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The Strategic Case for Short Duration High Yield

Seeking more from credit income while maintaining lower interest-rate sensitivity.



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KEY TAKEAWAYS

- **A compelling long-term risk/return profile.** Short-dated high yield credit has historically delivered returns comparable to broader high yield with materially lower volatility and stronger risk-adjusted performance.
- **A strategic portfolio building block.** Short duration high yield can complement traditional fixed income allocations by adding incremental credit income and exposure without the same duration commitment as broader high yield.
- **An attractive opportunity today.** Today's yield environment offers investors an opportunity to pursue compelling income while maintaining a shorter-duration profile.
- **Well positioned for an inflationary regime.** Short duration high yield has delivered higher returns and lower volatility during the past five years of elevated inflation and interest-rate volatility.

Today's fixed-income environment offers an attractive opportunity to emphasize credit income while maintaining greater control over interest-rate risk. With income still compelling and economic growth remaining resilient, investors may not need to extend maturity to pursue attractive return potential. Short duration high yield offers a way to potentially capture the benefits of credit while limiting exposure to longer-term rate movements and duration-driven volatility.

Putting Credit to Work

The distinction between credit risk and interest-rate risk is increasingly important for fixed-income investors. To pursue additional income, investors do not necessarily need to extend maturity and take on greater exposure to longer-term rates. A shorter-duration approach helps investors to be more deliberate about where they take risk—emphasizing credit income and security selection rather than relying on duration to drive returns.

That approach can be particularly relevant when inflation, fiscal policy, economic growth, and other structural forces help to create uncertainty around longer-term interest rates. By keeping maturities shorter, investors can potentially remain invested in higher-income high yield credit markets while mitigating exposure to interest-rate sensitivity. The result is a portfolio that can be positioned more deliberately around its intended sources of return. Rather than relying on duration to drive performance, short duration high yield places greater emphasis on coupon income, credit spreads, and fundamental security selection.

Why Short Duration High Yield?

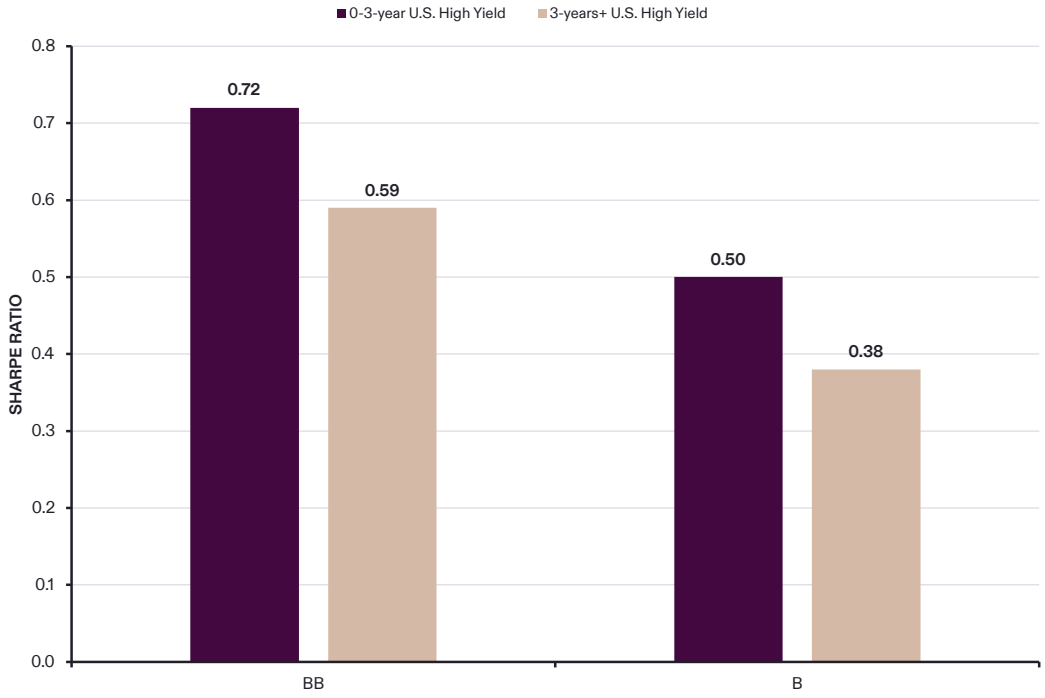
High yield has long been an important source of income and return within fixed income. At the same time, broad high yield carries greater interest-rate sensitivity than a portfolio focused on shorter-maturity securities. The question for investors is whether they can capture much of the credit opportunity without taking the full duration exposure of the broader market.

Short duration high yield can help address that trade-off. As bonds move closer to maturity, their prices generally become less responsive to changes in interest rates. Meanwhile, the relatively high income generated by the asset class provides a meaningful contribution to total return. The result is a portfolio that can rely more on income and credit selection and less on duration-driven price movements.

The combination of a shorter maturity profile and higher income can help reduce overall return volatility. Less duration-driven price sensitivity can cushion the impact of rate movements, while a larger income contribution can support total returns. Over time, this combination has produced a more attractive risk-adjusted outcome compared to longer-duration high yield, as shown in Figure 1.

Figure 1. Short-Duration High Yield's Historically Attractive Sharpe Ratio

U.S. high yield index Sharpe ratios by duration bucket, December 31, 1996-September 30, 2026



Source: Morningstar. Data as of September 30, 2026. **Past performance is not a reliable indicator or guarantee of future results.** The historical data shown in the chart above are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. U.S. high yield index represented by the BB-rated and B-rated segments of the ICE BofA U.S. High Yield Constrained Index. The Sharpe ratio was developed by Nobel laureate William F. Sharpe as a measure of risk-adjusted performance. It is calculated by taking an asset class's (or portfolio's) excess return above the risk-free rate and dividing it by the standard deviation of its returns. The greater the Sharpe ratio, the better the risk-adjusted performance has been.

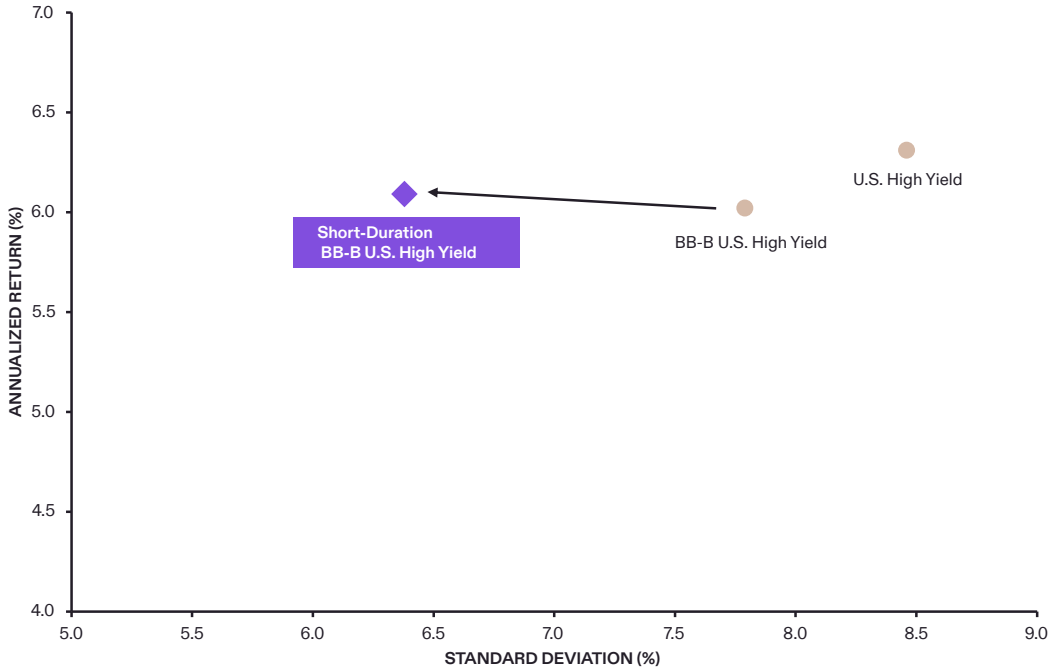
A Strategic Role in Fixed Income

Short duration high yield is sometimes viewed primarily as a tactical allocation; something investors use when they seek to reduce duration exposure or wait for greater clarity on where interest rates and bond yields might be headed. We believe its role can be broader: it can serve as a potentially durable source of credit income within a diversified fixed income portfolio.

The long-term record supports this role. Since 1996, short duration BB-B high yield has generated attractive annualized returns that have been comparable to broader BB-B high yield and the overall high yield market, while exhibiting materially lower volatility, as shown in Figure 2. That combination has resulted in a stronger historical risk-adjusted profile with consistently higher Sharpe ratios across 10-year, 20-year, and since inception periods.

Figure 2. Short-Duration High Yield Provided Similar Returns to Broad High Yield or Just BB-B, With Less Volatility

Returns, standard deviation, and Sharpe ratios over the 10-year, 20-year, and since inception periods for high yield bond indices, December 31, 1996-September 30, 2026



	10 YEAR			20 YEAR			SINCE INDEX INCEPTION		
As of September 30, 2026	Return	Standard Deviation	Sharpe Ratio	Return	Standard Deviation	Sharpe Ratio	Return	Standard Deviation	Sharpe Ratio
Short Duration BB-B U.S. High Yield	**4.84**	**5.65**	**0.43**	**5.72**	**6.97**	**0.59**	**6.09**	**6.38**	**0.60**
BB-B U.S. High Yield	4.79	6.93	0.36	5.96	8.26	0.54	6.02	7.70	0.50
U.S. High Yield	4.94	7.21	0.37	6.30	9.05	0.54	6.31	8.44	0.50

Source: Morningstar. Data as of September 30, 2026. **Past performance is not a reliable indicator or guarantee of future results.** The historical data shown in the chart above are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. Short-Duration BB-B U.S. High Yield represented by the ICE BofA U.S. High Yield BB-B 1-5 Year Index, BB-B High Yield represented by the ICE BofA U.S High Yield BB-B Index, and U.S. High Yield represented by the ICE BofA U.S. High Yield Constrained Index. The Sharpe ratio was developed by Nobel laureate William F. Sharpe as a measure of risk-adjusted performance. It is calculated by taking an asset class's (or portfolio's) excess return above the risk-free rate and dividing it by the standard deviation of its returns. The greater the Sharpe ratio, the better the risk-adjusted performance has been.

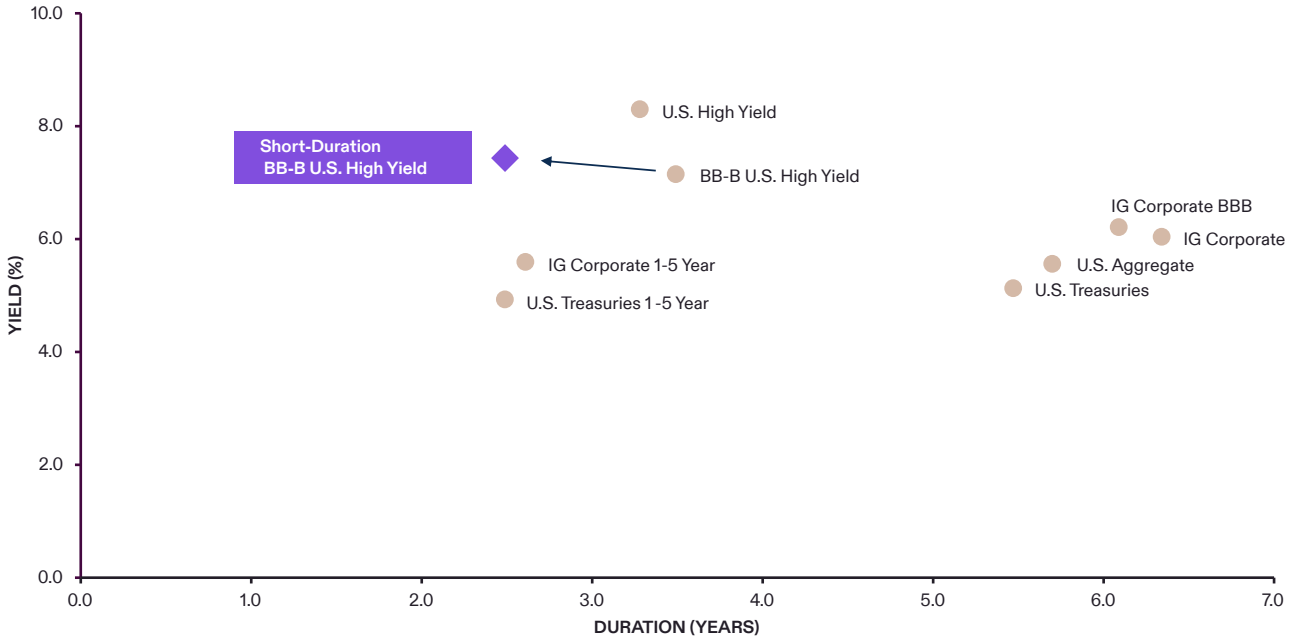
These attractive risk-adjusted returns reinforce why a strategic allocation to short duration high yield can complement longer-duration assets and help to diversify fixed income portfolios concentrated in longer-term investment-grade bonds or government securities. In this role, it can also provide an alternative to extending farther out the yield curve in pursuit of additional yield, allowing investors to seek return through credit selection and income while maintaining a more controlled duration profile.

The Opportunity in Today's Market

The short duration high yield market offers an attractive combination of yield and duration. As Figure 3 shows, the asset class may provide meaningfully more income than longer-duration fixed income alternatives while maintaining substantially less interest-rate sensitivity than broad high yield. For investors seeking income through credit exposure, that positioning can offer a compelling middle ground between traditional fixed income allocations and broader high yield—providing more income without taking the full duration and volatility of the broader market.

Figure 3. Short-Duration High Yield's Attractive Income and Limited Duration Exposure

Yield and duration of indicated fixed income indices as of September 30, 2026



Source: ICE Data Indices LLC and Bloomberg. Data as of September 30, 2026. Short-duration high yield=ICE BofA 1-5 Year U.S. High Yield Index. U.S. High Yield=ICE BofA U.S. High Yield Index. BB-B U.S. High Yield=ICE BofA BB-B U.S High Yield Index. IG Corporate 1-5 Year=Bloomberg U.S. Corporate 1-5 Year Index. U.S. Treasuries 1-5 Year=Bloomberg U.S. Treasuries 1-5 Year Index. IG Corporate BBB=Bloomberg U.S. Corporate BBB Index. IG Corporate=Bloomberg U.S. Corporate Index. U.S. Aggregate=Bloomberg U.S. Aggregate Bond Index. U.S. Treasuries=Bloomberg U.S. Treasuries Index. IG=investment grade. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

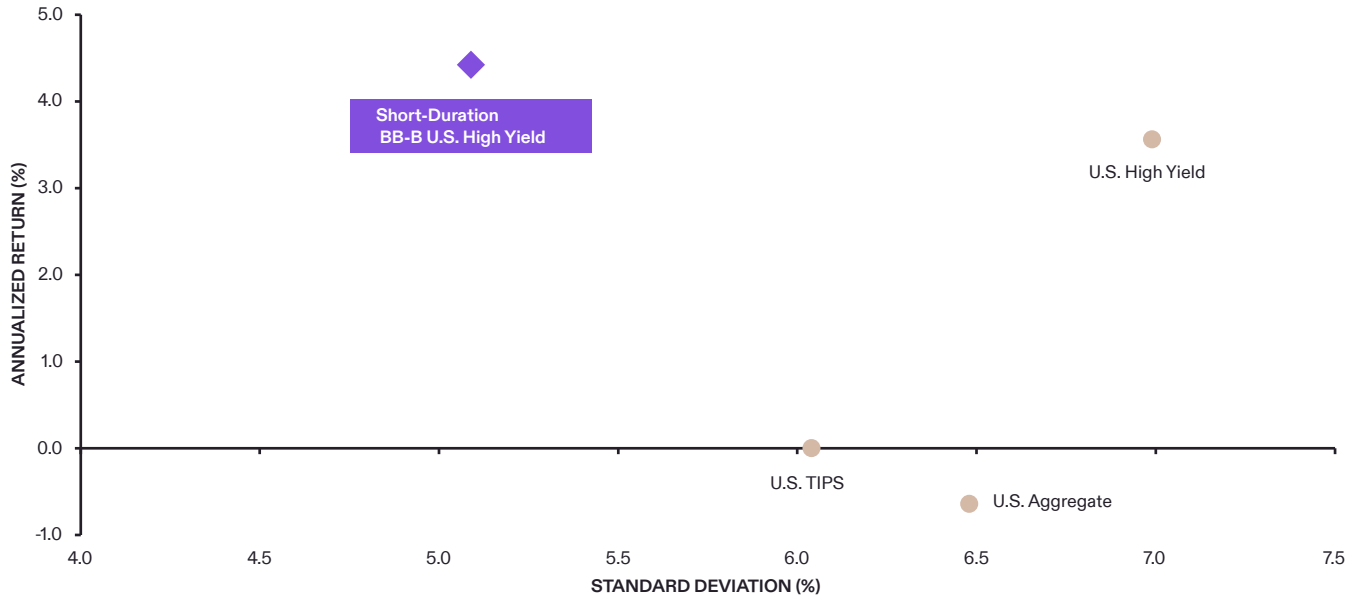
Why Short Duration High Yield in an Inflationary Regime

The past five years have marked a meaningful shift from the low-inflation, low-rate environment of the prior decade toward stronger nominal growth, higher inflation, and greater interest-rate volatility. Supply disruptions, fiscal stimulus, tight labor markets, and higher commodity prices fueled a sharp inflationary episode, with U.S. inflation reaching a four-decade high of 9.1% in June 2022. While inflation has since moderated, it remains above the U.S. Federal Reserve's (Fed) 2% target, with fiscal and trade policy, geopolitical risks, and elevated capital investment potentially contributing to continued inflationary pressures and volatility in longer-term interest rates.

This backdrop has favored strategies that emphasize credit income while limiting duration risk (see Figure 4). Over the five years through September 30, 2026, short-duration high yield delivered higher returns than broad high yield, while also generating lower volatility and a stronger risk-adjusted return profile. Notably, the asset class also outpaced both TIPS and the Bloomberg U.S. Aggregate Bond Index over the period. While TIPS are often viewed as a natural allocation for investors seeking protection from inflation, their returns can remain challenged when real yields and broader rates rise. Short-duration high yield offers a different approach: the potential to capture elevated credit income while maintaining less sensitivity to longer-term interest rates.

Figure 4. Short Duration High Yield Performed Well in an Inflationary Environment

Trailing five-year annualized risk and returns for indicated indices, September 30, 2021–September 30, 2026



Source: Bloomberg and Morningstar. Data as of September 30, 2026. **Past performance is not a reliable indicator or guarantee of future results.** The historical data shown in the chart above are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. Short-Duration U.S. High Yield represented by the ICE BofA U.S. High Yield 1-5 Year BB-B Index. U.S. High Yield represented by the ICE BofA U.S. High Yield Constrained Index. Treasury Inflation-Protected Securities (TIPS) are U.S. Treasury securities whose principal value adjusts with changes in inflation, as measured by the Consumer Price Index (CPI). They are designed to help investors protect purchasing power from inflation.

We believe this environment could persist, reinforcing the strategic appeal of short duration high yield as investors seek attractive income and credit exposure without relying as heavily on falling interest rates to drive returns.

Summing Up

Short duration high yield offers more than a tactical solution to interest-rate uncertainty. Its historical combination of competitive returns, lower volatility, and attractive income supports a strategic role in diversified fixed-income portfolios, allowing investors to pursue opportunities in credit while maintaining greater control over duration exposure.

Glossary & Index Definitions

Basis point (bp) is one one-hundredth of a percentage point (0.01%). Changes in bond yields and credit spreads are commonly expressed in basis points.

Coupon income is the interest income paid by a bond to its holder, generally expressed as a percentage of the bond's principal value.

Credit risk is the risk that a bond issuer may be unable or unwilling to make timely interest or principal payments.

Credit spread is the additional yield investors receive above a comparable benchmark security, such as a U.S. Treasury, as compensation for assuming credit risk.

Duration is a measure of the sensitivity of a fixed-income investment's price to changes in interest rates. Generally, the higher the duration, the greater the investment's price sensitivity to changes in interest rates.

High yield bonds are bonds rated below investment grade by major credit-rating agencies. They typically offer higher yields to compensate investors for greater credit risk.

Interest-rate risk is the risk that changes in interest rates will affect the value of a fixed-income investment. Bond prices generally fall when interest rates rise and rise when interest rates fall.

Investment-grade bonds are bonds rated in one of the four highest credit-rating categories by major credit-rating agencies, generally indicating relatively strong credit quality.

Maturity refers to the date on which a bond's principal is scheduled to be repaid to investors.

Real yield is the yield on an investment after accounting for inflation. For Treasury Inflation-Protected Securities, real yield represents the return above the rate of inflation.

Risk-adjusted return evaluates an investment's return in relation to the amount of risk taken to generate that return.

Sharpe ratio is a measure of risk-adjusted performance calculated by dividing an investment's excess return above the risk-free rate by the standard deviation of its returns. A higher Sharpe ratio indicates a higher historical return per unit of risk.

Standard deviation is a statistical measure of the variability of investment returns and is commonly used as a measure of volatility. A higher standard deviation indicates greater historical volatility.

Treasury Inflation-Protected Securities (TIPS) are U.S. Treasury securities whose principal value adjusts with changes in inflation, as measured by the Consumer Price Index (CPI). They are designed to help investors protect purchasing power from inflation.

U.S. Treasury securities are debt obligations issued by the U.S. Department of the Treasury and generally considered to have minimal or no credit risk.

Volatility refers to the degree to which an investment's price or returns fluctuate over time.

Yield is the income generated by an investment, generally expressed as a percentage of its price or value.

Yield curve is a line that plots the yields of bonds of similar credit quality across different maturities. Moving farther out the yield curve generally refers to investing in bonds with longer maturities.

Bloomberg U.S. Aggregate Bond Index is a broad-based benchmark that measures the performance of the U.S. investment-grade, taxable fixed-income market.

ICE BofA U.S. High Yield Index tracks the performance of U.S. dollar-denominated, below-investment-grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities generally must have at least one year remaining to maturity, a fixed coupon schedule, and meet minimum amount-outstanding requirements.

ICE BofA 1-5 Year U.S. High Yield Index tracks the performance of U.S. dollar-denominated, below-investment-grade corporate debt publicly issued in the U.S. domestic market with remaining maturities generally between one and five years.

ICE BofA BB-B U.S. High Yield Index tracks the performance of U.S. dollar-denominated, below-investment-grade corporate bonds rated within the BB through B credit-quality range and publicly issued in the U.S. domestic market.

ICE BofA BB-B 1-5 Year U.S. High Yield Index tracks the performance of U.S. dollar-denominated, below-investment-grade corporate bonds rated within the BB through B credit-quality range with remaining maturities generally between one and five years.

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