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Corporate Bond Market Outlook Q2 2026

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SUMMARY

- The Bloomberg (BBG) U.S. Investment Grade (IG) Corporate Bond Index[1] (the Index) generated negative total and excess returns of -0.54 percent and -0.49 percent, respectively in 1Q26.
- After hitting their tightest level in 20 years in January, spreads widened by 11 basis points (bps) in 1Q26.[2] Spread volatility and sector divergence have created select opportunities in our view.
- IG bond issuance accelerated to $721 billion in the first quarter, up 12 percent year-over-year (Y/Y), on high debt refinancing needs, rising capital spending (capex) related to artificial intelligence (AI) investments, and debt-funded merger and acquisition (M&A) activity.[3]
- We believe bank credit looks stable, although capital has peaked and private credit and sub-prime consumer stresses are risks. We see stable credit fundamentals for Industrials.[4]

1. The BBG U.S. IG Corporate Bond Index is an unmanaged market-value-weighted index of IG corporate fixed-rate debt issues with maturities of one year or more. You cannot invest directly in an index.
2. The BBG U.S. IG Corporate Bond Index, Option-Adjusted Spread (OAS) vs Treasury Curve, Breckinridge, 3/31/26.
3. Barclays FICC Research, Credit Strategy, *U.S. Investment Grade Corporate Update*, March 2026, 4/1/26.
4. Barclays FICC Research, *U.S. Investment Grade Credit Metrics – Q4 25 Update: Stable Metrics*, 3/16/26.

Investment Review & Outlook

IG Credit Had a Tough First Quarter but Outperformed Equities

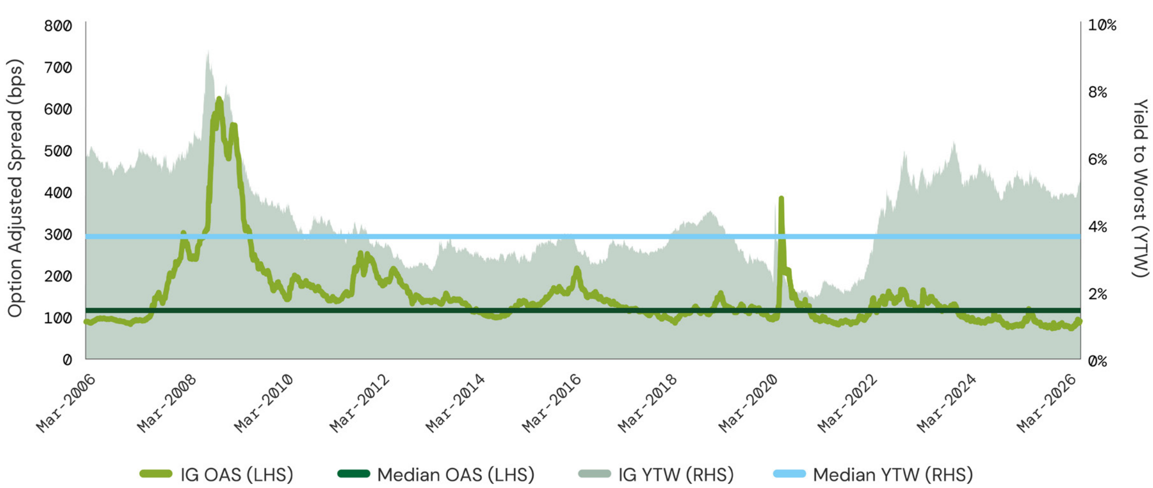
After hitting their tightest level in 20 years in January, corporate spreads widened by 11bps in 1Q26, finishing at an option-adjusted spread (OAS) of +89bps.[5] Valuations matter and spreads were in the 2nd percentile in January over a 20-year lookback. Forecasting a modest widening bias this year was not a tough call in our view. We believe current spreads in the 13th percentile are not compelling overall, but volatility and sector divergence have created select opportunities. Quality spreads widened with the A Index and BBB Index 11bps and 13bps wider, respectively. The A/BBB spread differential of 39bps is still tight relative to recent history with a Z-Score[6] of negative 1.5 compared to the five year average.[7]

We see potential tactical opportunities in short- to intermediate-term corporate bonds on wider spreads and more favorable breakevens.[8] We expected to see more 30-year bond issuance, which emerged in the first quarter, modestly steepening credit curves. With underperformance in the first quarter, we think more favorable relative value has emerged in the capital structures of highly-rated financial institutions. Above-average yields, solid investor demand, and stable credit fundamentals are counterbalanced by tight spreads, high issuance, private credit and sub-prime stresses, and acute geopolitical risks, driving our modest overweight to the corporate sector with a defensive posture.

The Breckinridge Investment Committee's macro-outlook is for moderate real economic growth in 2026. While job creation is low, growth is being driven by fiscal stimulus, consumer spending, and capex. We do not expect the Fed to cut rates this year. The Federal Reserve's easing bias seems to be on hold with the Middle East conflict driving oil prices materially higher, impacting near-term inflation expectations. Our expectations are for the 10-year Treasury to remain range bound in the 4 percent to 4.5 percent context. We view the income proposition for IG credit as attractive with the Index yield over 5-percent at the end of 1Q26.[9]

Valuations: Sector Dispersion & Opportunities

FIGURE 1: SPREADS ARE TIGHTER THAN AVERAGE WHILE YIELDS ARE WELL ABOVE AVERAGE



Source: Bloomberg U.S. Corporate Bond Index, Breckinridge, as of March 31, 2026.

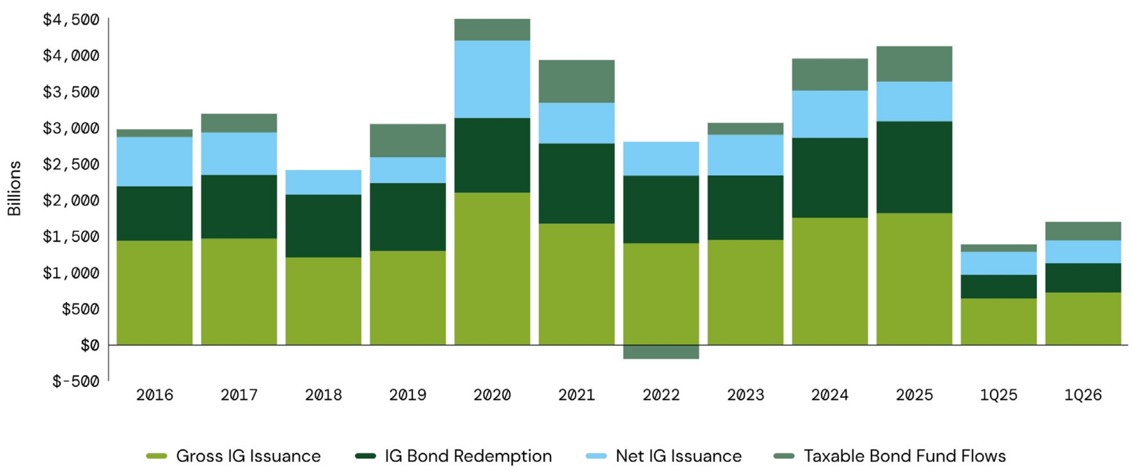
5. The BBG U.S. IG Corporate Bond Index, Option-Adjusted Spread (OAS) vs Treasury Curve, Breckinridge, 3/31/26.
6. A Z-Score measures how many standard deviations a specific data point is above or below the mean. It converts raw data into a standardized scale, allowing for comparison between different datasets.
7. Bloomberg U.S. IG Corporate Bond Index, Breckinridge, March 31, 2026.
8. Bloomberg, *Will I Lose Money? Credit Buyers Turn to Break evens for Clues*, Ronan Martin, October 1, 2025. Breakeven credit spread widening refers to calculating the amount a bond's spread can increase before the bond's total return becomes negative. For example, a bond earnings 100 bps (1%) but with a 2-year spread duration can withstand a 50 bps (0.5%) widening before breaking even on its spread return.
9. Bloomberg U.S. IG Corporate Bond Index, Breckinridge, March 31, 2026.

Corporate spreads were 11bps wider in 1Q26 closing at an OAS of +89bps.[10] Valuations argue for a defensive stance, while an IG yield over 5-percent, in the 72nd percentile, may support investor demand.[11] With a back-up in interest rates and spreads, both total and excess returns were negative in 1Q26. The yield-to-worst (YTW)[12] for the Index moved 33bps higher in the first quarter and was 5.16 percent on March 31.[13]

Higher quality AAA/AA corporates (+7bps) outperformed A-rated (+11bps) and BBB-rated (+13bps) corporates in 1Q26. Along the curve, short corporates (+10bps) slightly outperformed corporate maturities in the intermediate (+11bps) and long (+11bps) ranges. Financial Institutions (+17bps) meaningfully underperformed Industrials (+9bps) and Utilities (+8bps) in the first quarter, with private credit and sub-prime stresses weighing on investor sentiment. Technology (+15bps) underperformed, as sharply rising AI related capex drove record new issue supply, weighing on certain sector constituents. Energy (+2bps) was the best performing sector, with oil and gas prices moving sharply higher during 1Q26.[14]

Technicals: Record Supply & Still Solid Demand

FIGURE 2: RECORD GROSS SUPPLY WAS WELL ABSORBED BY STRONG FUND FLOWS IN 1Q26



Sources: U.S. Investment Grade Corporate Update, Barclays, April 1, 2026. ICI Fact Books, 2016-1Q26.

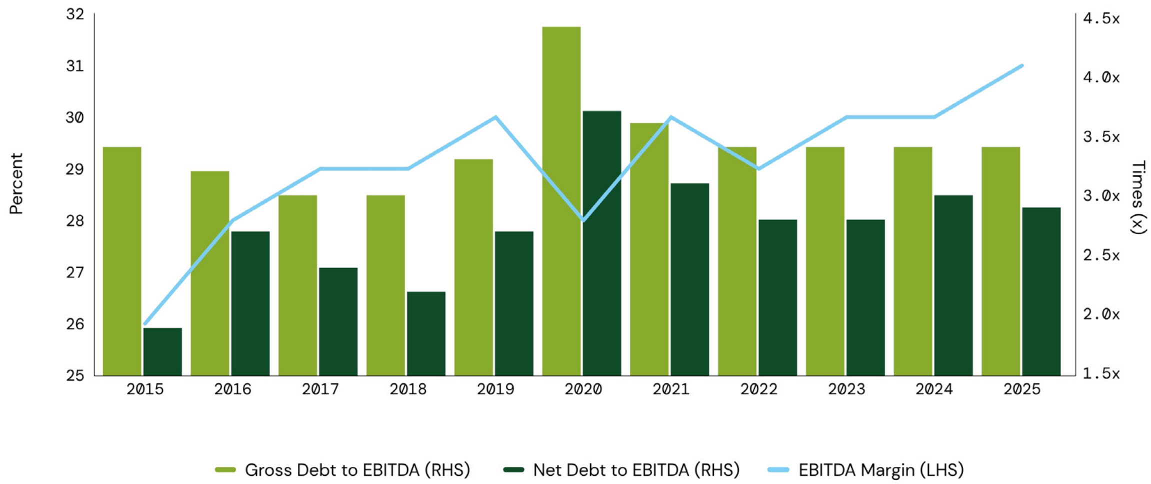
Record IG bond issuance was driven by high refinancing needs, rising capex related to AI investments, and debt-funded M&A activity in 1Q26. Gross IG supply was $721 billion in 1Q26, up 12-percent Y/Y. Net issuance, after $408 billion of redemptions, was $313 billion. Taxable bond fund flows were $222 billion in 1Q26, per ICI, up $114 billion Y/Y.[15] Net foreign buying of corporate bonds was stable through the end of January.[16]

Spread volatility driven by geopolitics, AI, and private credit concerns did have a market impact with some “no deal” days and periods when new issues traded wider. As expected, hyperscalers brought large, multi-tranche bond deals that were priced to move given the large size of the borrowings. The Technology sector was the third largest borrower, issuing $64 billion and adjacent sector Communications issued $50 billion. Tasked with increasing electric grid capacity to power data centers among other uses, Utilities issued $56 billion in the first quarter. The Financials sector maintained its dominance, issuing $274 billion of bonds in the first quarter based on high redemptions, regulatory capital requirements, and balance sheet growth.[17]

10. The BBG U.S. IG Corporate Bond Index, Option-Adjusted Spread (OAS) vs Treasury Curve, Breckinridge, 3/31/26.
11. Ibid.
12. Yield to worst is a financial metric that helps investors assess the minimum yield they can expect from a bond under various scenarios.
13. Bloomberg U.S. IG Corporate Bond Index, Breckinridge, March 31, 2026.
14. Ibid.
15. Investment Company Institute (ICI), *Combined Estimated Taxable Bond Long-Term Flows and ETFs*, 4/1/26.
16. Treasury Capital International (TIC), *TIC Data for January 2026, Net Corporate Bond Cross-Border Flows*, 3/18/26.
17. Bloomberg, U.S. Investment Grade Corporate Bond Volume by Sector, 3/31/26.

Fundamentals: Steady Leverage & Record Margins

FIGURE 3: GROSS LEVERAGE IS STILL STEADY AND MARGINS ARE AT A RECORD HIGH



Source: Barclays U.S. IG Credit Metrics – Q4 25, March 16, 2026.

We see stable credit fundamentals for Industrials.[18] Credit is supported by solid revenue growth and cost discipline, which are driving margin improvement and steady debt metrics. Earnings are projected to grow by 13 percent in 1Q26; record margins may see pressure from oil.[19]

Industrials margins continued their steady march higher and we think corporate investments in AI may drive additional costs savings and productivity.[20] Forecasts for solid growth in operating earnings suggest a constructive backdrop in credit.[21] However, capex and M&A are rising and may strain metrics if heavily debt funded. Deregulation and financial conditions have prompted U.S. M&A, which was up 35 percent in 1Q26.[22]

U.S. IG Agency corporate credit rating upgrades exceeded downgrades by about 5:1 in 1Q26.[23] Regulatory relief is accelerating, which may boost revenues and reduce costs. Sharply rising capex is a risk to AI exposed sectors such as Tech and Utilities, although strong balance sheets and regulated business models mitigate added leverage, respectively. Bank credit looks stable in our view, although capital has peaked, private credit and sub-prime consumer stresses are risks. Growth in bank loans to non-depository financial institutions (NDFIs) has been swift and bears close monitoring.[24]

18. Barclays FICC Research, *U.S. Investment Grade Credit Metrics – Q1 26 Update: Stable Metrics*, 3/16/26.
19. Earnings are projected to grow 13 percent in 1Q26, *Earnings Insight*, FactSet, April 2, 2026.
20. Barclays FICC Research, U.S. Investment Grade Credit Metrics – Q1 26 Update: Stable Metrics, 3/16/26.
21. Earnings are projected to grow 13 percent in 1Q26, *Earnings Insight*, FactSet, April 2, 2026.
22. Bloomberg, Merger, and acquisitions were up 35 percent in 1Q26, 3/31/26.
23. Bloomberg, U.S. IG Agency rating upgrades exceeded downgrades by 5:1 in 1Q26, 3/31/26.
24. Loans to NDFIs is 16% of loans up from 7% five years ago, Federal Reserve H.8 report, Barclays, 3/18/26.

CORPORATE TRENDS DASHBOARD

OUR VIEW: Favorable rating trends and earnings growth are offset by rising event risk and geopolitical tensions.

TRENDS	WEAKNESS				STRENGTH	
Credit Ratings					X	U.S. IG Agency corporate credit rating upgrades exceeded downgrades by about 5:1 in 1Q26.
Earnings				X		Earnings are projected to grow by +13% in 1Q26; record margins may see pressure from oil.
Regulatory				X		Regulatory relief seems to be accelerating, which may boost revenues and reduce some costs.
Central Bank Policy			X			After reducing interest rates by 75bps in 2025, the Fed expects to cut rates just once in 2026.
Economy			X			While job creation is low, growth is driven by fiscal stimulus, consumer spending, and capex.
Financial Leverage			X			Solid revenue growth and cost discipline has spurred Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) growth and kept leverage stable.
Supply/Demand			X			IG new supply was $721B in 1Q26, up +12% Y/Y; Taxable bond fund flows were a strong $222B.
Corporate Event Risk		X				Deregulation and financial conditions have prompted U.S. M&A, which was up +35% in 1Q26.
Valuations		X				At +89bps, spreads are in the 13th percentile over a 20-year lookback; yields are in the 72nd percentile.
Geopolitical Risk	X					Geopolitical risk is acute with global trade tensions and hot wars in the Middle East and Ukraine.

Sources: Breckinridge Capital Advisors, Federal Reserve, Morgan Stanley, Barclays, Bloomberg, ICI, FactSet, Moody's Investor Services, S&P, Fitch Ratings, as of March 31, 2026.

STATISTICAL SUMMARY

	As of 3/31/2026		OAS Change (bps)		
	Yield to Worst (%)	OAS (bps)	Month to Date	Quarter to Date	Year to Date
Bloomberg U.S. Corporate Index	5.14	89	4	11	11
Corporate Credit Curves					
Corporate 1-3 Year	4.45	61	9	10	10
Corporate 1-5 Year	4.58	70	8	11	11
Corporate 5-10 Year	5.12	96	4	13	13
Corporate 10+ Year	5.87	105	0	11	11
Corporate Quality Spreads					
AAA Corporate	4.96	41	-2	7	7
AA Corporate	4.89	55	1	7	7
A Corporate	4.99	74	4	11	11
BBB Corporate	5.34	110	6	13	13
Corporate Sector Spreads					
Banking	4.93	87	8	15	15
Basic Industry	5.29	96	4	8	8
Brokers, Asset Managers, Exchanges	5.11	94	4	20	20
Capital Goods	4.94	70	5	7	7
Communications	5.40	100	0	6	6
Consumer Cyclical	5.00	82	8	11	11
Consumer Non-Cyclical	5.10	76	3	8	8
Energy	5.26	91	2	2	2
Finance Companies	5.77	183	4	41	41
Insurance	5.43	106	2	17	17
REITS	4.98	88	7	12	12
Technology	5.18	91	2	15	15
Transportation	5.26	81	4	9	9
Utility	5.31	93	3	8	8
Supply/Demand ($Billions)	**4Q25***	**4Q24***	**2025**	**2024**	**2023**
Net Corporate Supply	151	-151	673	730	505
Net Purchases (Foreigners)	278	224	323	276	260
Net Purchases (Funds)	627	333	406	426	60
Net Purchases (Households)	-969	-672	-476	-262	119
Net Purchases (Insurance)	317	313	268	242	108
Net Purchases (Banking)	-140	-221	10	-15	-75
Net Purchases (Other)	38	-128	142	63	33

*Note: Quarterly figures are seasonally adjusted annual rates.

Sources:Bloomberg Barclays, Fed Flow of Funds as of March 31, 2026

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