High Yield Corporate Bonds

High Yield Bonds Deliver Solid Returns Amid Tight Spreads

Tight spreads in the high yield market highlight the need for selectivity despite strong fundamentals.

High yield corporate bonds delivered an 8 percent total return in 2024, marking the second-best annual performance in five years and exceeding the 1997–2023 sector average. Expectations of more business-friendly policies, including potential corporate tax cuts, drove significant spread tightening in the fourth quarter, bringing spreads to within 20 basis points of historical lows. While strong credit fundamentals and favorable rating migration trends persist, historically tight spreads underscore the need for careful security selection.

Sector Commentary

- Spreads on the ICE BofA U.S. High Yield Master II Constrained Index fell below 2021 tights around the beginning of the fourth quarter of 2024, ending the year at only 292 basis points, in the 6th percentile of historical levels.
- Despite strong spread performance, the high yield index posted a fourth quarter return of just 0.2 percent—its weakest since the third quarter of 2022—weighed down by rising Treasury yields.
- Healthcare, technology, and transportation led sector performance, with returns of 11.2 percent, 9.6 percent, and 9.6 percent, respectively. Utilities, capital goods, and automative had the weakest, but still solid, returns of 6–7 percent.
- Expectations of a more merger-friendly regulatory environment may be driving spread tightening in CCC-rated credits, with spreads approaching their 2021 tights and remaining within a tight range of 680–770 basis points since October 1.

Investment Themes

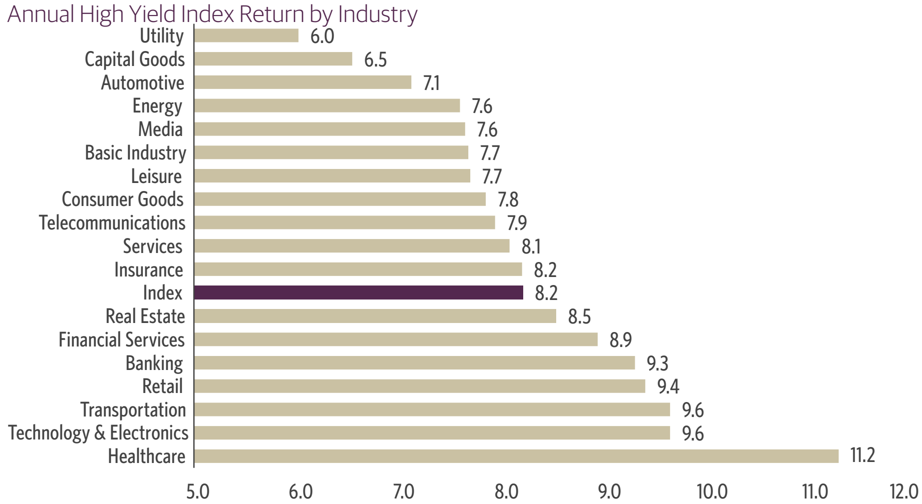
- Despite historically tight credit spreads, high yield bond yields remained above 7 percent during the fourth quarter 2024.
- Last quarter's performance highlighted the impact of Treasury volatility on high yield sector returns. However, strong credit fundamentals suggest that weak periods should be seen as attractive entry points to add yield.
- The trailing 12-month par-weighted default rate ended 2024 at just 1.5 percent, well below the historical average of 4 percent. We expect it to remain below average in 2025.
- Refinancing accounted for over 70 percent of primary issuance in 2024. We anticipate that M&A and general corporate activity could make up a greater share of primary market activity this year.
- We prefer higher quality high yield bonds (rated B or above) due to their stronger fundamentals and lower default risk. We believe these bonds offer attractive yields and relative risk mitigation.

By Thomas Hauser and Maria Giraldo

Healthcare, technology, and transportation led sector performance, with returns of 11.2 percent, 9.6 percent, and 9.6 percent, respectively. Utilities, capital goods, and automative had the weakest but still solid returns of 6–7 percent.

Healthcare, Technology, and Transportation Led Sector Performance in 2024

Annual High Yield Index Return by Industry



Source: Guggenheim Investments, Bloomberg. Data as of 12.31.2024.

This material is distributed or presented for informational or educational purposes only and should not be considered a recommendation of any particular security, strategy or investment product, or as investing advice of any kind. This material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. The content contained herein is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax and/or legal professional regarding your specific situation.

This material contains opinions of the authors, but not necessarily those of Guggenheim Partners, LLC or its subsidiaries. The opinions contained herein are subject to change without notice. Forward-looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable but are not assured as to accuracy. Past performance is not indicative of future results. There is neither representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information.

Investing involves risk, including the possible loss of principal. In general, the value of a fixed-income security falls when interest rates rise and rises when interest rates fall. Longer term bonds are more sensitive to interest rate changes and subject to greater volatility than those with shorter maturities. During periods of declining rates, the interest rates on floating rate securities generally reset downward and their value is unlikely to rise to the same extent as comparable fixed rate securities. High yield and unrated debt securities are at a greater risk of default than investment grade bonds and may be less liquid, which may increase volatility. Investors in asset-backed securities, including mortgage-backed securities and collateralized loan obligations ("CLOs"), generally receive payments that are part interest and part return of principal. These payments may vary based on the rate loans are repaid. Some asset-backed securities may have structures that make their reaction to interest rates and other factors difficult to predict, making their prices volatile and they are subject to liquidity and valuation risk. CLOs bear similar risks to investing in loans directly, such as credit, interest rate, counterparty, prepayment, liquidity, and valuation risks. Loans are often below investment grade, may be unrated, and typically offer a fixed or floating interest rate.

Guggenheim Investments represents the following affiliated investment management businesses of Guggenheim Partners, LLC: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Distributors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Corporate Funding, LLC, Guggenheim Wealth Solutions, LLC, Guggenheim Partners Europe Limited, Guggenheim Partners Japan Limited, GS GAMMA Advisors, LLC, and Guggenheim Private Investments, LLC.