

BNY Mellon High Yield ETF

MANAGER COMMENTARY | Q1 2026

BKHY

Market Review

High yield bond markets closed Q1 2026 in negative territory, the first negative quarter since Q3 2022. Driven by the US-Iran conflict that began at the beginning of March, the sell-off was most intense in March as rates moved higher and credit spreads widened.

During the first quarter of 2026, global economic activity remained stable, in line with the projected growth rate of 3.1-3.3% for the year. In late February, heightened conflict in the Middle East caused disruptions in energy prices and shipping routes, which increased volatility and dampened economic sentiment. The United States saw slower momentum compared to the previous year, with growth easing, labor markets cooling, and inflation staying elevated due to ongoing energy and tariff challenges. The Federal Reserve (Fed) maintained interest rates, citing uncertainty from the energy shock and signaling a cautious stance on possible rate cuts later in the year as market expectations shifted.

After a strong 2025 that delivered a robust return of 8.62%, US high yield (HY) bonds started 2026 with gains in both January and February. However, the Middle East conflict led to a sell-off in March which brought returns into negative territory in Q1, the first negative quarter since Q3 2022. Higher Treasury rates and wider credit spreads contributed to March's decline while for the quarter rates proved modestly beneficial while spread contribution was negative.

In March, US Treasury rates moved higher as higher energy prices drove global inflation expectations higher. The US 5-Year Treasury rate began the year at 3.73% and moved lower to 3.50% at the end of February but rose to 3.94% at the end of March.

Credit spreads closed March at 317 basis points (bps), which is 26 bps higher on the month and 51 bps higher on the quarter. Not surprisingly, energy and natural gas sectors, comprising ~12% of the Bloomberg US Corporate High Yield Total Return Index, held up well and were the only two sectors with positive returns. All other sectors posted declines for the quarter. All ratings buckets were negative with BB rated bonds holding up better than B and CCC bonds. Defaults ticked up modestly with 10 issuers consisting of 0.7% of the benchmark (par weighted) in Q1.

Performance Summary

After a strong 2025, the fund's total return turned negative in March, due to geopolitical turmoil in the Middle East. March's returns drove the quarterly return into negative territory as well. Relative to the benchmark the fund underperformed by 10bps. The contribution from the security selection models was neutral with gains in Value being offset by Structural Themes in the rising rate environment. Quality was flat.

At the issuer level, quality-driven underweight positions in Multi-Color (LABL, filed for bankruptcy) and Mercer International (MERC, B rated), helped us avoid the left tail and aided performance. Structural Themes overweight positions in Burford Capital (BURLN, BB rated) and subordinated, pre-Fallen Angel Paramount bonds (B rated) offset some gains.

Trading costs averaged about -1 bp per month (-3 bps total over the quarter), while fees and other residuals were modestly negative.

Market Outlook

Geopolitical tensions have led to increased volatility, which has been largely sentiment driven. We expect underlying fundamentals to remain stable. Defaults have ticked up slightly, but we believe they are likely to remain close to or below the long-term average. Spreads and yields have also repriced to more attractive levels, in our view. Our base-case expectation is that the starting yield is a reasonable expectation for the next 12 months (as of March 31, 2026).

¹Our factor-based credit model focuses on two (fundamentally based) themes/factors:

Quality: Extract premium associated with more stable issuers (greater profits, more stable earnings/cashflows etc.). The objective is to identify firms that are likely to have trouble servicing their debt. We look to balance sheet/income statement items related to profitability, debt, and earnings to assess fundamental stability. Bottom line, firms with higher profitability are better able to cover interest expense and generally outperform firms with lower profitability.

Value: Identifies mispriced bonds (proprietary implementation of Merton Model). We deploy a structural value model that utilizes underlying equity market cap, equity implied volatility and the firm's balance sheet as three key inputs to determine whether a particular bond is mispriced.

Investors should consider the investment objectives, risks, charges and expenses of a mutual fund carefully before investing. To obtain a prospectus, or a summary prospectus, if available, that contains this and other information about a fund, investors should contact their financial professional or visit bny.com/investments. Investors should read the prospectus carefully before investing. Not all classes of shares may be available to all investors or through all broker-dealer platforms.

Past performance is no guarantee of future results.

Diversification cannot assure a profit or protect against loss.

ETF shares are listed on an exchange, and shares are generally purchased and sold in the secondary market at market price. At times, the market price may be at a premium or discount to the ETF's per share NAV. In addition, ETFs are subject to the risk that an active trading market for an ETF's shares may not develop or be maintained. Buying or selling ETF shares on an exchange may require the payment of brokerage commissions.

The fund is not sponsored, endorsed, sold or promoted by Bloomberg Index Services Limited (index provider) and the index provider makes no representation regarding the advisability of investing in the fund. The index provider determines the composition of the index and relative weightings of the securities in the index, which is subject to change by the index provider. The index provider publishes information regarding the market value of the index. Investors cannot invest directly in an index.

Risks

ETFs trade like stocks, are subject to investment risk, including possible loss of principal. The risks of investing in ETFs typically reflect the risks associated with the types of instruments in which the ETF invests.

Bonds are subject generally to interest-rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines. **High yield bonds** involve increased credit and liquidity risk than higher-rated bonds and are considered speculative in terms of the issuer's ability to pay interest and repay principal on a timely basis. The risks of investing in this ETF, typically reflect the risks associated with the types of instruments in which the ETFs invest.

BNY Mellon High Yield ETF

The fund will issue (or redeem) fund shares to certain institutional investors known as "Authorized Participants" (typically market makers or other broker-dealers) only in large blocks of fund shares known as "Creation Units." BNY Mellon Securities Corporation ("BNYSC"), a subsidiary of the BNY, serves as distributor of the fund. BNYSC does not distribute fund shares in less than Creation Units, nor does it maintain a secondary market in fund shares. BNYSC may enter into selected dealer agreements with Authorized Participants for the sale of Creation Units of fund shares.

The **Bloomberg U.S. Corporate High Yield Total Return Index** is designed to measure the U.S. dollar-denominated, high yield (junk), fixed-rate, taxable corporate bond market. Bonds included in the index must have \$150 million or more per amount outstanding and at least one year until final maturity. Bonds are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Securities in the index are updated on the last business day of each month. Investors cannot invest directly in an index.

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A **spread** in finance typically refers to some form of difference or gap between two related values. A **"spread widening"** refers to a situation where the difference between two things is increasing. **Income harvesting** is the strategic selling of appreciated assets in taxable accounts to take advantage of lower tax rates. **"Fallen angel"** is a bond that was once rated as investment-grade but has been downgraded to junk bond status. A **selective default** occurs when an issuer defaults on some, but not all, of its debt obligations, while still meeting other financial commitments

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