

19 November 2026

Spread widening and flattening yield curves offer an attractive entry point into short duration

A more volatile market environment in recent months

Bond markets have been affected by a series of headwinds, including AI-related uncertainty in the software sector, rising energy prices and pressures on French sovereign debt. In the European High Yield market, this has led to significant spread widening of nearly 100 bps since the end of the summer, with spreads ending October at 335 bps[1]. This widening has occurred against a backdrop of rising risk-free rates and a flattening yield curve.

Analysis of the main moves in the High Yield market

Spread widening brings renewed market dispersion

The correction over the August–October period was particularly pronounced among B-rated issuers. This segment returned -3.65%, compared with -2.15% for the European High Yield market as a whole, reflecting spread decompression. In addition, spread dispersion, measured as the differential between B-rated and BB-rated issuers, returned to its March 2026 peak of around 210 bps (reached shortly after the start of the conflict with Iran), before gradually normalising through September.

Divergences are also evident across sectors. Telecommunications (sensitive to rising rates given the substantial capital expenditure that needs to be financed) and software were the main detractors from performance.

Rising rates and a flattening yield curve

Swap rates rose across the curve, with a more pronounced move at the short end. Over the August–October period, the 2-year EUR mid-swap rate rose by 35 bps to 3.37%, compared with a 19 bps increase in the 5-year EUR mid-swap rate to 3.39%.

Within the short-term High Yield universe, we have seen:

- An increasing risk of calls not being exercised: short-dated bonds, previously priced to their next call date, are gradually being repriced to maturity, as issuers may no longer have an incentive to refinance their debt under current conditions.
- A decline in average cash prices, particularly for bonds most exposed to the risk of calls not being exercised.

Weighted average coupon and weighted average price

As a % of par



Source: PitchBook Data, Inc. data as of 30.10.2026

This dynamic is bringing the yield to worst (6.73%) closer to the yield to maturity (6.95%), both measured as of 30 October.

Supportive factors remain in place in this market environment

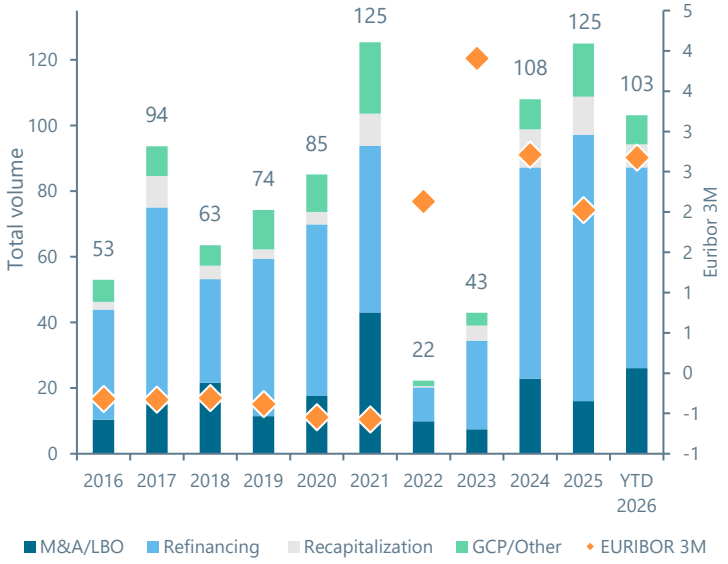
The primary market remains open, with deals offering attractive new issue premiums

The European High Yield primary market remained very active in the third quarter of 2026, with total issuance reaching EUR 21 billion. The market remained open at the start of the fourth quarter, with EUR 7.7 billion of new issuance in October. These deals came from issuers across all rating categories, including the B-rated segment.

[1] *Source : Bloomberg Euro High Yield 3% Issuer Constraint ex Financial TR Unhedged (LEXFTREU Index).*

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High Yield issuance trends



Source: PitchBook Data, Inc. data as of 30.10.2026

Early refinancing continues to support primary market activity, with some companies encouraged to act ahead of time to limit the risk of a rating downgrade.

A default cycle that is more idiosyncratic than systemic

We should see a gradual rise in the European High Yield default rate, from 4.0% at end-2026 to 4.5% by mid-2027[2]. This rate remains well below those seen during systemic crises such as 2009 (~9%) or even at the Covid peak (~5.5%).

The distress ratio (around 8%) has risen more than the projected default rate, suggesting more conservative pricing of risk than implied by the base-case default scenario.

Technicals continue to support the market

After recording EUR 9 billion in net inflows in 2025, the European High Yield market continues to benefit from sustained demand, with cumulative net inflows of EUR 4.2 billion as of 4 November 2026[3].

Attractive risk-adjusted yields in an environment demanding a highly selective approach

The yield to maturity of the SCOR ESG Euro Short Term Duration High Yield fund rose to 7.21% as of 30 October, with a duration of 2.3 years, leaving a very narrow differential relative to the Euro High Yield index's yield to maturity of 7.33%.

In addition, the fund's positioning, reflected notably in certain convictions regarding likely refinancing by B-rated issuers, appears well suited to capturing, in the short term, yield levels not seen since April 2025, at the time of the Trump administration's tariff announcements.

Outlook

In conclusion, the repricing seen in recent weeks has significantly improved entry points into the short-term High Yield segment.

Despite a more volatile macroeconomic environment, market fundamentals remain resilient, refinancing remains accessible and the base-case default scenario is already priced in.

Against this backdrop, current yield levels offer an attractive carry opportunity with limited duration risk and once again attractive compensation for credit risk, within a selective investment process.

[2] *Source : Deutsche Bank.*
[3] *Source : JP Morgan.*



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