Market Views

THE GREAT WALL OF MATURING CREDIT

June 2025

INVESTMENT VIEWS
FROM THE BNY INVESTMENT INSTITUTE

Summary

- 2025 is likely to be defined by slower growth, stickier inflation, and a Fed in no rush to cut. This combination raises the cost of capital just as a maturity wall looms nearby, putting pressure on the weakest balance sheets.
- In the U.S., high yield debt maturing in 2025 is expected to be roughly 15% of total debt maturing. This number increases non-linearly to roughly 50% in 2028. High yield issuers are facing a looming maturity wall, but this wouldn't have been as big of a concern six months ago when growth prospects were positive. What puts today in a different lens is that global trade tensions may have potentially changed the market outlook for corporate debt funding.
- As the impact of uncertainty from tariffs flows through and should the expected slowdown turn out worse than feared, we expect high yield spreads to widen over 200 basis points (bp) from current levels in the second half of this year.
- However, if we're wrong and the U.S. economy faces a shallower slowdown (or outright recovery), lower inflation, and looser Fed policy than expected, high yield issuers may see a continuation of its decent performance.
- On net, for credit investors, the current macro environment calls for active credit management, sector selection, curve positioning, and tilting higher quality. Relatedly, the story is similar for equity investors, which is to be selective in sector and industry, monitor company fundamentals, and tilting defensive and higher quality.

Credit Market Review

The credit landscape is shifting. On the back of rate cut expectations, strong asset valuations, and robust economic growth, financing conditions were supportive for new issuance in 2024 and particularly supportive of more highly leveraged borrowers, such as those rated high yield. The reverse tends to be true when financing conditions deteriorate and liquidity falls. But unlike 2024, 2025 is ushering a different backdrop. One that is likely to be defined by slower growth, stickier inflation, and a Fed in no rush to cut (see **Vantage Point** for detailed outlook and scenarios). This combination raises the cost of capital just as a maturity wall looms nearby, putting pressure on the weakest balance sheets. We outline three observations in the credit market that support our view of an active, high-quality tilt within the credit space.

(i) Looming Maturity Wall

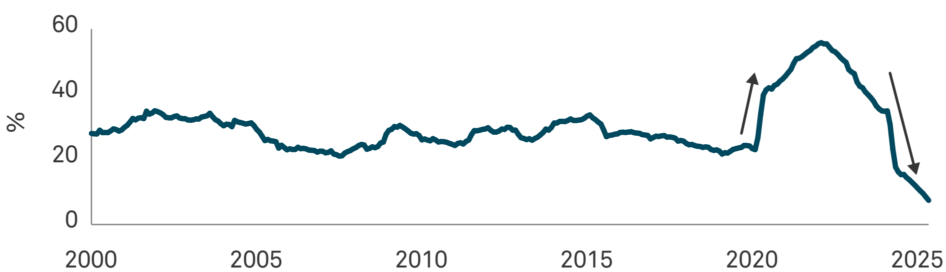
Positively, 2024 allowed borrowers to make meaningful progress on addressing near-term maturities and reduce obligations scheduled further out. Nonetheless, issuers still face maturities of considerable amounts of debt that they issued during COVID-19. Effectively, this means that issuers could be facing higher refinancing costs today (even under the benign assumptions that the Fed were to cut rates by 25–50bp by year-end).

Globally, things took a turn in April, as policy-induced volatility led to the steepest decline in issuance since 2020, according to S&P Global. With policy measures and money supply growth shaping up to be more restrictive than post-COVID, the demands for global refinancing appear more pressing today.

For context, in January 2020, global high yield debt scheduled to mature in the next 48-months was over $1.5 trillion. Today that amounts to roughly $2.5 trillion. Effectively, the global maturity wall for high yield issuers is more than 66% higher today versus 2020 despite a similar shock in the credit market. Note that there was an abundance of liquidity post-COVID ($3 trillion in 3 quarters), which we think is unlikely to be the case today (Chart 1).

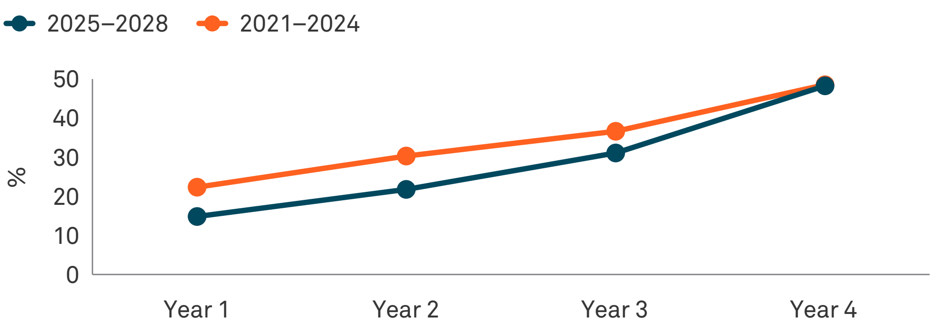
In the U.S., high yield debt maturing in 2025 is expected to be roughly 15% of total debt maturing. This number increases non-linearly to roughly 50% in 2028 (Chart 2). In other words, high yield issuers are facing a looming maturity wall, but this wouldn't have been as big of a concern six months ago given the trajectory and composition of maturing debt was similar post-pandemic and positive growth prospects. What puts today in a different lens is that global trade tensions may have potentially changed the market outlook for corporate debt funding.

CHART 1: U.S. MONEY SUPPLY GROWTH (4-YEAR ROLLING)



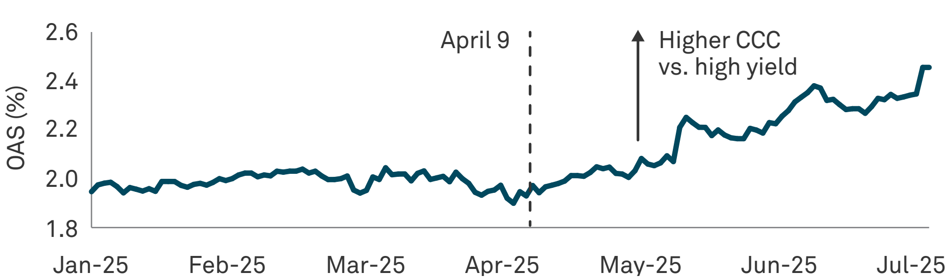
Source: Federal Reserve, BNY Investment Institute. Data as of July 7, 2025.

CHART 2: MATURING HIGH YIELD DEBT
% of total debt



Source: S&P Global, BNY Investment Institute. Data as of June 17, 2025.

CHART 3: CCC RELATIVE TO HIGH YIELD SPREADS (OAS)



Source: Bloomberg, BNY Investment Institute. Data as of July 7, 2025.

(ii) Elevated and Volatile Funding Costs

In the 12 months through Q1 2025, despite most newly issued debt being allocated to refinancing existing debt, firms used the credit market to increase leverage — global rated corporate debt rose over 3%. High yield issuers increased debt by roughly 5%, borrowing more aggressively than investment grade issuers where they expanded their balance sheet by about 3%.

Funding costs have been volatile. Yields on 10-year U.S. Treasuries spiked above 4.5% in May and June and high yield borrowers' cost of funding has been more affected than investment grade as credit spreads for high yield bonds widened briefly by over 100bp.

A higher need for refinancing typically lends itself vulnerable to rate volatility. Rising rates or spreads widening during refinancing windows could become a hurdle for issuers and potentially see increases in default probabilities. Globally in May, monthly defaulted debt more than doubled from April, reaching over $13 billion with 74% originating from the U.S.

Notably, with current financing conditions, it is expected that in the U.S., BBB and BB bonds maturing in 2025 will see an increase of 150bp and 184bp in newly issued debt, respectively.

(iii) From Noise to Trend

At the surface, market pricing has largely reverted to pre-Liberation Day levels. High yield spreads (i.e., compensation for credit risk) hovers around 300bp.

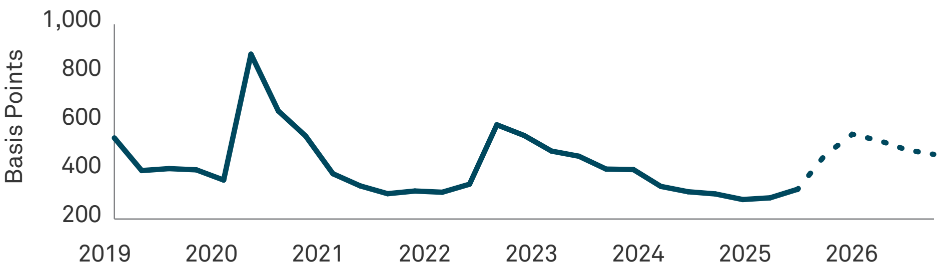
But, when investors become more risk averse, investor demand for CCC category bonds tends to be the first casualty. With this measure, we observe that while the broad high yield basket spreads declined since the tariff announcement shock, CCC spreads have slowly inched higher (Chart 3).

Somewhat concerningly, before the full impact of tariffs, U.S. distress ratio had already jumped over 1.5 percentage point to over 7% (from March to April), surpassing its five-year average. The U.S. distress ratio measures the proportion of speculative-grade issues with spreads of more than 1,000bp relative to U.S. Treasuries (the five-year average is 6.4%).

Ongoing uncertainty is expected to further dampen business and consumer confidence, potentially impacting corporate investment, employment, consumer spending, and overall economic growth.

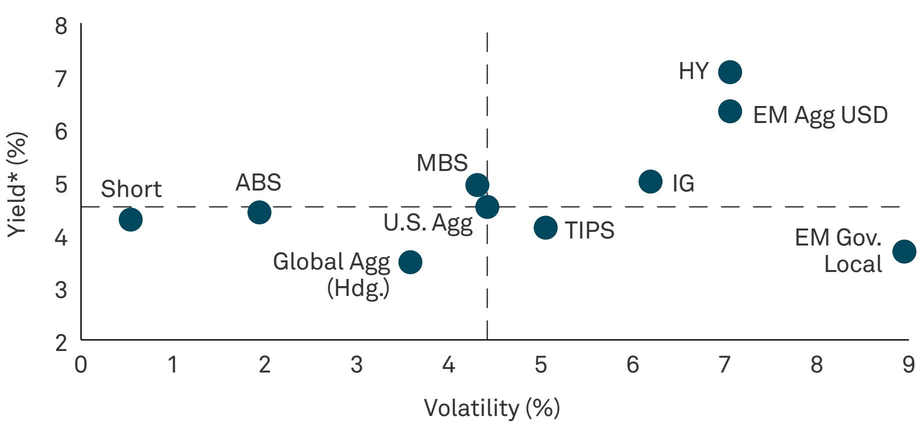
Notably, sectors that saw an increase in their distress ratios from March included sectors sensitive to business investments (capital goods), global trade (automotive), and domestic consumer demand (retail and restaurant).

CHART 4: U.S. HIGH YIELD HISTORICAL SPREADS AND FORECAST



Source: BNY Investment Institute forecast as of June 9, 2025. Forecast denoted by dotted line.

CHART 5: FIXED INCOME SECTORS



Source: Bloomberg, BNY Investment Institute. Data as of Jul 7, 2025.
* Yield: yield-to-worst.

Risks, Ideas, and Implications

While market pricing indicators are generally back to pre-April 2 levels, a deeper dive suggests a somewhat fragile headline. What is clear, however, is the sheer amount of outstanding debt facing a maturity wall — both investment grade and high yield. High yield issuers tend to refinance their debt 12–18 months ahead of maturity, which suggests late 2025 and 2026 will be peak refinancing season as roughly 50% of total debt maturing in 2028 belongs to high yield issuers.

In our latest Vantage Point forecast, our base case is for a slowdown in the U.S. economy through 2025 and into 2026 with risks tilted to the downside.

In this world, we expect high yield spreads to widen over 200bp from current levels in the second half of this year as the impact of uncertainty from tariffs flows through (Chart 4).

However, if we're wrong and the U.S. economy faces a shallower slowdown (or outright recovery), lower inflation, and looser Fed policy than expected, high yield issuers may see a continuation of its decent performance. Nonetheless, in this world, given distress ratios and default probabilities have nudged in recent months, investors' credit strategy should be that of selectivity.

On net, for credit investors, the current macro environment calls for active credit management, sector selection, curve positioning, and tilting higher quality. Relatedly, the story is similar for equity investors, which is to be selective in sector and industry, monitor company fundamentals, and tilting defensive and higher quality.

Indices: U.S. Agg: Bloomberg U.S. Agg Total Return Index. ABS: Bloomberg U.S. Agg ABS Total Return Index. Short: Bloomberg Short Treasury Total Return Index. Global Agg (Hdg.): Bloomberg Global-Agg Total Return Index Hedged USD. MBS: Bloomberg MBS Total Return Index. TIPS: Bloomberg U.S. Treasury Inflation Notes Total Return Index. EM Gov. Local: Bloomberg EM Local Currency Government Total Return Index. IG: Bloomberg U.S. Corporate Total Return Index. EM Agg USD: Bloomberg EM USD Agg Total Return Index. HY: Bloomberg U.S. Corporate High Yield Total Return Index. Option-adjusted spread (OAS): the OAS spread is a constant spread that when added to all discount rates from the U.S. treasury curve on the binomial interest rate tree model will make the theoretical value of future cash flows equal to the market price of the instrument.

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