



Credit Chronicle

Market review from Ninety One's
Developed Market Credit team

Market review

It was a volatile quarter for financial markets. Except for some higher-rated collateralised loan obligations (CLOs) and agency mortgage-backed securities (MBS), most credit markets posted negative returns, but behind the headline figures there were notable bright spots.

Fixed income markets came under pressure from both the rise in sovereign bond yields and a widening of credit spreads, as war in Iran sparked fears over the inflation and growth outlook. The European high-yield market was most affected, given the significant implications of the energy price shock for the region; spread moves were more muted in the US, where AI disruption-related concerns dominated. In the investment-grade market, spreads widened somewhat in both the US and Europe, reflecting the rise in sovereign bond yields. In more specialist credit markets, bank capital (AT1s) came under pressure as sentiment soured in March and broader risk-off tone took hold.

Floating rate markets fared better, given the protection they offer against rising interest rates. Higher-rated CLO tranches were the top performers, with their senior position in the capital structure providing an additional buffer. Elsewhere, spreads widened in the loan market, weighing on returns – moves reflected the continued backdrop of heavy loan supply and pressure on the software sector from the AI disruption theme (software accounts for a meaningful share of the loan market, as we noted [here](#)). The agency MBS market posted a positive return, with spreads over government bonds remaining resilient, having started the quarter relatively wide.

Current snapshot

We believe that credit markets are driven by three Compelling Forces and that a careful assessment of each of these is essential for exploiting evolving market inefficiencies and building a robust credit portfolio. Here's our current view:

Compelling force	Fundamentals	Valuations	Technicals
	Fundamental strength	Attractiveness of valuations	Supply/demand dynamics
US high yield	●	●	●
European high yield	●	●	●
US investment grade	●	●	●
European investment grade	●	●	●
US loans	●	●	●
European loans	●	●	●
Bank capital	●	●	●
Corporate hybrids	●	●	●
EM corporate credit	●	●	●
Short-duration high yield	●	●	●

Key: Worst ← ● ● ● ● ● → Best

For illustrative purposes only. For further information on the investment process, please see the important information section.

Where to focus and what to avoid

- We are defensively positioned and have been rotating away from European markets that are more heavily exposed to rising energy prices, taking profits on positions there.
- We have limited exposure to the market segments most at risk of AI disruption, favouring higher quality opportunities such as insurance sector issuers, where recent market moves mean we can find A-rated debt with spreads comparable to BB rated bonds.
- We are cautiously positioned in US investment-grade debt as issuance from hyperscalers (AI data centre providers) is tipping the supply/demand balance.
- In the high-yield market – where there is wide dispersion – we are capturing attractively valued opportunities, but continue to prefer specialist segments such as structured credit and bank capital over the most compressed parts of high yield (notably BB rated credit), where comparable yields are available at meaningfully better credit quality.

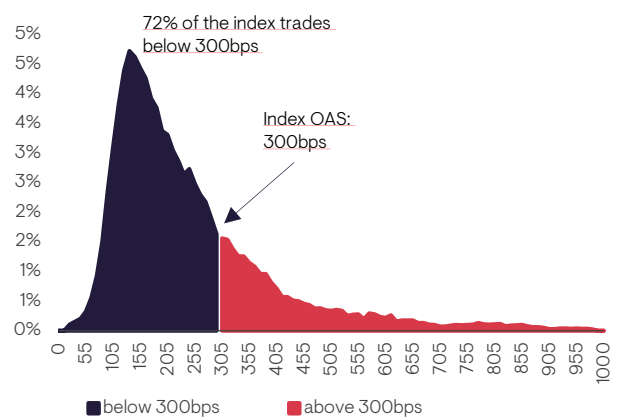
Sector by sector

High yield

US	--	-	0	+	++
Fundamentals			●		
Valuations	●				
Technicals			●	○	
EUR	--	-	0	+	++
Fundamentals		●	○		
Valuations		●			
Technicals			●	○	

An empty circle denotes our view in the previous quarter, if it differs.

Dispersion in the high-yield market



Source: ICE BofA indices, Ninety One, 31 March 2026.

Spreads widened across the high yield (HY) market. In the US, spreads widened 47bps to 328bps, leading to a negative total return of 0.6%. European HY spreads moved wider still, rising by 67bps to 337bps as the Iran war prompted a shift in interest rate expectations (the ECB is now expected to hike rates). As a result, the index yield rose c.1%, and Q1 total returns were -1.2% in USD-hedged terms, leaving Europe c.60bps behind the US in currency-hedged terms. The spillover from AI-related concerns was more limited than in other risk-sensitive markets, reflecting limited direct exposure to the hyperscaler capex story or to the tech and software names at the epicentre of the market's valuation concerns. See [here](#) for more flavour.

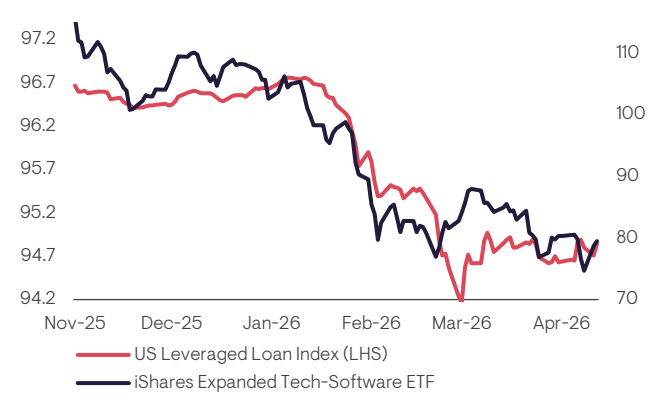
The supply picture remained constructive. For example, European HY corporate supply totalled €26.4bn (+13% on 1Q25), with net supply of €7.7bn the strongest Q1 print since 2021. Deals were heavily skewed towards higher rated issuers – BBs accounted for 75% of Q1 supply. Headline valuations for HY look uninspiring, but they mask a record high in dispersion and bifurcation (chart above) – we continue to see value in more select segments of the market, focussing on bottom-up opportunities with attractive valuations and/or better earnings momentum or refinancing catalysts. We continue to prefer specialist segments such as structured credit and bank capital over the most compressed parts of high yield (notably BB rated), where comparable yields are available at significantly better credit quality.

Global loans

US	--	-	0	+	++
Fundamentals		●			
Valuations		○	●		
Technicals			●		
EUR	--	-	0	+	++
Fundamentals		●			
Valuations		○	●		
Technicals				●	

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Software stocks and US loan performance



Source: BofA, April 2026.

It was a mixed quarter for loans. Q1 began with a notable negative shift in sentiment. Fears of potential rapid AI-disruption accelerated as increasingly capable LLM releases, most notably from Anthropic, further stoked concerns that software businesses are at risk of being displaced. This is particularly the case for software issuers that were underwritten in the low-rate, heady LBO days of 2021, when lofty valuations were the norm given the perceived strength of software companies' moats. Perception has now shifted rapidly to how fragile those moats may be in an AI-enabled world. Software exposure varies by asset class, with business development companies (investment funds that invest in small and medium sized companies) the highest at 26%. US and European HY the lowest at under 5%, and US and European loans at c.15% and c.10% respectively. This higher relative exposure in loans was likely the primary driver of US and European loans both declining in January and February, with US loans underperforming given their greater software concentration.

That script was flipped into March as war in Iran took centre stage and with it brought a sharp rise in government bond yields, particularly in Europe, as the potentially inflationary impacts from higher oil prices were factored into markets. As a result, loans materially outperformed HY in March as their floating coupons were perceived to be relative beneficiaries of higher rates, while fixed rate products underperformed. Over the month, US and European loans delivered +0.6% and -0.3% returns respectively, notable outperformance versus US and European HY at -1.1% and -2.7% respectively. By sector, software was the big outperformer in March at +1.2%, although it remains to be seen if the bounce is sustainable in the event of conflict easing in the Middle East and investor focus returning to the AI theme.

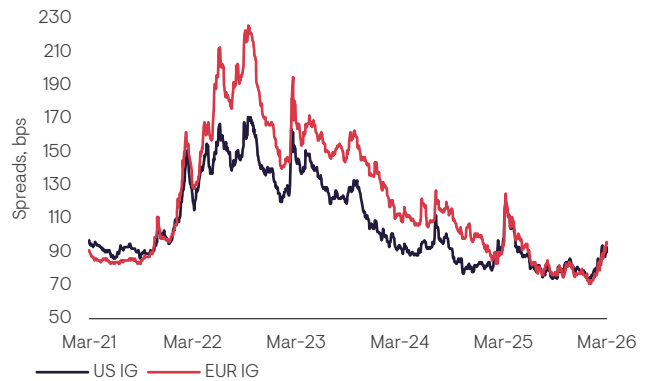
Developed market credit indicator: Credit Chronicle

Investment grade

US	--	-	0	+	++
Fundamentals			●		
Valuations	●				
Technicals			●		
EUR	--	-	0	+	++
Fundamentals		●	○		
Valuations	●				
Technicals				●	

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European spreads have not underperformed the US



Source: ICE BofA, US and European Corporate Index. 31 March 2026. Spread is option-adjusted spread to government.

Q1 was a difficult quarter for the investment-grade (IG) market, with all components impacted by the same overlapping shocks: the Iran war and resultant energy spike, fresh concerns around AI disruption, and renewed stress in the private credit market. US IG spreads widened by 11bps and the index posted a small negative return (-0.4%). European IG underperformed in euro terms. While spreads were 18bps wider, yields moved 51bps higher, resulting in the worst quarterly total return since Q3 2022, as the closure of the Strait of Hormuz triggered an energy shock that led the market to price in ECB rate hikes and amplified the move in spreads. As for AI the disruption theme, the IG index has meaningful and growing direct exposure to the hyperscaler capex story and to the larger software and tech issuers under valuation scrutiny, which made it more sensitive to the repricing. As more debt is raised to finance the AI boom, the US index will continue its slow evolution. The supply and technical picture diverged sharply between regions. The US IG primary market stayed remarkably resilient – March issuance reached US\$236.5bn (+29% year-on-year), with deals continuing to clear despite the wider spreads. In Europe, the opposite was true: net supply turned negative over Q1 – the first time in eight months – as volatility sidelined issuers, and the inflow streak ended as rates volatility spiked.

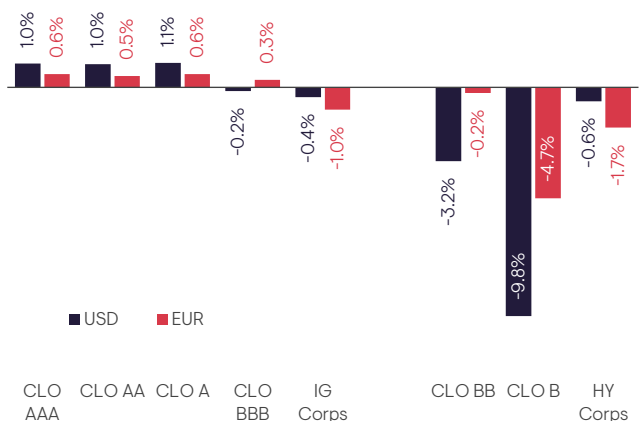
Within our portfolios, our most notable activity was in themes linked to private credit – the market’s anxiety caused underperformance of bonds issued by some good quality business development companies and insurers, and we made some of our first investments in this area. While the challenges in US private credit portfolios and the risks to some business models from AI are real and ongoing, we identified a handful of situations where the market lost touch with the resilience and quality of the underlying balance sheets and businesses, leading to opportunities.

Structured credit

Senior CLOs (AAA/AA)	--	-	0	+	++
Fundamentals			●		
Valuations		●			
Technicals				●	
Mezzanine CLOs (A-BB)	--	-	0	+	++
Fundamentals		●			
Valuations		●			
Technicals			●		

An empty circle denotes our view in the previous quarter, if it differs.

Lower-rated CLOs underperformed in Q1



Source: ICE, JP Morgan. Chart shows Q1 total returns. 31 March 2026. JP Morgan for CLOs and ICE BofA Indices for corporate bonds.

CLO primary markets started the year at a robust pace, before tailing off as volatility – first related to AI-driven disruption of software businesses and then to the Iran conflict – froze markets. New issue volumes indicate a bigger impact on the European market through Q1, with €15bn of issuance some 16% lower than the same period in 2025. US CLO issuance, on the other hand, was up 5% to US\$47.9bn. In the secondary market, returns were relatively strong for investment-grade CLOs. Steady spread performance and floating-rate coupons helped IG CLOs outperform fixed-rate IG corporate bonds in total return terms in both Europe and the US. Sub-investment-grade CLOs were relatively weaker, with notable underperformance for USD tranches in particular versus their high-yield corporate bond peers. Much of this is likely explained by the more concentrated exposure that CLOs have on average to software businesses than the corporate bond markets, in line with the underlying leveraged loan markets, and particularly in the USD market. The aggregate indices for CLO performance mask wide dispersion under the surface, driven by a broad range of positioning in the underlying loan portfolios: technology exposure ranges from low single digits for some managers to 20%+ for others. A selective approach remains key, particularly in lower-rated tranches, to ensure valuations appropriately reflect the quality of the managers, portfolios and structures of each deal.

Developed market credit indicator: Credit Chronicle

Specialist credit

Bank capital	--	-	0	+	++	EM corporate debt	--	-	0	+	++
Fundamentals			●			Fundamentals			●		
Valuations	●					Valuations	●				
Technicals				●		Technicals			●		
Corporate hybrids	--	-	0	+	++	Short-duration high yield	--	-	0	+	++
Fundamentals			●			Fundamentals			●		
Valuations	●					Valuations	●				
Technicals			●	○		Technicals			●		

An empty circle denotes our view in the previous quarter, if it differs.

Corporate hybrids (perps) extended their strong run into Q1, outperforming their historical beta to senior credit, with the dominant story a step-change in primary supply meeting deeper, broader demand. €31bn has already priced year-to-date, ahead of full-year 2024 and closing in on 2025's €42bn, taking net supply to €21bn (versus just €8bn for the whole of 2025) and pushing outstanding hybrid capital back up to €206bn after three years of consolidation. Utilities led gross issuance, but the more important shift is the breadth: consumer goods, telecoms, oil & gas and real estate are all in positive net-supply territory. First-time issuers, including Stellantis, accounted for 30% of year-to-date supply. Strong demand meant new issuance was comfortably absorbed. Sub-senior spreads have compressed, making hybrids a relatively cheap funding source, which explains why so many issuers are turning to this channel. Index-level valuations for corporate hybrids look unappealing, but the broadening issuer base is creating real dispersion and bottom-up opportunities.

The **bank capital** sector, or AT1s, posted a USD hedged return over Q1 of -1.0% (Q4 2025: +1.9%), the first negative quarterly return since Q1 2023. The quarter started on a positive note, with returns of +1.2% and +0.6% in January and February respectively, before a sharp risk-off move in March (-2.7%) driven by conflict in the Middle East. Returns in the quarter were characterised by negative price performance, partially offset by carry/income, with spreads widening by approximately 40bps over the quarter. Despite the challenging macro backdrop, the primary market remained remarkably resilient, with Q1 seeing 16 new AT1s issued by European banks across EUR/USD/GBP, totalling approximately €12.6bn equivalent, with demand for new issues remaining robust. Furthermore, all 12 AT1s coming up for call in Q1 were called, reinforcing the positive call dynamics, and we expect this theme to continue given the favourable technical backdrop. FY25 results continued to highlight the fundamental strength of the banking sector, reinforcing a supportive environment for AT1 investors. In our previous [Credit Chronicle](#), we highlighted the increasing importance of selectivity within this asset class, and we still believe this to be the case looking ahead, particularly given the geopolitical uncertainty and current spread levels.

The **emerging market (EM) corporate debt** asset class (JPMorgan CEMBI BD) held relatively steady over the quarter, returning -0.2%. The investment-grade segment underperformed (-0.7%), while positive returns in the high-yield market (+0.5%) partially offset this. Credit spreads widened amid the weaker risk sentiment, weighing on investment-grade returns. Meanwhile, the high-yield market was boosted by carry (income). At the sector level, oil & gas issuers were the top performers, driven by rising oil prices.

Credit market performance, Q1	Return (US\$ hedged) %	Yield-to-worst %	Spread	Duration
US high yield	-0.6	7.4	328	3.3
European high yield	-1.2	6.2	337	3.2
US investment grade	-0.4	5.2	90	6.5
European investment grade	-0.4	3.7	95	4.5
US loans	-0.4	8.4	484	0.1
European loans	-1.0	8.3	547	0.2
Short duration high yield	0.0	7.4	370	1.8
CoCo's	-1.0	6.4	278	3.7
Emerging market corporate debt	-0.2	6.3	206	4.2

Past performance is not a reliable indicator of future results, losses may be made. Please see important information section for information on indices.

Sources: US high yield = BofA US High Yield (HUCO); European high yield = BofA EUR High Yield (HEOO); US investment grade = BofA US Investment Grade (COAO); European investment grade = BofA EUR Investment Grade (ER00); US Loans = JP Morgan US Loans Index; European Loans = JP Morgan European Loans Index; Short Duration High Yield = BofA 1-3yr Global High Yield (H1WN); CoCo's = BofA Contingent Capital Index (COCO); EMCD = JPM CEMBI BD. Spread is OAS over government. All as of 31 March 2026.

General risks

The value of investments, and any income generated from them, can fall as well as rise. Where charges are taken from capital, this may constrain future growth.

Past performance is not a reliable indicator of future results. If any currency differs from the investor's home currency, returns may increase or decrease as a result of currency fluctuations.

Specific Risk(s)

Default: There is a risk that the issuers of fixed income investments (e.g. bonds) may not be able to meet interest payments nor repay the money they have borrowed. The worse the credit quality of the issuer, the greater the risk of default and therefore investment loss. **Derivatives:** The use of derivatives may increase overall risk by magnifying the effect of both gains and losses leading to large changes in value and potentially large financial loss. A counterparty to a derivative transaction may fail to meet its obligations which may also lead to a financial loss. **Interest rate:** The value of fixed income investments (e.g. bonds) tends to decrease when interest rates rise. **Liquidity:** There may be insufficient buyers or sellers of particular investments giving rise to delays in trading and being able to make settlements, and/or large fluctuations in value. This may lead to larger financial losses than might be anticipated.

Glossary

Alpha: outperformance of a reference index or market through an investment manager's active investment decisions.

Bank capital: additional capital held by banks to absorb losses under duress. Cheaper and quicker for banks to issue than equity. Helps banks to improve their capital ratios.

Bank preference securities: issued by banks to meet their required capital ratios. These have characteristics of both equities and bonds. The securities are perpetual (with call features), pay dividends, and are subordinated relative to other forms of debt.

Callable bonds: bonds that can be redeemed by the issuer prior to the maturity date of the bonds. The issuer may look to issue new bonds at a lower coupon.

Carry: the net-of-cost return earned by owning a security – a 'carry trade' might involve borrowing at a low interest rate to invest in a security offering a higher interest rate to earn the additional 'carry'.

CLO: collateralised loan obligations are bonds that are backed by pools of (typically sub-investment grade) corporate loans. Several bonds of varying risk and return characteristics are usually issued against each pool of loans. Lower-risk, 'senior' tranches have higher priority claims on the cash flows from the loans but offer a lower yield than the lower-rated 'junior' tranches, which are the first to suffer losses if the underlying loans underperform.

Corporate hybrids: subordinated debt of investment-grade issuers. They combine characteristics of bonds (payment of coupon) and of equities (no maturity date or very long maturities) and are typically rated a few notches lower than the same issuers' senior debt. Usually callable by the issuer five or 10 years after issue

Coupon: the regular interest payments a bondholder receives from the issuer of the bond.

Credit rating: a score awarded by an independent rating agency to indicate the financial strength of the issuer of a bond, and the potential for it to default on interest and principal payments. The top credit rating is 'AAA'. The lowest rating to be considered 'investment grade' is 'BBB'. Below 'BBB', bonds are termed 'sub-investment grade' or 'high yield'. The higher the credit rating of the issuer of the bond, the higher the 'quality' of the bond.

Credit spread: the difference between the yield offered by a corporate bond and the yield offered by a sovereign (government) bond of an equivalent maturity. This is the reward the investor gets in return for taking on a greater level risk than they would if they just invested in the sovereign bond.

Credit risk: see *Default risk*.

Currency swap: a swap is an agreement between investors to exchange future cashflows, such as interest payments. In a currency swap, the parties to the agreement exchange future cash flows of different currencies

Default risk: the risk that the issuer of a bond may not be able to meet interest payments or repay the money it has borrowed. The lower the credit rating of the issuer, the greater the risk of it defaulting on its debt and the greater the risk of the investor suffering an investment loss.

Duration: a measure of how much a change in interest rate will impact a security's market value. There is an inverse relationship between interest rates and bond prices.

Emerging market credit: bonds issued by companies from emerging markets (e.g. China, Brazil). Can be rated high yield or investment grade. Largely US dollar-denominated, although a small local currency corporate bond market exists.

Excess return: the total return of the bond minus the return attributable to changes in underlying treasury yields of an equivalent maturity.

Extension risk: the risk that the bond issuer will seek to delay when it pays back the amount it has borrowed from bondholders.

Fallen angel: an investment-grade bond issuer that has subsequently had its debt downgraded to a high-yield credit rating.

Floating-rate notes: the floating nature of coupon provides protection in a rising interest rate environment. Issued by both investment-grade and high-yield borrowers. These are typically shorter duration (up to five 5 years).

Interest rate risk: see *Duration* above.

Leveraged loans: loans that are structured, arranged and administered by at least one commercial or investment bank. Typically issued to support a merger or acquisition or to finance company growth. Sub-investment-grade rated. Typically, the coupon is a floating rate rather than fixed.

Maturity: The date the issuer will repay the bondholder.

Subordinated debt: debt that is repaid only after other debt has been repaid (i.e. comes further down in the order of priority for repayments) in the event of the issuer of the debt falling into financial difficulties.

Synthetics: highly liquid financial instruments that artificially simulate other credit market investments. Instruments can be related to a single corporate, or to a whole credit index. Allows for efficient implementation and hedging.

Total return: the investment return on a bond which takes into account a change in credit spread and a change in the yield of the underlying treasury of an equivalent maturity.

Yield: the return investors earn for owning a bond to maturity. This is a function of the price paid for the bond, the coupon, and the time to maturity.

Important information

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