PPMAMERICA

US High Yield

KEY TAKEAWAY

> A healthy return quarter in high yield provided an opportunity to adjust positioning in the strategy by adding credits in the 100-300 bps spread bucket and reducing higher spread credits

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US high yield experienced a positive Q2 2026, with the Index returning 2.45% amid an eye-popping recovery in equities and a US Treasury sell-off.[1] High yield returns were led by the B category (2.84%) and exceeded both investment grade (1.43%) on less exposure to rates and leveraged loans (1.88%) on sector mix.[2] The quarter saw wide variation in sector performance, led by Financial Services (3.58%) with Insurance lagging (0.74%).

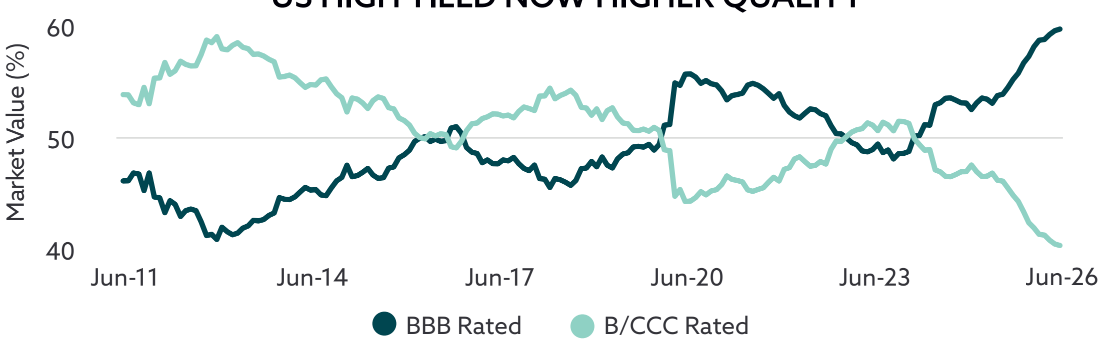
High yield fundamentals remained supportive in Q2 2026. Upgrades exceeded downgrades in the asset class during the quarter ($31B) and over the first half of the year ($54B).[3] The distress ratio declined 56 bps over the quarter, supporting continuation of the low default environment. The default rate increased from 2.64% to 2.97% but remained low by historical standards.

At a macro level, AI spending remained robust and economic growth has been resilient. The rates market moved from pricing cuts to a potential hike by year-end on elevated inflation, with a new Fed chairman signaling less forward communication. War fears subsided during the quarter as Brent crude futures closed at $73/bbl, down from $104/bbl on 31 March and an intra-quarter high of $114/bbl.[4]

The strategy kept risk stable on a duration times spread basis. We added to core credits in the 100-300 bps spread bucket and reduced higher spread credits due to more cautious views on credit recoveries. We reduced the CCC & Lower-rated category weighting across both distressed credits and performing names.

During the quarter, the strategy added to the Technology & Electronics sector mainly though AI/data center credits and Basic Industry through two new issues. For the Software/Service subsector within Technology, we maintained positioning under the view that our holdings have defensible business models amid evolving AI impacts. The strategy reduced Insurance by selling down a larger holding and Foreign Sovereign where we exited a name to realize gains. We increased overall Energy exposure by adding to the Exploration & Production subsector, which we believe offers a number of improving credits even under conservative assumptions about future commodity prices.

US HIGH YIELD NOW HIGHER QUALITY[1]



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