



Credit Chronicle

Market review from Ninety One's
Developed Market Credit team

Market review

Credit markets delivered a mixed Q3, as a sharp rise in sovereign bond yields drove a clear divide between floating-rate and fixed-rate assets. Floating-rate markets posted positive returns across the board, while fixed-rate assets ended the quarter in negative territory.

Sovereign bond yields rose sharply as a renewed flare-up in the US-Iran conflict pushed Brent crude above US\$100 per barrel, reigniting inflation fears. Fiscal deficit concerns and Fed Chair Warsh's hawkish tone at Jackson Hole added further pressure, while September brought little relief as the Fed's rate hike and the prospect of higher-for-longer rates weighed on longer-duration assets.

Collateralised loan obligations (CLOs) and leveraged loans were the top performers, with their floating-rate coupons insulating investors from rising yields. In CLOs, lower-rated tranches outperformed less-risky parts of the market, thanks to their higher carry (income). US loans outperformed European loans as spreads in the latter widened amid concerns over growth prospects for the region.

Among fixed-rate markets, high yield and bank capital bonds held up best, as their relatively shorter duration and higher carry cushioned some of the impact of the sovereign bond market sell-off, although total returns were negative. Within high yield, credit quality was a key differentiator: the lowest-rated issuers (CCC and below) suffered as spreads widened sharply on rising refinancing costs. Investment grade was the weakest performer, as its longer duration left it most exposed to rising yields. European corporates outperformed US peers, which were weighed down by heavy issuance from AI hyperscalers.

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 continue to rotate away from European markets that are more heavily exposed to energy prices.
- We have limited exposure to segments most at risk of AI disruption, favouring higher quality opportunities, such as insurance sector issuers and select bonds issued by BDCs, which still look appealing on a longer-term relative value basis.
- We are cautiously positioned in US investment-grade debt as issuance from hyperscalers (AI data centre providers) is tipping the supply/demand balance, although relative value in this segment is improving.
- We are capturing select opportunities in the high-yield market (where dispersion is wide) but we see better overall value in specialist market segments. For instance, relative to parts of the high-yield market, structured credit and bank capital offer comparable yields with better credit quality, and loans still offer a significant yield pick-up.

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.

Global high yield (HY) had its weakest quarter since Q2 2022. Returns were broadly flat in July, and a supportive Q2 US earnings season helped the asset class post positive returns in August. However, a sharp sell-off in September more than erased these gains. Over Q3, US HY fell 1.8%, while European HY fell 1.4% in USD-hedged terms (-1.8% in EUR terms). September was particularly painful for the US market and was its worst month since September 2022. HY bonds were hit on two fronts: credit spreads widened while sovereign bond yields rose, the latter driven by more hawkish central banks and rising energy costs. US HY spreads widened 37bps over the quarter to 312bps, and European HY spreads widened 30bps to 300bps. Beneath the headline figures, however, there was notable divergence by credit quality. Spreads on lower-rated issuers widened sharply because the prospect of rates staying higher for longer pointed to higher refinancing costs, particularly for more highly leveraged borrowers. In the US, CCC rated bonds fell 3.1% compared with a 1.8% decline for the BB rated segment. The gap was wider in Europe, where CCCs fell 5.3% versus 1.8% for BBs (both in EUR terms). Despite the weaker backdrop, primary markets remained strong. Net US HY bond issuance hit a record in September, taking the year-to-date total to US\$283.3bn, compared with US\$266.5bn over the same period in 2025. On defaults, the US HY default rate is currently at 2.68%, which is under the 25-year average of 3.25% but above the post-GFC average of 2.3%, according to JPMorgan.

Global loans

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

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

CCC spreads underperformed in Q3



Source: Bloomberg, ICE BofA, Sept 2026. Spreads are Govt OAS.

US Loan CCC spreads are the highest since 2020



Source: Bloomberg, JPMorgan, Sept 2026.

Against the backdrop of acute volatility in global rate markets, particularly in September, floating-rate asset classes' relative resilience drove clear outperformance over fixed-rate products through Q3. While higher rates pressured high-yield bonds, loans benefitted from their near-zero duration, continued strong economic data and forward yields rising to multi-year highs, with US loan 3yr yields reaching 9.6% by quarter end. Over Q3, US and European loans delivered a total return of 2.0% and 1.1% respectively, representing the most meaningful outperformance of loans versus high yield since Q2 2022, a similarly volatile rate environment. By rating, the single-B rated segment outperformed with a return of 2.8%. CCC loans underperformed as higher rates pressured their ability to refinance and weakened interest coverage ratios, most notably in the US. US CCCs declined 4.6% in the quarter, with most of the weakness experienced in September when they declined 3.6%. At quarter end, US CCC loan spreads were at 2,169bps, nearing the COVID peaks, while yields had blown through COVID levels to 26.5%. While lowest quality loans are clearly struggling, the broader loan new issue market remained open for business, with September US loan net issuance (excluding refinances and repricings) at the highest monthly level since February 2022, supported by healthy M&A volume. From a demand perspective, weekly retail flows remained positive throughout the quarter with investors attracted by the higher yields on offer. Overall, loan market technicals remain supportive with only CCCs bearing the brunt of pain through this broader pocket of credit market volatility.

Developed market credit indicator: Credit Chronicle

Investment grade

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

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AA spreads underperformed, driven by the tech sector



Source: Bloomberg, ICE BofA, Sept 2026. Spreads are Govt OAS.

Global investment grade (IG) weakened over Q3, and both the US and European markets posted their weakest quarter since Q4 2022. US IG returned -3.8%, while European IG fell 2.2% in USD-hedged terms (-2.6% in EUR terms). Rising US Treasury and European sovereign bond yields drove the bulk of these losses. Spreads also widened somewhat: US IG spreads widened 8bps to 84bps, and European IG spreads widened 11bps to 89bps. In contrast to the high-yield segment, higher-rated bonds underperformed given their higher duration profile. US AAAs fell 6.0% versus 3.6% for BBBs, while European AAAs fell 3.8% versus 2.5% for BBBs (in EUR terms).

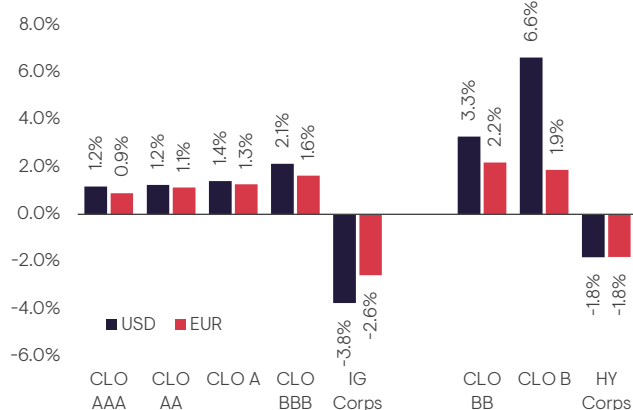
The prevailing theme of 2026, the AI capex boom and associated heavy new issuance by hyperscalers, continued in Q3. As we noted last quarter, hyperscalers raised around US\$25bn a year on average between 2020 and 2024. This quarter alone, Amazon and Alphabet each issued US\$25bn. Hyperscalers are also increasingly tapping markets beyond the US dollar. On 9 September, Amazon raised £4.25bn in its first-ever sterling bond, joining the euro, Swiss franc and Canadian dollar markets it has already issued in. Overall, European IG gross issuance reached €144bn in Q3, the heaviest third-quarter volume on record.

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.

CLOs significantly outperform in Q3



Source: ICE, JP Morgan, 30 Sept 2026. Chart shows Q3 total returns in local currency. JP Morgan for CLOs and ICE BofA Indices for corporate bonds.

CLOs performed well in Q3, delivering strong total returns across the capital structure. Lower-rated tranches outperformed the less-risky parts of the market, thanks to their higher carry. Floating-rate coupons helped insulate the sector from the sharp rise in interest rates. Spread performance was also resilient, particularly for investment grade tranches, though more subordinated tranches showed some weakness. Issuance remains robust and is running slightly ahead of 2025's pace. A busy loan pipeline is likely to continue to encourage managers to bring deals to market into year end.

In the near term, recent spread weakness across competing corporate credit and securitised products may pressure CLO spreads wider, as CLOs' relative resilience erodes their relative-value appeal. However, with interest rate expectations still resetting higher and volatility elevated, the floating-rate nature of CLOs is likely to continue to draw investors. Selectivity remains crucial to maintain exposure to managers, deals and portfolios that are well placed to navigate an increasingly challenging interest rate environment.

Developed market credit indicator: Credit Chronicle

Specialist credit

Bank capital	--	-	0	+	++
Fundamentals			●		
Valuations	●				
Technicals				●	
Corporate hybrids	--	-	0	+	++
Fundamentals			●		
Valuations	●				
Technicals			●		

EM corporate debt	--	-	0	+	++
Fundamentals			●		
Valuations	●				
Technicals			●		
Short-duration high yield	--	-	0	+	++
Fundamentals			●		
Valuations	○	●			
Technicals			●		

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

Corporate hybrids (perps) gave back ground in Q3. The premium over senior debt had hit a record low in March. Since then, rates volatility, energy-driven inflation concerns and French sovereign stress have weighed on the asset class. European corporate hybrids widened c.35bps in September against an unchanged European IG index. Supply has stayed robust: €49.6bn has been issued year-to-date, almost double the €27.7bn over the same period last year. At the index level, valuations look fair rather than compelling. The matched hybrid-senior basis has widened to 124bps but remains below its three-year average of 143bps. Beneath the surface, though, performance has bifurcated. High-quality names have held in well, while higher-beta, French and real estate issuers have borne the brunt of the sell-off. That dispersion is creating bottom-up opportunities in more defensive structures: IG-rated, shorter-call paper with coupon step-ups, where the issuer has a strong incentive to call. Relative to high-quality, high-yield bonds, the asset class continues to offer reasonable value. For example, at c.202bps, European corporate hybrids trade around 43bps wide of European BBs.

The **bank capital** sector, or AT1s, posted a negative Q3 with a USD hedged return of -1.4%, bringing YTD total returns to 1.8%. Monthly returns were modest in July (-0.1%) and August (0.5%), with spreads range bound through the summer, before a sell-off in September (-1.8%) driven by a sharp rise in rates and elevated AT1 supply which saw spreads drift wider into quarter end. Returns in Q3 were characterised by negative price performance (c.-3%) partially offset by carry (c.1.6%). Notably, spreads widened only modestly in Q3 with the negative total return largely reflecting higher government bond yields. The primary market remained open, albeit more measured compared to prior quarters, with Q3 seeing 8 new AT1s issued by European banks across EUR/USD/GBP totalling approximately €7bn equivalent, predominantly from national champions, the majority of which were issued at the back end of September. Furthermore, all 3 AT1s coming up for call in Q3 were called at their first call date, reinforcing the positive call dynamics, and we expect this theme to continue given the high degree of pre-financing already undertaken. Q2 2026 bank results confirmed the fundamental strength of the sector, reinforcing a supportive backdrop. Looking ahead, we continue to expect carry to be the primary driver of returns for the asset class. 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, given the more volatile backdrop heading into year end.

The **EM corporate debt** asset class (JPMorgan CEMBI BD) fell 1.8%, with the investment-grade and high-yield segments declining 2.3% and 1.1%, respectively. The rise in US Treasury yields was the driver of negative returns, with the higher-duration investment-grade market most affected, while the contribution from spreads was positive at the index level.

Credit market performance, Q3	Return (US\$ hedged) %	Yield-to-worst %	Spread	Duration
US high yield	-1.8	8.3	312	3.5
European high yield	-1.4	6.4	300	3.2
US investment grade	-3.8	6.0	84	6.2
European investment grade	-2.2	4.3	89	4.4
US loans	2.0	9.4	468	0.1
European loans	1.1	8.8	529	0.2
Short duration high yield	-0.5	8.3	376	1.8
CoCos	-1.4	6.7	229	3.7
Emerging market corporate debt	-1.8	6.9	171	4.0

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, European high yield, US investment grade, European investment grade, short duration high yield and CoCos are all from ICE BofA indices. US and European Loans are from JPMorgan indices. EMCD is the JPM CEMBI BD. Spread is OAS over government. All as of 30 September 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 of 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 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.

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