. Over the last decade, supply averaged \$17bn, the third weakest month of the year. However, \$57bn of paper is currently trading to an October call, suggesting numerous near-term refinancing candidates.”⁹
- Goldman Sachs Strategy on CCC downgrades: “Recent downgrades have fueled concerns that the share of CCC bonds in the USD HY market may start to increase again. Looking at the recent trend shows that momentum has been negative, with \$20 billion worth of bonds downgraded to CCC vs. \$10 billion that was upgraded in the third quarter. That said, while these figures are elevated, they are not alarming by historical standards. For context, the roughly \$10 billion of net downgrades into the CCC bucket that materialized in the third quarter are at the 65th percentile rank when benchmarked to the history of the past 10 years, still below the pace seen in 2023 and early 2024 when HY issuers were grappling with rising refinancing costs. While we continue to recommend an underweight allocation on the CCC bucket and view the alpha generating opportunity set as largely idiosyncratic, we think the local peak in defaults is likely behind us.”¹⁰

Sources

¹ Morgan Stanley Strategy, Sept. 19, 2025

² Seaport Strategy, Oct. 3, 2025

³ J.P. Morgan Strategy, Oct. 3, 2025

⁴ Barclays Strategy, Oct. 6, 2025

⁵ J.P. Morgan Strategy, Sept. 29, 2025

⁶ DB Strategy, Sept. 26, 2025

⁷ J.P. Morgan Strategy, Sept. 29, 2025

⁸ Barclays Strategy, Oct. 6, 2025

⁹ Citi Strategy, Oct. 3, 2025

¹⁰ Goldman Sachs Strategy, Oct. 6, 2025

Definitions

- **Assets under management (AUM)** is the total market value of the investments managed by a person or entity on behalf of investors.
- **Bank loans** (also known as **floating-rate loans** or **leveraged loans**) invest in bonds and other fixed-income securities that have variable, as opposed to fixed, interest rates.
- A **basis point** is one hundredth of a percent, so 100 basis points is equivalent to 1%.
- A **bond** is a fixed-income instrument and investment product where individuals lend money to a government or company at a certain interest rate for an amount of time. The entity repays individuals with interest in addition to the original face value of the bond.
- A **corporate bond** is a debt security that is issued by a company to raise capital.
- A **coupon** or **coupon payment** is the annual interest rate paid on a bond, expressed as a percentage of the face value and paid from issue date until maturity.
- The **credit market** refers to the marketplace through which companies and governments issue debt to investors in exchange for regular interest payments.
- **Credit rating** is when bond ratings are grades given to bonds that indicate their credit quality as determined by private independent rating services such as Standard & Poor's, Moody's and Fitch. These firms evaluate a bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'D', which is the lowest grade.
- **Credit spread** is the difference in yield between two debt securities with the same maturity but different credit quality.
- **Derivative** is a type of financial contract whose value is dependent on an underlying asset, a group of assets, or a benchmark. It's an agreement set between two or more parties that can be traded on an exchange or over the counter.
- **Distressed Exchange** is a negotiation process between a financially troubled company and its creditors where the company seeks to restructure its debt without filing for bankruptcy.
- **High-yield bonds** (or **junk bonds**) are bonds that pay higher interest rates because they have lower credit ratings than investment-grade bonds.
- The **ICE BofA US Corporate Index** is a benchmark index that tracks the performance of investment grade corporate debt in the United States.
- **Investment grade** refers to the quality of a company's credit. To be considered an investment grade issue, the company must be rated at 'BBB' or higher by Standard and Poor's or Moody's.
- **Investment Grade (IG) Index** refers to the ICE BofA US Corporate Index.
- An **issue** or **issuance** is a process of offering securities in order to raise funds from investors. Companies may issue bonds or stocks to investors as a method of financing the business.
- **Implied default rate** is a measure of the market's perception of the likelihood that a borrower will default on their debt obligations.
- **Leverage** refers to using debt (borrowed funds) to amplify returns from an investment. A **leveraged loan** is a type of loan made to borrowers who already have high levels of debt and/or a low credit rating. Lenders consider leveraged loans to have an above-average risk that the borrower will be unable to pay back the loan (also known as the risk of default).
- **Leveraged Finance (LevFin)** refers to the financing of highly levered, speculative-grade companies.
- **Maturity** (or **maturity wall**) is the date on which the life of a transaction or financial instrument ends, after which it must either be renewed, or it will cease to exist.
- **Morningstar LSTA US Leveraged Loan Index** is a market-value weighted index designed to measure the performance of the US leveraged loan market.
- **Mortgage-backed securities (MBS)** are investment products backed by a pool of mortgage loans.
- **Option adjusted spread (OAS)** is the measurement of the spread of a fixed-income security rate and the risk-free rate of return.
- **Par-weighted** refers to a method of calculating averages where the individual values are weighted by their par (face) value. This means that larger holdings or transactions have a greater influence on the final average.
- **Post-GFC** refers to the period following the Global Financial Crisis (GFC), which began in 2007-2008. This period is characterized by economic recovery, changes in financial regulation, and evolving global financial systems.
- A **refinance (ReFi/ReFies)** refers to the process of revising and replacing the terms of an existing credit agreement, usually as it relates to a loan or mortgage.
- **Spread** is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, represented by Treasury bonds. Spread income refers to the additional income from this difference.
- The **10-year treasury** bond yield is the interest rate the U.S. government pays to borrow money for a decade, serving as a benchmark for other interest rates and a key indicator of investor sentiment about economic conditions.
- **Total return**, when measuring performance, is the actual rate of return of an investment or a pool of investments over a given evaluation period.
- **Weighted Average Coupon** is the average gross interest rate of the underlying mortgages in a mortgage-backed security at the time it was issued.
- **Yield** is a measure of the profit that an investor will be paid for investing in a stock or a bond. It is usually computed on an annual basis.
- **Yield to worst (YTW)** estimates the lowest possible return on a bond without the issuer defaulting.

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