Promotional Material
Professional and Non-Professional Investors

Newsletter
High Yield

September 2026

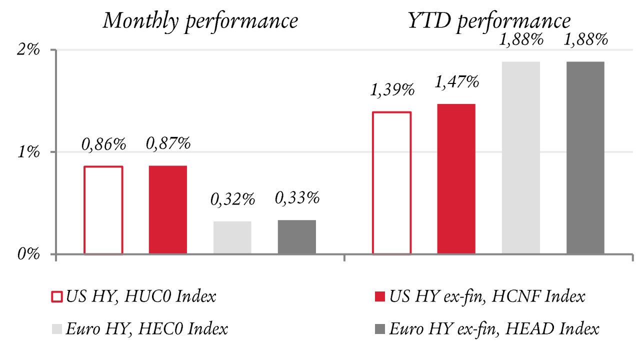
August was initially marked by significant tension in interest rates, with the US 5-year Treasury yield rising to 4.5% and the German 5-year Bund yield reaching 3.1%, their highest levels since 2007 and 2008, respectively. This increase was driven by still-solid macroeconomic indicators, persistent concerns about inflation, particularly through energy prices, as well as fiscal concerns. The Federal Reserve also maintained a hawkish stance, reinforcing expectations of a rate hike in September. Against this backdrop of resilient growth, high-yield (HY) markets also posted positive performance, supported by spread tightening on both sides of the Atlantic.

Monthly Highlights

Performance

After a month of July marked by negative High Yield performance, returns moved back into positive territory in August, both in the Euro market (+0.32%) and in the US market (+0.86% hedged into EUR). Despite continued upward pressure on sovereign yields (the German 5-year yield rose by 12 bps and the US 5-year yield by 5 bps), High Yield risk premiums tightened on both sides of the Atlantic. However, US High Yield clearly outperformed Euro High Yield, with spreads tightening by 22 bps in the US compared with 6 bps in Europe, largely explaining the performance gap between the two markets during August.

HIGH YIELD MARKET PERFORMANCE

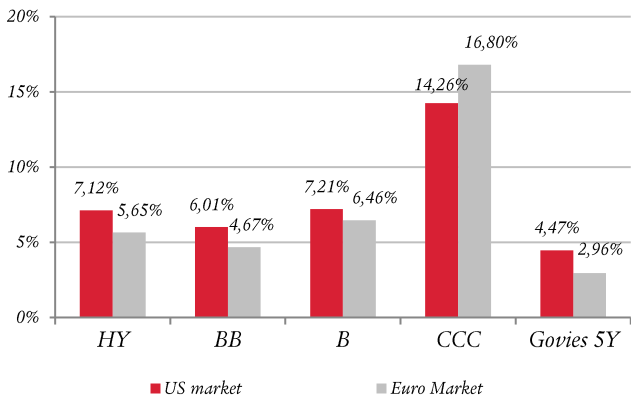


Source: Swiss Life Asset Managers – 31.08.2026

Rating Segments

In the European High Yield market, the B-rated segment outperformed, posting a return of +0.59%, driven by a 9 bps tightening in credit spreads and lower interest rate sensitivity compared with the BB-rated segment (+0.37%), which experienced an identical spread tightening. The CCC-rated segment continued to struggle (-2.13%), with credit spreads widening by 60 bps.
In the US High Yield market, we observed a similar trend, with the B-rated segment returning +0.94% and credit spreads tightening by 32 bps, followed by the BB-rated segment at +0.85%, supported by a 20 bps tightening in credit spreads. Finally, the CCC-rated segment delivered a positive performance (+0.57%) despite a 10 bps widening in credit spreads.

YIELD TO WORST*



Source: Swiss Life Asset Managers – 31.08.2026

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

In the European High Yield market, the Capital Goods (+0.81%), Technology (+0.79%), and Consumer Goods (+0.66%) sectors outperformed. In the US High Yield market, the top-performing sectors were Technology (+1.44%), Media (+1.25%), and Healthcare (+1.13%).

Conversely, in the European High Yield market, the Leisure (-0.32%), Media (-0.28%), and Insurance (-0.08%) sectors underperformed. In the US High Yield market, the Insurance (+0.07%), Telecommunications (+0.15%), and Utilities (+0.28%) sectors ranked at the bottom of the performance table, although they still posted positive returns.

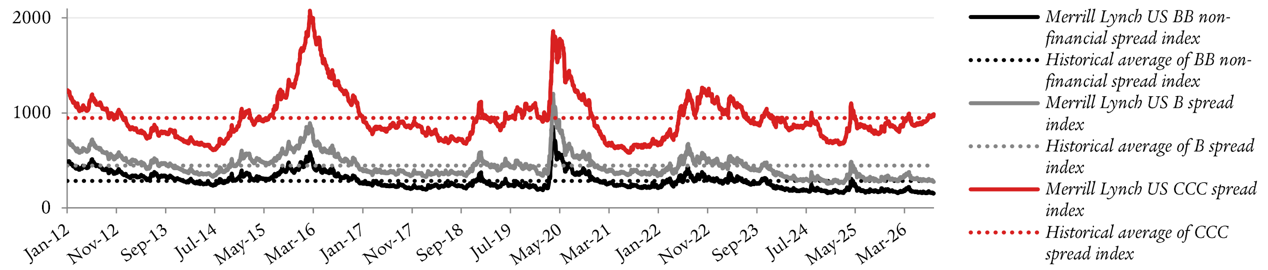
Primary market

In line with the traditional seasonality of August, the European High Yield primary market largely came to a standstill, with only €0.8 billion of issuance. This represents a sharp decline compared with August 2025 (€3.7 billion), but is broadly in line with August 2024 (€0.9 billion).

A similar picture emerged in the US High Yield primary market, where issuance totaled $12.1 billion during the month, compared with $27.2 billion in August 2025 and $18.3 billion in August 2024.

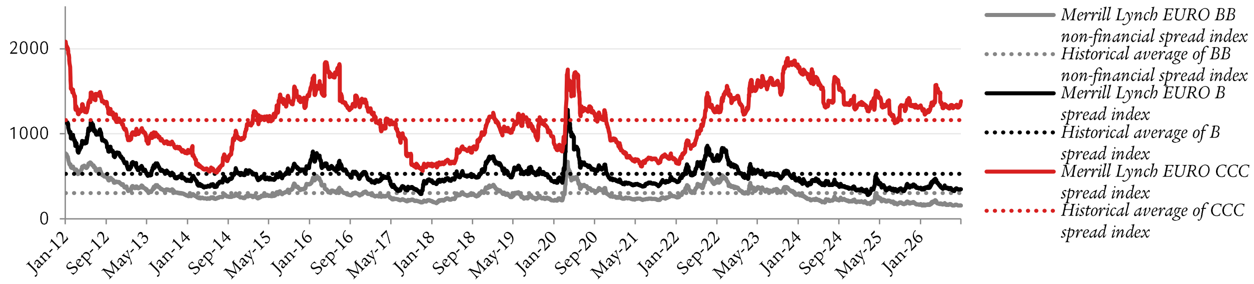
As in July, B-rated issuers accounted for the majority of August issuance volumes, representing approximately 60% of total issuance. More broadly, B-rated bonds now account for 45% of total issuance in 2026 year-to-date, despite representing only about one-third of the US High Yield universe.

CHANGES IN SPREADS IN THE UNITED STATES



Source: Swiss Life Asset Managers – 31.08.2026

CHANGES IN SPREADS IN EUROPE



Source: Swiss Life Asset Managers – 31.08.2026

Default and Universe Evolution

In the Euro High Yield market, the default rate remained stable in August at 0.6%, its lowest level since August 2023 and half of its ten-year average (1.2%). Regarding transitions between High Yield and Investment Grade, it is worth noting that Unibail-Rodamco's hybrid bonds (€1.5bn) were upgraded to Investment Grade by Moody's (from Ba1 to Baa3), reflecting the group's strong operating performance, the continued strengthening of its portfolio of prime real estate assets, its prudent financial policy, and the disciplined execution of its deleveraging objectives. Conversely, no Fallen Angels were recorded in the Euro market.

In the US High Yield market, the default rate declined to 1.7% (from 1.9% in July), returning to its March 2026 level while remaining 70 bps below its ten-year average of 2.4%. On the Rising Stars side, Popular Bank ($0.4bn) and homebuilder Taylor Morrison ($1.5bn) were upgraded, following the latter's acquisition by Berkshire Hathaway. Finally, among the Fallen Angels, we find the Electronic Arts bonds issued prior to the leveraged buyout (LBO) of the video game publisher ($1.4bn), which are now rated BB by S&P (down from BBB+), bringing them in line with the bonds issued as part of the LBO financing.

Our strategy

« Credit spreads are holding up remarkably well despite interest rate volatility»

Édouard Faure
Head of Credit Portfolio Management

1. High Yield Strategy

During August, markets were once again characterized by significant volatility in sovereign bond yields. Supported by still robust economic data, persistent inflation concerns, and renewed focus on fiscal sustainability issues, US and German 5-year government bond yields reached 4.50% (+5 bps) and 3.10% (+12 bps), respectively, their highest levels since 2007 and 2008. At the Jackson Hole symposium, the Federal Reserve maintained a cautious stance, reinforcing expectations of a potential rate hike at its September meeting.

Despite the rise in sovereign yields, risk assets continued to advance, supported by resilient economic activity and generally solid corporate earnings. Equity markets reached new record highs, as investors continued to focus on companies' earnings momentum rather than the risks associated with a prolonged higher-for-longer rate environment.

The High Yield market also delivered positive returns, with gains of +0.32% for Euro High Yield and +0.86% for Euro-hedged US High Yield. This solid performance was primarily driven by credit spread tightening on both sides of the Atlantic, more pronounced in the United States (-22 bps) than in Europe (-6 bps), which more than offset the negative impact of rising sovereign yields. The limited issuance volume in the primary market, reflecting the summer slowdown, also reinforced supportive technical conditions for credit markets. Primary market activity is, however, expected to accelerate significantly in September, which could place additional pressure on credit spreads.

Low default rates remain a key pillar of market resilience. Default rates were stable at 0.6% in Europe, their lowest level since August 2023, while they declined to 1.7% in the United States. In an environment characterized by resilient growth, contained default activity, and still-attractive carry, the High Yield asset class continues to benefit from solid fundamentals, although the historically low level of credit spreads now limits the potential for further tightening.

From a sector perspective, Technology remains one of the market's key drivers. The sector was among the strongest contributors to performance during August and is expected to remain in focus over the coming months, both because of developments related to artificial intelligence and their implications across the broader economy, and because of the anticipated increase in issuance volumes within the sector.

Despite the remarkable resilience of credit spreads, sources of volatility remain numerous. The current level of sovereign yields is a major area of concern and could eventually exert greater pressure on credit valuations. In addition, geopolitical tensions remain elevated and continue to contribute to market uncertainty.

Against this backdrop of heightened uncertainty and seasonally reduced market liquidity, we did not alter our portfolio positioning. We continue to favor an approach focused on maximizing carry while maintaining a prudent allocation to guard against potential bouts of volatility that may re-emerge over the coming months.

2. *European Natural Gas: a risk to monitor ahead of winter*

European Gas Reaches Its Highest Level in Three Years

The benchmark European natural gas futures contract (TTF) closed at €71.2/MWh on September 4, **up 146% year-to-date**, compared with €29/MWh in January. Prices are now trading close to their highest levels since early 2023.

Three key factors help explain this sharp increase.

First, geopolitical tensions in the Middle East continue to disrupt global liquefied natural gas (LNG) flows. Since March, the conflict between Iran and the United States has significantly reduced traffic through the Strait of Hormuz, a strategic transit route for the region's energy exports. Even in the event of a rapid normalization of the situation, several industry participants believe that Europe could face difficulties meeting its gas storage targets ahead of winter.

Second, competition with Asia is intensifying. LNG prices in Asia have more than doubled compared with pre-war levels, attracting cargoes that would normally have been directed toward Europe. As a result, Europe's security of supply increasing depends on its ability to pay higher prices to secure the volumes it requires.

Third, European gas inventories remain unusually low. European Union gas storage **facilities are currently around 66% full, compared with a five-year seasonal average of 83%.** At this time of year, this represents the lowest level recorded in at least fifteen years. Although European authorities consider short-term supply to be secure, the safety margin ahead of the winter season remains limited.

Germany: Europe's Main Vulnerability

Among Europe's major economies, Germany appears to be the most exposed to a prolonged rise in gas prices.

Its gas storage facilities are only 53.6% full, around 30 percentage points below the five-year seasonal average. German grid operators have recently indicated that the **national storage target of 70% by November now appears out of reach.**

This vulnerability reflects the central role gas plays in the German economy. It is simultaneously used as an industrial feedstock, a fuel for electricity generation, and a source of residential heating. As a result, increases in TTF prices are transmitted rapidly across the economy, more so than in countries that benefit from larger nuclear or hydroelectric power generation capacity.

In addition, the €35 billion investment program aimed at expanding gas-fired power generation capacity is expected to reinforce this dependence over the medium term, even though it is intended to strengthen the security of the electricity system.

The economic consequences are already becoming visible. According to a survey conducted by the German Chamber of Commerce (DIHK), nearly one-third of companies have postponed investment projects because of high energy costs, while a similar proportion is considering the partial relocation of production capacity.

Germany's chemical industry, the country's largest industrial consumer of natural gas, remains particularly under pressure. Sector output declined during the first half of 2026, and annual growth expectations have been revised downward.

Beyond the industrial sector, **rising gas prices are also fueling inflation expectations.** European government bond yields have moved higher in recent weeks, with the 10-year German Bund reaching 3.39%, its highest level since 2011. This higher-for-longer interest-rate environment complicates refinancing conditions for the most highly leveraged issuers.

What Are the Implications for European High Yield Investors?

Despite a challenging geopolitical backdrop, the European High Yield market has so far demonstrated a degree of resilience. The ICE BofA Euro High Yield Index is currently offering a spread of approximately 275 basis points and an average yield close to 5.75%.

However, this apparent stability masks significant differences in risk across sectors. European issuers operating in the chemicals, fertilizers, glass, ceramics, and paper industries typically track their energy costs in €/MWh. With gas prices at €71/MWh, gas-related costs are currently around 2.3 times higher than the assumptions incorporated into most budgets and forecasts established prior to 2026.

Chemical and fertilizer producers are among the most exposed issuers. For these companies, natural gas serves both as a key raw material and an energy source. Any sustained increase in TTF prices therefore translates rapidly into margin pressure. Part of this increase has recently been offset by higher chemical product prices, but this support could fade if demand weakens or LNG flows normalize.

Energy-intensive industrial companies and refiners also remain vulnerable. With European gas prices roughly eight times higher than those in the United States (Henry Hub), European producers face a growing competitive disadvantage relative to their North American peers. This is particularly challenging for High Yield issuers with already thin margins or insufficient energy hedging programs.

Utilities present a more mixed picture. Higher gas prices support electricity prices and may benefit certain companies within the sector. However, elevated interest rates represent a significant indirect risk for these capital-intensive businesses by increasing their refinancing costs.

In summary, gas risk is once again becoming a major macroeconomic and credit factor in Europe. While the High Yield market remains broadly supported by solid fundamentals, the current environment argues for a selective investment approach focused on issuers with limited exposure to energy costs and sufficient financial flexibility to withstand a prolonged period of elevated gas prices.

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

* 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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