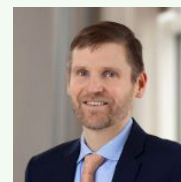


TAXABLE BONDS

AUGUST 2025

# HIGH YIELD OR INVESTMENT GRADE? MAKING THE RIGHT CALL IN TODAY'S MARKET



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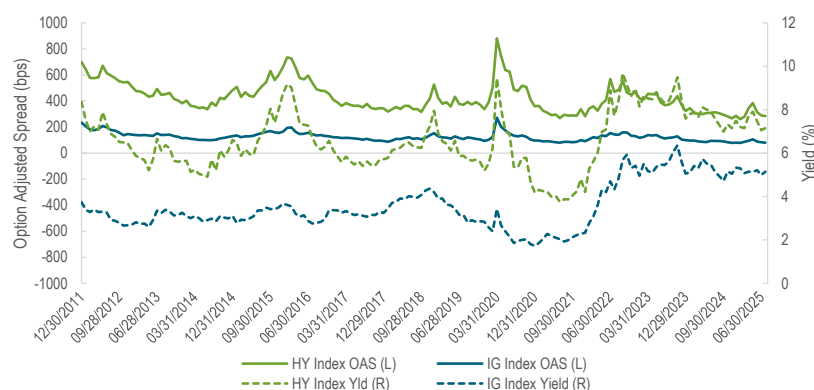
With high yield spreads near historic tightness and the macro backdrop still evolving, today's market calls for a careful balance between seeking income and managing risk. In our portfolios, we believe there are opportunities to pare down risk while remaining invested through a combination of sector and security analysis. We are selectively participating in the high yield market where we see compelling value, but often leaning into investment grade opportunities as well, as many offer better risk-adjusted returns.

## Staying Selective in High Yield

While the high yield market continues to offer attractive income, with the recent market movement, it may not be compensating investors enough for potential downside risks. This gives us good reason to be more cautious in the sector. This is expressly true farther down the credit spectrum and why we invest predominantly in BB-rated bonds in the high yield space. Fundamentals remain solid overall, but spreads are tight (**Figure 1**) and defaults are rising slightly off the low levels we've seen for the past few years.

**FIGURE 1**

### Historical Yields and Spreads for High Yield and Investment Grade Indexes



Data as of 12/31/2011 – 6/30/2025. Source: Bloomberg. HY Index OAS and Yld refer to the Bloomberg US Corporate High Yield Bond Index. IG Index OAS and Yld refer to the Bloomberg US Corporate Investment Grade Index.

While both high yield and investment grade bond spreads are at historically low levels, the high yield market's yield has fallen below its recent range while the investment grade market's yield is still in line. We feel this creates opportunities to target the investment grade market over high yield, due to its more attractive risk-adjusted yield. We believe this investment theme has developed because more and more fixed income buyers are targeting yield for their investment rationale.

## HIGH YIELD OR INVESTMENT GRADE? MAKING THE RIGHT CALL IN TODAY'S MARKET continued

While the investment grade market similarly has rallied, we believe the downside risks, in some cases, are less substantial. We're focusing on credits with resilient business models, strong cash flows, and management teams we trust. We believe being selective is critical to delivering strong risk-adjusted returns and our actively managed strategies work to avoid draw-downs through credit events. We believe that's the ideal strategy — while still holding high yield for its broader diversification and other benefits.

### Opportunistically Finding Value in Investment Grade

While we believe that high yield exposure continues to be an important allocation in multi-sector bond portfolios, in certain cases, we've found investment grade bonds offer better value for the risk taken. Whether it's due to dislocations in specific sectors, our credit view differing from the rating agencies, or periods of market volatility, we are actively shifting up in quality when the relative compensation makes sense. This flexibility to pivot as market conditions evolve is important in today's market.

As always, our goal is to build resilient portfolios that can weather a range of market environments. This means staying nimble, focusing on fundamentals, and being willing to favor quality when the trade-off is right. This is where active management proves its value: giving us the tools to respond in real time to market shifts and to help our clients stay well positioned for the long term.

*GW&K has been managing taxable bond portfolios for clients for more than three decades. We aim to take advantage of the relative valuation among distinct bond sectors and the increased opportunities to generate income and capital appreciation in changing market environments. Our selective and opportunistic long-term investing style seeks to capture attractive risk-adjusted returns over time.*

*Learn more about our firm and fixed income capabilities at [gwkinvest.com](http://gwkinvest.com).*

#### DISCLOSURES:

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