

High Yield Bond ETFs: An Essential Component of a Well-Diversified Investment Portfolio

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IN A NUTSHELL

- Investors are exhibiting increased interest in high yield bonds, given the opportunity they present for enhanced income opportunities.
- High yield bonds offer investors a variety of benefits, including historically strong risk adjusted returns, portfolio diversification, and reduced sensitivity to interest rates.
- ETFs offer a cost-effective and convenient way to gain exposure to a diversified basket of high yield bonds, eliminating the need to purchase individual issues.
- The Xtrackers suite of high yield ETFs are designed to provide targeted exposure to varying levels of credit and interest rate risk through rules-based strategies.

A Fresh Look

Not surprisingly, many investors are taking a fresh look at the high yield market. With yields hovering around 7.3% (as of 6/20/2025), this market segment has emerged as a compelling investment alternative, providing diversification, reduced sensitivity to interest rates, inflation mitigation, and strong risk-adjusted returns. Let's take a deeper look into why the high yield market is attracting greater interest.

Diversification and Low Correlation

High yield bonds typically exhibit lower correlations with traditional asset classes such as equities and government bonds, enabling investors to potentially reduce overall portfolio risk and enhance returns. Additionally, these bonds span a variety of industries and sectors, allowing investors to gain exposure to different economic segments.

Reduced Sensitivity to Interest Rates

Due to their higher coupon payments, high-yield bonds generally have a shorter duration compared to other fixed income investments. This makes them less sensitive to interest rate changes, offering added stability in fluctuating rate environments.

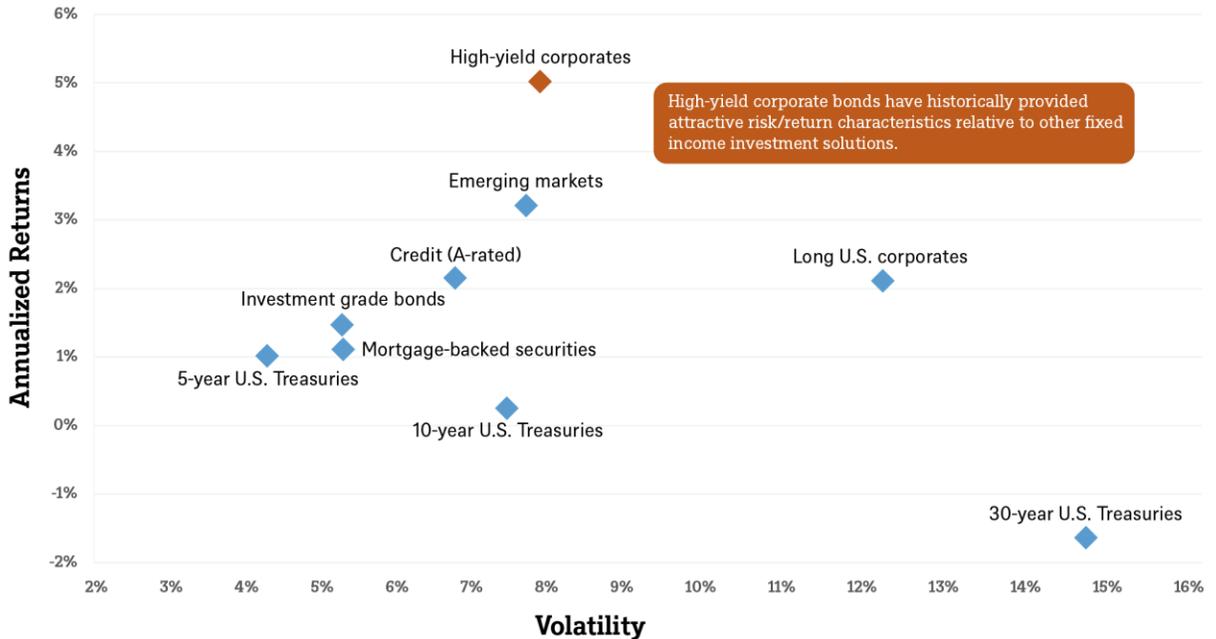
Inflation Mitigation

In a low-interest rate environment, the nominal returns of investment-grade bonds may not be sufficient to keep pace with rising prices. High yield bonds, with their elevated interest rates, may offer better mitigation against inflationary pressures, thus preserving the real value of an investor's income.

Strong Risk-Adjusted Returns

Over the past two decades, high-yield bonds have consistently demonstrated solid risk-adjusted returns, striking a compelling balance between income potential and volatility.

Volatility/return (10-year period as of 3/31/2025)



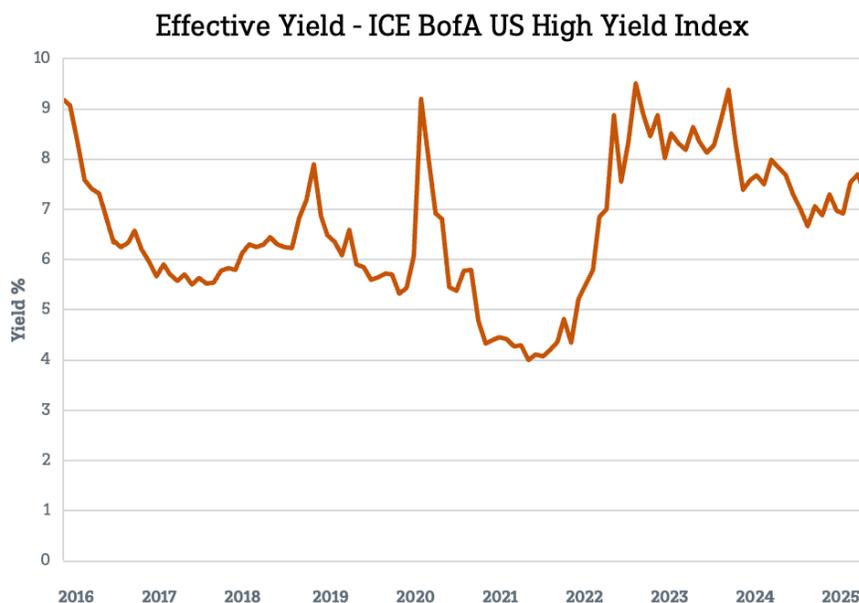
Source: Morningstar as of 3/31/25. Performance is historical and does not guarantee future results. Volatility is measured by standard deviation, which depicts how widely an investment's returns vary from the investment's average return over a certain period. Asset-class representation is as follows: mortgage-backed securities, Bloomberg U.S. Mortgage Backed Securities Index; investment-grade bonds, Bloomberg U.S. Aggregate Bond Index; high-yield corporates, Bloomberg U.S. Corporate High Yield Index; 10-year U.S. Treasury, FTSE Treasury Benchmark 10-Year Index; 5-year U.S. Treasury, FTSE Treasury Benchmark 5-Year Index; emerging markets, Bloomberg Emerging Market Aggregate Bond Index; credit (A-rated), Bloomberg U.S. Credit A-Rated Index; long U.S. corporates, Bloomberg Long U.S. Corporate Index; 30-Year U.S. Treasuries, Bloomberg U.S. Treasury Bellwether 30-Year Index. This illustration does not represent the performance of any DWS product, is for informational purposes only and should not be considered tax advice.

The High-Yield Market Today

Although spreads have widened from their February 2025 lows to their current level of around 310 basis points, this is still well below the 15-year average of about 450 basis points. Despite this, yields remain elevated at around 7.3% compared to their 15-year average of about 6.7%, creating an attractive entry point for income-seeking investors.

Historically, high yield has attracted inflows when yields are greater than 7%, as it offers a competitive risk/return compared to equities. The current elevated Treasury curve supports these higher yields, even if spreads are relatively tight by historical levels. High yield bonds tend to trade based on default expectations and a primary risk is the potential impact of tariffs on growth expectations.

High-yield bonds – Yield Development Over Time (as of 5/31/2025)



Source: ICE Data Services. ICE BofA US High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued and settled in the US domestic market.

The ETF Advantage

The development of exchange-traded funds (ETFs) focused on high yield bonds has further improved accessibility and liquidity for investors. High yield ETFs offer a cost-effective and convenient way to gain exposure to a diversified basket of high yield bonds, eliminating the need to purchase individual issues. The growth of ETFs has also contributed to greater transparency and price discovery in the high yield bond market, benefiting investors through more accurate and efficient pricing mechanisms.

Additionally, the USD high yield bond market has reached a level of maturity that allows it to be further segmented by yield profile while broadly maintaining sector diversification, allowing investors to utilize ETFs to manage their high yield credit exposure with greater precision.

Xtrackers Suite of High-Yield Bond ETFs

Whether for yield enhancement, diversification benefits or seeking exposure to an attractive relation of risk and reward – Xtrackers by DWS offers [a suite of six High-Yield Bond ETFs](#), designed to provide

targeted exposure to varying levels of credit and interest rate risk through rules-based strategies. These ETFs act as a versatile toolbox, enabling investors to tailor and manage both credit and duration exposures in their portfolios effectively.

Additionally, all Xtrackers high yield bond ETFs track indices that apply strict liquidity screens. Specifically, bonds in each portfolio must have at least \$400 million outstanding debt (\$250 million for BHYB), and the issuers for bonds in HYLB, HYUP, HYDW, and HYRM must have a minimum of \$1 billion in total debt.

Xtrackers USD High Yield Corporate Bond ETF (HYLB): HYLB is Xtrackers' largest high yield ETF with over \$3.8 billion in AUM and offers exposure to the broad USD High Yield corporate market. HYLB is also one of the lowest-cost high yield bond ETFs, with an expense ratio of 0.05%.

Xtrackers Low Beta High Yield Bond ETF (HYDW): HYDW focuses on higher quality bonds within the high yield space, which could provide a more stable investment compared to other high yield options. This higher quality credit rating profile can help mitigate some of the risks associated with high yield bonds, as historically 79% of high yield defaults come from the CCC¹ and below segments. Broad high yield products generally allocate 9–12% to these lower slices of the market, while HYDW generally has less than 1% exposure to that segment.

Xtrackers High Beta High Yield Bond ETF (HYUP): HYUP offers exposure to the higher yielding segment of the High Yield Corporate bond market. By targeting the higher-yielding half, HYUP allows investors to potentially capture greater return and embrace higher volatility as part of a deliberate tactical credit strategy.

Xtrackers Short Duration High Yield Bond ETF (SHYL): SHYL is specifically designed for investors who want exposure to high-yield bonds but with reduced interest rate sensitivity. SHYL offers a yield premium over short-term investment-grade bonds while minimizing duration risk. This ETF is ideal for investors concerned about rising rates but still seeking income.

Xtrackers Risk Managed USD High Yield Strategy ETF (HYRM): HYRM is a rules-based strategy that tracks an index which allocates 100% of its assets to either USD high yield corporate bonds or a cash position, based on quantitative market risk signals.

Xtrackers USD High Yield BB-B ex Financials ETF (BHYB): BHYB provides exposure to the BB-B² slice of the high yield market, which is the higher quality segment of credit ratings within the high yield complex. It specifically excludes financial sector issuers while focusing on higher-quality high-yield bonds rated BB or B.³ The rationale for excluding the financial sector is that often insurance clients are not allowed to own their own bonds (or potentially bonds held by their competitors).

1,2,3: Credit ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). All Fund securities except for those labeled “Not Rated” and “Other” have been rated by Moody’s, S&P or Fitch, which are each a Nationally Recognized Statistical Rating Organization (“NRSRO”). All Index securities except for those labeled “Not Rated” have been rated by Moody’s or S&P. Credit ratings are subject to change. One cannot invest directly into an index.

Glossary

Basis Points: A unit of measures in finance to describe the percentage change in the value or rate of a financial instrument.

B and BB Bond Rating: A bond considered to be below investment grade and carries a higher risk of default. Bonds with a rating of BBB- (S&P and Fitch scales) or Baa3 (Moody’s) and above are considered investment grade bonds.

Bloomberg Emerging Market Aggregate Bond Index: A hard currency Emerging Markets debt benchmark that includes fixed and floating-rate US dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers.

Bloomberg Long U.S. Corporate Index: An index designed to measure the performance of U.S. corporate bonds that have a maturity of greater than or equal to 10 years.

Bloomberg U.S. Aggregate Bond Index: A broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States.

Bloomberg U.S. Corporate High Yield Index: Measures the USD-denominated, high yield, fixed-rate corporate bond market.

Bloomberg U.S. Credit A-Rated Index: Measures the performance of investment grade, US dollar-denominated, fixed-rate, taxable corporate and government-related debt with at least ten years to maturity.

Bloomberg U.S. Mortgage Backed Securities Index: Tracks fixed-rate agency mortgage-backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

Bloomberg U.S. Treasury Bellwether 30-Year Index: Tracks the performance and attributes of 30-year U.S. Treasuries.

CCC Bond Rating: A bond that is not of investment grade and implies substantial risk.

Coupon: The annual interest rate paid on a bond, expressed as a percentage of the face value and paid from issue date until maturity.

FTSE Treasury Benchmark 5-Year Index: Measures the total returns for the current five-year on-the-run U.S. Treasuries that settle at the end of the calendar month.

FTSE Treasury Benchmark 10-Year Index: Measures the total returns for the current ten-year on-the-run U.S. Treasuries that settle at the end of the calendar month.



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Shares are not individually redeemable, and owners of Shares may acquire those Shares from the Fund, or tender such Shares for redemption to the Fund, in Creation Units only.

Carefully consider the fund's investment objectives, risk factors, and charges and expenses before investing. This and other information can be found in the fund's prospectus, which may be obtained by calling 1-844-851-4255, or by viewing or downloading a prospectus from www.Xtrackers.com. Read the prospectus carefully before investing.

War, terrorism, sanctions, economic uncertainty, trade disputes, public health crises and related geopolitical events have led and, in the future, may lead to significant disruptions in U.S. and world economies and markets, which may lead to increased market volatility and may have significant adverse effects on the fund and its investments.

General Risk: Investing involves risk, including possible loss of principal. Stocks may decline in value. Bond investments are subject to interest rate, credit, liquidity and market risks to varying degrees. When interest rates rise, bond prices generally fall. Foreign investing involves greater and different risks than investing in US companies, including currency fluctuations, less liquidity, less developed or less efficient trading markets, lack of comprehensive company information, political instability and differing auditing and legal standards. Emerging markets tend to be more volatile and less liquid than the markets of more mature economies and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. Funds investing in a single industry, country or in a limited geographic region generally are more volatile than more diversified funds. Performance of a fund may diverge from that of an underlying index due to operating expenses, transaction costs, cash flows, use of sampling strategies or operational inefficiencies. There are additional risks associated with investing in high-yield bonds, aggressive growth stocks, non-diversified/concentrated funds and small- and mid-cap stocks which are more fully explained in the prospectuses, as applicable. An investment in any fund should be considered only as a supplement to a complete investment program for those investors willing to accept the risks associated with that fund. Please read the applicable prospectus for more information.

BHYB: This fund is non-diversified and can take larger positions in fewer issues, increasing its potential risk.

HYDW: Investments in lower-quality ("junk bonds") and non-rated securities present greater risk of loss than investments in higher-quality securities. Foreign investing involves greater and different risks than investing in U.S. companies, including currency fluctuations, less liquidity, less developed or less efficient trading markets, lack of comprehensive company information, political instability and differing auditing and legal standards. Funds investing in a single industry (or group of industries), country or in a limited geographic region generally are more volatile than more diversified funds. Performance of the fund may diverge from that of the underlying index due to operating expenses, transaction costs, cash flows, use of sampling strategies or operational inefficiencies.

HYLB: Foreign investing involves greater and different risks than investing in U.S. companies, including currency fluctuations, less liquidity, less developed or less efficient trading markets, lack of comprehensive company information, political instability and differing auditing and legal standards. Funds investing in a single industry (or group of industries), country or in a limited geographic region generally are more volatile than more diversified funds. Investments in lower-quality ("junk bonds") and non-rated securities present

greater risk of loss than investments in higher-quality securities. Performance of the Fund may diverge from that of the Underlying Index due to operating expenses, transaction costs, cash flows, and use of sampling strategies or operational inefficiencies.

HYRM: Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Foreign investing involves greater and different risks than investing in U.S. companies, including currency fluctuations, less liquidity, less developed or less efficient trading markets, lack of

comprehensive company information, political instability and differing auditing and legal standards. Funds investing in a single industry (or group of industries), country or in a limited geographic region generally are more volatile than more diversified funds. Investments in lower-quality ("junk bonds") and non-rated securities present greater risk of loss than investments in higher-quality securities. This fund is non-diversified and can take larger positions in fewer issues, increasing its potential risk. Performance of the Fund may diverge from that of the Underlying Index due to operating expenses, transaction costs, cash flows, and use of sampling strategies or operational inefficiencies.

HYUP: Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investing involves risk, including the possible loss of principal. Investments in lower-quality ("junk bonds") and non-rated securities present greater risk of loss than investments in higher-quality securities. Distressed securities are speculative and involve substantial risks beyond the risks of investing in junk bonds, such as no interest payments or repayment of principal, or the loss of the entire investment in the distressed security. Foreign investing involves greater and different risks than investing in U.S. companies, including currency fluctuations, less liquidity, less developed or less efficient trading markets, lack of comprehensive company information, political instability and differing auditing and legal standards. Funds investing in a single industry (or group of industries), country or in a limited geographic region generally are more volatile than more diversified funds. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Performance of the fund may diverge from that of the Underlying Index due to operating expenses, transaction costs, cash flows, use of sampling strategies or operational inefficiencies.

SHYL: Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Foreign investing involves greater and different risks than investing in U.S. companies, including currency fluctuations, less liquidity, less developed or less efficient trading markets, lack of comprehensive company information, political instability and differing auditing and legal standards. Funds investing in a single industry (or group of industries), country or in a limited geographic region generally are more volatile than more diversified funds. Investments in lower-quality ("junk bonds") and non-rated securities present greater risk of loss than investments in higher-quality securities. Performance of the Fund may diverge from that of the Underlying Index due to operating expenses, transaction costs, cash flows, and use of sampling strategies or operational inefficiencies.

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