

## POINT OF VIEW

# 2026 High Yield and Leveraged Loan Mid-Year Review and Outlook: Opportunity Beneath the Surface

Almost halfway through 2026, leveraged credit markets have completed quite the round-trip. Markets entered the year on strong footing before navigating two significant shocks: a software-led repricing across portions of the leveraged loan market and a geopolitical-driven energy shock following the outbreak of hostilities with Iran. Despite these challenges, both high yield bonds and leveraged loans generated positive returns through the first five months of the year, underscoring the resilience of the asset class and the continued support provided by attractive all-in yields and generally healthy corporate fundamentals.

The first major test came early in the year when investors reassessed the potential implications of artificial intelligence for software and technology-related business models. The resulting selloff was concentrated rather than systemic, with technology-heavy portions of the leveraged loan market experiencing the most significant weakness. While the high yield bonds of certain software issuers faced substantial spread widening, the broader credit market proved resilient. Issuers with lower exposure to these sectors largely avoided the worst of the volatility.

The second challenge that emerged during the first quarter was the eruption of conflict in the Middle East, as cascading concerns surrounding global energy supply drove oil prices sharply higher. Treasury yields rose as inflation expectations increased and markets reassessed the path of monetary policy. Yet even amid elevated volatility, credit spreads ultimately remained well behaved.

By the end of May, much of the spread widening experienced during the first quarter had retraced, demonstrating the market's ability to absorb macroeconomic shocks without triggering a broader deterioration in credit fundamentals.

While headline returns have been respectable, beneath the surface dispersion has increased. Market averages have remained relatively stable, but issuer-level outcomes have diverged meaningfully based on business quality, industry positioning, and exposure to structural change. In our view, this widening dispersion has been one of the defining characteristics of leveraged credit markets in 2026 and has created a more favorable backdrop for active management.

### What makes the current environment particularly interesting is the growing divergence between stronger and weaker credits.

Higher-quality issuers continue to enjoy favorable access to capital markets, while lower-rated borrowers face greater scrutiny from investors. This distinction is visible across both high yield bonds and leveraged loans, where the spread differential between quality cohorts has widened meaningfully. While broad market valuations remain relatively tight by historical standards, significant opportunities and risks exist beneath the surface.

**Figure 1: Leveraged Credit Performance: Year-to-Date as of May 31, 2026**

	Jan	Feb	Mar	Apr	May	YTD
U.S. High Yield	0.48%	0.17%	-1.19%	1.70%	0.49%	1.64%
U.S. Leveraged Loans	-0.30%	-0.78%	0.50%	1.30%	0.51%	1.20%
EUR High Yield (USD Hedged)	0.70%	0.32%	-2.71%	1.94%	1.07%	1.26%

**Source:** ICE, Morningstar. ICE BofA U.S. High Yield Index, Morningstar Leveraged Loan Index, ICE BofA Euro High Yield Index. Data through 5/31/2026.

**Figure 2: Ratings Cohort Decompression as of May 31, 2026**

	U.S. High Yield	U.S. Leveraged Loans	Loan – HY Spread
BB-rated	Tightest cohort	Small yield premium vs. BB HY	Minor
B-rated	Tightened on Apr–May rally	95 bps yield premium vs. B HY	Modest
CCC-rated	Widest range of outcomes	800+ bps vs. CCC HY	Wide

**Source:** ICE, Morningstar. ICE BofA U.S. High Yield Index, Morningstar Leveraged Loan Index. Data through 5/31/2026.

Primary market activity reflects this same bifurcation. Issuance has remained healthy across both high yield and leveraged loan markets, supported by refinancing activity, merger and acquisition financing, and capital investment. However, access to capital has become increasingly differentiated. Companies with durable business models and strong fundamentals continue to execute transactions on attractive terms, while weaker issuers face a more selective funding environment.

Corporate fundamentals remain generally supportive. Default rates have moved modestly higher but remain below long-term averages, balance sheets are generally healthy, and many issuers have successfully addressed near-term maturity needs. Nevertheless, declining recovery rates among certain distressed issuers highlight the importance of rigorous underwriting and careful credit selection, particularly in sectors facing structural challenges.

Private credit also experienced increased scrutiny during the first half of the year. Questions surrounding liquidity, fundraising conditions, and portfolio company performance have generated negative headlines and raised concerns about the sector's long-term trajectory. While we do not currently view these developments as a systemic risk to public leveraged credit markets, they reinforce the value of liquidity, transparency, and price discovery available in public markets.

Looking ahead, the macroeconomic backdrop remains mixed but constructive. Inflation has moderated from peak levels but remains above central bank targets, geopolitical risks remain elevated, and markets are now pricing in policy rate hikes. Against this backdrop, headline spreads remain near the tighter end of historical ranges, but yields continue to offer attractive income relative to much of the post-financial-crisis period.

**Figure 3: Spreads and Yields as of May 31, 2026**

Spreads (in bps, Option Adjusted Spread for High Yield; Discounted Spread to Maturity for U.S. Leveraged Loans)

	May 2026	2026 Max	2026 Min	5yr Avg	10yr Avg	15yr Avg
U.S. High Yield	274	328	274	359	395	444
U.S. Leveraged Loans	428	446	417	448	443	470
EUR High Yield	273	337	264	382	381	426

Yields (Yield-to-Worst % for High Yield; Yield-to-Maturity % for U.S. Leveraged Loans)

	May 2026	2026 Max	2026 Min	5yr Avg	10yr Avg	15yr Avg
U.S. High Yield	7.01	7.44	6.74	7.27	6.65	6.67
U.S. Leveraged Loans	8.09	8.33	8.03	8.19	7.00	6.53
EUR High Yield	5.41	6.17	4.93	5.43	4.53	4.86

**Source:** ICE, Morningstar. ICE BofA U.S. High Yield Index, Morningstar Leveraged Loan Index and ICE BofA Euro High Yield Index. Monthly data through 5/31/2026.

In our view, headline spread levels continue to obscure the opportunity set available to active investors. The growing dispersion across issuers creates a larger opportunity to identify businesses with resilient fundamentals while avoiding those facing deteriorating credit profiles. We continue to identify attractive opportunities across select single-B issuers, segments of the leveraged loan market where valuations adequately compensate for risk, and European credits with stable earnings profiles and strong pricing power.

The first half of 2026 reinforced a core principle of our investment philosophy: market volatility often creates opportunity, but only for investors with the capability to distinguish between temporary dislocations and permanent impairment. While headlines have focused on artificial intelligence, geopolitical uncertainty, and private credit stress, we believe the most important development has been the increasing divergence between strong and weak credits.

### Important Disclosures

This information has been prepared by Polen Capital without taking into account individual objectives, financial situations or needs. As such, it is for informational purposes only and is not to be relied on as, legal, tax, business, investment, accounting, or any other advice. Recipients should seek their own independent financial advice. Investing involves inherent risks, and any particular investment is not suitable for all investors; there is always a risk of losing part or all of your invested capital.

**No statement herein should be interpreted as an offer to sell or the solicitation of an offer to buy any security (including, but not limited to, any investment vehicle or separate account managed by Polen Capital).** This information is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. Unless otherwise stated, any statements and/or information contained herein is as of the date represented above, and the receipt of this information at any time thereafter will not create any implication that the information and/or statements are made as of any subsequent date. Certain information contained herein is derived from third parties beyond Polen Capital's control or verification and involves significant elements of subjective judgment and analysis. While efforts have been made to ensure the quality and reliability of the information herein, there may be limitations, inaccuracies, or new developments that could impact the accuracy of such information. Therefore, the information contained herein is not guaranteed to be accurate or timely and does not claim to be complete. Polen Capital reserves the right to supplement or amend this content at any time but has no obligation to provide the recipient with any supplemental, amended, replacement or additional information.

Any statements made by Polen Capital regarding future events or expectations are forward-looking statements and are based on current assumptions and expectations. Such statements involve inherent risks and uncertainties and are not a reliable indicator of future performance. Actual results may differ materially from those expressed or implied.

References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations.

Regardless of how the macroeconomic environment evolves during the second half of the year, our approach remains unchanged. We remain committed to bottom-up credit research, disciplined risk management, and identifying issuers with durable business models capable of generating attractive risk-adjusted returns across a range of market environments. In our view, the growing dispersion in credit quality across leveraged credit markets is not a challenge, but rather an opportunity, and one that we believe positions active managers like Polen Credit to create meaningful value for clients.

The ICE BofA US High Yield Index, which is maintained by ICE Data Indices, LLC, is market capitalization weighted and comprises U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. The ICE BofA Europe High Yield Index (USD Hedged) is a euro-denominated high yield corporate bond index with returns hedged into U.S. dollars. Morningstar LSTA U.S. Leveraged Loan Index: The Morningstar LSTA US Leveraged Loan Index is a broad, unmanaged high yield index composed of loans that meet the following inclusion rules; senior secured, minimum initial term of one year, initial minimum spread of Base Rate+125 basis points at inception, minimum size of \$50 million, and U.S. dollar-denominated. It is impossible to invest directly in an index. The performance of an index does not reflect any transaction costs, management fees, or taxes.

Discounted Spread to Maturity is a measure of the yield spread of a floating-rate loan above a reference rate, based on its current market price and expected repayment at maturity. Option Adjusted Spread (OAS) is the yield spread of a bond over a risk-free benchmark, adjusted for the impact of embedded options. Yield to Maturity (YTM) is the annualized return an investor can expect if a bond is held until maturity, assuming all interest payments are received as scheduled and reinvested at the same rate. Yield to Worst is the lower of the yield to call or yield to maturity.

### Past performance is not indicative of future results.

This information may not be redistributed and/or reproduced without the prior written permission of Polen Capital

---

## Connect with Us

For more information on Polen Capital visit [www.polencapital.com](http://www.polencapital.com) and connect with us on [LinkedIn](#).