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September 2026

Beyond the yield

The strategic role of euro high yield

UBS

A primer comparing euro high yield and other credit segments

As credit portfolios expand beyond traditional public markets, investors are becoming more deliberate in how they allocate risk. In this context, euro high yield (EUR HY) has evolved from a satellite exposure into a core allocation, valued for its ability to deliver income while preserving liquidity and transparency. Its growing relevance reflects a more nuanced understanding of how it differs from other credit segments, including global high yield, leveraged loans and private credit. Together, these highlight EUR HY's role as a complementary and increasingly strategic building block within diversified portfolios.

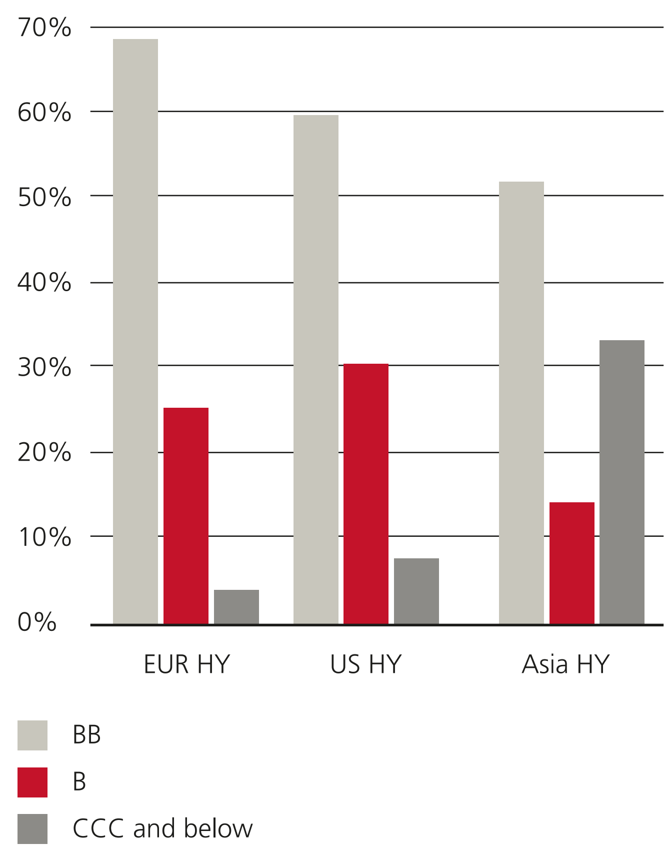
Euro high yield and global high yield

Euro high yield differs meaningfully from its global counterpart, which is broader and dominated by USD-denominated US issuers (just under 60% as at 31 July 2026), with greater exposure to cyclical sectors and lower-rated credits. EUR HY is structurally higher quality, with a bias towards BB-rated issuers, which has contributed to lower default rates historically. This quality tilt is reinforced by lower sensitivity to interest rate volatility; shorter effective duration, driven by call-heavy structures, has historically dampened price sensitivity to sharp rate moves. Currency also plays a key role. For EUR-based investors, EUR HY avoids the cost of hedging USD exposure, while USD investors may benefit from cross-currency dynamics (as of July 2026 1.4% pick up). Sector composition further differentiates the asset class, with EUR HY having lower exposure to energy in favor of telecommunications and non-cyclical sectors, resulting in lower index-level cyclicality. These advantages are offset by a smaller market size – approximately a fifth of global high yield – which can limit idiosyncratic alpha opportunities. Yields are also typically lower, and performance may lag in strong risk-on environments. EUR HY is well suited to investors prioritizing quality, stability and income.

Ratings allocation - Europe vs. US vs. Asia HY MV% by rating

(EUR HY[1] vs Asia HY[2] and US HY[3])

The European HY market is higher rated compared to the US and Asia HY market.



1 ICE BofA Eur High Yield Constrained index, as of July 2026
2 JACI Non-Investment Grade Index, as of July 2026
3 ICE BofA US Cash Pay High Yield Constrained index, as of July 2026

Anaïs Brunner,
Head of UK Fixed Income Specialists

Sector allocation and effect on default environment – default cycle (%)[4]

The European HY market has more of a tilt towards less cyclical sectors, which has created a long-term, lower default environment vs. other HY markets.

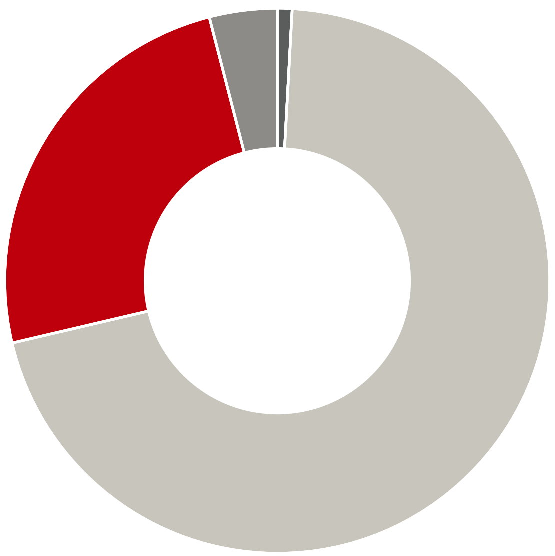
4 S&P as of July 2026
Please note that past performance is not a guide to the future.

Euro high yield and leveraged loans

The distinction between EUR high yield and leveraged loans is primarily driven by differences in rate sensitivity, market structure and return dynamics. In falling-rate environment EUR HY offers greater upside through duration and spread compression while loans provide a more defensive profile. The floating-rate structure of loans limits duration risk, with returns primarily driven by carry as well as spreads, while prices tend to remain anchored near par due to refinancing behaviour. Liquidity is also a key differentiator. EUR high yield bonds benefit from deeper secondary market trading, more efficient price discovery and generally tighter bid–offer spreads, offering relatively stronger liquidity even in stressed markets and making them well suited for tactical allocation. In contrast, loans, given their over the counter structure, tend to trade less frequently and involve longer settlement processes, although ongoing improvements in market infrastructure continue to support liquidity and transparency over time. EUR HY offers broader and generally higher-quality exposure, while loans tend to have greater exposure to leveraged, often sponsor-backed issuers. That said, loans retain defensive characteristics: their senior secured status supports higher recoveries and their floating-rate nature provides protection in rising-rate environments.

EUR HY

ICE BofA EUR HY Index



- BB – 70.47%
- B – 24.65%
- CCC and below – 4.02%
- Cash and equivalents – 0.87%

Source: UBS, as of 31 May 2026

European Loans

S&P UBS West Euro Leveraged Loans

- BB – 10.38%
- B – 81.35%
- CC and below – 8.27%

Euro high yield and private credit

The comparison with private credit centers on liquidity, transparency and valuation dynamics. EUR HY's daily liquidity enables more active portfolio management due to the ability to adjust exposures. Private credit, by contrast, is typically long dated and less flexible. Valuation further differentiates the two: EUR HY benefits from continuous market pricing, while private credit relies on model-based valuations that may lag underlying conditions. EUR HY is also operationally simpler, avoiding capital calls and complex legal structures, and provides broader diversification across issuers and sectors. Private credit portfolios tend to be more concentrated, with heavier exposure to software and AI-exposed businesses, and often employ higher structural leverage, which can amplify downside risk. This is balanced by private credit's illiquidity premium resulting in higher yields, as well as stronger covenant protections.

Breakdown of Euro High Yield Top Three Allocations vs. Euro Private Credit

Private credit

Information technology	41%
Healthcare	14.5%
Consumer Discretionary	11.5%

Euro High Yield

Telecommunications	15.3%
Automotive	10.3%
Healthcare	8.3%

Source: IMF, as of April 16 2024

From yield allocation to core allocation: the case for euro high yield

Across credit markets, EUR high yield stands out for its combination of income, liquidity and transparency. While it may not fully match the yield premium of private credit or the defensive positioning of loans, it can offer a balanced, adaptable exposure. As a result, EUR HY is increasingly being positioned not as a niche allocation, but as a core component of modern credit portfolios.

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