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Newsletter

High Yield

November 2026

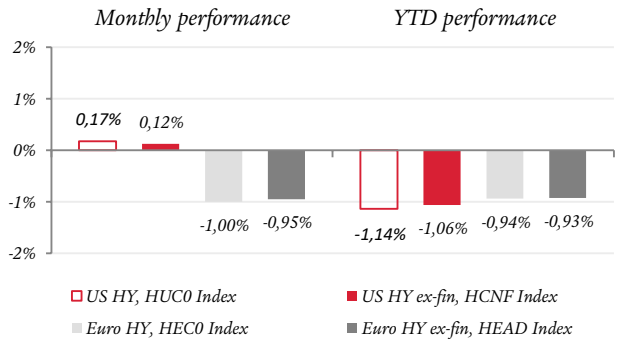
Markets delivered mixed performances in October. Concerns over hyperscalers' capital expenditure on AI development, renewed pressure on French sovereign debt and geopolitical tensions triggered a flight to quality. As a result, sovereign yields fell sharply in both the United States, with the 5-year yield down 37 bps, and Germany, where it declined by 23 bps. This rally occurred despite the continued surge in oil prices, which rose by 14% over the month and 30% over two months, as well as persistent inflationary pressures. Euro High Yield fell by 1.0%, as spreads widened by 55 bps. By contrast, US High Yield gained 0.29% in local-currency terms, benefiting from the sharper decline in interest rates and a more moderate 29-bp widening in spreads. Decompression was most pronounced in the riskiest segments, with the European B/BB spread differential returning to an attractive 241 bps, close to its 2022 levels.

Monthly Highlights

Performance

Performance was mixed in October. The sharp widening in Euro market risk premiums (+55 bps) was not offset by the decline in sovereign yields, resulting in a negative monthly return of -1.00%. Meanwhile, in the US market, the sharper fall in yields allowed the asset class to finish in positive territory (+0.29% in USD and +0.17% in EUR-hedged terms), despite a 29-bp widening in risk premiums.

HIGH YIELD MARKET PERFORMANCE



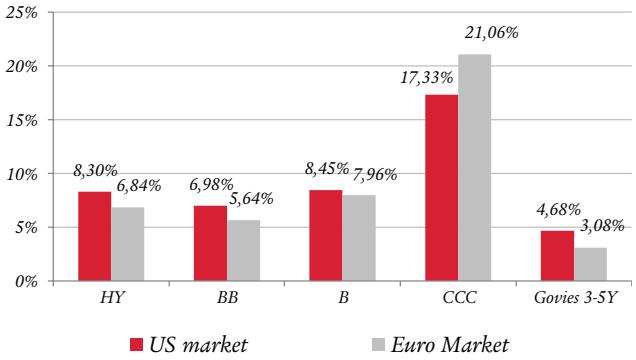
Source: Swiss Life Asset Managers – 31.10.2026

Rating Segments

CCC-rated bonds suffered from the risk-off environment, with risk premiums surging by 358 bps in Europe, resulting in a -6.97% return, and by 189 bps in the United States, where they returned -3.49% in USD.

The flight-to-quality trend was also evident within the High Yield market itself, with BB-rated bonds significantly outperforming, supported by their greater interest-rate sensitivity. In Europe, BBs declined by 0.34%, with spreads widening by 33 bps, while Bs fell by 1.85%, with spreads widening by 85 bps. In the United States, BBs gained 0.92%, despite spreads widening by 12 bps, whereas Bs lost 0.07% in USD, as spreads widened by 37 bps.

YIELD TO WORST*



Source: Swiss Life Asset Managers – 31.10.2026

Disclaimer: Source: Swiss Life Asset Managers France, Bloomberg. This presentation contains historical market data. Past market trends are not a reliable indicator of future market performance. The information provided is for illustrative purposes only. Depending on the publication date, the information presented may differ from the most up-to-date data available. Performance figures expressed in foreign currencies are hedged into euros.

Sectors

At the sector level within Euro High Yield, Media (-4.5%), Telecommunications (-3.3%) and Real Estate (-2.8%) were the worst-performing sectors. By contrast, Leisure (-0.1%), Utilities (-0.3%) and Retail (-0.4%) proved relatively more resilient.

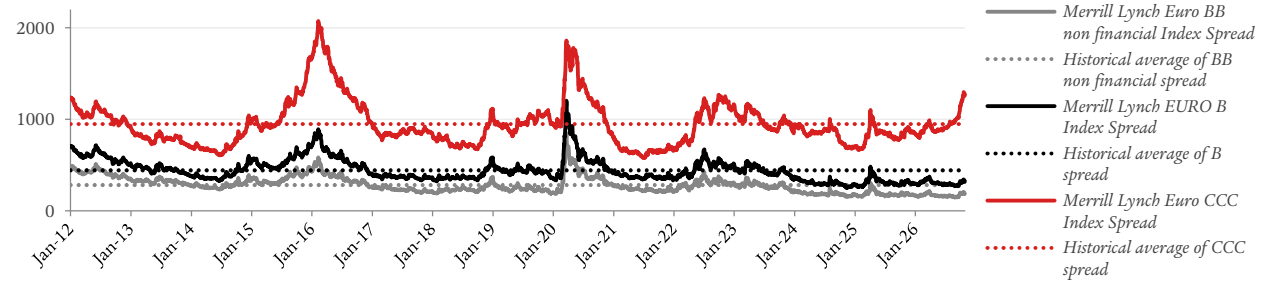
In the United States, Telecommunications (-3.1%), Transportation (-2.2%) and Media (-1.4%) were the hardest-hit sectors. Conversely, Utilities (+2.0%), Energy (+1.8%) and Retail (+1.5%) delivered strong performances.

Primary market

Widening risk premiums led to a marked slowdown in High Yield primary market activity. European issuance amounted to €7.9 billion, representing a 38% decline compared with September and a 15% decrease year-on-year. In the United States, issuance totalled just $14.6 billion, down 72% month-on-month and 1% year-on-year.

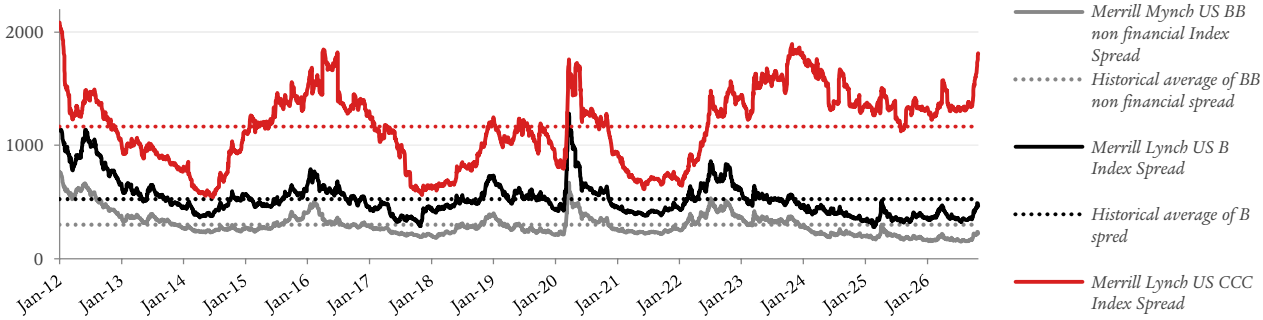
BB-rated bonds accounted for 77% of total issuance in Europe, while B-rated bonds represented 66% of US issuance. No CCC-rated bonds were issued in either market.

CHANGES IN SPREADS IN THE UNITED STATES



Source: Swiss Life Asset Managers – 31.10.2026

CHANGES IN SPREADS IN EUROPE



Source: Swiss Life Asset Managers – 31.10.2026

Default and Universe Evolution

In Euro High Yield, the default rate edged up by 10 bps over the month to 0.6%. It remains at a historically low level and is half its 10-year average of 1.2%. There were no rating transitions between High Yield and Investment Grade during the month.

In US High Yield, the default rate also increased slightly, rising by 10 bps to 1.8%. Defaults included the $800 million bankruptcy of Getty Images and a $350 million distressed exchange in the Chemicals sector. Nevertheless, the default rate remains 60 bps below its 10-year average of 2.4%.
Regarding transitions between High Yield and Investment Grade, equipment rental company United Rentals was the month's Rising Star, with $8.4 billion of debt upgraded. Finally, no Fallen Angels were recorded during the month.

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Our strategy

"The premium between B and BB has returned to its 2022 levels"

Édouard Faure
Head of Credit Portfolio Management

1. High Yield Strategy

Throughout October, markets delivered mixed performances, both across asset classes and geographical regions. A flight to quality, driven by concerns over hyperscalers' capital expenditure on AI development, tensions surrounding French sovereign debt and geopolitical uncertainty, led to a sharp decline in sovereign yields. The move was more pronounced in the United States, where the 5-year yield fell by 37 basis points, while its German equivalent declined by 23 basis points. This came after several months of sharply rising yields and despite a further increase in oil prices, which rose by 14% over the month and 30% over two months, remaining above $100 per barrel.
French sovereign debt remained under close scrutiny. The spread between the 10-year French OAT and the German Bund reached a peak of 175 basis points before tightening after Moody's decided not to downgrade France's credit rating. Nevertheless, at around 165 basis points, the spread remains close to its historical highs. Investors continue to closely monitor the adoption of the budget and upcoming political developments. This lack of confidence also spread to the credit market, weighing on certain French issuers.
Risk assets delivered a more negative performance overall. Equity markets declined in both Europe, with the Euro Stoxx 50 down 2.06%, and the United States, where the S&P 500 fell by 0.87% in local-currency terms. In the High Yield market, although lower interest rates provided significant support, inflationary pressures, rising energy prices and concerns over the profitability of AI-related investment continued to weigh on the most speculative segments.
High Yield markets therefore followed divergent paths across the two regions. In Europe, the High Yield index returned -1.0%, as it was adversely affected by a sharp widening in risk premiums. Spreads widened by 55 basis points to 355 basis points. In the United States, the market proved more resilient, returning +0.29% in local-currency terms despite spreads widening by 31 basis points to 341 basis points. The steep decline in sovereign yields therefore partly offset the deterioration in credit sentiment.
These developments were accompanied by marked spread decompression. The riskiest bonds, particularly CCC-rated securities, experienced significantly greater spread widening than the BB segment. This trend was similar on both sides of the Atlantic. The spread differential between B- and BB-rated bonds has become attractive at 241 basis points, returning to levels last seen in 2022.
From a sector perspective, Telecommunications once again ranked among the worst-performing sectors in both Europe and the United States. Investors remained concerned about the indebtedness of certain companies, the intensity of competition and their long-term growth prospects. In Europe, the Financials sector also came under pressure, particularly due to the continued weakness of several real estate issuers that remain heavily dependent on refinancing conditions. By contrast, the Energy sector held up well in both Europe and the United States, supported by higher commodity prices and solid fundamentals.
Following the significant widening in risk premiums, primary market activity slowed sharply over the month, declining by 38% in Europe and 72% in the United States. Flows into the asset class stabilised, supported by yields that remain elevated.

This environment of heightened volatility and increasing dispersion is creating new opportunities for High Yield managers. We have taken advantage of current yield levels to add to selected positions in our fixed-maturity funds. Issuer selection remains essential, with a preference for companies with solid fundamentals and clear visibility on their refinancing prospects.

2. *CoreWeave: the correction in bonds primarily reflects a reassessment of the "neo-cloud" model, not a fundamental deterioration*

Against a backdrop of unprecedented growth in artificial intelligence-related investment, financial markets are increasingly questioning the economic returns generated by the infrastructure required to support this expansion. Over the past two months in particular, the market has reassessed the business model of neo-cloud providers, including CoreWeave, the largest publicly listed company in the segment. CoreWeave's share price has fallen by more 30% over than 2 months, while spreads on its unsecured High Yield bonds have widened to approximately 900-1,150 basis points. By contrast, the companies' secured financing instruments the Delayed Draw Term Loans have experienced virtually no correction. Investors therefore continue to recognise the value of the underlying assets, while demanding a substantially higher risk premium on the most subordinated claims.

Founded in 2017 as a cryptocurrency mining company before pivoting towards AI infrastructure, CoreWeave has become the sector's leading independent player. With a market capitalisation of approximately $33 billion, 52 data centres across North America and Europe, more than 250,000 GPUs and 4.6 GW of contracted power capacity, the company operates on a significantly larger scale than specialist competitors such as Nebius or Crusoe. Unlike hyperscalers such as Microsoft Azure, AWS and Google Cloud, its business is entirely dedicated to artificial intelligence workloads.

For the sake of clarity, CoreWeave should also be distinguished from data-centre operators. CoreWeave leases data-centre capacity but does not build the facilities itself. Nor is the company responsible for grid interconnections or the construction of thermal power plants. However, it generally reserves a specified amount of electricity capacity, measured in megawatts, for its equipment and bears the associated economic cost through its lease agreements. Neo-cloud providers can therefore be viewed as purchasing physical space and power capacity and converting them into AI computing capacity sold to their customers. This specialisation is both CoreWeave's key strength and the main source of the market's concerns.

On the one hand, CoreWeave's unrivalled technological expertise in deploying Nvidia GPUs, together with its ability to bring them online rapidly, has enabled the company to become a preferred supplier to major customers such as Microsoft, OpenAI, Meta and Nvidia. It now serves approximately 150 enterprise customers.

Operational performance has so far been very strong. In the third quarter of 2026, revenue rose by 168% year-on-year to $3.7 billion, while EBITDA reached $2.26 billion, exceeding expectations. Demand continues to outstrip supply, and the group has demonstrated significant pricing power through successive price increases of 25% and 10%.

Revenue visibility also remains high. Approximately 96% of revenue is generated under firm contracts, while annualised revenue has now reached almost $13 billion. The order backlog exceeds $133 billion, and virtually all installed capacity has already been contracted.

Customer diversification has also improved significantly. While Microsoft accounted for almost two-thirds of the order backlog in 2024, its share has now fallen below one-third as Meta and OpenAI have increased their commitments. This development substantially reduces customer concentration risk.

The relationship with Nvidia provides an additional source of support. Nvidia owns approximately 10% of CoreWeave's equity, provides financing solutions for GPU purchases and has entered into long-term commercial agreements covering certain computing capacity. Although this close relationship does not eliminate the company's risks, it gives CoreWeave a strategic position within the AI ecosystem that would be difficult to replicate.

On the other hand, while short-term fundamentals remain solid, market concerns relate primarily to the sector's long-term outlook and to the fact that CoreWeave's growth is largely debt-funded rather than financed through internally generated cash flow.

Several recent studies have highlighted a potential mismatch between the massive investment announced for AI infrastructure and the revenue that this infrastructure may ultimately generate. Gartner estimates that global spending on artificial intelligence infrastructure could reach almost $7 trillion between 2027 and 2030, while it expects AI-related revenue to remain well below the level required to generate satisfactory returns on these investments. Under this scenario, Gartner estimates that 80% of neo-cloud providers would be unprofitable. Although forecasting future AI-related revenue with any degree of precision is extremely difficult and these estimates are based purely on Gartner's expectations, the analysis nevertheless reignited the debate over potential overcapacity in the sector.

These concerns affect neo-cloud providers more directly than hyperscalers. Companies such as Microsoft, Amazon, Alphabet and Meta have highly profitable legacy businesses that enable them to finance investments whose returns on capital may take longer to materialise. Neo-cloud providers, by contrast, rely heavily on the direct monetisation of their infrastructure. Investors are therefore concerned that part of the capacity currently being deployed may be based on particularly optimistic demand assumptions. While this may in fact lead to consolidation among the numerous neo clouds that have emerged in recent years, CoreWeave should be better placed to face more a more challenging environment. In fact, the company benefits from critical scale, a proven execution track record and an order backlog of more than $100 billion, giving it substantially greater visibility than many of its competitors. Coreweave also has long-term contractual agreements that significantly reduce uncertainty surrounding revenue over the coming years.

The main area of concern is now the financing of future growth. Planned capital expenditure for 2026 amounts to between $37 billion and $39 billion, implying substantial reliance on capital markets. Nevertheless, the financing structure appears relatively diversified, comprising approximately $14 billion of secured loans, $11 billion of convertible bonds, $10 billion of unsecured bonds and almost $5 billion of vendor financing. Available liquidity exceeds $15 billion and does not suggest any immediate liquidity risk. The key question relates instead to the 2027–2028 period and whether the group will be able to continue expanding in an environment where the cost of capital may remain structurally higher. An increase in financing costs appears likely, but several sources of capital remain available, including asset-backed financing, customer prepayments and strategic partnerships. Against this backdrop, more restricted access to financing would probably result in slower growth rather than a liquidity crisis. At the time of writing Coreweave is aiming to raise another $4bn loans that are secured on GPUs and contract value and could be IG-rated and placed around 7-7.5% financing cost demonstrating its ability to access cheaper sources of funding.

The other frequently cited risks appear relatively manageable. The mismatch between five-year customer contracts and property leases that may run for up to 15 years does create a structural asymmetry, as a single five-year contract does not cover all commitments associated with a 15-year lease. However, the cash flows generated during the initial five-year period cover more than five years of subsequent costs. In addition, the economic life of GPUs now appears to exceed the duration of customer contracts, providing an additional margin of safety. Similarly, the risk of technological obsolescence has so far proved less significant than initially anticipated.

Ultimately, the recent correction in CoreWeave's bonds primarily reflects a reassessment of the neo-cloud financing model rather than a deterioration in the company's operating fundamentals. Concerns regarding the long-term profitability of the AI ecosystem, the cost of capital and the financing of future investment are legitimate. Nevertheless, CoreWeave continues to deliver strong growth, its order backlog provides exceptional visibility, and Nvidia's strategic support remains a major source of resilience.

Current spread levels therefore appear to price in a significantly more severe stress scenario than the company's operating fundamentals would suggest. This supports the view that the market currently overestimates the risk of a deterioration in CoreWeave's credit profile over the short to medium term.

Finally, the Democratic Party's strong performance in the midterm elections and its control of both chambers of Congress could result in tighter fiscal and regulatory constraints, potentially slowing the pace of AI investment in the United States. However, we do not expect projects that have already been approved to be called into question. Against this backdrop, CoreWeave's 4.6 GW of contracted capacity, compared with 1.85 GW currently in operation, appears all the more valuable.

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 multiple European locations.

As at 30 June 2026, assets under management for third-party clients amount to EUR 170.7 billion. Together with insurance assets for the Swiss Life Group, total assets under management at Swiss Life Asset Managers stood at EUR 325.9 billion. Swiss Life Asset Managers is a leading institutional real estate investor in Europe[1]. Of the assets totalling EUR 325.9 billion, EUR 97.7 billion are invested in real estate. In addition, Swiss Life Asset Managers, in cooperation with Livit, manages real estate totalling EUR 26.9 billion in value. Total real estate assets under management and administration at the end of June 2026 thus came to EUR 124.6 billion.

Swiss Life Asset Managers employs more than 2300 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 2026

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* Yield to Worst (YTW) refers to the lowest yield an investor can receive on a bond without the issuer actually defaulting.

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