

Newsletter

High yield

June 2026

May was marked by significant uncertainty surrounding discussions on a potential memorandum of understanding between the United States and Iran, leading to significant volatility in oil prices (–19% for the month, with fluctuations of around $\pm 15\%$).

This environment reignited fears of stagflation, pushing sovereign yields to levels not seen in several years. Despite the lack of a signed agreement, expectations of a favorable outcome nevertheless prevailed, supporting the performance of risky assets: risk premiums narrowed, and high-yield euro bonds (HY€) outperformed (+1.05%) thanks to lower rates (–11 bp), while high-yield in dollars (HY\$), up +0.34%, remained weighed down by rising rates (+14 bp).

Highlights of the month

Performance

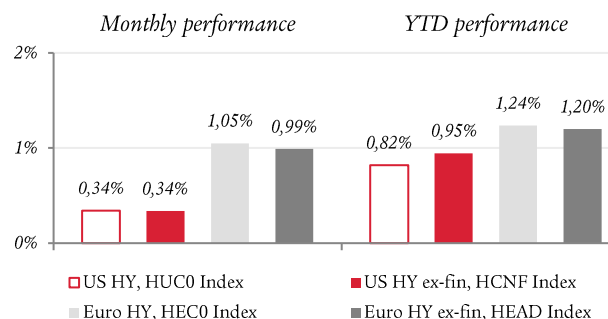
In an environment marked by oil price volatility and fears of stagflation, high-yield markets rose in May. This performance was driven by a narrowing of risk premiums (–12 bps on Euro HY, –11 bps on US HY), while the rate effect diverged, with a decline in Europe (–11 bps on the 5-year German bond) and an increase in the United States (+14 bps on the 5-year US bond).

In this context, Euro HY outperformed with a gain of +1.05%, while US HY rose more modestly by +0.48%, weighed down by rising rates.

Rating segments

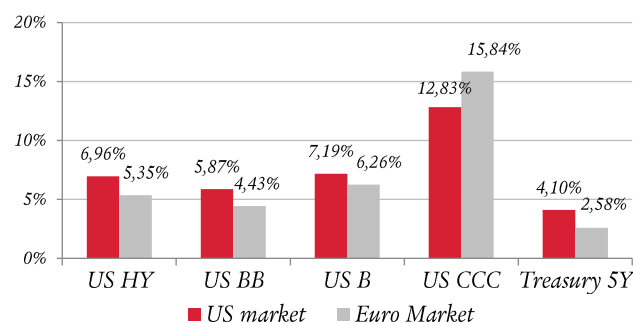
The month was marked by a narrowing of spreads, particularly in Europe across the riskiest segments. The BB segment posted a return of +1.02% (–10 bps), compared with +0.92% for the B segment (–15 bps) and +2.18% for the CCC segment (–34 bps). In the United States, performance was more consistent: BB at +0.52% (–13 bps), B at +0.67% (–14 bps), while CCC underperformed slightly (+0.29%) with a spread widening by +5 bps.

PERFORMANCE OF THE HIGH-YIELD MARKETS



Source: Swiss Life Asset Managers – 29.05.2025

YIELD TO WORST*



Source: Swiss Life Asset Managers – 29.05.2025

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.

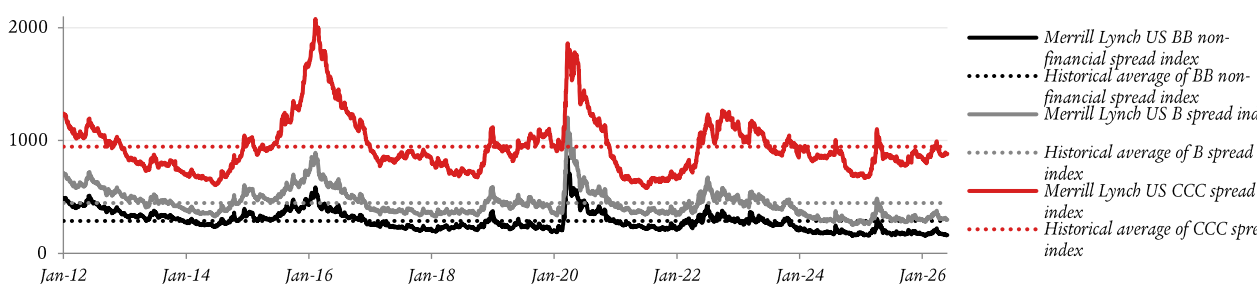
Sectors

Sector performance reflects a pro-cyclical bias coupled with a narrowing of spreads. In Europe, Basic Materials (+1.88%), Technology (+1.51%), and Transportation (+1.41%) are outperforming, while Utilities (+0.70%) and Consumer Staples (+0.85%) are lagging. In the United States, Technology (+1.99%), Leisure (+0.96%), and Containers (+1.03%) stand out, while Consumer (-0.13%), Food (-0.45%) and Cable & Satellite TV (-2.00%) are weighed down by widening spreads.

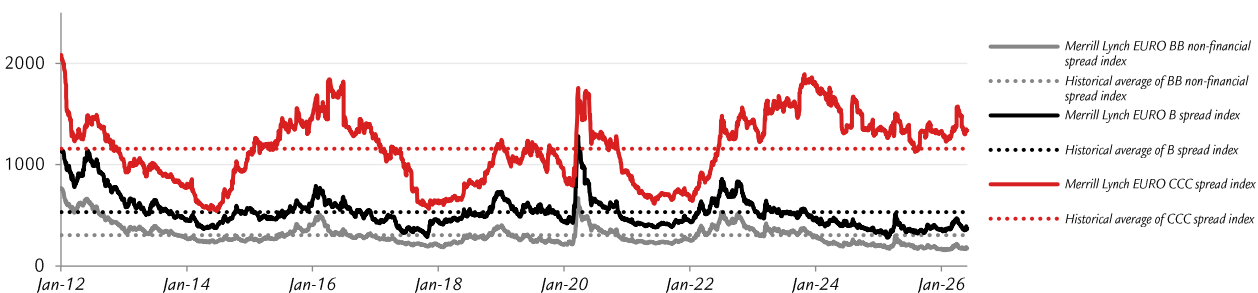
Primary market

The primary market for HY€ bonds saw its highest monthly volume in May, with €16.4 billion in issuances (€12.6 billion in April). Issuance was mainly concentrated in the BB segment at €9.2 billion, but also included €6.9 billion in B-rated bonds. The market is being driven by strong momentum in hybrid bonds, which account for 30% of YTD issuance. The HYS primary market slowed in May, with \$26.6 billion issued, compared to \$38.0 billion the previous month. Issuance remained focused on higher-quality issuers, with refinancing accounting for the bulk of volumes, against the backdrop of an upcoming maturity wall (HY maturities within two years, at 10%, have reached a record high).

DEVELOPMENT OF SPREADS IN THE UNITED STATES



DEVELOPMENT OF SPREADS IN EUROPE



Default rate and changes in the pool

The default rate in the high-yield euro market remained stable at 1.2% in May and was significantly below the historical average since 2005 (2.4%). In the United States, the default rate is also stable at 1.9% (3.4% average since 2005). Concerns persist regarding recovery rates, which have been falling steadily since October 2025. In May, this rate fell to 29% (vs. ~55% in mid-2025) for senior unsecured debt, while the overall HY recovery rate dropped to 41% (-20 bps). This trend is driven by the prevalence of defaults in capital-light sectors, such as software and services.

In the US, RealTruck Group, a company specializing in the retail sale of automotive parts and accessories, completed a distressed exchange on \$514 million in debt. Similarly, ACProducts Holdings, a supplier of products and services for the aerospace industry, exchanged \$498 million in debt.

Regarding Rising Stars and Fallen Angels, there were no new entrants in these categories. In the high-yield market, bonds issued by cybersecurity specialist CrowdStrike (\$750 million) were upgraded to investment grade, as were bonds from flash memory (NAND) manufacturer Kioxia (~\$2.2 billion). There were no Fallen Angels in the United States this month.

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Our strategy

“The primary market has allowed us to diversify our portfolios and capitalize on favorable momentum ”

Édouard Faure

Head Credit Management

1. High-yield strategy

Ongoing geopolitical tensions in the Middle East continued to drive market trends in May, with renewed volatility in oil prices (-19% for the month, with swings of +/-15%), fueled successively by hopes, then fears, before hopes returned for some form of resolution to the blockade of the Strait of Hormuz. Increased uncertainty surrounding the negotiations in the middle of the month pushed Brent crude up to \$113 per barrel, contributing to a sharp correction in yields, with sovereign bond yields reaching multi-year highs as markets priced in a scenario of more persistent inflation that could lead to a risk of stagflation.

U.S. macroeconomic data has helped fuel fears of stagflation, starting with the strength of the labor market (payrolls >100k for two months), which, combined with inflation data exceeding expectations (+3.7% year-over-year), created fertile ground for a rate shock in the middle of the month, just as persistent tensions over the reopening of the Strait of Hormuz had reached a peak. Indeed, investors were therefore anticipating a scenario of persistently high oil prices for the remainder of the year, reinforcing the “higher for longer” narrative. However, the subsequent decline in oil prices toward the end of the period, amid hopes for a memorandum of understanding between the United States and Iran, helped ease these inflationary expectations and stabilize the markets. In this context, the Fed minutes revealed that a majority of officials warned they would likely need to consider raising rates if inflation remained persistently above 2%. Many called for abandoning the “accommodative” stance altogether. For its part, the ECB moved toward a rate hike in June, with the debate focusing on the magnitude of the hike and the need for further tightening thereafter.

Despite the volatility, market sentiment turned around at the end of the month, and in the absence of any signed agreement, hopes for a resolution prevailed and allowed risky assets to perform well. The rally that began in April thus continued: the S&P 500 rose by +5.26% (in local currency), hitting a new all-time high of 7,580 points, while the Stoxx Europe 600 also posted a solid gain of +3.20%. In this environment, High Yield delivered a solid performance supported by narrowing risk premiums (-12 bps HY€, -11 bps HY\$). Europe’s outperformance (+1.05%) relative to the U.S. market (+0.48% in \$) was driven by a sharp easing in yields (-11 bps on the 5-year German bond), despite the extreme tension observed mid-month, when yields weighed on the U.S. market (+14 bps on the 5-year U.S. bond).

The rise in sovereign bond yields since the start of the year continues to support the asset class’s overall return, despite the narrowing of risk premiums. We believe the current environment remains favorable for a carry strategy. We have therefore taken advantage of the primary market and opportunities in the secondary market to continue diversifying the portfolios of our term funds. Regarding open-end funds, we also participated in new issuances and slightly increased credit risk exposure during the month to capitalize on strong market momentum, while maintaining a long duration exposure to benefit from persistently high interest rates.

2. Hybrid bonds: a growing asset class at a structural turning point ?

Hybrid bonds have gradually established themselves as a key component of the credit markets. Long regarded as a technical, relatively niche segment largely dominated by a handful of European issuers, they are now undergoing a period of rapid expansion and structural transformation.

Historically focused on capital-intensive sectors such as telecommunications, utilities, and energy where significant investment needs require maintaining credit ratios, this market has found a natural fit with these issuers. Positioned at the intersection of debt and equity, these instruments offer investors a higher yield than senior debt while being backed by often strong credit profiles. For issuers, they serve as an effective leverage management tool, enabling them to finance these high investment needs without dilution.

After an initial phase dominated by Europe, the market has seen a notable acceleration in the United States since 2024. Today, a more nuanced shift in market structures, as illustrated by Verizon's recent dollar-denominated issuances in May 2026, could mark a second turning point.

A hybrid instrument structured around the call option

Hybrid bonds are legally classified as debt instruments, but their structure allows them to be treated in part as equity. They are characterized by long maturities, often approaching perpetuity, *call* options with intermediate horizons (generally between 5 and 10 years), and the ability for the issuer to defer coupon payments.

Their behavior depends largely on their performance at the time of the *call*. If the bond is not redeemed on the first *call* date, the coupon is reset to a floating rate, to which a progressive *step-up* mechanism is added. At the same time, the instrument may lose its *equity* content in the eyes of rating agencies.

This combination of rising financing costs and a downgrade in capital treatment creates a strong economic incentive to redeem, giving rise to an “economic maturity” around the first *call* date.

A market that has historically been European, followed by a shift toward the U.S. in 2024

The hybrid securities market has long been dominated by Europe, for reasons related to accounting, regulation, and credit rating agencies.

IFRS generally allows for a hybrid treatment, classifying these instruments as half debt and half equity, while US GAAP tends to classify them more as debt. US authorities, both regulatory and tax, have also long been cautious about these structures, particularly due to the possibility of deferring coupon payments. Credit rating agencies have reinforced this divergence. European hybrids generally had an *equity* content of around 50%, compared to about 25% for U.S. structures, which were considered less robust (shorter *call* periods, shorter maturities, and *step-ups* deemed too prohibitive). In this context, U.S. issuers favored *preferred shares*, which are fully recognized as *equity* but less efficient from an economic standpoint.

The turning point came in 2024, when Moody's aligned its methodology with those of S&P and Fitch. U.S. hybrid securities comparable to European standards could then qualify for a 50% *equity content*, which significantly boosted their appeal to issuers and reignited the growth of the dollar-denominated market. This change was directly reflected in the growth of the indices. Over the past ten years, the nominal value of the ICE BofA Global Hybrid Non-Financial Corporate Index has risen from approximately \$75 billion to nearly \$200 billion today. At the same time, the ICE BofA Global Hybrid Non-Financial High Yield Index has seen an equally sharp rise, growing from approximately \$35 billion to over \$130 billion. In both cases, the momentum has accelerated significantly since the beginning of 2025. This development has therefore logically led to a geographic rebalancing of the market. The dollar-denominated segment, which had been marginal until then, accounting for about 10% just five years ago, has grown significantly as a result of this change in methodology and now represents nearly 40% of outstanding assets. The euro remains dominant, but the asset class now has a truly global scope.

Verizon and the emergence of a new standard: from floor to step-up

Despite this growth, a major difference persists between the U.S. and European markets: the management of extension risk.

Recent U.S. structures have historically relied on coupon *floors* mechanisms, which guaranteed a minimum level of return in the event of a *non-call*. These structures increased the probability of a call, but did not completely eliminate extension risk, particularly because the loss of *equity* content occurred late in the term, often several years after the first *call* date, when the instrument was closer to its actual maturity than to its initial *call* date.

It is precisely on this point that Verizon's recent innovation is crucial. As a major player in telecommunications a capital-intensive sector requiring massive and recurring investments in networks Verizon relies heavily on hybrid securities to finance its growth while maintaining its credit ratios. Following a series of issuances in various currencies (€4.5 billion, £1.6 billion, and A\$1.3 billion) over the previous six months, Verizon completed its first dollar-denominated hybrid issuance in May 2026, totaling \$4 billion, a record in this segment.

This transaction comprises two tranches, one of which has a more traditional structure. The real innovation, however, lies in the second tranche: the 32NC7 tranche (maturity 2058, *call* option in 2033) is the first structure in the United States to incorporate *step-up* mechanisms that are fully aligned with European standards. It provides for a *step-up* of +25 bps five years after the first *call* date, followed by +75 bps twenty years after that date, for a cumulative adjustment of 100 bps. This point is fundamental. This structure results in a loss of *equity content* as of the first *call* date, which profoundly alters the issuer's economic arbitrage. In practice, this means that, as long as the issuer remains Investment Grade, the incentive is now clearly in favor of redemption and refinancing on the first *call* date.

The difference from previous structures is significant: whereas *floors* coupons were designed to offset the risk of extension by guaranteeing a minimum return, the *step-ups* introduced by Verizon directly affect economic incentives and significantly reduce the very likelihood of an extension.

This development marks an important milestone in the maturation of the hybrid market. By aligning U.S. structure with European standards, it improves the predictability of *call* behavior and makes the product easier for investors to understand. Effective duration becomes more transparent, and the subordination premium can be analyzed within a more consistent framework on a global scale.

More broadly, this convergence could help broaden the investor base, particularly by enabling greater participation by European investors in the dollar-denominated market, and contribute to the gradual standardization of the asset class. In an environment where *spreads* are tighter, this qualitative improvement in structures is a key factor. It is no longer limited to better compensating for extension risk, but now directly helps reduce its probability, thereby enhancing the attractiveness and robustness of the asset class.

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

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