February 2025

A steady market of EUR 300 billion and 280 non-financial issuers

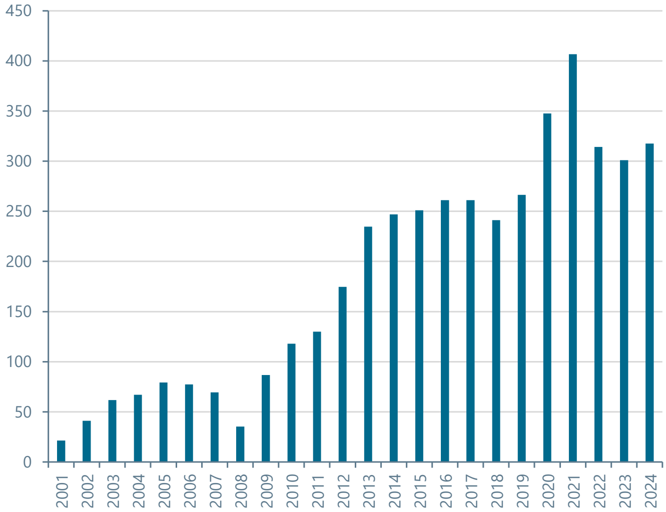
After a decade of sustained growth, the European High Yield market is showing signs of normalization.

With issuances of EUR 108 billion, the primary market has been notably active in 2024. These issuances were primarily driven by refinancing deals in response to upcoming debt maturities and a bolstered market confidence. This marks a significant increase compared to 2023, where issuances were at EUR 43 billion, well below the 10-year average of EUR 70 billion per year. The period between 2022 and 2023 saw negative net issuance, largely due to a slowdown in LBO and M&A deals. In addition, part of the market growth has been neutralized by the emergence of rising stars[1].

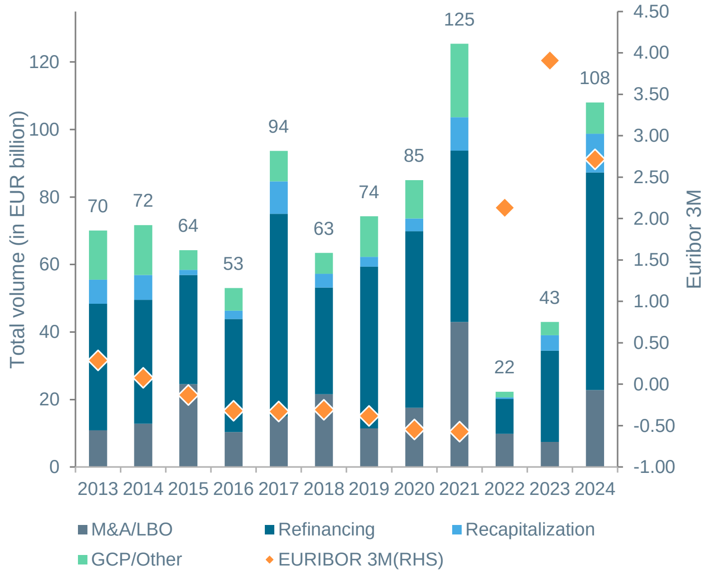
As a result of Q4 2024, the market boasts over 280 non-financial issuers and an outstanding amount exceeding EUR 300 billion.

European HY – outstanding market size[2]

in EUR billion



Evolution of High Yield issuances[3]



Attractive yields and solid fundamentals

We believe the market continues to offer attractive yields, nearing historical peaks. As of December 2024, the average yield stands at 5.44%, surpassing historical averages despite tight spreads.

Temporary spikes in spreads have not significantly impacted the overall healthy credit fundamentals of issuers. Additionally, new issue premiums on recent primary transactions remain appealing.

Meanwhile, default rates ended 2024 at 3.30%, up 0.75% on the year, including EUR 13.5 billion of defaulted paper from 14 issuers. However, recoveries also increased year-on-year, from 42% to 53%, thanks to better results for unsecured debt. Senior bonds accounted for only 20% of defaults, compared with 47% a year earlier[5].

Average yield-to-worst and OAS[4]

[1] Rising star: a high yield bond that became investment grade
[2] Source: Bloomberg, data based on Bloomberg Pan-European High Yield 2.5% Issuer Constraint x Fin TR Unhedged EUR Index as of 31.12.2024
[3] Source: PitchBook Data, Inc. data as of 31.12.2024
[4] Source: Bloomberg, data based on Bloomberg Euro HY 3% Issuer Constraint x Fin TR Unhedged EUR Index, data as of 27.12.2024
[5] Source: JP Morgan, European default and recovery rates

February 2025

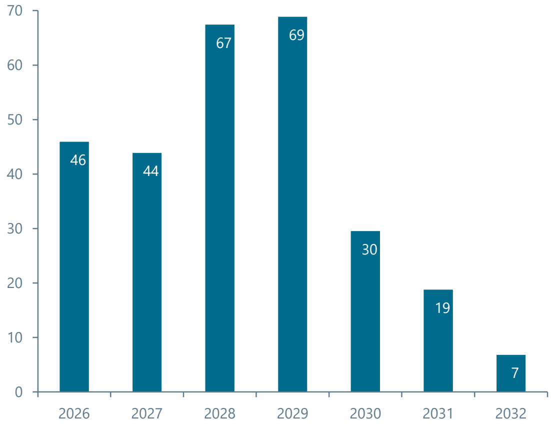
Refinancing acceleration, defaults priced in, and increasing carry

The notable pick-up in issuance in 2024 has been driven by a significant maturity wall approaching in 2028-2029. High yield issuers are incentivized to refinance well in advance, with early repayments providing an additional source of return.

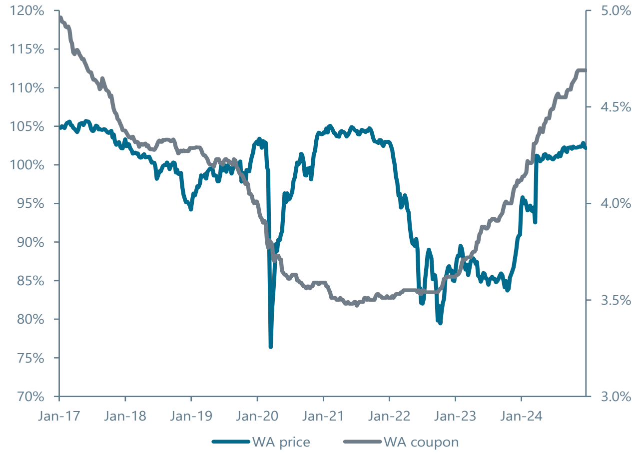
Distressed bonds are trading at low weighted average (WA) cash prices, close to S&P recovery levels, which helps to limit losses in case of default. Meanwhile, high coupons on new issues are set to increase carry returns, making the market dynamics favorable for investors.

High Yield bond redemptions per maturity[1]

in EUR billion



High Yield bond WA price and WA coupon[2]



2025 targeted positioning

Over the short to medium term, three types of issuers are at risk: (i) historical High-Yield issuers with heavy debt facing unsustainable refinancing, (ii) fragile automotive suppliers struggling with competition, potential tariff hikes, and slow electric vehicle adoption, and (iii) traditional satellite operators challenged by low-orbit constellations. We will remain cautious with these issuers but monitor for opportunities.

Conversely, good yield opportunities exist in: (i) 'B' rated issuers in general (market consensus) and some 'BB' issuers with strong fundamentals, (ii) healthcare and other sectors impacted by rate hikes but with sustainable refinancing, and (iii) new issuances with higher premiums. Within these segments, several issuances still offer yields over 5% p.a., emphasizing the need for careful issuer analysis and smart bond picking.

In our opinion, the combination of attractive yields, solid fundamentals, and proactive refinancing strategies positions the European High Yield market as a compelling opportunity for investors, notably in the short-duration segment.

[1] *Source: Bloomberg, data based on Bloomberg Euro HY 3% Issuer Constraint x Fin TR Unhedged EUR Index as of 31.01.2025*
[2] *Source: PitchBook Data, Inc. and Bloomberg, data as of 26.12.2024*

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