

HIGH YIELD

MARKET COMMENTARY

The high yield market generated a +0.9% total return in the first quarter as credit spread widening more than offset lower interest rates. The first quarter was active on the news and fiscal policy fronts leaving investors to grapple with aggressive tariff announcements, increased recession risk concerns, government cost reduction initiatives, sticky inflation datapoints and a potential cease fire in Ukraine. On the monetary front, the Fed left its Federal Funds rate unchanged at 4.50% (upper bound) across two committee meetings in the quarter. The Fed increased its 2025 inflation expectation 20 bps to 2.7%, lowered its GDP forecast 30 bps to 1.7% and reiterated its expectation for two 25 bps interest rate reductions. Interest rates fell and the yield curve flattened during the quarter with the 10-year US Treasury yield decreasing 37 bps to 4.2% while short-term interest rates remained unchanged.

Within the high yield market, yield-to-worst increased 28 bps to 7.7% and option-adjusted spread widened 63 bps to 355 bps in the first quarter. The spread widening was felt most acutely in the CCC rating cohort where spreads widened 182 bps in the first quarter. The last twelve-month high yield default rate, including the impact of distressed exchanges, increased 20 bps to 1.3% in the first quarter, well below its historic average. High yield primary market gross issuance declined 22% year over year to \$68.3 billion, driven primarily by debt refinancing transactions as M&A activity remained tepid.

Turning to performance, the ICE BofA BB-B US High Yield Constrained Index generated a +1.2% total return in the first quarter, underperforming US Treasuries and investment grade corporates but outperforming leveraged loans. The ICE BofA BB-B US High Yield Constrained outperformed the broader high yield market as the CCC+ or lower rating cohort produced a -0.7% first quarter total return. From a sector perspective, banking, consumer goods and media were notable outperformers while transportation, technology & electronics and utilities were notable underperformers in the first quarter.

With the implementation of new tariff policies and the associated volatility, the high yield market has seen significant price and spread movement. We expect this to continue in the coming months with a potential for a recession. Historically, spreads exceed 600 bps during recession periods. During the GFC, spreads were obviously higher. As we write this, spreads have widened about 150 bps to 450 bps. Thus, we are moving our factors to reflect this change. We use three factors, Fundamentals, Technicals and Valuation on a 1.0 to 5.0 scale, with 1.0 being bullish and 5.0 being cautious. We see Fundamentals deteriorating with the impact of tariffs on margins and move that to a 3.5. Technicals have also deteriorated with the outflows in the market and dealers unwilling to take risk to a 4.0. Valuations are now much more attractive approaching 2.0 and if we continue to widen, we see the opportunity for very attractive entry point.

ATTRIBUTION ANALYSIS – 1Q25

The High Yield portfolio underperformed the ICE BofA BB-B US High Yield Constrained Index in the first quarter (gross and net of management fees). Credit selection was negative across eight of the nineteen high yield market sectors, most notably in technology & electronics and healthcare, partially offset by positive selection in media and consumer goods. From a ratings perspective, credit selection was positive across all high yield ratings cohorts, partially offset by negative selection effects within the nonrated cohort.

As of 3/31/25, net of fee composite and ICE BofA BB-B US High Yield Constrained performance for 1-, 5-, and 10-year periods: 6.85%, 8.36%, 4.46% and 6.69%, 6.55%, 4.71%, respectively. Net performance results are presented after management fees and all trading expenses but before custodial fees; the composite includes all High Yield discretionary accounts. Additional disclosures provided in Endnotes.

Unless otherwise noted, the “high yield” market refers to the ICE BofA US High Yield Index. Past performance is no guarantee of future results.



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Endnotes:

All investments contain risk and may lose value. This commentary is for general information only and should not be relied on for investment advice or recommendation of any particular security, strategy, or investment product.

Portfolio characteristics and attribution are based on a representative High Yield portfolio. Attribution is an analysis of the portfolio's gross of fee returns relative to the index, is calculated using trading information and does not reflect management fees and other transaction costs and expenses; interaction effect is combined with stock selection. Returns can differ from certain client portfolio(s) due to data differences, cash flows, trading, and other activity. Absolute performance for the portfolio may reflect different results. No assurance is made that holdings, or all investment decisions by H&W were or will be profitable (data source: Bloomberg, ICE).

The discipline used in managing accounts in the High Yield strategy may prevent or limit investment in major bonds in the ICE BofA US High Yield and returns may not be correlated to the index. Composite performance is available at www.hwcm.com, located on the strategy's Performance tab along with important disclosures included in the strategy's [GIPS Report](#); quarterly characteristics and portfolio holdings are located on the Portfolio and Literature tabs. Portfolio information is subject to the firm's portfolio holdings disclosure policy.

The ICE BofA BB-B US High Yield Constrained Index contains all securities in the ICE BofA US High Yield Index rated BB+ through B- by S&P (or equivalent as rated by Moody's or Fitch), but caps issuer exposure at 2%. Index constituents are capitalization weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. The ICE BofA US High Yield Index tracks the performance of below investment grade, but not in default, US dollar-denominated corporate bonds publicly issued in the US domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's, Fitch and S&P. Any indices and other financial benchmarks shown are provided for illustrative purposes only, are unmanaged, reflect reinvestment of income and dividends and do not reflect the impact of advisory fees. It is not possible to invest directly in an index.

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Investing in high yield securities is subject to certain risks, including market, credit, liquidity, issuer, interest-rate, inflation, and derivatives risks. Lower-rated and non-rated securities involve greater risk than higher-rated securities. High yield bonds and other asset classes have different risk-return profiles, which should be considered when investing. Investment risk disclosures for the firm's strategies are described in Part 2A of Form ADV of H&W.

Information contained in this material may represent or be based on forward-looking statements. Due to various risks and uncertainties, actual events/results or performance of the strategy may differ materially from those reflected or contemplated in such forward-looking statements. Information based on forecasts, proprietary or third-party estimates cannot be guaranteed and are subject to change. Information obtained from independent sources is considered reliable, but H&W cannot guarantee its accuracy or completeness.

Portfolio managers' opinions and data included in this commentary are as of March 31, 2025. Any discussion or view of a security, an asset class/segment, industry/sector and/or investment type are not investment recommendations, should not be assumed to be profitable, and are subject to change without notice. **Past performance is no guarantee of future results.**