

U.S. High Yield: Beyond the Maturity Wall

INSIGHTS

The maturity wall facing U.S. high yield bond issuers is sizeable. But given the market's composition today, the wall appears less daunting for issuers—and, for investors, it's helping shape potentially compelling opportunities.



Kelly Burton

Managing Director,
High Yield Portfolio Manager



Sean Feeley

Managing Director,
High Yield Portfolio Manager



Adam Schauer

Managing Director,
High Yield Portfolio Manager



In the U.S. high yield bond market, issuers are facing a significant maturity wall, with around 20% of the market maturing within the next three years—and another 22% of the market maturing in the next three to four years.¹ With interest rates remaining elevated, higher funding costs can make it challenging for issuers to refinance this large amount of debt, especially when financial conditions or fundamentals are stretched. This could potentially lead to an increase in distressed situations—and, in extreme cases, defaults.

While these concerns are real, they may be somewhat overblown and may also overshadow potential total return opportunities. Specifically, we believe there are a number of reasons that may help to minimize the potential for the worst-case outcomes.

1. A Higher-Quality Profile

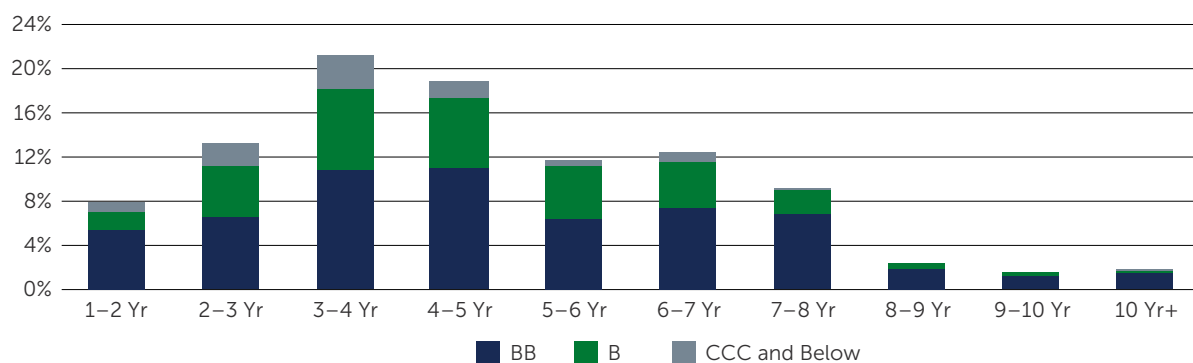
The **fundamental picture for high yield corporates remains healthy overall**. In particular, many issuers have been strengthening their financial positions over the years—for instance, the leverage profile has been well-managed for the majority of U.S. issuers, with net leverage at 3.6x today.²

Reflecting this strength is the **U.S. high yield market’s credit quality, which is nearly the highest in the market’s history**. BB issuers now comprise 58% of the U.S. market, compared to 49% a decade ago.³ At the same time, the percentage of CCCs in the market has been decreasing, from 13% 10 years ago to 9% today. In addition, the **U.S. high yield bond market is the most secured it has been historically**, with 37% of debt outstanding in secured bonds, compared to just 20% 10 years ago.⁴

CCCs COMPRISE A SMALL PERCENTAGE OF NEAR-TERM MATURITY WALL

Refinancing concerns and default risks tend to loom largest for issuers with CCC and below ratings, as they typically have a lower interest coverage ratio and higher balance sheet leverage compared to higher-rated companies, magnifying solvency risks. However, **CCCs represent only a small fraction of the U.S. high yield market that is nearing maturity**. Of the 20% of today’s issuers facing maturities in the next three years, only about 3% are rated CCC (**Figure 1**).

Figure 1: CCCs Make Up a Small Fraction of the U.S. High Yield Maturity Schedule



Sources: BofA ICE; Bloomberg. As of March 31, 2026.

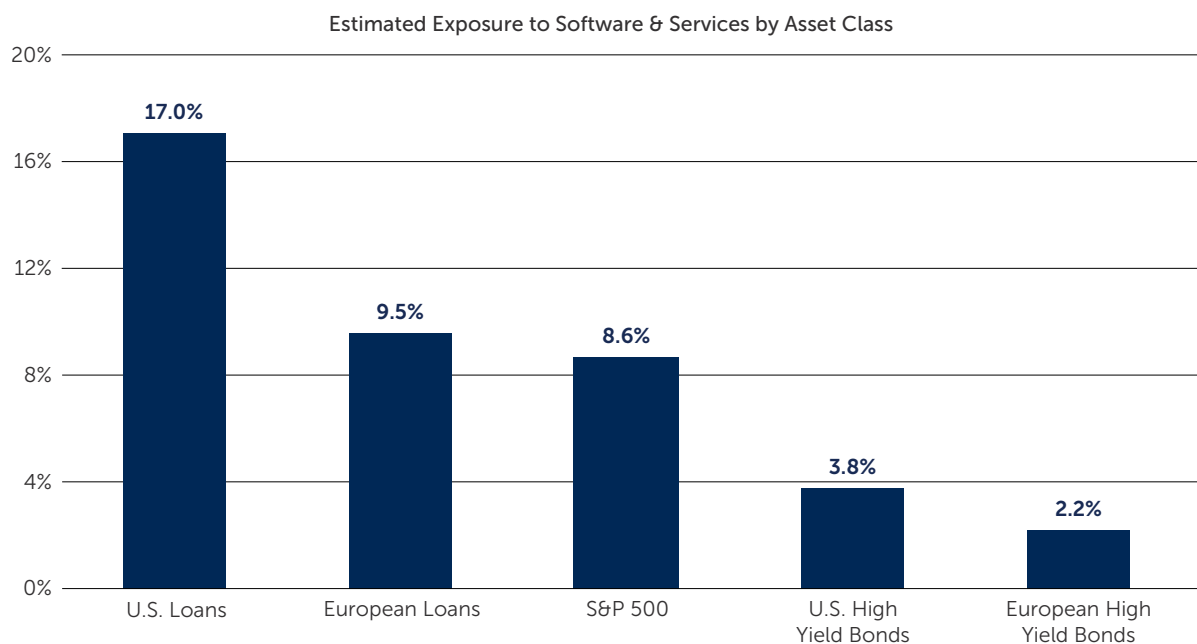
1. Sources: BofA ICE; UBS. As of February 28, 2026.
 2. Source: CreditSights. As of December 31, 2025.
 3. Source: BofA ICE. As of April 21, 2026.
 4. Source: BofA ICE. As of April 21, 2026.

2. Minimal Exposure to Software

Concerns around artificial intelligence (AI) related disruption have been a key driver of markets this year. With fears mounting that AI is threatening software companies' underlying business models and profit margins, the software sector has seen a significant sell-off this year. As a result, default forecasts have risen in markets with greater exposure to the sector.

In this context, **the U.S. high yield bond market has been largely insulated from the higher risk of defaults relative to other asset classes—particularly given that software comprises only around 3.8% of the market (Figure 2).**

Figure 2: U.S. High Yield is Largely Insulated from Software Default Risks



Sources: Morgan Stanley Research; Bloomberg. As of March 31, 2026.

3. Issuers Have Already Made Progress on Refinancing

Further, many issuers have been proactively coming to the market to refinance near term maturities ahead of scheduled debt repayments. More broadly, **high yield issuers typically seek to refinance their debt 12-24 months in advance of the final maturity, as their balance sheets are sensitive to liquidity implications as debt moves from a long-term to a short-term liability.**

“The U.S. high yield bond market has been largely insulated from the higher risk of defaults relative to other asset classes.”

In 2025, around 64% of U.S. gross high yield debt issuance was used to repay existing debt obligations.⁵ **Looking ahead for this year, refinancing activity is likely to continue to dominate issuance.** Year-to-date in 2026, over 50% of the transactions have been for refinancing purposes.⁶

Technical conditions also remain supportive. Strong demand from yield focused investors continues to provide a steady bid for the asset class, while portfolio managers must routinely reinvest coupon income back into the market, creating a persistent base of repeat buyers. Together, these dynamics help support new issuance absorption and refinancing activity, reinforcing constructive market technicals.

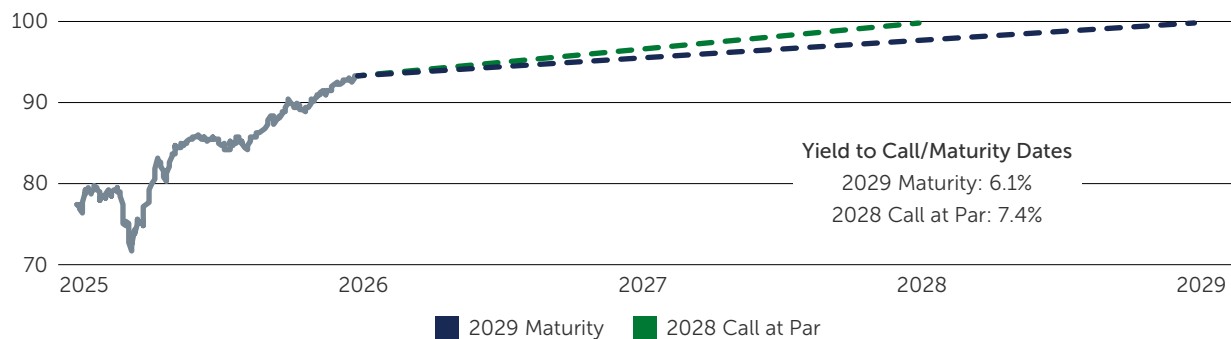
‘EARLY REFINANCING’ CAN POTENTIALLY BOOST RETURNS

This dynamic has potentially significant implications on total returns. For the six to 12

months prior to a refinancing, potential returns are more likely to be impacted by refinancing events than changes in government bond yields or spreads. **As issuers come to market to refinance 2027, 2028 and even 2029 maturities, a ‘pull-to-par’ effect will occur, where discounted bonds are repaid at par, thus monetizing price discounts over a shorter period than standard yield calculations would indicate.**

This suggests that the total return potential may exceed yield estimates. For example, with the current average price of U.S. high yield bonds at 97.65, **refinancing a bond scheduled to mature within the next 24 months could potentially add an extra 50 to 150 basis points (bps) to returns,** over and above those indicated by a traditional yield-to-worst calculation. As **Figure 3** highlights, for a bond with a 2029 maturity, refinancing it in 2028 could potentially offer an extra 130 bps in yield.

Figure 3: Pull-to-Par Dynamic



Source: Bloomberg. As of January 27, 2026. Provided for illustrative purposes.

5. Source: CreditSights. As of March 31, 2026.
 6. Source: CreditSights. As of March 31, 2026.

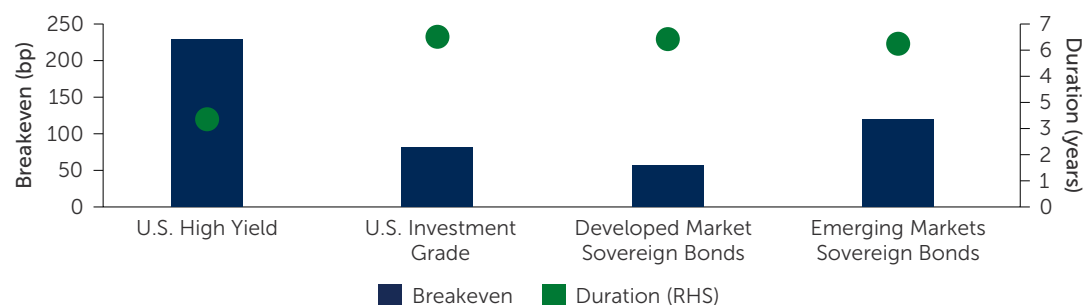
A Compelling Opportunity in Uncertain Times

While the maturity wall may initially appear daunting given its size, the U.S. high yield market appears well-positioned to tackle it—largely due to a higher-quality profile, relatively limited exposure to the software sector and issuers’ proactive approach to refinancing their debt.

In addition, the **U.S. high yield market has a historically low duration profile, which is around three years today** compared to the 4.15 year average duration of the U.S. high yield bond market.⁷ At the same time, income **levels remain attractive, with U.S. high yield bonds offering a 6.9% yield today.**⁸ These characteristics mean the asset class offers compelling downside protection relative to other fixed income markets. In particular, **the U.S. high yield market exhibits one of the most attractive breakeven profiles:** government bond yields would have to increase by 229 bps before generating a negative return (assuming a 12-month holding period) in the U.S. high yield bond market, compared to 75 bps for U.S. investment grade bonds and 107 bps for emerging market sovereign bonds (Figure 4).

This is particularly notable in the current volatile environment: investors concerned about potential losses from spread widening or rate moves may find reassurance in the fact that **changes in government bond yields have historically had a very minor impact on U.S. high yield total returns.**

Figure 4: High Yield Breakevens Illustrate the Attractive Income and Low Duration of the Asset Class Today



Sources: ICE BoA; JP Morgan; Barings’ analysis. As of March 31, 2026. Calculated as yield to worst divided by modified duration to worst. For illustrative purposes only. This analysis is intended to demonstrate only the specific elements discussed. This analysis does not represent all of the elements and variables that could be factored into the potential outcome.

Overall, U.S. high yield bonds offer return potential that may exceed what simple yield measures suggest, alongside downside protection and diversification benefits that are less sensitive to interest rate movements. That said, risks remain. The asset class is far from homogenous, and refinancing risks vary widely across individual issuers, underscoring the importance of selectivity. We believe an active approach, deep resources and experience in the market can better position investors to navigate the headwinds on the horizon and capture the potential opportunities ahead.

7. Sources: BofA ICE; Bloomberg. As of April 21, 2026.

8. Source: BofA ICE. As of April 21, 2026.

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