Newsletter

High yield

August 2026

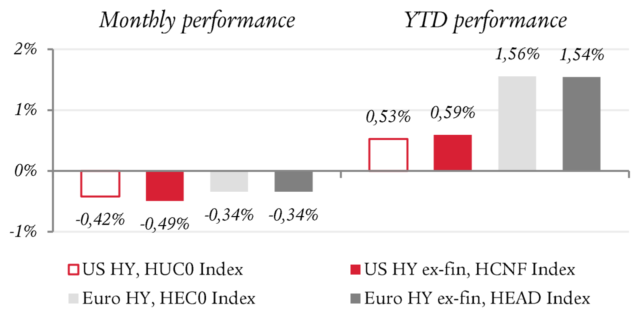
The high-yield market was weighed down by the sharp rise in sovereign yields amid-escalating tensions in the Middle East and persistent uncertainty regarding the future direction of the Fed's monetary policy. However, spread movements diverged between the European and US high-yield markets: the HY€ spread tightened by 5 bps, whilst the HY$ spread widened by 10 bps. This divergence reflects, in particular, the European market's lower exposure to issuers linked to the data centres and artificial intelligence sectors.

Highlights of the month

Performance

Over the month of July, high-yield bonds posted negative returns, both in Euro (-0.34%) and US market (-0.42%, euro-hedged). The generalized rise in yields was the main driver of this negative performance, with the German 5-year government bond yield rising by +35 bps and the US 5-year government bond yield by +22 bps. US high-yield bonds were also weighed down by a widening of risk premiums (+10 bps), whilst euro-denominated high-yield bonds limited their decline thanks to a tightening of spreads (-5 bps).

PERFORMANCE OF THE HIGH-YIELD MARKETS

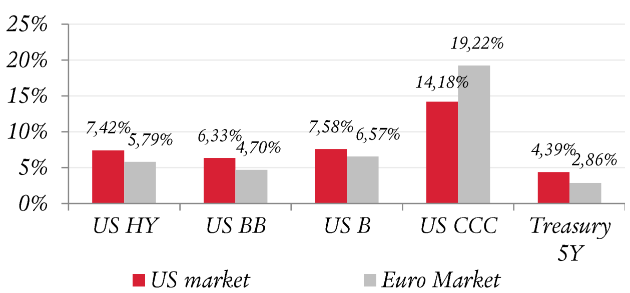


Source: Swiss Life Asset Managers – 31.07.2026

Rating segments

In Europe, the BB segment fell by -0.33%, weighed down by rising interest rates despite a tightening of risk premiums (-7 bps). The B segment limited its decline to -0.30% thanks to carry trade activity, whilst spreads remained broadly stable (-2 bps). Finally, the CCC segment fell by -0.98% despite a contraction in risk premiums of 8 bps, against a backdrop marked by several idiosyncratic situations. We observe a similar pattern in the United States: the B segment (-0.14%) outperformed the BB (-0.49%; +9 bps) and CCC (-0.80%; +65 bp) segments, benefiting from a light tightening (-2 bps) and the carry effect.

YIELD TO WORST*



Source: Swiss Life Asset Managers – 31.07.2026

Note: Source: Swiss Life Asset Managers France, Bloomberg. This presentation contains historic market data. Historical market trends are not a reliable indicator of future market behaviour. This data is provided solely by way of illustration. Depending on the publication date, the information presented may differ from the latest data. Performance in foreign currencies is hedged in euros.

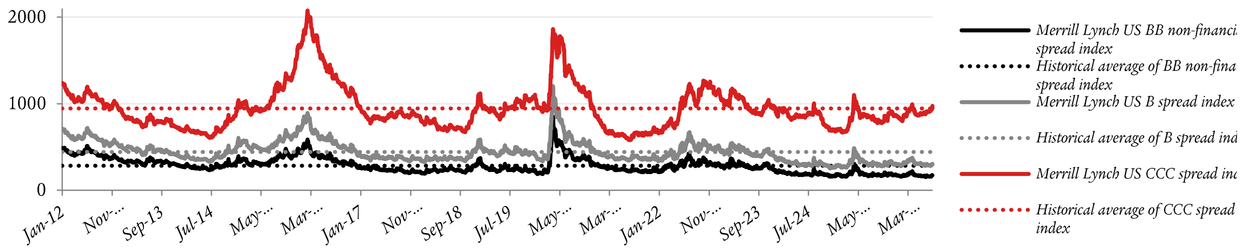
Sectors

Sector performance remained mixed in July, with only few sectors in positive territory. In Europe, Energy (+0.16%) and Finance (+0.07%) stood out positively, whilst Technology (-0.69%) and Telecommunications (-1.04%) were the worst performers. In the United States, Technology outperformed (+0.65%), followed by Energy (+0.11%). In contrast, Telecommunications (-2.55%) and the Cable & Satellites sector (-1.42%) fell sharply.
NB: according to the ICE BofA US indices methodology, a large proportion of companies linked to data centre and AI infrastructure (Applied Digital, CoreWeave, etc.) are classified within the Telecommunications sector.

Primary market

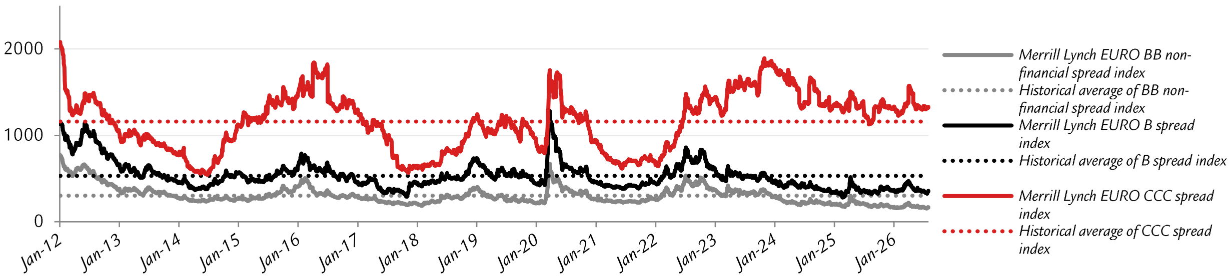
The Euro High Yield primary market remained dynamic in July, with €12.1 bn in issues; however, this volume remains lower than that of July 2025 (€21.9 bn) and July 2024 (€15.9 bn). As in June, nearly two-thirds of new issuances involved BB-rated issuers, whilst no CCC-rated issues were recorded. By contrast, the US primary market slowed significantly (US$19.8 bn) following a particularly strong month of June. Volumes were significantly lower than in July 2025 ($33.4 bn) but remained close to those of July 2024 ($19 bn). B-rated issues accounted for nearly half of the volumes, whilst the CCC segment represented 8% of activity, slightly above
its recent historical average.

DEVELOPMENT OF SPREADS IN THE UNITED STATES



Source : Swiss Life Asset Managers – 31.07.2026

DEVELOPMENT OF SPREADS IN EUROPE



Source : Swiss Life Asset Managers – 31.07.2026

Default rate and changes in investment universe

In the Euro market, following a figure of 0.7% in June, the default rate continued to fall to 0.6% in July. This represents a low not seen since August 2023 and remains well below its monthly average over the last ten years (1.2%) and the last twenty years (2.5%). Once again, as has been the case since April, no downgrades from Investment Grade to High Yield were observed in the euro market. Furthermore, no issuer regained Investment Grade status this month, following a busier June on this front. In the United States, the default rate fell slightly to 1.9%, returning to the levels seen in April and May.
As in the euro market, this level remains well below historical averages (2.5% over ten years and 3.3% over 20 years). In terms of rating transitions, Coty, a global beauty group specialising in perfumes, cosmetics and skincare products, is the only 'Fallen Angel' of the month. S&P downgraded its rating following the announcement that it had lost the Gucci Beauty licence to Kering; this particularly profitable business accounted for over 10% of its sales, a development that is expected to weigh on its profitability leading to a high-level of leverage. Liberty Mutual, one of the world's leading non-life insurers, is the only 'Rising Star' of the month. The rating on its junior subordinated debt has been upgraded by S&P, which highlights the significant improvement in its technical profitability and the strengthening of its balance sheet.

Note: Source: Swiss Life Asset Managers France, Bloomberg. This presentation contains historic market data. Historical market trends are not a reliable indicator of future market behaviour. This data is provided solely by way of illustration. Depending on the publication date, the information presented may differ from the latest data. Performance in foreign currencies is hedged in euros.

Our strategy

"The HY€ and HY$ risk premiums moved in opposite directions in July."

Édouard Faure
Head Credit Management

1. High-yield strategy

Once again, geopolitical tensions in the Middle East have taken centre stage in the news. Following the preliminary agreement reached in mid-June between Washington and Tehran, Trump declared the agreement null and void in early July, leading to renewed hostilities between the United States and Iran. This latest escalation has reignited fears of disruption to shipping traffic in the Strait of Hormuz and triggered a sharp rise in energy prices. The price of a barrel of Brent crude rose from $73 to nearly $95 during the month before closing at $88, up 20% over the month of July. At the same time, ongoing tensions between Russia and Ukraine, as well as concerns linked to the El Niño phenomenon, also underpinned agricultural commodity prices.

Against this backdrop of renewed inflationary pressures, bond markets experienced a widespread correction. As expected, the Fed kept its key interest rates unchanged, but Kevin Warsh's comments left investors with little real clarity on the future path of US monetary policy.

This uncertainty, combined with rising energy prices, led to a marked steepening of the US yield curve. The 30-year yield rose to 5.27%, its highest level since 2007.

In Europe, the ECB also kept its interest rates unchanged, whilst suggesting that a further rate rise in September remained likely.

European government bond yields followed the global trend, with the German 10-year yield rising by +35 bps to 3.21%, a level not seen since 2011.

Equity markets, meanwhile, were dominated by a reassessment of the investment theme linked to artificial intelligence. Concerns regarding valuations in the technology sector, the scale of investment required and rising competition from China led to a sharp correction in semiconductor-related stocks. The Philadelphia Semiconductor Index fell by 20.6%, recording its sharpest monthly decline since 2008. Despite this correction in the technology sector, the sector rotation observed within the equity markets enabled more diversified indices to hold up better. The S&P 500 thus ended the month virtually unchanged (-0.1%), whilst the Stoxx Europe 600 rose by +1.3%, supported by more resilient than expected European growth and the fall in oil prices seen towards the end of the period.

In this environment, characterised by a sharp rise in sovereign yields, the high-yield market posted negative returns over the period, despite limited interest rate sensitivity of around 3, with the HY$ index falling by -0.42% (hedged in EUR) and the HY€ index slightly outperforming its US counterpart at -0.34%. High carry continues to support the asset class, even though the rise in sovereign yields has impacted performance and movements in high-yield risk premiums have diverged between the HY€ (-5 bp) and the HY$ (+10 bp), the latter being more exposed to the AI data centres theme (around 3% exposure compared with just 0.5% in Europe). High-Yield risk premiums remain close to historic lows, reflecting a market that continues to prioritise broadly sound corporate fundamentals and a still-moderate default rate. In the short term, ongoing geopolitical tensions and volatility in interest rates remain sources of uncertainty and could contribute to a widening of risk premiums, particularly in the HY€ segment, which has held up particularly well this year, tightening by -5 bp, whilst the HY$ segment has widened by +4 bp. Within our hold-to-maturity strategies, we have continued to deploy new investments, taking advantage of a primary market that remains buoyant, particularly in Europe, and a still attractive secondary market, notably in the telecommunications sector.

Across our benchmarked strategies, we have slightly increased our exposure to HY$ at the expense of HY€ and we are maintaining our positioning from the previous month, with an overweight in interest rate risk and an underweight in credit risk.

2. *AI seeking funding: what role for high-yield bonds?*

The investment is still in its early stages

The rise of artificial intelligence is driving the funding requirements of cloud giants (hyperscalers) to unprecedented levels. To support accelerating adoption on a global scale, hyperscalers are investing heavily in the computing and storage infrastructure essential to the development of AI. According to several studies, the rate of growth in capital expenditure is expected to rise very sharply in 2026 (+80% to around $675 billion), then slow to approximately +30–35% in 2027 to $900 billion, and approach $1,000 billion in 2028.

The pace and scale of these investments are fuelling fears of a speculative bubble. However, according to a study by Bank of America, total non-residential investment (private and public) as a proportion of US GDP is only slightly above the historical average over the last 70 years, at 17.7% compared with 17.2%. Private investment stands at 14.1% of GDP, close to its record highs, but remains below the peaks seen during the oil booms of the 1980s or the dot-com bubble. According to this study, a further $400 billion in additional annual spending would be required to reach the historical peaks in private-sector investment, which currently constitutes the central scenario for the continuation of the AI cycle. The main risk lies more in the high starting point of the current cycle, which leaves less room for manoeuvre should the productivity and profitability gains promised by AI be slow to materialise.

Furthermore, whilst major technology firms still finance part of their projects through profits from their traditional businesses – sometimes at the cost of a negative cash flow – the growing scale of their funding requirements now necessitates increased recourse to the capital markets, whether through debt or share issues. According to Goldman Sachs, nearly $489 billion in AI-related funding has been raised since the start of the year. Around 40% of these issuances are concentrated among the major investment-grade hyperscalers (Alphabet, Amazon, Meta, Oracle and Microsoft), intended to finance part of the approximately $800 billion in capital expenditure (capex) expected over their 2026 financial year. AI now accounts for nearly a quarter of new investment-grade issues in US dollars, as well as around 20% of investment-grade issues in Canadian dollars and Swiss francs, and high-yield issues in US dollars.

High-yield bonds are funding AI infrastructure

With over $50 billion in issuances since the start of the year, the high-yield segment has become a key player in financing the AI ecosystem. This figure includes issuances related to data centres as well as those from CoreWeave, a 'neo-cloud' operator specialising in the provision of computing power. Unlike traditional data centre operators, whose business involves leasing physical infrastructure, CoreWeave directly markets computing capacity, primarily via Nvidia GPUs, to companies developing artificial intelligence applications. This AI sub-sector now exceeds in size well-established segments of the High Yield market, such as Agri-Food ($29 billion), Automotive ($47 billion), Chemicals ($48 billion), Metals & Mining ($38 billion) and Oil Exploration & Production ($45 billion). Its share of the high-yield market has thus risen from 1% at the start of the year to nearly 3% today. According to the most ambitious scenarios, it could reach 9% by June 2027, assuming a quarterly issuance rate of $25 billion and excluding issuances from other sectors. Even under a more conservative scenario of $10 billion per quarter, its share would represent 5.6% of the high-yield market. Europe remains less exposed to this trend: only 7% of euro-denominated investment grade issues and 2% of euro-denominated high-yield issues this year are directly linked to artificial intelligence.

Most of the AI-related debt issued on the high-yield market does not directly finance hyperscalers, who raise funds on the investment-grade market, but rather the infrastructure they lease. The cloud giants prefer to outsource the construction and operation of data centres, as well as the associated energy infrastructure, so that they can focus on their service activities. In return, they enter fixed-term leases of up to fifteen years, guaranteeing long-term revenue for data centre owners. These issues, often structured as Asset-Backed Securities (ABS) and classified within the telecommunications sector, appeal to investors due to the quality of the underlying assets. The value of data centres rests not only on the buildings themselves, but also on resources that have become scarce and strategic: suitable land, electricity connection capacity and access to transmission networks.

However, the scale of AI-related financing needs is beginning to strain the markets' capacity to absorb such demand. The levels of oversubscription seen in issues by hyperscalers have thus fallen from around 7 times the amounts on offer to just 1.5 times within the space of a year. This supply-side pressure is keeping spreads in the technology sector at relatively high levels, even as the rest of the investment-grade market tightens to levels close to historic lows. As traditional funding channels run out of steam, private markets, joint ventures and regional bond markets are expected to gradually take over the financing of the AI ecosystem.

The equity markets are also helping to finance this wave of investment, with SpaceX's IPO, which raised $75 billion at a valuation of around $1.75 trillion, and SK Hynix's listing on the Nasdaq, which raised $30 billion at a valuation of close to $925 billion. The leaders in generative AI, Anthropic and OpenAI, could also go public by the end of 2027, having reached private valuations of $852 billion and $965 billion respectively. Alphabet recently raised $18 billion in capital, whilst Oracle is considering a capital increase of up to $25 billion.

Utilities: the next beneficiaries of the AI investment cycle

The investment required to develop artificial intelligence is not limited to the construction of data centres, but also includes the energy infrastructure needed to power these new computing capabilities.

The increase in data centres' electricity consumption is such that it is now altering the long-term outlook for grid operators. In Texas, the operator ERCOT is facing a record number of connection requests from large industrial consumers, nearly 87% of which come from data centres.

Its preliminary projections anticipate demand of up to 368 GW by 2032, nearly 18 times France's average instantaneous electricity consumption, compared with a historic record of 85.5 GW recorded in August 2023. The US Energy Information Administration (EIA) has reached a similar conclusion: data centres, which accounted for around 7% of commercial electricity consumption in the United States in 2025, could account for between 22% and 33% by 2050.

This trend is opening a new cycle of investment in utilities (electricity networks, generation capacity, transmission lines, etc.), generating significant funding requirements in the capital markets. Since the start of the year, the weighting of hybrid issues by utilities such as Nexterra and Southern has increased in the BBB$ index, rising from 0.9% ($30 bn) to 1.5% ($50 bn) in one year. The weighting of electricity utilities, meanwhile, has risen from 11.8% ($400 bn) to almost 13.6% ($480 bn). A growing proportion of these investments could subsequently be financed through high yield and hybrid bond issues, particularly via independent power producers, infrastructure developers and public utility companies.

About Swiss Life Asset Managers

Swiss Life Asset Managers has more than 165 years of experience in managing the assets of the Swiss Life Group. This insurance background has exerted a key influence on the investment philosophy of Swiss Life Asset Managers, which is governed by such principles as value preservation, the generation of consistent and sustainable performance and a responsible approach to risks. Swiss Life Asset Managers offers this proven approach to third-party clients in Switzerland, France, Germany, Luxembourg, the UK, Italy and the Nordic countries.

As at 31 December 2025, assets under management for third-party clients amount to EUR 156.5 billion. Together with insurance assets for the Swiss Life Group, total assets under management at Swiss Life Asset Managers stood at EUR 309.6 billion. Swiss Life Asset Managers is a leading institutional real estate investor in Europe1. Of the assets totalling EUR 309.6 billion, EUR 96.1 billion are invested in real estate. In addition, Swiss Life Asset Managers, in cooperation with Livit, manages real estate totalling EUR 26.3 billion in value. Total real estate assets under management and administration at the end of December 2025 thus came to EUR 122.4 billion.

Swiss Life Asset Managers employs more than 2 300 people in Europe.

A financially self-determined life

Swiss Life enables people to lead a financially self-determined life and look to the future with confidence. Swiss Life Asset Managers pursues the same goal: We think long-term and act responsibly. We use our knowledge and experience to develop future-oriented investment solutions. This is how we support our customers in achieving their long-term investment objectives, which in turn also take account of their client's needs so they can plan their future in a financially self-determined manner.

[1] #2 IPE Top 150 Real Estate Investment Managers 2025 Ranking Europe, #2 INREV Fund Manager Survey 2025

Find all our publications on
www.swisslife-am.com

Do not hesitate to contact us if you have further questions:
In France: service.clients-securities@swisslife-am.com, Tel: +33 (0)1 40 15 22 53
In Switzerland: info@swisslife-am.com

Swiss Life Asset Managers France
Portfolio Management Company
GP-07000055 of 13.11.2007
Public limited company with an Executive Board and Supervisory Board with capital of EUR 671.167
Registered office: Tour la Marseillaise, 2 bis, boulevard Euroméditerranée, Quai d'Arenc 13002 Marseilles
Main office: 122, rue la Boétie, 75008 Paris