Opportunity Knocks in High-Yield Bonds

By Karen Riccio

Most investors remain myopic, focusing mostly on equities, AI, politics, war, and waiting for President Donald Trump's next shoe to drop.

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Are they focused on bonds? Not so much.

I, however, am laser-focused on bonds, the high-yield variety to be precise, and you should be too.

For investors with three- to five-year horizons, a tolerance for some turbulence, and an eye on income — high-yield bonds are lining up as one of the more compelling opportunities in today's market.

The strategy is straightforward: Buy high-yield bonds today while the income is attractive, and collect that yield while you wait. If the credit cycle runs its course and conditions eventually improve, as history strongly suggests, rising bond prices could reward your patience with capital appreciation on top of the income you've already earned.

Nobody understood that better than Howard Marks. The co-founder of Oaktree Capital built one of the greatest investment track records in Wall Street history by buying bonds nobody else wanted — high yield in 1978, distressed debt in 1988 — at prices nobody else would touch.

His philosophy remains unchanged: "Success in investing is not a function of what you buy. It's what you pay for it."

High-yield bonds, in plain English, are debts issued by companies that carry more risk. Because lenders take on more risk, they get paid more, hence higher yields. The yield is higher to compensate investors for the real possibility that some of these companies hit hard times and can't pay up.

It's like lending money to a friend who owns a small restaurant. The restaurant owner might pay you back at 7% because you're taking a chance. **Exxon Mobil (XOM),** on the other hand, gets money at 4% because no one's losing sleep over whether an oil giant will default.

That extra return over safer investments is called a spread, the difference between what you'd earn from a U.S. Treasury bond versus a high-yield corporate bond. When spreads are wide the market grows nervous, so you get paid more to take on risk. When spreads are tight the market relaxes, and that extra premium shrinks.

Right now, spreads are historically tight. That means the market isn't throwing a fire sale on credit risk just yet. But the cycle is turning, defaults are creeping higher, and the setup for a much bigger opportunity is brewing beneath the surface. Investors who understand that are already moving.

Why now? Because the income itself is already appealing, even if the bigger opportunity is still ahead.

The flagship high-yield ETF is the **SPDR Bloomberg High Yield Bond ETF (JNK),** currently yielding around 7.3% (JNK stands for "junk," what Wall Street used to call high-yield debt). That's not shabby in a world where your savings account pays less than the inflation rate.

iShares iBoxx High Yield Corporate Bond ETF (HYG) yields from 5.7% to 6.6%. The appeal lies with monthly income, liquidity, and the ease of buying shares from any brokerage account.

If you're sitting in cash earning 4.5%, picking up an extra 2% to 3% per year in income isn't crazy. And, like I said, if the credit cycle does run its course, rising bond prices could make the opportunity doubly rewarding.

Why This Time Is Different

Here's the shift that makes 2026 genuinely different from the high-yield story you've heard before.

For years, "high yield" meant companies simply too small, too risky, or too leveraged from the start could not qualify for investment-grade status. These were the bottom feeders of the bond market so to speak, and why investors often referred to them as junk.

Today, a growing part of high yield is made up of what Wall Street calls "fallen angels" — companies that used to be investment grade and got knocked down. Think of them as the solid middle class of corporate America impacted by a rough stretch: a bad earnings cycle, a sector caught in transition, or a balance sheet that got too heavy when rates were near zero and money was essentially free.

That's a fundamentally different type of credit risk than your grandfather's junk bond. Fallen angels often have real businesses and a real shot at bouncing back.

The **VanEck Fallen Angel High Yield Bond ETF** (**ANGL**) is built entirely around this concept, and it uses the same basic playbook as private equity firms. PE firms make money by buying good assets at distressed prices and waiting for a recovery. ANGL does the same thing, but it's packaged in a liquid ETF anyone can buy for around $29 a share, with no million-dollar minimums, no 10-year lockups, and no fat fund fees eating away at your return.

The discount is created the moment a rating agency downgrades a company from investment grade. Big institutional fund managers are then required by their own rules to sell, regardless of whether or not the company is actually in trouble. That forced selling creates a price drop. ANGL steps in at that discount and waits.

As a result, ANGL has returned more than 8.78% over the past year, and carries a current yield of 6.7%. Since its 2012 launch, it has delivered an average annual return of roughly 7%, stronger than most people expect from the fixed income side of a portfolio.

With ANGL, you're not an owner. You're a lender. But you're lending at a discount and collecting income while you wait for the market to catch up.

For the investor who wants income and a clear conscience, **iShares ESG Advanced High Yield Corporate Bond ETF** (**HYXF**) screens out the most sinful stocks — stocks in the guns, tobacco, and coal businesses, for instance — while still delivering a yield around 6.2% and a three-year total return of better than 32%.

This is where patience becomes the real strategy. Distressed debt is merely bonds trading at deep discounts because markets believe the company is in serious trouble. This is not where most investors should be right now. Not because the opportunities don't exist, but because the real opportunity hasn't yet arrived. Default rates are rising, but they're still below the long-term average.

Moody's projects U.S. high-yield defaults will climb toward 4% in early 2026, approaching but still below the historic norm of around 4.5%. In past real credit crunches in 2008 or 2001, default rates shot past 10% to 12%.

We're not there yet. What is happening today is a slow build. For years, companies loaded up on debt when rates were near zero. Now those bonds are coming due, creating a wave of refinancing needs hitting all at once and at much higher rates.

Companies that can't afford the new cost of money will falter, and that wave will intensify through 2026 and beyond.

Marks has seen this movie before. He raised an $11 billion distressed debt fund during the 2008 financial crisis, the largest in history at the time, by waiting for exactly this kind of slow-building pressure to peak before spending capital. His rule: "Move forward, but with caution."

The most compelling entry points for distressed debt buyers are likely still ahead and the payoff yet to come.

How to Invest

The smart move for most investors is to position now for income as the distressed cycle matures. Here's what that looks like in practice:

- Core high-yield income: JNK or HYG for broad exposure and monthly cash flow — simple, liquid, widely understood.
- Fallen angel alpha: ANGL for higher-quality companies at a discount, with a history of outperforming broad high yield.
- Values-aligned yield: HYXF for income with an ESG angle — for the investor who wants yield without exposure to certain industries.
- Wait on distressed: When default rates peak and spreads blow out significantly wider than today, that's when the real opportunity arrives.

High yield is not a bond replacement for a conservative investor looking to preserve capital, such as a retiree. In a real recession or credit panic, these bonds fall, and often sharply. In 2022, JNK dropped about 15% and another quarter of its value in 2008.

Investors who follow this strategy will be privy to supercharged rewards. The window is open. The only question is whether you're positioned before the crowd gets there. ■

Karen Riccio has had a long career in journalism covering the financial and technology industries for InvestorPlace.com, ChangeWave, Business Financial Publishers, ETFtrends.com, Global Trends, Wall Street Daily, and Equities Magazine.