

Corporate Bond Market Outlook Q3 2026

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SUMMARY

- The Bloomberg (BBG) U.S. Investment Grade (IG) Corporate Bond Index (the Index) generated positive total and excess returns of 1.40 percent and 1.17 percent, respectively in the second quarter of 2026 (2Q26).
- Risk assets recovered pushing IG spreads 14 basis points (bps) tighter. At +74bps on the Index, we believe spreads are fully valued, while all-in IG yields over five percent are well above average.
- IG bond issuance totaled \$605 billion in the second quarter, up 42 percent year-over-year (Y/Y), on high refinancing needs and rising artificial intelligence (AI) capital expenditures (capex).¹ Fund flows and investor demand were strong.²
- Bank credit looks stable to us, but capital has peaked and subprime consumer and private credit stress are risks. We see stable credit fundamentals for Industrials and Utilities.³



1. Barclays FICC Research, Credit Strategy, *US Investment Grade Corporate Update, June 2026*, 7/1/26.
2. Treasury International Capital (TIC), *TIC Data for April 2026, Net Corporate Bond Cross-Border Flows*, 6/18/26.
3. Barclays FICC Research, *U.S. Investment Grade Credit Metrics – Q1 26 Update: Stable Metrics*, 6/5/26.



Investment Review & Outlook

IG Credit Generated Solid Positive Returns in the Second Quarter

After widening 11bps in the first quarter on heightened geopolitical risk and an oil shock, corporate bond spreads staged a comeback on a ceasefire in Iran, solid U.S. economic data, and a strong first-quarter earnings cycle. With spread tightening of 14bps, the Index finished at an option-adjusted spread (OAS) of +74bps at 2Q26. Selective risk-taking was rewarded, reinforcing the value of active credit selection during transient risk-off periods. At present, IG spreads are back to the 1st percentile over a 20-year lookback, with full valuations necessitating careful selection. Positive total returns and above average all-in yields in the 74th percentile continue to drive strong demand and fund flows.

With the risk-on tone in equities, credit quality spreads compressed in 2Q26. The A/BBB quality spread differential tightened 6bps to 30bps with a z-score of negative 1.1 compared to the five-year average.⁴ With underperformance in the first quarter, more favorable relative value emerged in Financials, which contributed to outperformance compared to the Index in 2Q26. We favor Financials bonds relative to Industrials on incremental spread pickup versus comparably rated Industrials issuers. Spreads on short (1-3 year), intermediate (5 year), and long corporate (10+ year) BBG indices tightened by 18bps, 16bps, and 12bps, respectively, as credit curves steepened. While credit spreads are tight, we continue to think short- to intermediate-term bonds offer slightly better relative value over longer maturities.⁵

The Breckinridge Investment Committee's base case macro outlook for the U.S. economy is for moderate real gross domestic product (GDP) growth in 2026. The Tech and AI-related capex boom is contributing to GDP growth directly in investment and secondarily in a wealth effect via consumer spending.⁶ Prospectively, AI-related capex is likely to keep growth and inflation above target, though lower energy prices are an offset. The labor market has sent mixed signals but, although revised downward at the end of June, job growth continued in 2Q26. Geopolitical developments add uncertainty and are a downside risk to the outlook. Our Investment Committee thinks the Federal Reserve (Fed) will remain on hold for the rest of this year.

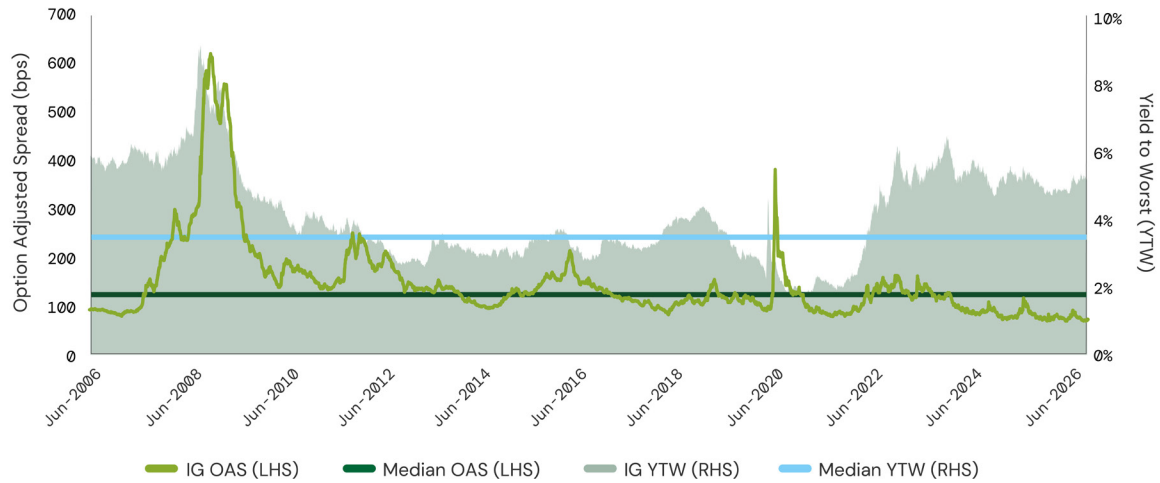
Above-average yields, solid investor demand, and stable credit fundamentals are counterbalanced by tight spreads, high bond issuance, stress in private credit, and geopolitical risks driving a modest overweight to IG corporate credit with a defensive posture. We view the income proposition for IG credit as attractive with the Index yield over five percent at 2Q26.

4. A z-score is a statistical measurement that indicates how far away a data point is from the mean of a dataset, measured in terms of standard deviations. It standardizes a raw score, allowing for comparisons between different datasets or populations.
5. 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 earning 100bps (1%) but with a 2-year spread duration can withstand a 50bps (0.5%) widening before breaking even on its spread return.
6. Bureau of Economic Analysis, 6/25/26. Info Tech sector was the leading contributor to the increase in real GDP.



Valuations: Tight Spreads & Above-Average Yields

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



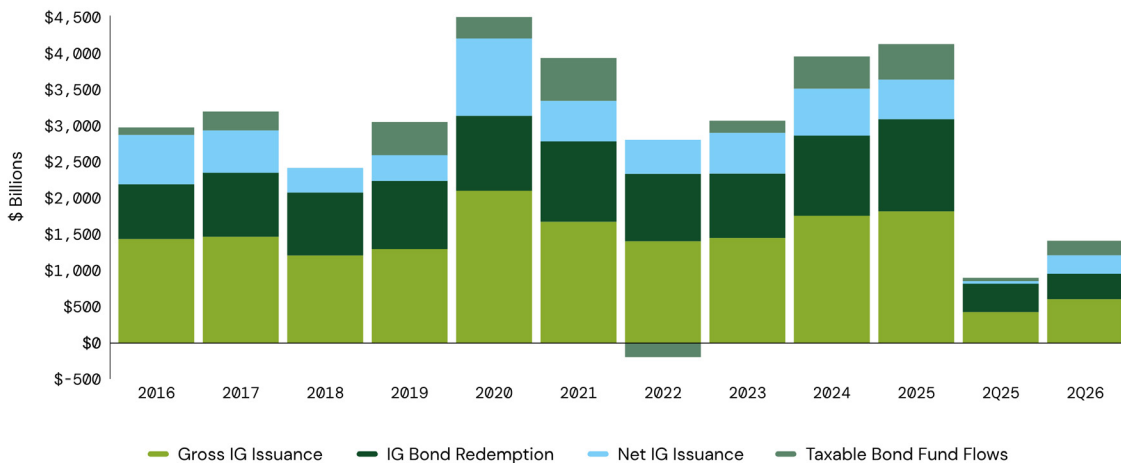
Source: Bloomberg U.S. Corporate Bond Index, Breckinridge, as of June 30 2026.

Corporate spreads were 14bps tighter in 2Q26, closing at an OAS of +74bps. Both IG total and excess returns were positive at 1.40 percent and 1.17 percent in 2Q26, respectively. Spreads are in the first percentile over a 20-year lookback. Valuations argue for a defensive stance, while an IG yield over 5 percent, in the 74th percentile, is supportive of investor demand.

Changes in spreads showed that AAA/AA corporate bonds (-3bps) meaningfully underperformed A-rated (-12bps) and BBB-rated (-18bps) corporates in 2Q26, respectively. Financials (-19bps) outperformed Industrials (-12bps) and Utilities (-14bps) in 2Q26. Finance, which includes Business Development Companies (BDCs) tightened by 37bps, while Insurance (-24bps) also did well. Cable Satellite and Media Entertainment both underperformed, widening 8bps and 3bps, respectively on elevated merger and acquisition (M&A)-related supply.

Technical: Elevated Supply & Robust Demand

FIGURE 2: ELEVATED GROSS IG SUPPLY WAS WELL ABSORBED BY STRONG FUND FLOWS IN 2Q26



Sources: U.S. Investment Grade Corporate Update: June 2026, Barclays FICC Research, July 1, 2026.

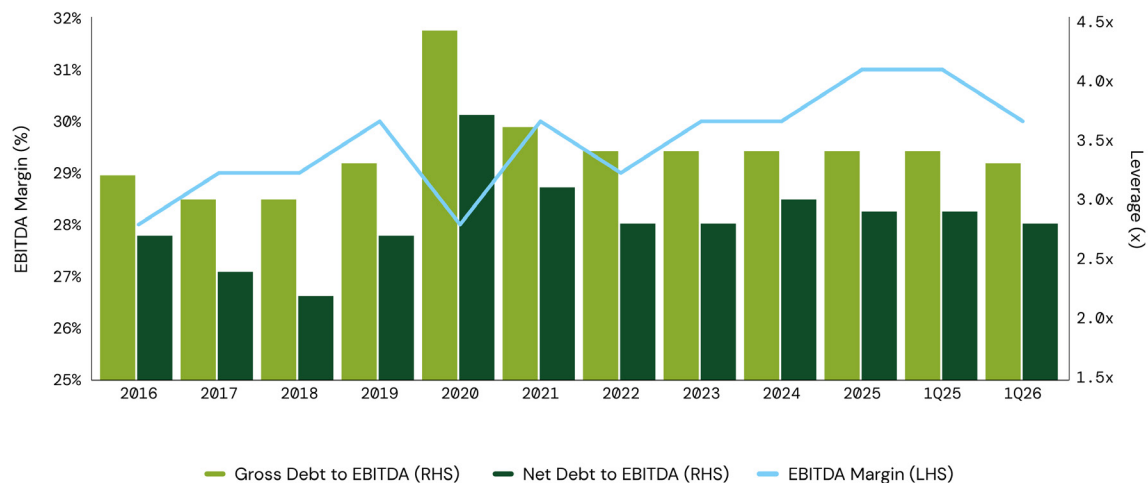


High IG issuance in 2Q26 was driven by high refinancing activity and rising AI-related capex, including data center and infrastructure buildout. Gross IG supply was \$605 billion in 2Q26, up 42 percent Y/Y. Net issuance, after \$351 billion of bond redemptions, was \$254 billion. Taxable bond fund flows were \$202 billion in 2Q26, per the Investment Company Institute (ICI). Foreign buying of corporates was \$144 billion, year-to-date (YTD), through April 30, 2026.⁷

After an active first-quarter, AI-related U.S. dollar (\$USD) unsecured issuance remained high in the second quarter. The Communications sector was the second largest borrower, issuing \$101 billion in bonds, followed by the Utilities sector at \$61 billion, and the Technology sector at \$44 billion. The market value of the Technology Index at 10.2 percent is the third largest sub-sector of the IG market, up from 9.5 percent one year ago. These figures exclude non-\$USD bond issuance, project financing, operating and finance leases, asset-backed deals, private IG borrowing, equity issuance, and other alternative sources being tapped by hyperscalers⁸ to fund AI capex.⁹ At \$268 billion, the Financials sector issued the most bonds in 2Q26.

Fundamentals: Steady Leverage, Near-Record Margins

FIGURE 3: LEVERAGE METRICS ARE STABLE, WITH MARGINS EASING OFF A RECORD HIGH



Source: Barclays FICC Research, Credit Strategy, U.S. Investment Grade Credit Metrics – Q1 26 Update: Stable Metrics, June 5, 2026.

Strong earnings growth and near-record margins support stable-to-improving fundamentals and suggest a constructive backdrop in credit. Earnings growth was exceptional at 29 percent in 1Q26, with consensus estimates among analysts at 22 percent for 2Q26.¹⁰ Industrials margins are near-record territory and corporate investments in AI may drive additional cost savings and productivity gains.¹¹

7. Treasury International Capital (TIC), *TIC Data for April 2026, Net Corporate Bond Cross-Border Flows*, 6/18/26.

8. Hyperscalers are large cloud service providers that own and operate outsized global data centers that offer on-demand computing, storage, and networking resources.

9. Barclays Research, *Data Center Bond Comp Sheet*, AI Data Center Bonds Outstanding are c.\$90 billion, 6/25/26.

10. Earnings are projected to grow 22 percent in 2Q26, *Earnings Insight*, FactSet, June 12, 2026.

11. Barclays Research, Credit Strategy, US Investment Grade Credit Metrics – Q1 26 Update: *Stable Metrics*, 6/5/26.



Credit rating agency U.S. IG corporate bond upgrades exceeded downgrades by 3:1 in 2Q26.¹² Deregulation and financial conditions drove U.S. M&A volumes, which were up +96 percent Y/Y in 2Q26.¹³ M&A are rising and may strain metrics if heavily debt funded, although, to date with financing sources, have been balanced. IG issuers have grown debt and earnings before interest, taxes, depreciation, and appreciation (EBITDA) at roughly the same pace, keeping financial leverage steady over the trailing five-year period.¹⁴ Debt-funded AI-related capex is high, although exposed sectors have partially mitigated credit and leverage impacts by issuing hybrids and common equity.

Capex is accelerating, with the IG cohort spending \$349 billion in 1Q26 and \$1.3 trillion over the last 12 months.¹⁵ Hyperscaler and Technology capex are projected to break \$1 trillion and exceed all non-financial IG issuers by 20 percent in 2027.¹⁶ Sharply rising capex is a risk to AI-exposed sectors such as Technology, Communications, and Utilities, although high credit ratings, strong balance sheets, and regulated business models mitigate added leverage, respectively.

Bank credit looks stable to us, with strong market-sensitive revenues and steady net interest income from lending. Pressure on lower-income consumers is affecting subprime auto and credit card loans, as delinquencies remain elevated, albeit a smaller sub-segment for most IG Banks. BDCs with high software exposures are seeing rising non-performing loans, higher payment-in-kind (PIKs), and redemption pressures, and banks have experienced strong loan growth to non-depository financial institutions (NDFIs).¹⁷

12. Bloomberg, U.S. IG Agency rating upgrades exceeded downgrades by 3:1 in 2Q26, RATT <GO> on BBG, 6/30/26.

13. Bloomberg, Merger, and acquisitions were up 96 percent in 2Q26, MA <GO> on BBG, 6/30/26.

14. Barclays Research, Credit Strategy, US Investment Grade Credit Metrics – Q1 26 Update: *Stable Metrics*, 6/5/26.

15. Morgan Stanley US Credit Strategy: 1Q26 Fundamentals, *Broad-Based Earnings Growth*, June 17, 2026.

16. Ibid.

17. Federal Deposit Insurance Corporation, *Banking Issues in Focus, February 2026*. "From 2010 to 2024, outstanding balances of bank loans to NDFIs, reported quarterly on bank Consolidated Reports of Condition and Income (Call Reports), rose at a compound annual growth rate of 21.9 percent, almost three times as high as the next-fastest-growing segment."



CORPORATE TRENDS DASHBOARD

High earnings growth and near-record margins are offset by rising corporate event risk and full valuations. The environment supports selective credit exposure.

TRENDS	WEAKNESS			STRENGTH			
Earnings				X			Earnings growth was exceptional at +29% in 1Q26 with consensus estimates at +22% for 2Q26.
Credit Ratings				X			Credit rating agency U.S. IG corporate bond upgrades exceeded downgrades by 3:1 in 2Q26.
Economy				X			The job market steadied, with growth driven by stimulus, consumption, and capex.
Regulatory				X			Regulatory relief is accelerating, which may boost M&A and reduce costs.
Central Bank Policy			X				After reducing interest rates by 75bps in 2025, we think the Fed will hold rates steady in 2026.
Financial Leverage			X				IG issuers are growing debt and EBITDA at the same pace, keeping debt leverage steady.
Supply/Demand			X				IG new supply was \$605B in 2Q26, up +42% Y/Y; Taxable bond flows were solid at \$202B.
Corporate Event Risk	X						Deregulation and financial conditions drove U.S. M&A volumes, which were up +96% in 2Q26.
Valuations		X					At +74bps, spreads are in the 1st percentile over a 20-year lookback; yields are in the 74th 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, Inc., Federal Reserve, Morgan Stanley, Barclays, Bloomberg, ICI, FactSet, Rating Agencies, as of June 30, 2026.



STATISTICAL SUMMARY

	As of 6/30/2026			OAS Change (bps)		
	Duration	Yield to Worst (%)	OAS (bps)	Month-to-Date	Quarter-to-Date	Year-to-Date
Bloomberg U.S. Corporate Index	6.09	5.20	74	2	-14	-3
Corporate Credit Curves						
Corporate 1-3 Year	1.85	4.61	42	-3	-18	-8
Corporate 1-5 Year	2.71	4.73	53	-1	-17	-7
Corporate 5-10 Year	6.04	5.17	82	3	-14	-1
Corporate 10+ Year	12.48	5.81	94	6	-12	-1
Corporate Quality Spreads						
AAA Corporate	10.57	5.05	38	6	-3	4
AA Corporate	7.84	5.04	52	5	-3	4
A Corporate	6.73	5.07	62	2	-12	-2
BBB Corporate	6.52	5.36	92	2	-18	-6
Corporate Sector Spreads						
Banking	4.75	5.01	69	-1	-17	-2
Basic Industry	7.27	5.30	79	4	-17	-9
Brokers, Asset Managers, Exchanges	5.95	5.16	78	3	-16	4
Capital Goods	6.66	5.01	57	1	-13	-6
Communications	8.40	5.56	100	12	-1	5
Consumer Cyclical	6.12	5.07	66	3	-16	4
Consumer Non-Cyclical	7.70	5.14	62	1	-14	-5
Energy	7.46	5.30	78	5	-13	-11
Finance Companies	3.48	5.69	145	-2	-37	3
Insurance	8.18	5.38	83	1	-24	-7
REITS	5.21	5.01	68	-2	-20	-8
Technology	7.06	5.26	79	5	-12	3
Transportation	9.11	5.27	65	0	-16	-7
Utility	7.98	5.33	78	2	-14	-6
Supply/Demand (\$Billions)		1Q26*	1Q25*	2025	2024	2023
Net Corporate Supply		1417	1364	705	728	505
Net Purchases (Foreigners)		538	357	323	276	260
Net Purchases (Funds)		810	482	406	426	60
Net Purchases (Households)		-774	-23	-476	-262	119
Net Purchases (Insurance)		385	89	268	242	108
Net Purchases (Banking)		256	324	10	-15	-75
Net Purchases (Other)		202	135	174	61	33

*Note: Quarterly figures are seasonally adjusted annual rates.

Sources: Bloomberg U.S. IG Corporate Bond Index, Breckinridge, June 30, 2026, Financial Accounts of the United States-Z.1, Fed Flow of Funds, First Quarter 2026, pp. 127, June 11, 2026.



The content is intended for investment professionals and institutional investors. All data is as of June 30, 2026, unless otherwise noted.

#BCAI-07072026-tnhgvn75 (7/7/2026)

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