



Credit Chronicle

Market review from Ninety One's
Developed Market Credit team

Market review

Global credit markets experienced another positive quarter, resulting in strong returns for 2025 across much of the credit universe. US assets generally outperformed European markets over the quarter and year, largely reflecting diverging trends in sovereign bond yields. Falling US rates supported returns across several US credit markets. One of the top-performing market segments over Q4 and 2025 was the agency mortgage-backed securities market, where the credit risk premium fell (spreads tightened) as interest-rate volatility eased and the Federal Reserve's rate cuts provided a boost. US high-yield also delivered positive returns over 2025; although spreads widened (credit risk premium increased) in Q4, driven by company-specific events in the riskiest parts of the market, a combination of healthy carry (income) and falling Treasury yields boosted returns. The US investment-grade market also benefited from US rates, despite spreads widening slightly.

Returns in the European high-yield debt market were more muted over Q4; despite spreads tightening, rising sovereign yields dampened returns. A similar story unfolded in the European investment-grade space, where rising sovereign yields largely offset spread tightening. Elsewhere, the bank capital (AT1) market continued to perform well. Spreads continued to tighten, while carry provided a consistent source of return. In the floating-rate space, US and European loans performed well, with the former outperforming the latter over the year; spreads widened in both markets, but less so in the US, while carry drove the positive returns. Returns on collateralised loan obligations (CLOs) were positive for Q4. Over the full year, lower-rated CLO tranches outperformed, reflecting positive risk sentiment.

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

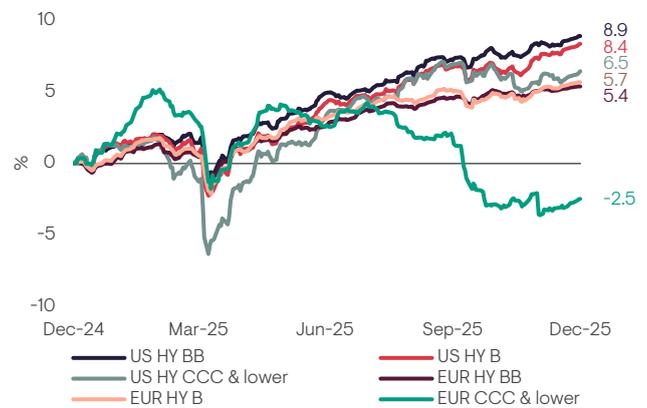
- Despite tight headline valuations, dispersion remains relatively elevated across and within asset classes, creating opportunities for active, bottom-up investors.
- Our sector positioning broadly favours defensive over cyclicals, and we continue to focus on areas like financials, which are more domestically oriented and less impacted by potential trade wars.
- We continue to favour areas that offer attractive income and favourable downside characteristics, such as hybrids, structured credit, and selective parts of the short-duration high-yield and loan markets.
- In more traditional markets – such as US and European investment-grade – credit spreads remain near the tightest (most expensive) levels seen in previous cycles, so investors should be wary of simple beta allocations to these sectors.

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.

Higher-quality issuers outperformed in 2025



Source: ICE BofA indices, 31 December 2025.

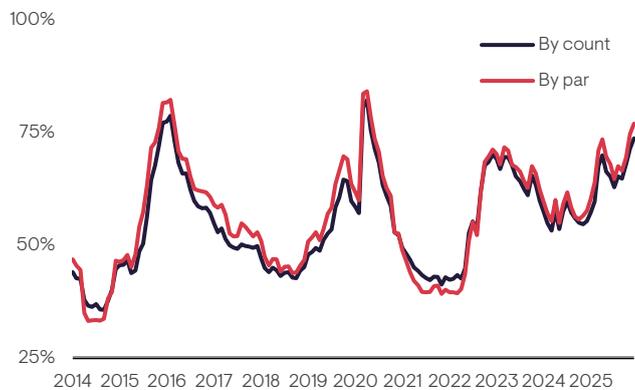
High-yield markets delivered a strong performance in 2025, with the global market finishing the year up 7.7%. Under the surface, higher-quality meaningfully outperformed lower-quality, which is unusual in a strong market backdrop. European spreads tightened versus the US, starting the year 20bps wide of the US but ending the year 10bps tighter. US BBs benefitted from monetary policy easing and delivered returns of c.9%, despite spreads being tight and relatively unchanged over the year, ending at 157. US CCCs, however, widened from 690 to 843 and returned only 6.5%. European CCC are a small sample set and delivered negative returns of -2.5%.

While the high-yield market is of higher quality and shorter duration than at any point in history, the 2021 leveraged buyout (LBO) boom is still modestly impacting high yield, with a more dispersed market than is typical, while demand for “safe yield” remains very strong. The underperformance of the lower-rated part of the market underscores the importance of credit selection, both retrospectively and in 2026.

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

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Loan market dispersion is the highest since 2020



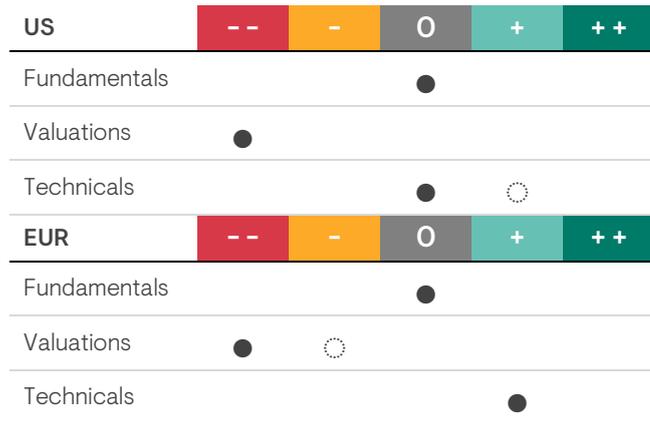
Source: BofA Global Research, December 2025.

Loans delivered solid relative performance over Q4, with US loans nearly keeping pace with US HY (+1.3% US loans, +1.4% US HY), while European loans outperformed European HY in the quarter. On a full-year basis, US HY (+8.5%) comfortably outpaced US loans (+5.9%), benefitting from notably lower rates as inflation eased and the Fed’s cutting cycle continued. In Europe, performance was more balanced, but European HY (+5.2%) still outperformed European loans (4.1%), despite rising rates being a headwind.

In the US, investor concern over the collapse of auto parts lender First Brands weighed on sentiment during the quarter, creating a bifurcated new-issue market. High-quality, well-known companies issued new deals that were heavily oversubscribed and came with tight margins, while loans for debut borrowers or distressed issuers were heavily scrutinised. As a result, new issue volumes fell sharply to US\$172bn from US\$372bn in the prior quarter. New issue activity recovered into December, as it became more evident that First Brands may have been an isolated incident, with US\$60bn launched during the month (ahead of both US\$45bn in November and US\$42bn in October). More cautious demand also impacted Europe earlier in the quarter, but strong December issuance lifted full-year volumes to a record €253bn, up 24% from 2024. This momentum has carried into the start of 2026 where early volumes are among the highest ever seen across many asset classes.

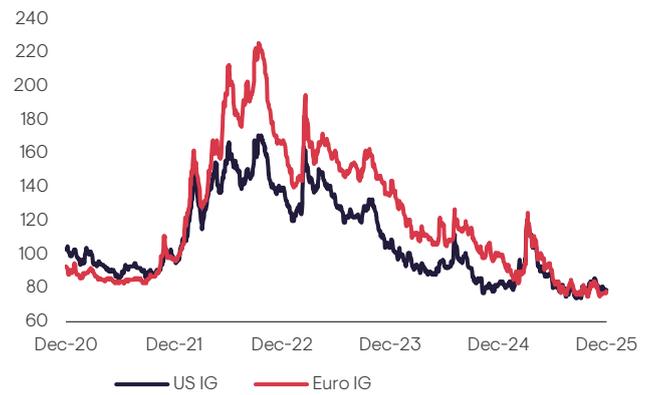
Developed market credit indicator: Credit Chronicle

Investment grade



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

Spreads (bps) have materially tightened in recent years

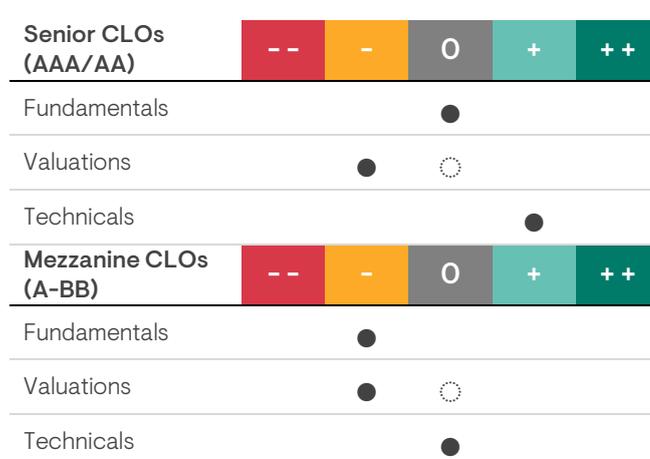


Source: ICE BofA, US and European Corporate Index. 31 Dec 2025. Spread is option-adjusted spread to government.

Global investment-grade (IG) corporates delivered solid returns in 2025 as spreads moved tighter toward multi-decade lows, ending the year around 75–80bps in both the US and Europe. Supply picked up meaningfully, with US IG gross issuance reaching US\$1.64trn (the second-highest level on record), although net issuance was more manageable at c.US\$600bn, helped by a large amount of bond maturities and strong investor demand. Cross-border issuance also helped supply get absorbed, with record levels of US companies issuing in the euro market.

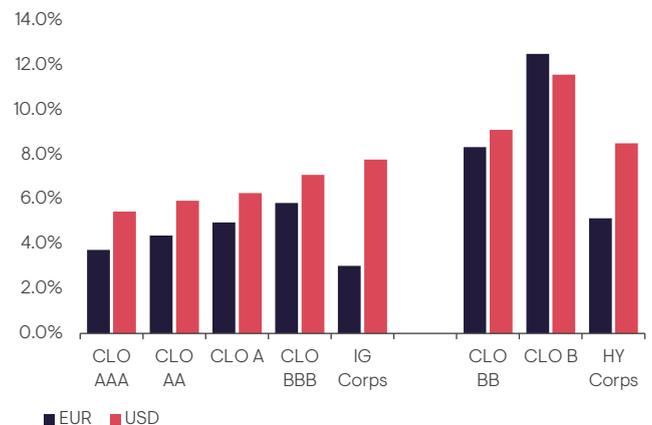
While European credit spreads outperformed the US meaningfully over the year, total returns lagged due to rising Bund yields and falling US Treasury yields. With spreads now at tight levels, relative value between US and European credit is increasingly driven by bottom-up, idiosyncratic factors rather than a market-wide excess premium.

Structured credit



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

Lower-rated CLOs had a strong 2025



Source: JP Morgan, BofA. Chart shows 2025 total returns. 31 Dec 2025. JP Morgan for CLOs and ICE BofA Indices for corporate bonds.

CLO issuance volumes reached record levels in 2025, totalling US\$205bn of new USD CLOs and €59bn of new Euro CLOs according to JP Morgan. Refinancing activity also hit a new record in both markets. A high count of open CLO warehouses*, broad optimism around an increase in M&A and LBO activity, and several new CLO managers reportedly looking to enter the market all point to strong prospects for 2026 primary market volumes, barring any significant shocks.

Relative to the start of the year, 2025 ended with tighter credit spreads, lower US Treasury yields and higher European rates. In this context, CLOs delivered reasonable returns, with lower-rated tranches outperforming higher-rated tranches through the year. European CLOs mostly outperformed their fixed-rate corporate bond counterparts, and USD CLOs mostly lagged their corporate bond peers, especially in the IG market.

Two events drove market volatility in Q4 2025. Early in the quarter, concerns about rising risk in private credit markets led to a sharp sell-off, followed by a second period of weakness in mid-November amid broader market fears of a potential AI bubble. In both cases, credit spread widening, including for CLOs, was relatively quickly reversed. While a very visible tail of poorly performing assets continues to struggle, credit markets have started 2026 supported by generally strong fundamentals and investor demand that remains ahead of supply.

*Short-term funding vehicles that allow managers to start accumulating assets that will eventually be turned into CLOs.

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) delivered strong performance in 2025, generating returns similar to high yield while remaining more resilient than other subordinated instruments, with drawdowns notably shallower than in AT1s and broadly contained during periods of market volatility. Primary markets were very active, with gross issuance rising to c.€45bn in FY 2025 (+35% year-on-year), driven mainly by utilities and repeat issuers refinancing called or tendered hybrids, keeping net supply manageable despite heavy gross volumes. Valuations ended the year historically tight, with the hybrid-senior spread compressing to around 100bps, implying limited scope for broad market-driven gains and reinforcing the case for selective positioning in defensive sectors, with higher-reset structures and issuers demonstrating a clear strategic commitment to hybrid capital.

The **bank capital** sector, or AT1s, ended the year on a somewhat softer footing versus previous quarters in 2025, posting a US dollar hedged return of 1.9% in Q4, driven predominantly by carry (income). However, annual performance in 2025 was strong, with a US dollar-hedged return of 10.9% for the asset class (2024: 12.8%), with much of the return driven by carry. The overall market tone remained constructive through most of Q4, although performance in November was relatively muted, mainly due to weakness in European equity markets, which weighed on sentiment for AT1s. Despite this, market dynamics have remained conducive, with Q4 seeing 12 new AT1s issued by European banks across Euros, US dollars, and Pound sterling, and demand for new issues remaining robust. Furthermore, banks have continued to call their bonds, and we expect this to continue into Q1 2026. Fundamentals continue to provide a positive backdrop for the sector and AT1 investors. In our previous Credit Chronicle, we highlighted the increasing importance of selectivity within this asset class, and we still believe this remains the case, given the starting point for valuations in 2026.

The **emerging market (EM) corporate debt** asset class (JPMorgan CEMBI BD) rose over Q4. Despite credit spreads widening slightly, both the investment-grade and high-yield segments delivered positive returns, thanks to the decline in US Treasury yields over the quarter. Top-performing markets included Argentina and Ukraine, with issuers in both countries benefitting from positive developments at the sovereign level. At the sector level, transport and metals & mining led the index, while pulp & paper and industrial issuers lagged.

Credit market performance	Q4 2025 return (US\$ hedged) %	Yield-to-worst %	Spread	Duration
US high yield	1.4	6.6	281	2.9
European high yield	1.1	5.1	270	2.9
US investment grade	0.8	4.8	79	6.5
European investment grade	0.8	3.2	78	4.4
US loans	1.3	7.7	435	0.1
European loans	0.9	7.5	500	0.2
Short duration high yield	1.0	6.0	289	1.4
CoCo's	1.9	5.7	241	3.6
Emerging market corporate debt	1.3	5.9	188	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 (HE00); 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 December 2025.

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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