

Why Allocate to Global High Yield in a Balanced Portfolio?

Global High Yield (GHY) has matured from being a US-centric, niche exposure to a globally diversified, highly rewarding asset class worth investing in. With over \$2 trillion* in outstanding bonds, HY plays a key role in income portfolios across pension funds, insurers, and sovereign wealth funds.

We believe there are three key reasons why an allocation to HY should be a permanent, strategic component of an investor's asset allocation model and even as a substitute to replace a part of their equity allocation.

1. Strong Income Generation and Attractive Reward to Risk

Income has historically been the largest contributor to HY returns — with the high coupon/yield income acting both as a cushion in downturns, and an additive return factor in recoveries. Investors have been well compensated for taking the relatively higher credit risk in HY bonds. Over the past 26 years,* GHY has never posted two consecutive years of negative returns — even during major crises.

Entry yield continues to be a reliable predictor of future returns, and today's yield levels remain attractive even as credit spreads sit at median-historical ranges.

2. Diversification and Lower Volatility Compared to Equities

High Yield can serve as both a satellite allocation for Core Fixed Income, or a lesser volatile alternative to equities. It typically draws down less sharply than equities during market stress and recovers more quickly, preventing forced asset reallocations at unfavourable points.

Re-allocating even 5–10% of equity exposure to HY in a balanced portfolio could lower overall portfolio risk without sacrificing much return potential. A strategic allocation to HY can create a more balanced and resilient portfolio, especially when used as a complement to both equities and investment-grade bonds.

3. Improved Market Access and Efficiency

The structure of the HY market has evolved significantly in recent years. The rise of electronic trading, the growth of HY ETFs, and the adoption of innovative trading protocols have enhanced liquidity, transparency, and execution quality. Investors ultimately benefit from all these improvements, and can now access diversified HY exposure more efficiently and at lower cost than ever before.

The case for investing in HY through an indexed approach has strengthened. Investors are finding that indexing is a reliable way to quickly deploy capital to the asset class at scale, when yields/spreads reach attractive levels.



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The Outlook

While the global macro outlook has turned more uncertain, the micro story (corporate fundamentals) has been healthy, and the corporate credit cycle for public HY is not overextended this time.

Our baseline view is that while a slowdown is unavoidable, a deep US recession remains unlikely in 2025.

Global High Yield at 7.5–8.0% levels prices in those risks, and provides an appealing opportunity for total-return oriented investors.

To learn more visit:

The Evergreen Case for a Strategic Allocation to High Yield

<https://www.ssga.com/institutional/insights/fixed-income-case-for-evergreen-global-high-yield>



* As of 31 March 2025

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