

# PGIM HIGH YIELD FUND — COMMENTARY

ADVISORY SHARE CLASS  
Z: PHYZX

OTHER SHARE CLASSES

A: PBHAX C: PRHCX R2: PHYEX R4: PHYGX R6: PHYQX

Barron's Best Fund Families: Ranked #4 for best fund family over the 1-year period ended 12/31/2024, among 48 qualifying fund families based on asset-weighted returns.

## MARKET REVIEW

- U.S. high yield bond spreads whipsawed during the second quarter, widening to two-year highs in April following the U.S. tariff announcements, only to tighten significantly through May and June, bringing spreads tighter for the period.
- The technical backdrop remained sound against macro uncertainty, supported by muted net new issuance and resurgent inflows.
- Gross new issuance reached \$77.3 billion in Q2, an increase in volume from Q1. Further, net new issuance (excluding refinancing) of \$23.19 billion also gained from Q1.
- Following approximately \$10.9 billion of high yield bond retail fund outflows in April, \$10.8 billion flowed back into the asset during May (\$6.6 billion) and June (\$4.2 billion). As such, high yield bond retail funds reported net outflows of approximately \$87 million for the second quarter.
- Spreads ended Q2 at 290 bps, below the 347 bps at the end of Q1. Meanwhile, average yields eased 51 bps to end the period at 7.36%. For the quarter, the Bloomberg U.S. Corporate High Yield index gained 3.53%, producing excess returns of 2.17% versus Treasuries.
- By quality, all credit tiers posted positive returns, with lower-quality credit (CCCs) outperforming higher quality. All industries posted positive returns: the broadcasting, diversified media, and health care industries were among the top performers; the retail, energy, and consumer products industries were the weakest.
- The par-weighted U.S. high yield default rate, including distressed exchanges, ended June at 1.41%, higher from 1.2% at the end of March, but below the 1.47% at the end of 2024, according to J.P. Morgan.

## PORTFOLIO POSITIONING

- While spreads have compressed to near-historic tight, they may continue to grind tighter through the summer on solid technicals and a sound credit environment. Although tail risks abound from U.S. fiscal and trade policies, as well as geopolitical tensions on multiple fronts, the domestic exposure of high yield issuers generally helps cushion them from global disruptions.
- We expect the strong technical environment to persist amid light new issuance, manageable maturities, attractive yields, and defensively positioned active managers.
- We remain overweight short-duration bonds, and we are reducing our underweight to high-quality issues.

## 2Q 2025 PERFORMANCE

- The Fund Class Z outperformed its benchmark, the Bloomberg U.S. High Yield 1% Issuer Capped Index, gross of fees.
- Overall security selection was the largest contributor to performance during the quarter, with selection in retailers & restaurants, cable & satellite, and building materials & home construction contributing the most. This was partially offset by selection in consumer non-cyclicals, chemicals, and media & entertainment, which detracted.
- Overall industry allocation contributed to performance during the quarter, with an underweight to upstream energy, and overweights to building materials & home construction and telecom, which contributed the most. This was partially offset by underweights to technology, REITs, and media & entertainment, which detracted.
- Overall sector allocation detracted from performance during the quarter, with an overweight to U.S. bank loans detracting the most.
- From a market perspective, on average, having less risk in the Fund relative to the Index over the reporting period contributed to performance.

**Barrons:** PGIM Investments ranked 4 out of 48, 8 out of 47, 12 out of 46 firms for the 1-, 5-, and 10-year periods ended 12/31/2024, respectively. See back page for methodology which takes into account Lipper rankings. PGIM High Yield Bond Fund (Class Z) Lipper total return ranking for the 1-, 3-, 5-, and 10-year periods as of 12/31/2024 for the High Yield Funds category were: 137/494, 224/447, 163/419, and 25/315, respectively. Lipper Funds category rankings are based on total return, do not take sales charges into account, and are calculated against all funds in each fund's respective Lipper category. Lipper total return ranking for the 1-, 3-, 5-, and 10-year periods as of 6/30/2025: 31/484, 188/458, 134/418, and 20/320, respectively. **Past performance is no guarantee of future results.**

For Fund details and a prospectus, visit [pgiminvestments.com](http://pgiminvestments.com)

## YIELDS, SPREADS, AND RETURNS AS OF 6/30/2025

	Yield (%)	Spreads			Return QTD (%)
		3/31/25	6/30/25	(+/-)	
<b>US Investment Grade</b>					
Treasuries	4.0	—	—	—	0.8
Aggregate	4.5	35	32	-3	1.2
Credit	4.9	89	79	-10	1.8
<b>US Below IG</b>					
High Yield	7.1	347	290	-57	3.5
HY ex Energy	7.0	351	287	-64	3.7
BB	5.9	219	171	-48	3.4
B	7.0	346	281	-65	3.6
CCC	10.8	676	677	+1	4.0
1-5Yr Ba/B	6.3	277	217	-60	3.1
Leveraged Loans	8.0	498	459	-39	2.3

Source: PGIM, Bloomberg, Credit Suisse as of 6/30/2025.



## BOTTOM-UP SECTOR POSITIONING

### High Yield Corporates

- While spreads have compressed to near-historic tights, they may continue to grind tighter through the summer on solid technicals and a sound credit environment. Although tail risks abound from U.S. fiscal and trade policies, as well as geopolitical tensions on multiple fronts, the domestic exposure of high yield issuers generally helps cushion them from global disruptions. We remain overweight short-duration bonds, and we are reducing our underweight to high-quality issues.
- The market's improving credit quality also warrants mentioning, as BBs comprise more than half of the market compared to 40% as of 2004. Furthermore, the Federal Reserve "put" remains in play should economic data deteriorate. However, rate cuts could lag economic conditions if inflation drifts higher from still-elevated levels.
- We expect the strong technical environment to persist amid light new issuance, manageable maturities, attractive yields, and defensively positioned active managers. Although Q1's net supply deficit swung to a surplus in Q2, primary market activity is expected to remain light as issuers continue to demonstrate balance-sheet prudence.
- Looking at sectors, we are overweight home construction, telecom, and midstream energy, and underweight technology, media & entertainment, and retailers & restaurants. Recent risk reductions (but still overweight) have included positions in telecom, building materials & home construction, and cable & satellite. We're also adding risk in midstream energy as well as reducing an underweight to technology.

## BOTTOM-UP SECTOR POSITIONING

### Bank Loans

- The U.S. leveraged loan market started Q3 on solid ground, with improving performance, positive retail fund flows, and about 46% of the market trading at or above par. Demand remains firm for relatively light new issuance with proceeds slated for a variety of purposes, including dividends, M&As, and LBOs. While Q2's gross issuance was much lower than in Q1, the use of proceeds in Q2 was more balanced, with nearly half supporting acquisitions, dividends, and general corporate purposes. Furthermore, the trend of private credit taking out broadly syndicated loans (BSL) has turned into a two-way street, with loans moving between the public and private markets as sponsors explore both avenues for attractive terms.
- We continue to favor public BB and high B loans over sponsor-owned, low B and CCC loans as we expect those lower-quality facilities will be challenged by the fundamental backdrop. We believe that deep, fundamental credit research/modeling is becoming increasingly important to credit selection. To that end, the avoidance of defaults will likely be the biggest driver of alpha over the next 12-24 months.

### Emerging Markets Debt

- We own select Emerging Markets corporate bonds that offer compelling relative value and spread tightening potential.

### Investment Grade Corporates

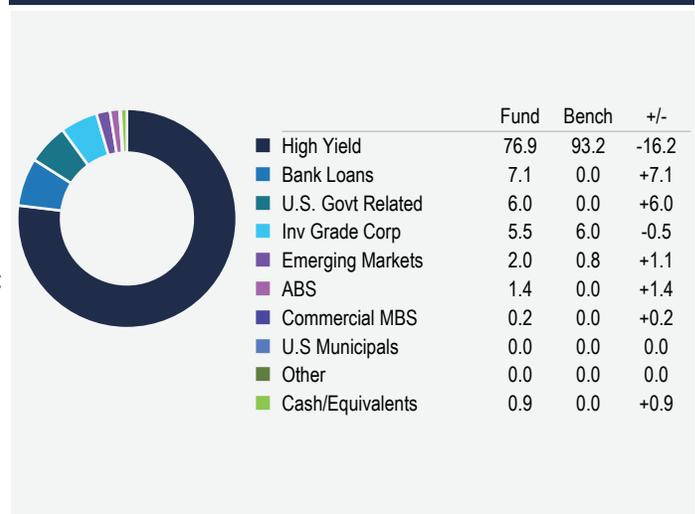
- We are overweight select investment grade names that trade at attractive, high yield-type spreads that should benefit from meaningful spread tightening.

### CREDIT QUALITY VS. BENCHMARK

	Fund	Benchmark	Active
AAA	6.9	0.0	6.9
A	0.0	0.0	0.0
BBB	5.6	6.0	-0.4
BB	45.2	60.1	-14.9
B	24.9	24.7	0.1
CCC	11.6	8.7	2.9
CC	0.2	0.1	0.2
C	0.0	0.0	-0.0
Not Rated	4.6	0.3	4.3
Cash & Equivalents	0.9	0.0	0.9

Source: PGIM as of 6/30/25. Credit quality is calculated using the highest rating of the five rating agencies (Moody's, S&P, Fitch, Morningstar, and DBRS). Values may not sum due to rounding. Allocations are subject to change.

### SECTOR BREAKDOWN (% OF ASSETS)



Source: PGIM. Allocations are subject to change. As of 6/30/2025.

## TOP INDUSTRY OVERWEIGHTS

### Home Construction (Industry Weight: 6.7%, Active: +3.0%)

- Although mortgage rates remain elevated, tight supply—particularly due to low availability in the existing home market and buyer adjustments to elevated rates has driven demand. In addition, homebuilder balance sheets—while slightly deteriorated—remain strong as free cash flow has been used to pay down debt.

### Telecom (Industry Weight: 7.1%, Active: +2.2%)

- Elevated capital intensity yet to drive inflection to top-line/EBITDA growth for most issuers. Artificial intelligence demand for fiber is driving positive near-term cash flow dynamics and security valuations. Meanwhile, in Europe -- increasing fiber build and 5G deployment, is being funded with third-party infrastructure partners. Ongoing in-market consolidation will improve economics of network buildouts.

### Electric Utilities (Industry Weight: 4.4%, Active: +1.4%)

- U.S. utilities have weathered the challenge from inflation well and underlying power demand remains solid, driven largely by the electricity needs of data centers. We are focused on deleveraging credits and those with supportive regulatory backdrops. Issuance in the industry will likely remain robust as capex requirements to support load growth and grid modernization accelerate.

## TOP INDUSTRY UNDERWEIGHTS

### Technology (Industry Weight: 2.8%, Active: -4.6%)

- Demand for AI/data center-related semis remains extremely strong, driving impressive results for a handful of companies in the sector. However, outside of AI, trends remain very weak across the space.

### Media & Entertainment (Industry Weight: 1.7%, Active: -2.7%)

- Fundamentals remain weak as publishers and radio struggle to maintain share of overall advertising spend. Television remains vulnerable to cord-cutting and declining audiences.

### Consumer (Industry Weight: 4.7%, Active: -2.6%)

- Sentiment has improved due to the temporary reduction in tariffs—consumers also cited lower gas prices and easing inflation as reasons for the optimism—however, reduced discretionary spending continues, leading many management teams to remain cautious with 2025 guidance.

AVERAGE ANNUAL TOTAL RETURNS % AS OF 6/30/2025									
SEC Standardized Returns (with sales charges)	1-Year	3-Year	5-Year	10-Year	SI	Inception Date	Gross	Net	Waiver Date
PGIM High Yield Z	10.71	9.31	5.96	5.53	6.24	3/1/1996	0.51	0.51	–
PGIM High Yield A	6.89	7.78	5.00	4.89	6.86	1/22/1990	0.74	0.74	–
Bloomberg US HY 1% Cap Index	10.24	9.94	5.97	5.31	–	–	–	–	–

**Past performance does not guarantee future results, and current performance may be lower or higher than the past performance data quoted. The investment return and principal value will fluctuate, and shares, when sold, may be worth more or less than the original cost. For the most recent month-end performance, visit our website at [pgiminvestments.com](http://pgiminvestments.com). Maximum sales charge: Class A, 3.25 %.**

Expenses are as of the most recent prospectus. Net operating expenses reflect expenses after fee waivers and/or expense reimbursements by PGIM Investments, if any. The contractual reduction date is the date through which PGIM Investments has agreed to waive fees or reimburse expenses, if applicable. Expenses for the current year may exceed the net operating expenses listed above due to exclusions from any applicable contractual waiver or reimbursement, which may fluctuate. PGIM Investments may recoup certain waived fees or reimbursed expenses. See the prospectus for more information return without sales charges describes the return to the investor before any sales charges are imposed. SEC standardized return describes the return to the investor after maximum sales charges are imposed. All returns assume share price changes, as well as the compounding effect of reinvested dividends and capital gains. Returns may reflect fee waivers and/or expense reimbursements. Without such, returns would be lower. Performance by share class may vary.

**Risk Information**—Risks of investing in the fund include but are not limited to the following: Fixed Income investments are subject to **credit, market, prepayment and interest rate risks**, and their value will decline as interest rates rise. **High yield (“junk”) bonds** are subject to greater credit and market risks. Investments in currency may result in a decline in the fund’s net asset value due to changes in exchange rates. **Foreign securities** are subject to currency fluctuations and political uncertainty. Derivatives may carry market, credit and liquidity risks. There is no guarantee the Fund’s objective will be achieved. Risks are more fully explained in the fund’s prospectus.

**Definitions and Indices**—**Morningstar High Yield Bond category** contains funds that invest in lower-quality bonds, which are riskier than those of higher-quality companies. **Bloomberg U.S. High Yield 1% Issuer Capped Index** is an unmanaged, issuer-constrained version of the Bloomberg U.S. Corporate High Yield Index that covers the U.S. dollar denominated, non-investment grade, fixed rate, taxable corporate bond market. The Index follows the same construction rules as the uncapped index, but limits issuer exposure to a maximum 1% and redistributes the excess market value index-wide on a pro-rata basis. Bloomberg or Bloomberg’s licensors own all proprietary rights in the Bloomberg Indices. Bloomberg does not approve or endorse this material, does not guarantee the accuracy or completeness of any information herein, or make any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

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Class R2 shares and Class R4 shares are only offered for sale to group retirement plans available through a retirement record keeper or third-party administrator. Class R6 and Z shares may be available to group retirement plans and institutional investors through certain retirement, mutual fund wrap, and asset allocation programs. They may also be available to institutional investors. Class Z shares may be available through fee- or commission-based retail brokerage programs of certain financial intermediaries. Class A, C, and Z shares are generally closed to new retirement plans. Please see the prospectus for additional information about fees, expenses, and investor eligibility.

**Barron’s:** Used with permission. ©2025 Dow Jones & Company, Inc. Source: Barron’s, Feb. 27, 2025. Barron’s rankings are based on asset-weighted returns in funds in five categories: U.S. Equity; World Equity; Mixed Asset; Taxable Bond; and Tax-Exempt (each a “Barron’s ranking category”). Rankings also take into account an individual fund’s performance within its Lipper peer universe. Lipper calculated each fund’s net total return for the year ended Dec. 31, 2024, minus the effects of 12b-1 fees and sales charges. Each fund in the survey was given a percentile ranking, with 100 the highest and 1 the lowest in its category. That ranking measured how a fund compared with its peer “universe,” as tracked by Lipper, not just the funds in the survey. Individual fund scores were then multiplied by the 2024 weighting of their Barron’s ranking category as determined by the entire Lipper universe of funds. Those fund scores were then totaled, creating an overall score and ranking for each fund family in the survey in each Barron’s ranking category. To qualify for the ranking, firms must offer at least three active mutual funds or actively run ETFs in Lipper’s general U.S. Stock category; one in World Equity; and one Mixed Asset. They also need to offer at least two taxable bond funds and one national tax-exempt bond fund. All funds must have a track record of at least one year.

**Consider a fund’s investment objectives, risks, charges, and expenses carefully before investing. The prospectus and summary prospectus contain this and other information about the fund. Contact your financial professional for a prospectus and summary prospectus. Read them carefully before investing.**

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