

# 2026 Global Strategy Outlook

Developed Risks and  
Emerging Rewards

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# 2026 Global Strategy Outlook: Developed Risks and Emerging Rewards



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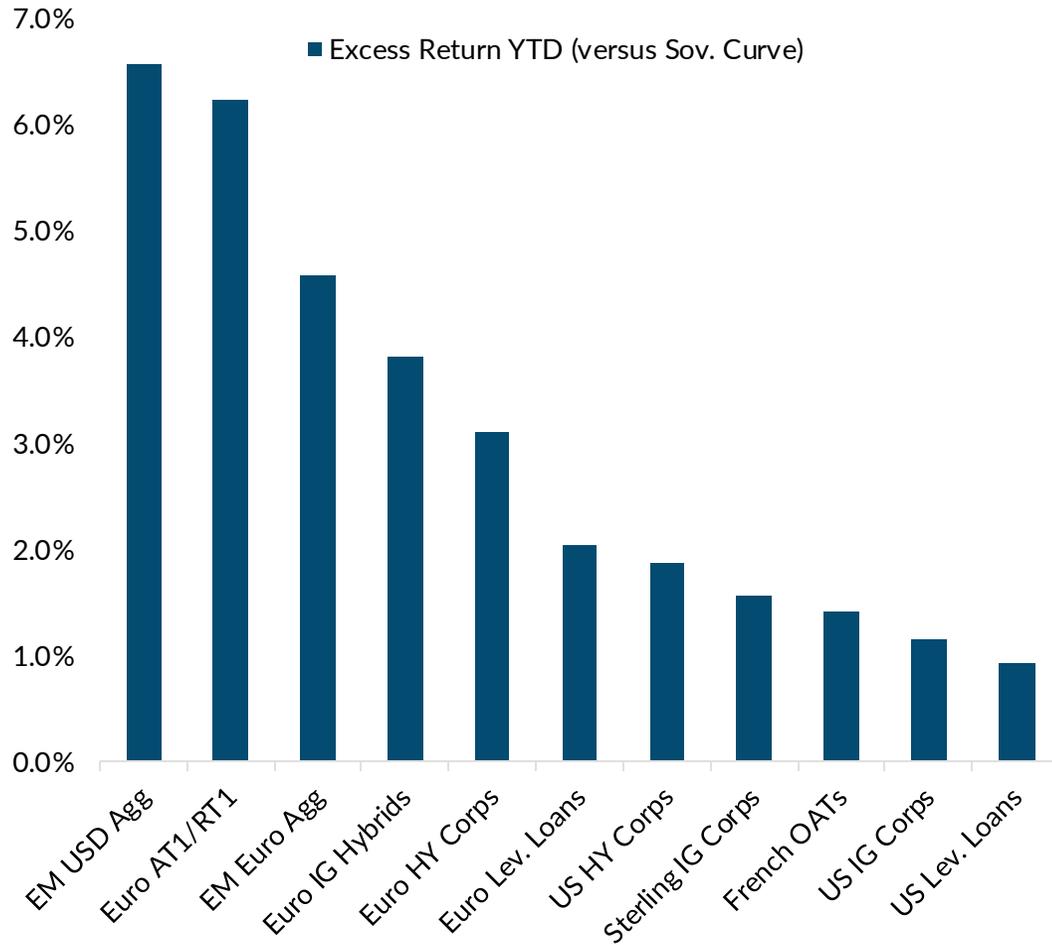
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## Which macro development in 2025 surprised you the most compared to expectations at the start of the year?

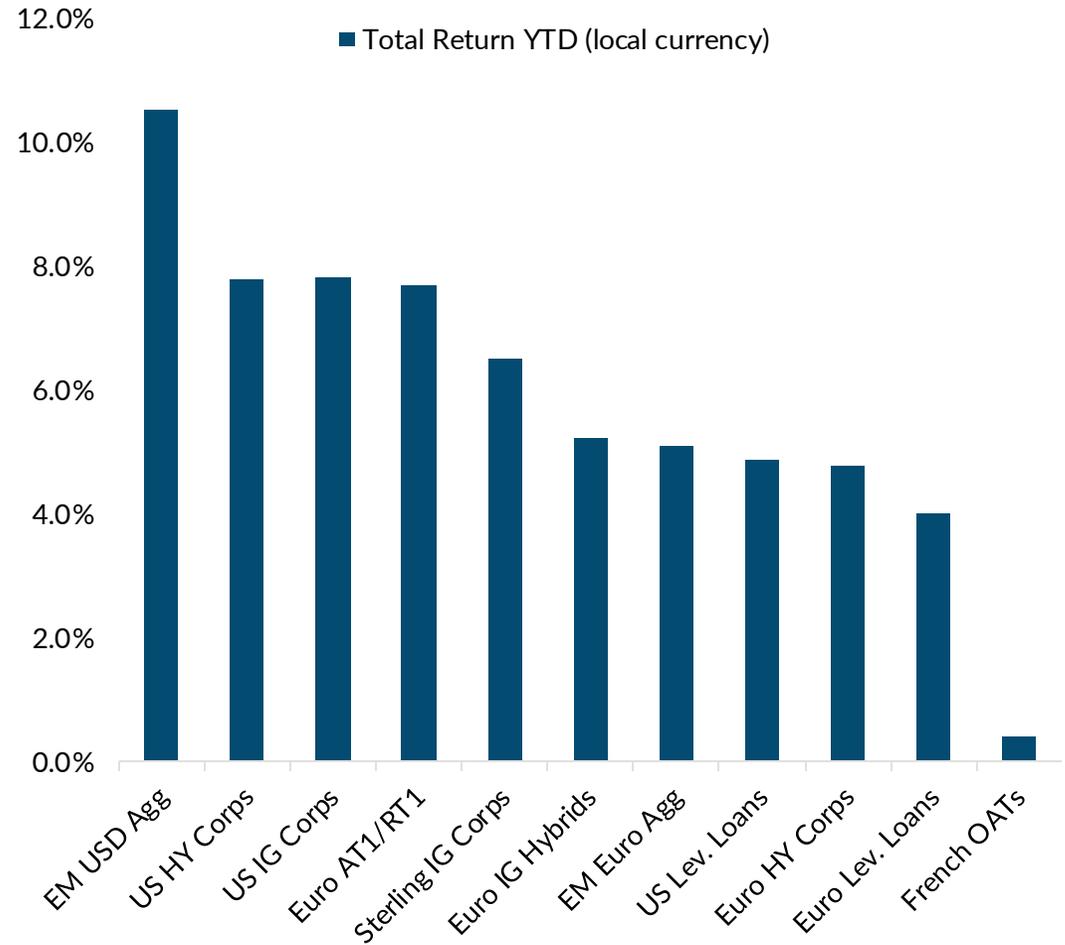
- a. Global economic resiliency to tariffs
- b. Credit spreads reaching new post-GFC highs
- c. Notable steepening of sovereign yield curves
- d. EM outperformance vs. DM
- e. USD weakness (DXY Index -8.5% YTD)
- f. Gold rally (+53% in USD terms)

# Global Fixed Income Returns – YTD 2025

## Excess Returns YTD by Global Spread Product



## Total Returns YTD by Global Spread Product



## Audience Question #2

**Which credit market(s) will be the most sensitive to fundamental changes in 2026?**

- a. Europe
- b. US
- c. EM
- d. All of the above
- e. Fundamentals will again be overshadowed by technicals

# US Credit Strategy Views for 2026

- Corporates continue to manage margin pressure, right-size costs and focus on automation, adding incremental stress to the jobs market.
- Labor market unravels further with unemployment heading above 4.5% despite slowing population growth and stable participation rate.
- Core PCE deflator downshifts more than market currently expects, though could prove choppy with tariffs, AI impact and fiscal stimulus from OBBA (i.e., tax rebates).
- US GDP downshifts to 1-1.5% in 2026.
- Fed cuts to 3.0% with modest incremental easing priced into markets.
  - Implied terminal rate ~2.5%.
  - 10Y UST yield falls ~75 bp to 3.5%.
  - Treasury 2s10s curve steepens to ~100 bp
- Eroding fundamentals and increasing downgrades and defaults create a bias for duration over credit risk, driving IG spreads to 120 bp and HY to 450 bp.

	YE 2024	As of 11/14/25	Forecasts as of 12/31/26			Probability Weighted (Full Year 2026)
			Immaculate Disinflation (Bull)	Labor Pains (Base)	Inflation Acceleration (Bear)	
<b>Probability Weighting</b>			30%	55%	15%	
<b>US Treasury Yields</b>						
Fed Funds Target (Upper)	4.5%	4.0%	3.5%	3.0%	5.0%	3.5%
2-Yr UST	4.2%	3.6%	3.0%	2.5%	4.8%	3.0%
5-Yr UST	4.4%	3.7%	3.3%	3.0%	5.0%	3.4%
10-Yr UST	4.6%	4.1%	4.0%	3.5%	5.0%	3.9%
2-Yr/10-Yr UST Curve	33bp	54bp	100bp	100bp	25bp	89bp
<b>US Investment Grade</b>						
OAS	82bp	83bp	65bp	120bp	150bp	108bp
Excess Return <sup>1</sup>	2.8%	0.9%	2.1%	-1.4%	-3.4%	-0.7%
YTW	5.4%	4.9%	4.6%	4.6%	6.4%	4.9%
Total Return <sup>1</sup>	2.8%	7.0%	7.7%	7.3%	-4.4%	5.7%
Gross Supply (\$bn)	1,639	1,574	1,500	1,450	1,200	1,428
Net Supply (\$bn)	574	551	675	653	240	597
<b>US High Yield</b>						
OAS	292bp	307bp	225bp	450bp	600bp	405bp
YTW	7.5%	7.0%	5.7%	7.7%	11.2%	7.6%
Total Return <sup>1</sup>	8.2%	7.0%	12.8%	5.2%	-8.0%	5.5%
Gross Supply (\$bn)	350	305	400	250	150	280
Net Supply (\$bn)	112	112	160	88	30	101
HY Defaults (TTM % Issuers)	2.4%	2.4%	2.0%	3.8%	7.5%	3.8%
<b>US Broadly Syndicated Leveraged Loans</b>						
Bid Price	\$96.37	\$96.07	\$98.50	\$94.00	\$88.00	\$94.45
Effective Yield	8.8%	8.2%	7.2%	7.0%	9.7%	7.5%
Total Return <sup>1</sup>	9.1%	5.1%	11.4%	4.9%	-4.5%	5.5%
Gross Supply (\$bn)	517	381	500	375	175	355
Net Supply (\$bn)	222	211	300	130	35	167
Loan Defaults (TTM % Issuers)*	4.7%	4.8%	4.0%	5.5%	10.0%	5.7%

# US Base Case Core Calls & Recommendations: Labor Pains (55% Probability)

Asset Class	OAS	YTW	Duration	Market Value (\$B)	YTD Total Return	CreditSights Rec.	CreditSights Analyst	Near-Term Risk View (1-3 Months)	Rate/Spread Outlook (12-Month)
<b>Treasuries</b>									
Short-Duration (0-5 yrs)		3.69%	2.0 yrs	\$11,663	+4.8%	Neutral	Griffiths	On	Lower
Intermediates (5-10 yrs)		3.89%	6.0 yrs	\$3,777	+7.6%	Overweight	Griffiths	Neutral	Lower
Long-Duration		4.66%	14.2 yrs	\$4,085	+6.2%	Overweight	Griffiths	Neutral	Lower
<b>Investment Grade</b>									
<b>IG Agg. Corporates</b>	<b>83 bp</b>	<b>4.88%</b>	<b>6.6 yrs</b>	<b>\$9,139</b>	<b>+7.0%</b>				<b>Wider</b>
Total Return Mandates						Overweight	Griffiths	Neutral	
Excess Return Mandates <sup>1</sup>						Underweight	Griffiths	Neutral	
Short-Duration (1-5 yrs)	63 bp	4.32%	2.6 yrs	\$3,797	+5.9%	Market Weight	Griffiths	Neutral	Wider
Intermediates (5-10 yrs)	94 bp	4.88%	6.0 yrs	\$2,588	+8.5%	Overweight	Griffiths	Neutral	Wider
Long-Duration (10+ yrs)	101 bp	5.64%	12.5 yrs	\$2,754	+7.2%	Underweight	Griffiths	Off	Wider
AA	48 bp	4.57%	7.2 yrs	\$706	+6.2%	Market Weight	Griffiths	Neutral	Wider
A	68 bp	4.71%	6.5 yrs	\$4,235	+7.0%	Market Weight	Griffiths	Neutral	Wider
BBB	106 bp	5.10%	6.4 yrs	\$4,122	+7.2%	Underweight	Griffiths	Off	Wider
<b>Leveraged Finance<sup>2</sup></b>									
<b>High Yield Agg. Corporates</b>	<b>307 bp</b>	<b>6.97%</b>	<b>2.9 yrs</b>	<b>\$1,444</b>	<b>+7.0%</b>	<b>Underweight</b>	<b>Cisar</b>	<b>Off</b>	<b>Wider</b>
BB	185 bp	5.79%	3.2 yrs	\$807	+7.6%	Overweight	Cisar	Neutral	Wider
B	325 bp	7.14%	2.7 yrs	\$487	+6.4%	Market Weight	Cisar	Off	Wider
CCC	902 bp	12.74%	2.6 yrs	\$151	+5.3%	Underweight	Cisar	Off	Wider
<b>Broadly Syndicated Loans Agg.<sup>3</sup></b>	<b>461 bp</b>	<b>7.96%</b>		<b>\$1,607</b>	<b>+5.1%</b>	<b>Underweight</b>	<b>Cisar</b>	<b>Off</b>	<b>Wider</b>

Source: CreditSights, FactSet, ICE Data Indices, LLC

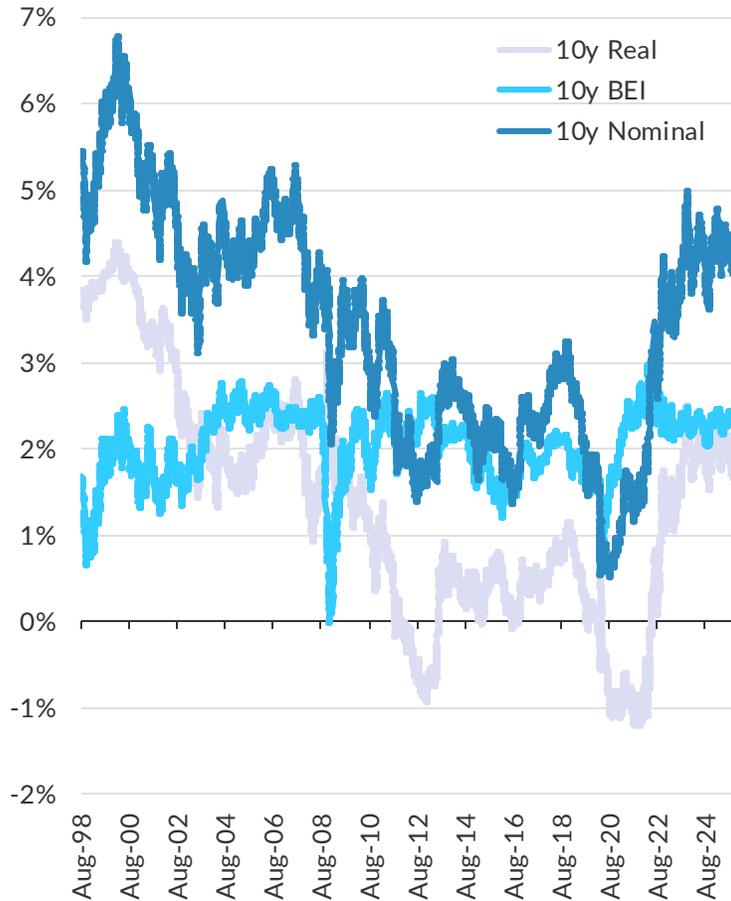
<sup>1</sup> Curve and credit recommendations based on excess return expectations.

<sup>2</sup> Leveraged finance recommendations based on total return expectations.

<sup>3</sup> Uses 3-year discount margin and yield for OAS and YTW.

# Macro Calls for '26: Lower Yields, Steeper Curve → Overweight Duration

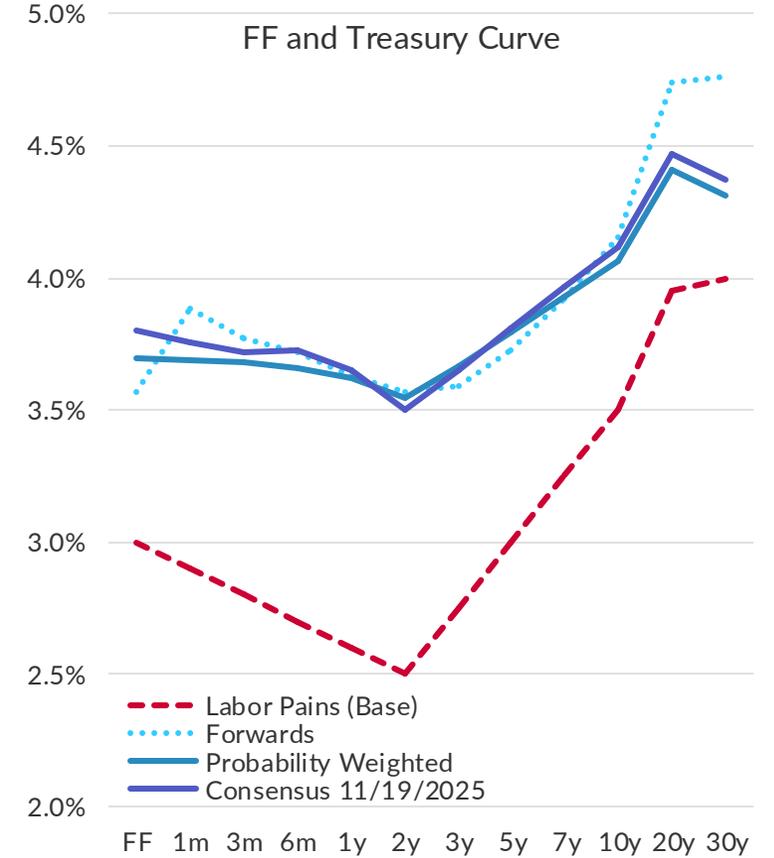
We Expect Real Yields to Fall Further, Pushing Nominal Yields Lower



10y Fair Value Estimate @ ~3.75%



Our Consensus Call is Lower in Yield and Steeper in Curve than Consensus



# Euro Credit Strategy Views for 2026

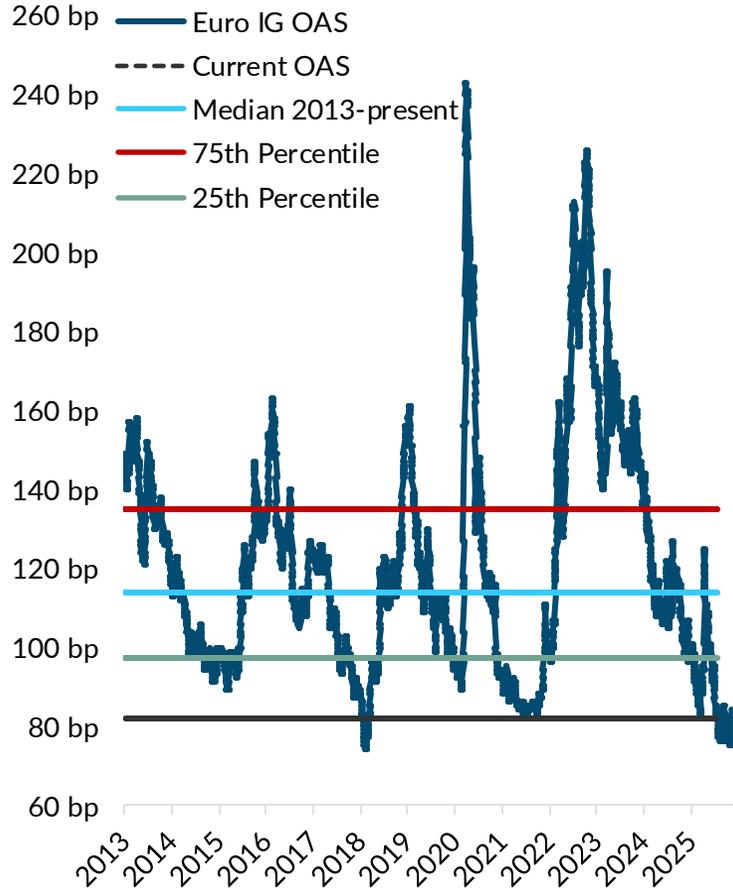
## Key Expectations and Recommendations

- We expect a handoff from very strong technicals to moderately deteriorating fundamentals, with credit quality and spreads gradually taking the driver's seat from all-in yields.
- Our forecast is for IG spreads to broadly leak wider amid slow fundamental deterioration but look for HY spreads to face more acute pressure as challenges for higher-leveraged issuers.
- Recommend “up-in-quality” positioning heading into 2026, preferring Euro IG (Market Weight) over Euro HY (Underweight) and Sterling IG (Underweight), with a defensive sector strategy.
- Recommend taking duration risk in intermediate- and long-duration EUR sovereigns for carry versus credit risk in short- and intermediate-duration Euro IG corporates for excess return and roll-down.
- Look for the ECB to keep policy rates unchanged in 2026, but the market to view that as comparatively hawkish amid our calls for rate cuts by the BOE & Fed. This keeps EUR borrowing costs high.
- Expect divergence in the path for long-term interest rates (i.e., rising Bund yields vs. declining Gilt yields) and see stronger total return potential for Sterling vs. Euro-denominated fixed income.

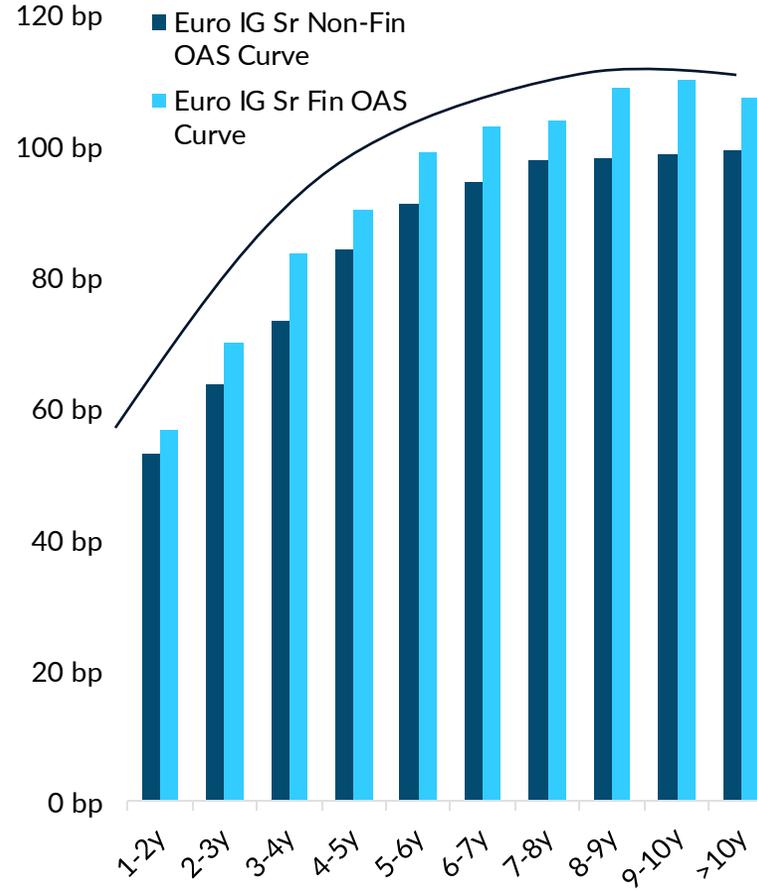
	YTD as of 28 Nov	Year-End 2026 Forecasts		
		Bull Case	Base Case	Bear Case
<b>Probability Weighting</b>		35%	50%	15%
<b>Euro Investment Grade</b>				
Spreads (OAS)	80bp	60bp	100bp	160bp
Excess Return	+203bp	+175bp	+25bp	-200bp
Yield-to-Worst	3.1%	2.9%	3.5%	2.8%
Total Return	+3.2%	+3.5%	+1.5%	+5.0%
<b>Euro High Yield</b>				
Spreads (OAS)	283bp	200bp	350bp	500bp
Yield-to-Worst	5.1%	4.5%	6.3%	6.5%
Total Return	+4.8%	+7.0%	+3.0%	+2.0%
Defaults (TTM % Issuers)	1.7%	1.5%	3.2%	5.0%
<b>Sterling Investment Grade</b>				
Spreads (OAS)	82bp	75bp	115bp	150bp
Excess Return	+147bp	+150bp	-75bp	-270bp
Yield-to-Worst	5.0%	4.8%	5.2%	4.7%
Total Return	+6.5%	+6.5%	+5.0%	+8.5%
<b>Rates</b>				
ECB Deposit Rate (%)	2.00%	1.50%	2.00%	0.50%
Bund 2-Year Yield (%)	2.03%	1.75%	2.25%	1.00%
Bund 10-Year Yield (%)	2.69%	3.25%	3.00%	1.50%
BOE Bank Rate (%)	4.00%	3.75%	3.25%	2.50%
Gilt 2-Year Yield (%)	3.75%	3.25%	3.50%	2.75%
Gilt 10-Year Yield (%)	4.44%	4.50%	4.25%	3.25%

# Euro Strategy Calls for '26: Neutral IG Credit, Maximize Curve Rolldown

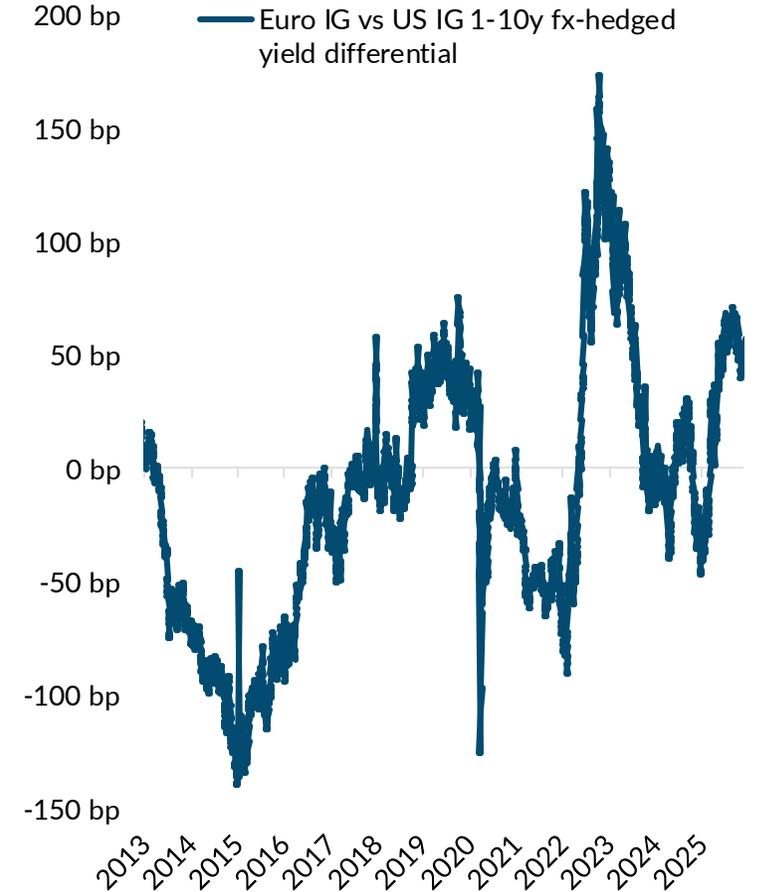
## Tight Credit Spreads → Move Up in Quality



## Position Along Steep Points on the Curve



## Maintain Preference for Euro IG Over US IG

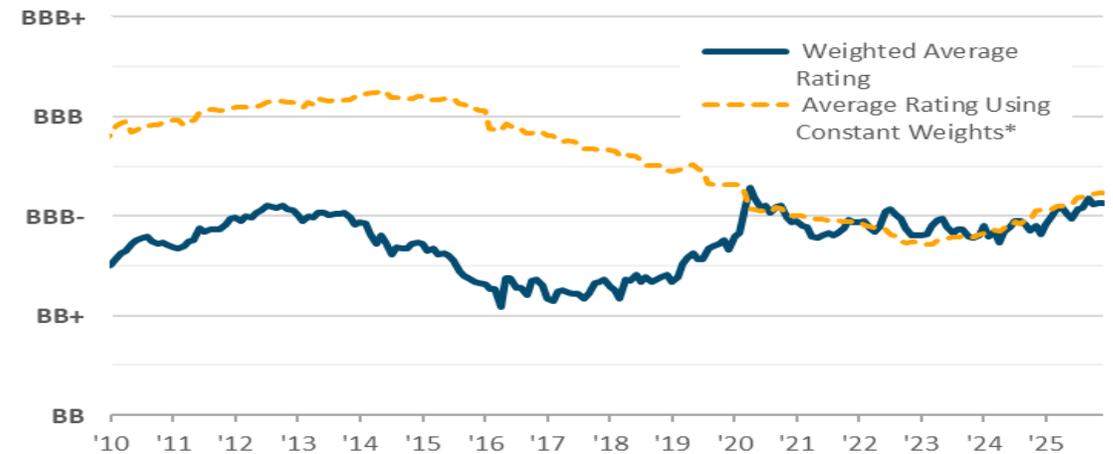


# EM Sovereign Strategy Views for 2026

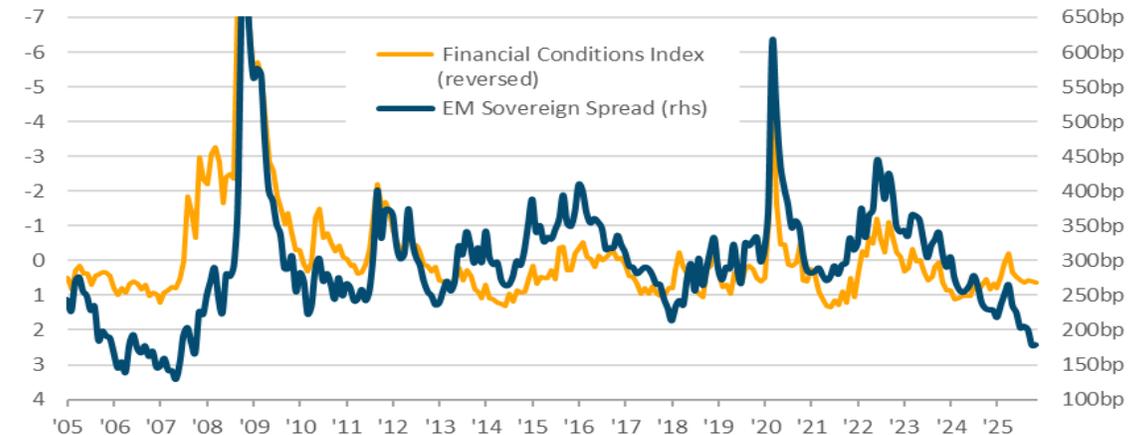
## Key Expectations and Recommendations for 2026

- EM fundamentals have strengthened, underpinned by resilient GDP growth, contained inflation and favorable terms of trade.
- EM GDP growth is projected at nearly 4% in 2026, improving from ~3.7% in 2025. The growth differential between EM and DM will widen further.
- However, the pace of rating upgrades is likely to slow in 2026, as fiscal deficits are narrowing only gradually.
- Spreads are very tight – decoupled from financial conditions and terms of trade.
- EM fundamentals will remain sound in 2026, but bonds are at risk of mean reversion.
- We remain defensively positioned. The EM HY-IG spread differential is likely to widen to ~350bp.

## Stronger EM Credit Fundamentals

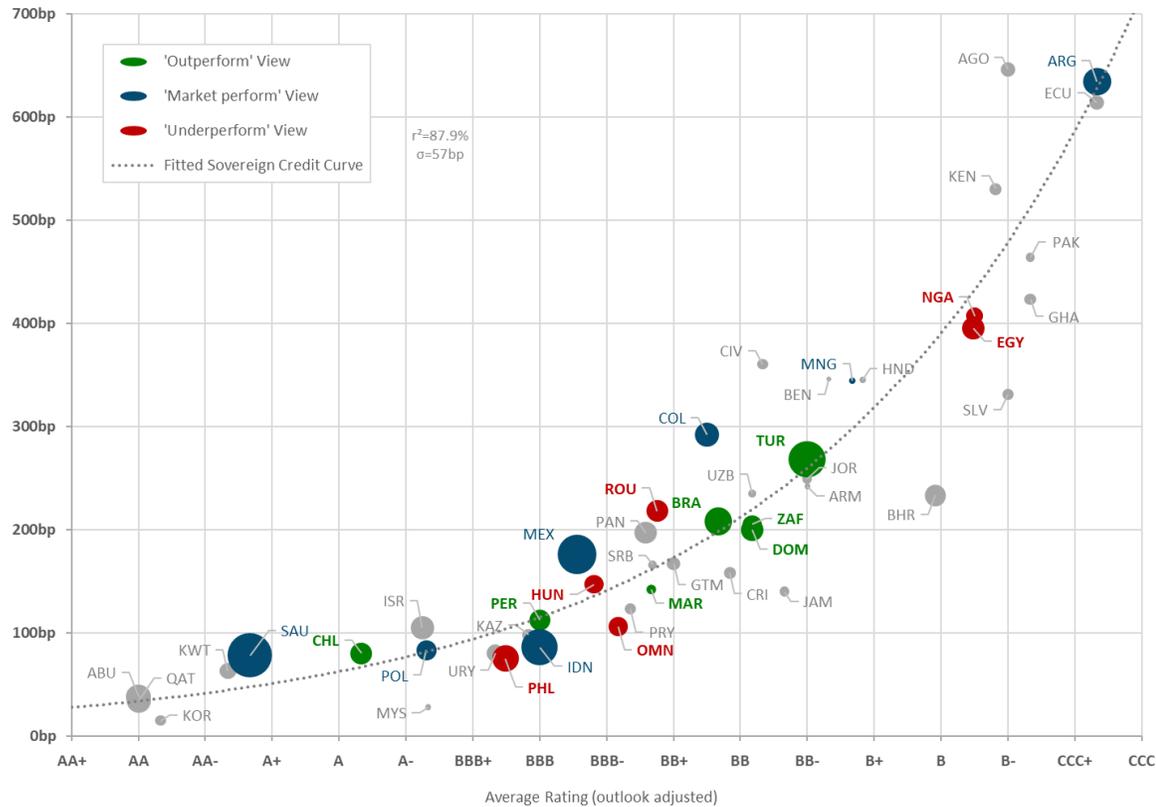


## Very Tight EM Spread Valuations

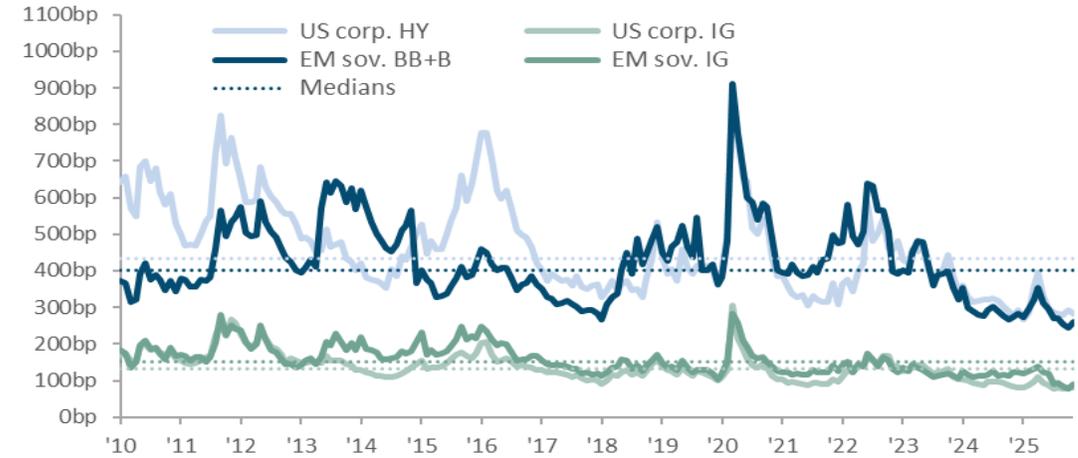


# EM Sovereign Strategy Views for 2026

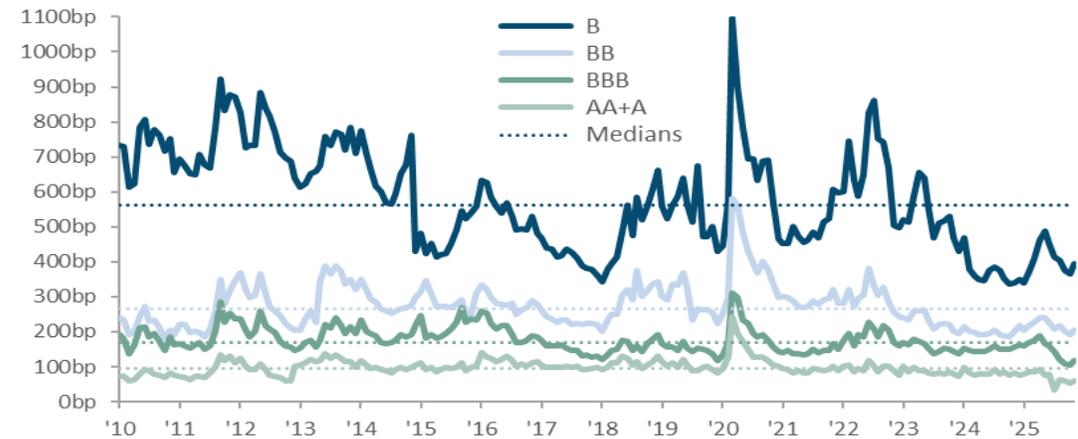
## EM Country Views



## Credit Spreads at Historical Tights



## EM HYs and EM IGs at Risk of Mean Reversion



## What is the biggest risk to global credit in 2026?

- a. AI Pullback
- b. Credit Downgrades/Defaults
- c. Fiscal Policies and Sovereign Supply
- d. Monetary Policy Mistakes
- e. Trade/Geopolitical Developments
- f. Something Else (let us know after the panel)

# Global Strategy Views & Recommendations by Market

Asset Class	OAS	YTW	Duration	Market Value (\$B)	YTD Total Return	CreditSights Rec.	CreditSights Analyst	Near-Term Risk View	12-Month Outlook
<b>Rates</b>									<b>Yields</b>
US Treasuries		3.91%	6.1 yrs	\$17,042	+6.1%	Overweight	Griffiths	Neutral	Lower
German Bunds <sup>1</sup>		4.43%	7.2 yrs	\$1,732	-0.7%	Market Weight	Miller	Neutral	Higher
<b>Investment Grade</b>									<b>Spreads</b>
US Investment Grade	85 bp	4.86%	6.6 yrs	\$9,149	+7.1%	Underweight	Griffiths	Neutral	Wider
Euro Investment Grade <sup>1</sup>	84 bp	5.09%	4.5 yrs	\$3,683	+3.0%	Market Weight	Miller	Neutral	Sideways
Sterling Investment Grade <sup>1</sup>	87 bp	5.16%	5.9 yrs	\$489	+5.5%	Underweight	Miller	Off	Wider
US Investment Grade Tax Exempt Munis <sup>2</sup>	21 bp	3.62%	7.2 yrs	\$1,414	+3.7%	Underweight	Luby	Neutral	Sideways
Asia Investment Grade (US\$-Denominated)	60 bp	4.49%	5.3 yrs	\$643	+7.5%	Underweight	Zeng	Neutral	Wider
EM Investment Grade Sovereign (US\$-Denominated)	86 bp	4.96%	7.7 yrs	\$672	+10.2%	Underweight	Chatellier	Neutral	Wider
US Investment Grade Taxable Munis	62 bp	4.84%	7.6 yrs	\$332	+7.3%	Market Weight	Luby	Neutral	Sideways
<b>Leveraged Finance</b>									<b>Spreads</b>
US Broadly Syndicated Leveraged Loans <sup>3</sup>	464 bp	7.94%		\$1,464	+5.2%	Underweight	Cisar	Off	Wider
US High Yield	320 bp	7.05%	3.0 yrs	\$1,442	+6.8%	Underweight	Cisar	Off	Wider
Euro High Yield <sup>1</sup>	298 bp	7.20%	2.9 yrs	\$446	+4.2%	Market Weight	Miller	Neutral	Wider
Asia High Yield	309 bp	6.86%	3.3 yrs	\$76	+9.6%	Underweight	Zeng	Neutral	Wider
EM High Yield Sovereign (US\$-Denominated)	324 bp	7.24%	6.0 yrs	\$467	+13.6%	Underweight	Chatellier	Off	Wider
US High Yield Munis <sup>2</sup>	141 bp	5.06%	6.8 yrs	\$47	+3.0%	Underweight	Luby	Off	Sideways

Source: CreditSights, FactSet, ICE Data Indices, LLC, Bloomberg, L.P.

<sup>1</sup> Euro & Sterling yields are currency-adjusted using 3mo FX forwards. On a local currency basis, German Bunds yield 2.5%, Euro IG yields 3.1%, Sterling IG yields 5.2%, and Euro HY yields 5.2%.

<sup>2</sup> Underweight recommendation for tax agnostic investors; Market Weight for US high-income retail investors.

<sup>3</sup> Uses 3-year discount margin for OAS and 3-year index yield for YTW.

Near-Term risk view represents 3-month outlook.

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