

Corporate Bond Market Outlook Q4 2026

AUTHOR



Nick Elfner
Co-Head of Research

SUMMARY

- The Bloomberg (BBG) Investment Grade (IG) Corporate Index (the Index) generated a negative total return of 3.94 percent, as interest rates rose sharply in the third quarter of 2026 (3Q26).¹
- IG spreads widened 6 basis points (bps), driving a negative excess return of 14bps.² At +80bps on the Index, we view spreads as fully valued, while IG yields at six percent are well above average.³
- Credit issuance totaled \$561 billion in the third quarter, up 30 percent year-over-year (Y/Y). Domestic taxable bond fund flows, and foreign investor demand remained solid.^{4,5}
- Net leverage eased fractionally to 2.8 times, with last twelve months EBITDA growth just shy of 20 percent Y/Y and record high margins supporting stable-to-improving credit fundamentals.⁶



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, 9/30/26.
3. Ibid.
4. Investment Company Institute (ICI), *Weekly Combined Estimated ETF and Long-Term Taxable Bond Flows*, 9/30/26.
5. Treasury International Capital (TIC), *TIC Data for July 2026, Net Corporate Bond Cross-Border Flows*, 9/18/26.
6. Barclays FICC Research, *U.S. Investment Grade Credit Metrics – Q2 26 Update: Stable Metrics*, 9/22/26.



Investment Review & Outlook

Credit Spreads Leaked Wider, but It Was Rates That Pressured Returns

The main story during the third quarter was not credit or spreads but rather a sharp repricing of interest rates pushing yields on the Index over six-percent. Before rates began to move to center stage in September, the credit market's focus was mostly on new corporate bond supply, with a record August pushing the summer tally over \$500 billion, up 30 percent Y/Y, in what is typically a slower period. Hyperscalers⁷ continued to increase their weightings in the Index, with two issuers now among the top 15 by market value and two among the top eight. While U.S. banks remain six of the largest ten issuers, if hyperscalers continue to issue bonds at this pace they may challenge U.S. banks for top Index spots within a couple of years. While issuer and sector concentration is a challenge and causes hand-wringing, corporate bond investors have become accustomed to this with the Banking sector.⁸

Credit spreads widened 6bps in the third quarter after 14bps of tightening in the second quarter. Strong earnings and economic growth, favorable rating actions, and equity market gains supported credit spreads, while elevated supply and interest rate volatility⁹ were clear headwinds. Sector-wise, underperformance continued in Technology (+8bps), Retailers (+10bps), Media Entertainment (+10bps), and Cable Satellite (+24bps), where the hyperscaler issuers reside.

With rising commodity prices, oil specifically, Energy (-3bps) and Basic Industry (-1bp) continued to outperform. As of 3Q26, credit spreads are back to the 7th percentile over a 20-year look-back, with full valuations necessitating careful selection. Despite a negative total return this quarter, well above average yields in the 93rd percentile are driving strong demand and fund flows.

The Breckinridge Investment Committee's base case macro outlook is for real gross domestic product (GDP) growth to return towards trendline levels. Strong AI-related capex and resilient consumer spending have pushed growth higher, though nominal wage growth is on a decelerating trend at around three percent. We expect one additional Federal Reserve (Fed) interest rate hike in 2026 and another in 1H2027. Geopolitical developments add uncertainty and are a downside risk to the outlook.

Well above-average yields, solid investor demand, and stable-to-improving credit fundamentals are offset by tight spreads, debt-funded AI capex, and high supply, driving a modest overweight to the corporate sector with a defensive posture. A broad repricing of interest rates means that elevated current yields and higher income generation can provide a larger cushion for total returns, should rates move higher. We view the income proposition for credit as attractive with the Index yield around six-percent at 3Q26.¹¹

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

8. Banking sector is 22% of the market value of the, twice that of Tech (10.7%) BBG U.S. IG Corporate Bond Index.

9. Merrill Lynch Option Volatility Estimate (MOVE) Index is a gauge of interest rate volatility in the U.S. Treasury Market. The MOVE Index had a correlation (R) of 0.61 to the BBG U.S. IG Corporate Bond Index from 9/30/03 – 9/30/26. R was 0.76 from 9/30/23 – 9/30/26, with periods of time when the correlation (R) rose to 0.81.

10. Breckinridge, A percentile rank is the percentage of values that fall at or below a specific score, 9/30/2006–9/30/2026.

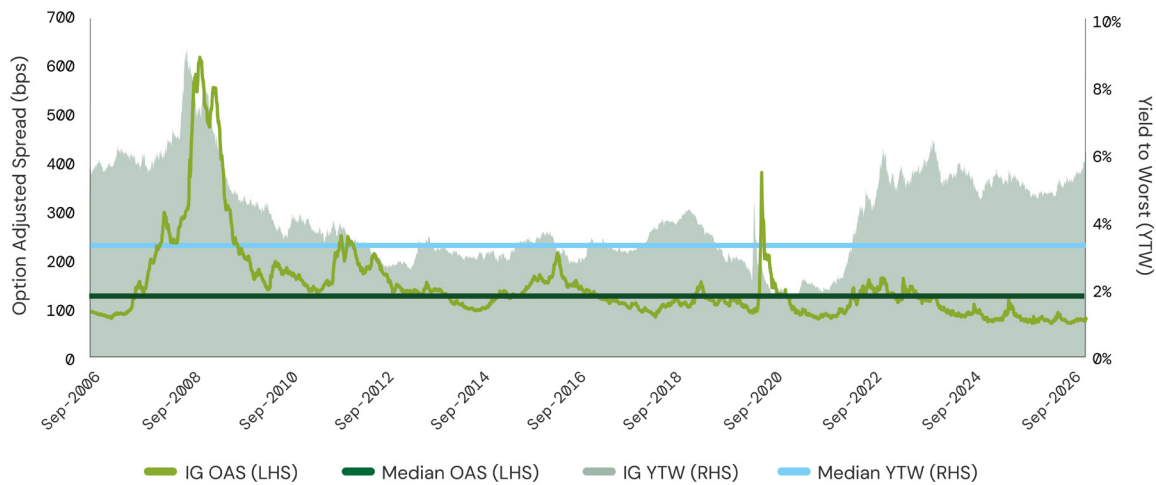
11. Bloomberg U.S. IG Corporate Bond Index, Breckinridge, 9/30/26.



Valuations: Tight Spreads, Well Above-Average Yields

Corporate spreads were 6bps wider in 3Q26, closing at an option-adjusted spread (OAS) of +80bps (See Figure 1).¹² Credit spreads argue for a defensive stance, while high yields are supportive of valuations and fund flows. Given the sharp moves higher in Treasury yields, the Index's total return was -394bps in the third quarter, while the excess return was -14bps.¹³

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



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

Across credit quality tiers, the AA bucket, with its concentration of hyperscalers, continued to underperform, with spread widening of 7bps. The A/BBB Industrial quality-spread differential was flat at 35bps, with a z-score of negative 2.0 compared to the five year average.¹⁴ Spreads on short (1-3 year), intermediate (5 year), and long corporate (10+ year) BBG indices widened by 8bps, 7bps, and 4bps, respectively, as credit curves flattened.

Unlike the first half of the year, there was minimal performance dispersion across Financials (+8bps), Industrials (+5bps), and Utilities (+5bps) in 3Q26. While spreads are compressed, Financials continue to offer incremental spread to comparable duration and quality Industrial bonds. Credit spreads on Finance companies, specifically Business Development Companies (BDCs), tightened by 9bps and have more than recovered from sharp underperformance from earlier in the year. Cable Satellite and Media Entertainment both underperformed in the third quarter, widening 24bps and 10bps, respectively, on elevated debt-funded capex and merger and acquisition (M&A)-related supply.¹⁵

12. The BBG U.S. IG Corporate Bond Index, OAS vs. Treasury Curve, Breckinridge, 9/30/26.

13. Ibid.

14. 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.

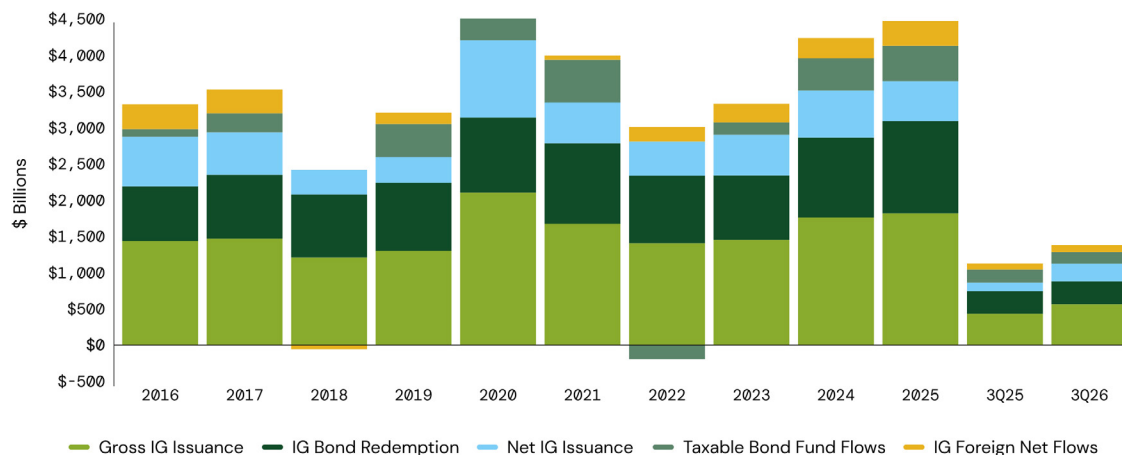
15. Ibid.



Technical: Elevated Supply & Robust Demand

We view credit technicals as neutral. An active July (\$162 billion), a record August (\$171 billion), and an as-expected September (\$228 billion) pushed the summer credit issuance tally to over \$500 billion, up over 30 percent Y/Y (See Figure 2). IG bond issuance in 3Q26 was driven by refinancing activity, AI capex-related issuance, and robust bank supply. Gross supply was \$561 billion in 3Q26. Net issuance, after \$318 billion of redemptions, was \$243 billion. Taxable bond fund flows were \$161 billion in 3Q26 and net foreign buying of corporates was \$97 billion in 3Q26.¹⁶

FIGURE 2: ELEVATED IG BOND ISSUANCE WAS MET BY SOLID FUND FLOWS IN 3Q26



Sources: U.S. Investment Grade Corporate Update, Barclays, October 1, 2026. ICI Fact Books, 2016–3Q26.

Financials dominated supply, issuing \$232 billion in the third quarter followed by Communications (\$85 billion) and Consumer Discretionary (\$56 billion).¹⁷ The market value of the Technology Index at 10.7 percent is the third largest sub-sector of the IG market, up from 9.7-percent one-year ago.¹⁸ These figures exclude non-U.S. dollar (\$USD) bond issuance, project financing, operating and finance leases, asset-backed deals, private IG borrowing, equity issuance, and other sources being tapped by hyperscalers to fund AI capex.¹⁹

Fundamentals: Steady Leverage, Near-Record Margins

Strong earnings growth and record high margins support stable-to-improving credit fundamentals. Corporate balance sheets are well positioned to manage higher financing costs. Earnings growth was above 25 percent in 1H26 Y/Y for the S&P 500 and 3Q26 may be similar.²⁰ U.S. IG credit rating upgrades exceeded downgrades by about 6:1 year-to-date (YTD).²¹

16. Treasury International Capital (TIC), *TIC Data for July 2026, Net Corporate Bond Cross-Border Flows*, 9/18/26.

17. Bloomberg, *U.S. IG Corporate League Tables, Sector Breakdown by Volume*, 3Q26, 9/30/26.

18. Bloomberg U.S. IG Corporate Bond Index, Breckinridge, 9/30/26.

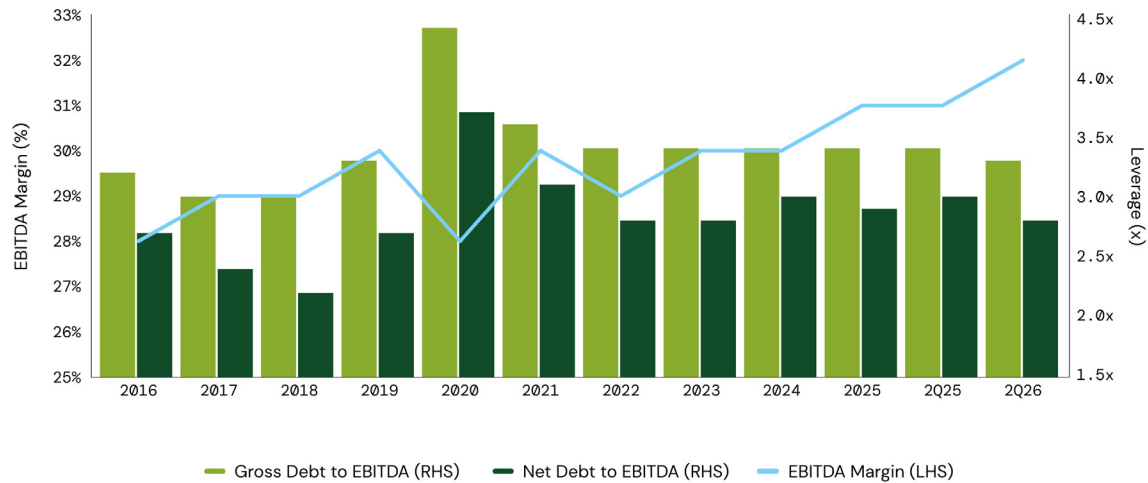
19. Barclays Research, *Data Center Bond Comp Sheet*, AI Data Center Bonds Outstanding are \$112 billion, 9/11/26.

20. Earnings are projected to grow 22 percent in 3Q26, *Earnings Insight*, FactSet, 9/25/26.

21. Bloomberg, U.S. IG Agency rating upgrades exceeded downgrades by 6:1 YTD-26, RATT <GO> on BBG, 9/30/26.



FIGURE 3: IG NET LEVERAGE EASED & EBITDA MARGINS ROSE TO A RECORD IN 2Q26



Source: Barclays FICC Research, Credit Strategy, U.S. IG Credit Metrics – Q2 26, September 22, 2026.

Hyperscalers' capex estimates are projected near \$1 trillion in 2026 and approach \$1.5 trillion in 2027.²² Debt-funded AI-related capex is high, although exposed sectors have partially mitigated credit and leverage impacts by issuing hybrids and common equity. 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 in these sectors, respectively.

M&A values were down 14 percent in 3Q26 Y/Y but were up 37 percent YTD on deregulation and strong markets.²³ Regulatory relief is accelerating, which may boost mergers and revenues and reduce costs. M&A activity is rising and may strain metrics if heavily debt funded, although, having tapped financing sources to date, have been balanced. IG issuers have grown debt and earnings before interest, taxes, depreciation, and amortization (EBITDA) at the same pace, keeping leverage steady over the trailing five-year period.²⁴

Bank credit looks stable, with peak earnings power, strong market-sensitive revenues, steady growth in net interest income, and benign asset quality. In fact, S&P Global Ratings, a relatively conservative rating agency for large banks in our view, upgraded a U.S. Global Systemically Important Bank (G-SIB) after years of governance and growth challenges.²⁵ Inflation and high interest rates are pressuring lower-income consumers, which may have a larger knock-on effect on subprime auto and credit card delinquencies. With the material rise in Treasury and mortgage-backed securities (MBS) yields, unrealized losses on bond portfolios will increase but should remain below the 2022-2024 period and durations are shorter.²⁶ Still, there will be an impact on capital ratios as a result.

With high short-term interest rates, low-cost bank deposits are at risk, as higher-interest alternatives do exist. The \$7.9 trillion in money-market funds²⁷ and \$4.1 trillion in certificates-of-deposit (CDs)²⁸ demonstrate that short-term money, in our view, will find higher interest rates without draining the banking system of deposits, which are nearly \$20 trillion.²⁹

22. Morgan Stanley Global Credit Strategy, *What We Are Watching, The State of AI Financing*, 10/5/26.

23. Bloomberg, Merger, and acquisitions were up 37 percent YTD-26, MA <GO> on BBG, 9/30/26.

24. Barclays Research, Credit Strategy, *US Investment Grade Credit Metrics – Q2 26 Update*, 9/22/26.

25. S&P Global Ratings upgraded Wells Fargo & Co.'s issuer credit rating to 'A-' from 'BBB+' on 9/29/26.

26. FDIC Quarterly Banking Profile, *Unrealized Gains and Losses on Investment Securities*, pp. 4, 2Q 2026.

27. Investment Company Institute (ICI), \$7.9 trillion was held in U.S. money market funds on 9/30/26.

28. Federal Reserve data, \$4.1 trillion was held in U.S. bank certificates of deposits on 9/30/26.

29. Federal Reserve Bank of St. Louis, \$19.6 trillion was held in commercial bank deposits on 9/30/26.



In the future, Agentic AI may be able to optimize interest rates in excess cash or high-yield saving accounts but in the present there is friction, in our view.³⁰ Would most close a bank account and open another at a virtual bank, redo monthly and quarterly bills, mortgage, home equity loan, and credit cards, and direct deposits to earn an extra 10 to 15bps on the \$8k³¹ of cash in the median checking or savings account, when CD's or other higher-interest-bearings accounts are a reasonable alternative? Perhaps Agentic AI would find banks that pay the highest deposit rates. We know from experience it may not always be prudent to squeeze out a few extra basis points in banks that are perhaps most at risk during a bank run or economic recession.³²

CORPORATE TRENDS DASHBOARD

OUR VIEW: Robust earnings growth and margins and positive rating agency actions, are offset by elevated supply, a more neutral technical backdrop, and tight credit spreads. The environment supports selective credit exposure.

TRENDS	WEAKNESS				STRENGTH			
Earnings					X			Earnings growth was above 25% in 1H26 Y/Y for the S&P 500 and 3Q26 may be similar.
Credit Ratings					X			U.S. IG corporate credit rating upgrades exceeded downgrades by about 6:1 in YTD-26.
Economy					X			The job market has steadied, with growth driven by stimulus, consumption, and capex.
Regulatory					X			Regulatory relief is accelerating, which may boost mergers and revenues and reduce costs.
Central Bank Policy				X				The Fed raised rates 25bps in 3Q26 starting a potential tightening cycle to address inflation.
Financial Leverage				X				Issuers are growing EBITDA at a slightly faster pace than debt keeping leverage from rising.
Supply/Demand				X				IG credit issuance was \$561B in 3Q26, up +30% Y/Y; Taxable bond flows were solid at \$161B.
Corporate Event Risk		X						U.S. M&A values were -14% in 3Q26 Y/Y, but +37% YTD-26 on deregulation and strong markets.
Valuations		X						IG spreads are in the 7th percentile over a 20-year lookback; yields are in the 93rd 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, Rating Agencies, as of September 30, 2026.

30. Apollo Global Management, The Daily Spark, *Is an Agentic Bank Run Coming?* Torsten Slok, 9/27/26.

31. Federal Reserve Survey of Consumer Finance, Median cash in checking or savings accounts is \$8k, 7/2026.

32. Wall Street Journal, *What Happened with Silicon Valley Bank?*, 3/14/23.



STATISTICAL SUMMARY

	As of 9/30/2026			OAS Change (bps)		
	Duration	Yield to Worst (%)	OAS (bps)	Month-to-Date	Quarter-to-Date	Year-to-Date
Bloomberg U.S. Corporate Index	6.41	6.04	80	2	6	3
Corporate Credit Curves						
Corporate 1-3 Year	1.85	5.40	51	7	8	0
Corporate 1-5 Year	2.69	5.59	61	6	8	1
Corporate 5-10 Year	5.94	6.11	89	2	7	6
Corporate 10+ Year	11.87	6.59	98	-1	4	3
Corporate Quality Spreads						
AAA Corporate	10.18	5.83	39	-2	1	5
AA Corporate	7.39	5.89	60	-1	7	11
A Corporate	6.36	5.91	68	2	6	4
BBB Corporate	6.17	6.21	98	3	6	0
BB Corporate	3.42	7.11	186	40	31	22
Corporate Credit Sectors						
Banking	4.61	5.90	78	5	9	7
Basic Industry	6.88	6.07	79	2	-1	-9
Brokers, Asset Managers, Exchanges	5.68	6.02	83	6	6	10
Capital Goods	6.21	5.83	61	2	4	-2
Communications	7.78	6.45	111	2	12	17
Consumer Cyclical	5.88	5.95	75	5	9	4
Consumer Non-Cyclical	7.29	5.95	65	1	3	-2
Energy	7.14	6.06	76	0	-3	-14
Finance Companies	3.34	6.46	142	6	-3	0
Insurance	7.63	6.21	88	2	5	-1
REITS	5.00	5.91	76	4	8	0
Technology	6.61	6.12	87	0	8	11
Transportation	8.39	6.04	68	2	4	-4
Utility	7.61	6.16	83	1	5	-1
Supply/Demand (\$Billions)	2Q26*	2Q25*	2025	2024	2023	2022
Net Corporate Supply	\$1,352	\$653	\$805	\$795	\$522	\$508
Net Purchases (Foreigners)	377	345	343	278	260	202
Net Purchases (Funds)	787	23	357	385	125	185
Net Purchases (Households)	-519	-80	-269	-151	80	4
Net Purchases (Insurance)	246	255	228	241	108	140
Net Purchases (Banking)	246	-47	21	-39	-66	-66
Net Purchases (Other)	215	157	125	81	15	43

*Note: Quarterly figures are seasonally adjusted annual rates.

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



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

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