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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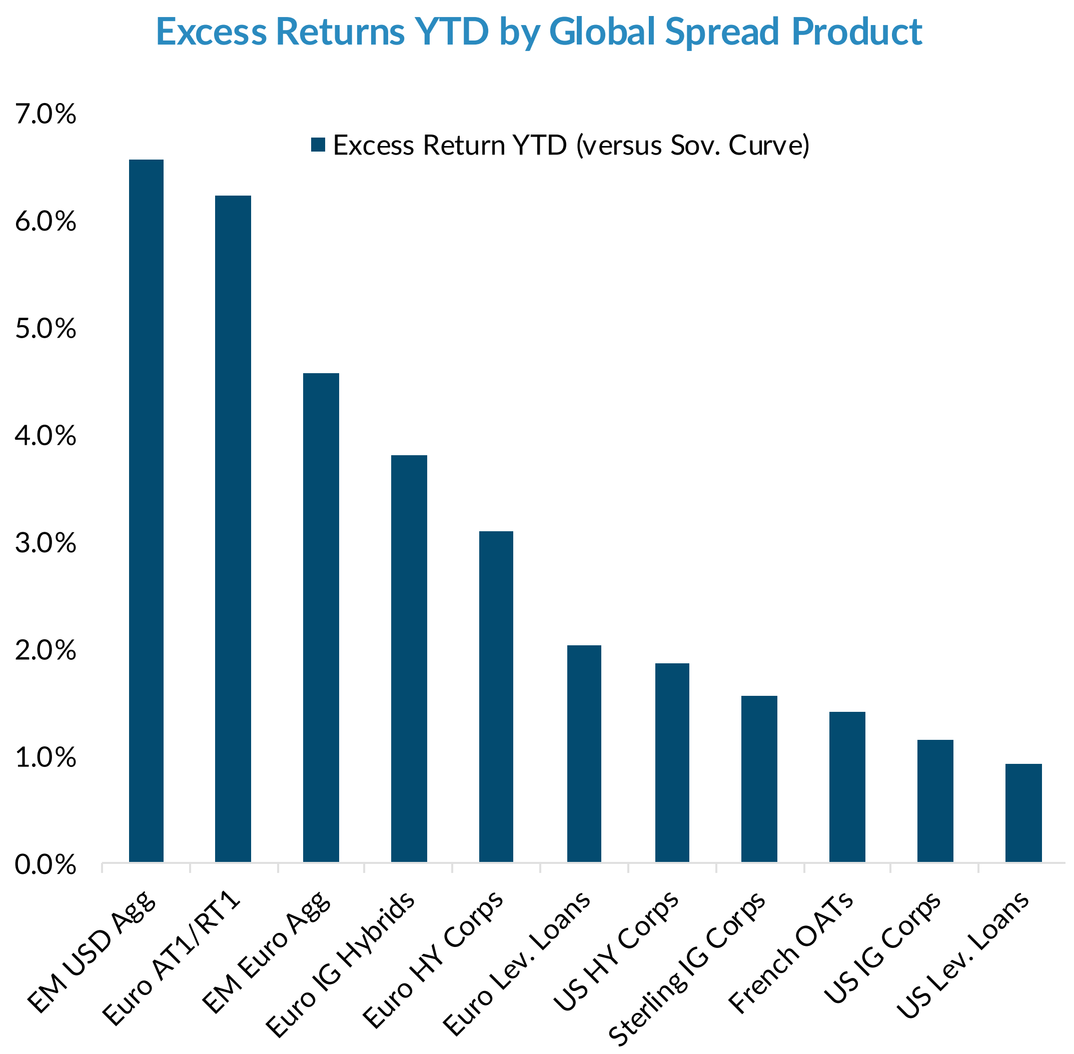
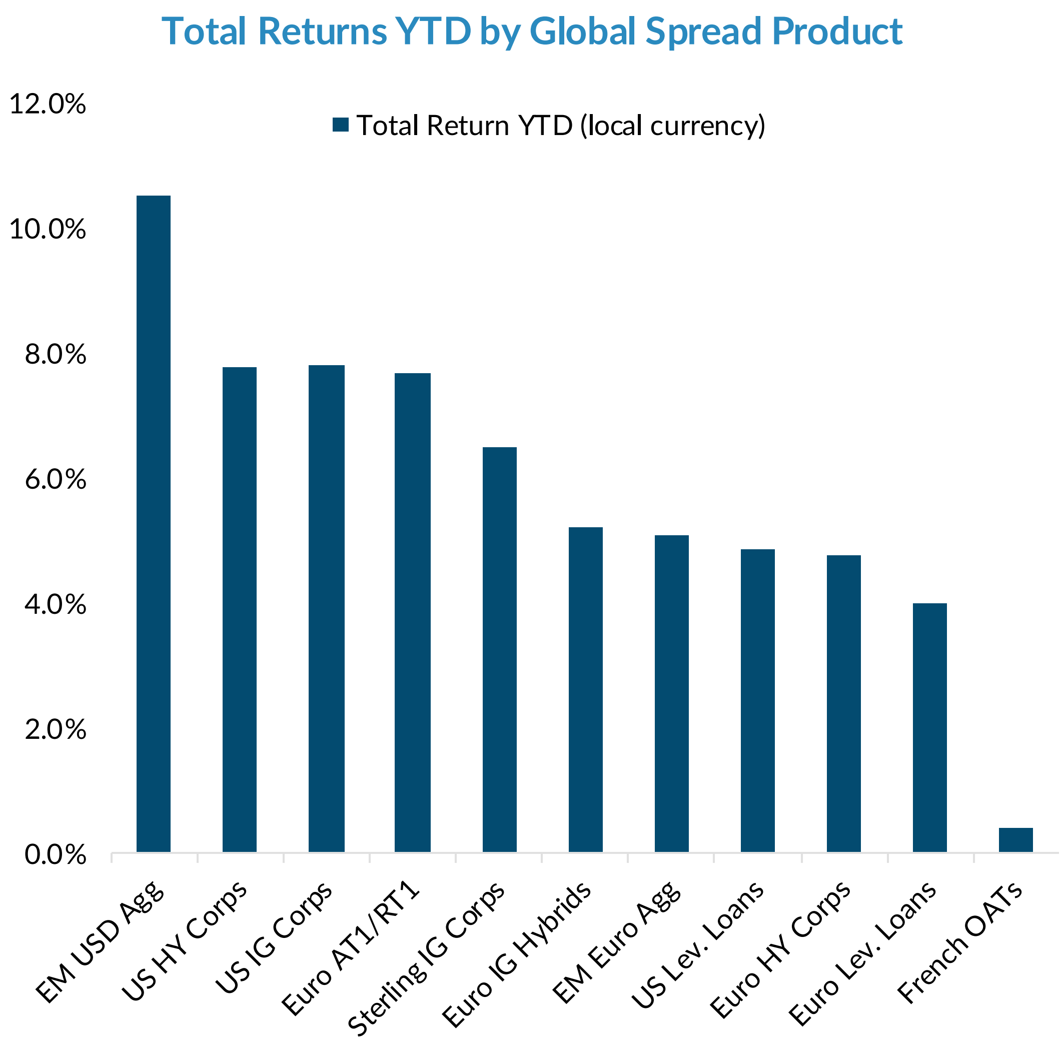
Audience Question #1

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 tights
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





Source: CreditSights. , ICE Data Indices, Bloomberg, L.P
Note: Leveraged Loan excess returns are relative to Gov't T-bills.

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.

			Forecasts as of 12/31/26			
	YE 2024	As of 11/14/25	Immaculate Disinflation (Bull)	Labor Pains (Base)	Inflation Acceleration (Bear)	Probability Weighted (Full Year 2026)
Probability Weighting			30%	55%	15%	
US Treasury Yields						
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
US Investment Grade						
OAS	82bp	83bp	65bp	120bp	150bp	108bp
Excess Return[1]	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[1]	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
US High Yield						
OAS	292bp	307bp	225bp	450bp	600bp	405bp
YTW	7.5%	7.0%	5.7%	7.7%	11.2%	7.6%
Total Return[1]	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%
US Broadly Syndicated Leveraged Loans						
Bid Price	$96.37	$96.07	$98.50	$94.00	$88.00	$94.45
Effective Yield	8.8%	8.2%	7.2%	7.0%	9.7%	7.5%
Total Return[1]	9.1%	5.1%	11.4%	4.9%	-4.5%	5.5%
Gross Supply ($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%

Source: CreditSights, ICE Data Indices.

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

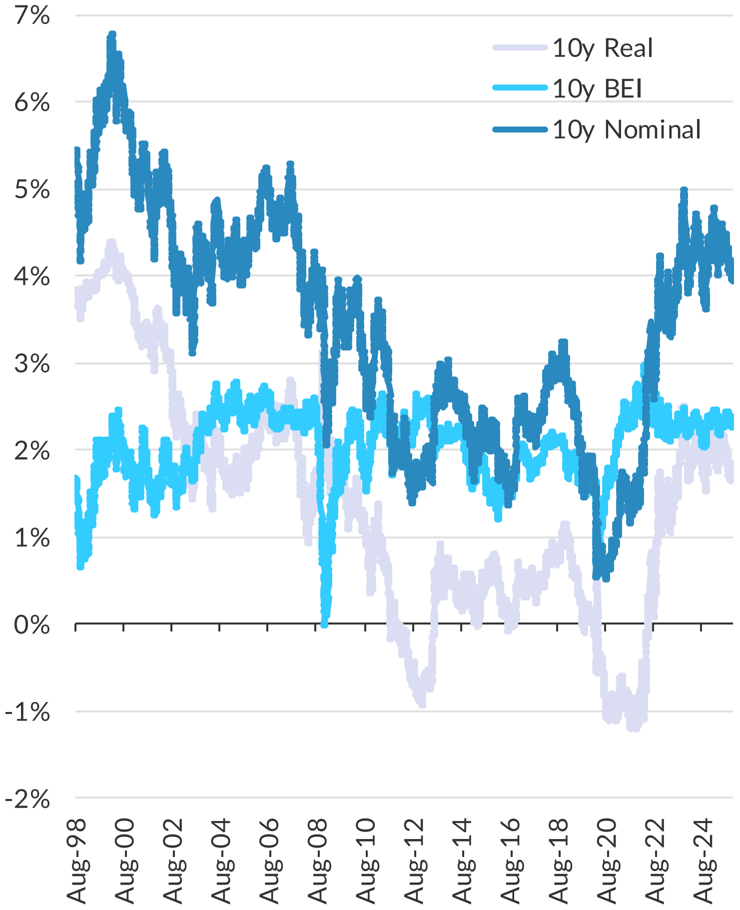
Asset Class	OAS	YTW	Duration	Market Value ($B)	YTD Total Return	CreditSights Rec.	CreditSights Analyst	Near-Term Risk View (1-3 Months)	Rate/Spread Outlook (12-Month)
Treasuries									
Short-Duration (0-5 yrs)		3.69%	2.0 yrs	$11,663	+4.8%	Neutral	Griffiths	On	Lower
Intermediates (5-10 yrs)		3.89%	6.0 yrs	$3,777	+7.6%	Overweight	Griffiths	Neutral	Lower
Long-Duration		4.66%	14.2 yrs	$4,085	+6.2%	Overweight	Griffiths	Neutral	Lower
Investment Grade									
IG Agg. Corporates	**83 bp**	**4.88%**	**6.6 yrs**	**$9,139**	**+7.0%**				**Wider**
Total Return Mandates						Overweight	Griffiths	Neutral	
Excess Return Mandates[1]						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
Leveraged Finance[2]									
High Yield Agg. Corporates	**307 bp**	**6.97%**	**2.9 yrs**	**$1,444**	**+7.0%**	**Underweight**	**Cisar**	**Off**	**Wider**
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
Broadly Syndicated Loans Agg.[3]	**461 bp**	**7.96%**		**$1,607**	**+5.1%**	**Underweight**	**Cisar**	**Off**	**Wider**

Source: CreditSights, FactSet, ICE Data Indices, LLC

[1] Curve and credit recommendations based on excess return expectations.
[2] Leveraged finance recommendations based on total return expectations.
[3] Uses 3-year discount margin and yield for OAS and YTW.

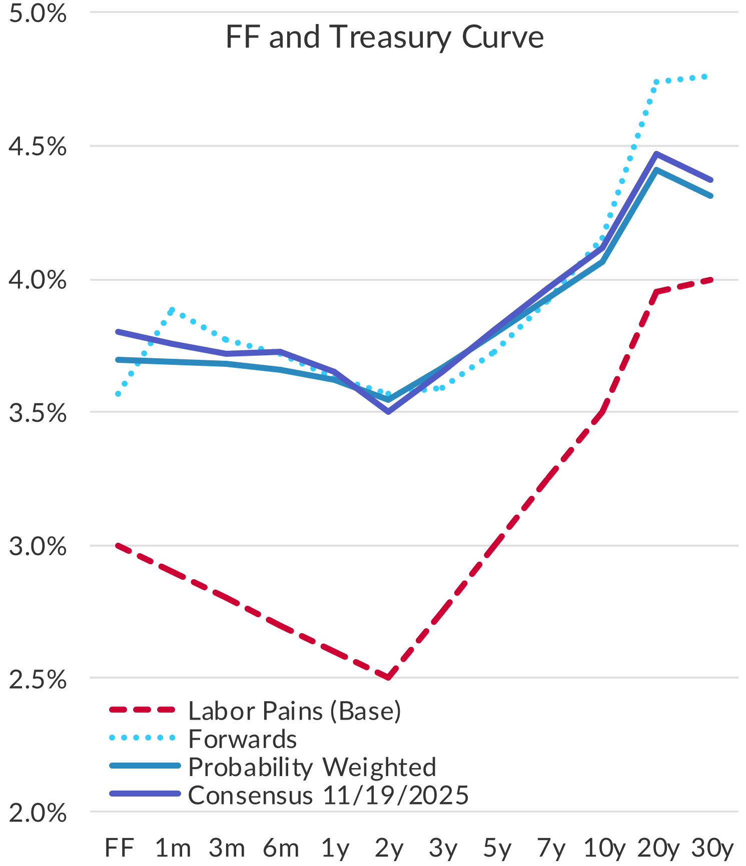
Macro Calls for '26: Lower Yields, Steeper Curve → Overweight Duration

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



Source: CreditSights, Bloomberg, L.P.

Euro Credit Strategy Views for 2026

Key Expectations and Recommendations

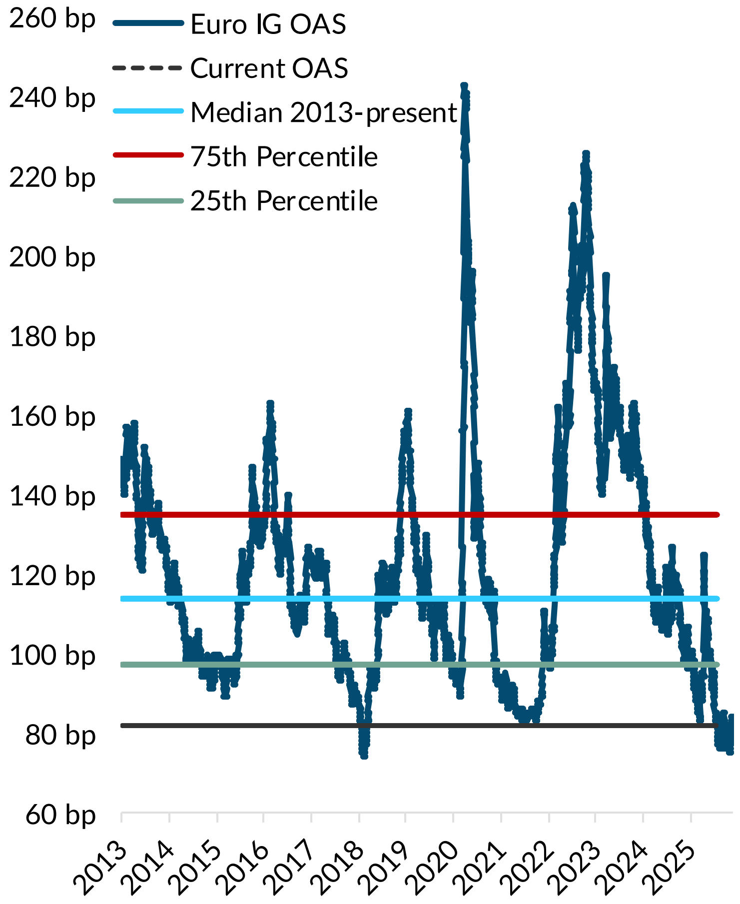
- We expect a handoff from very strong technicals to moderately deteriorating fundamentals, with credit quality and spreads gradually taking the driver's seat from all-in yields.
- Our forecast is for IG spreads to broadly leak wider amid slow fundamental deterioration but look for HY spreads to face 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
Probability Weighting		35%	50%	15%
Euro Investment Grade				
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%
Euro High Yield				
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%
Sterling Investment Grade				
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%
Rates				
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%

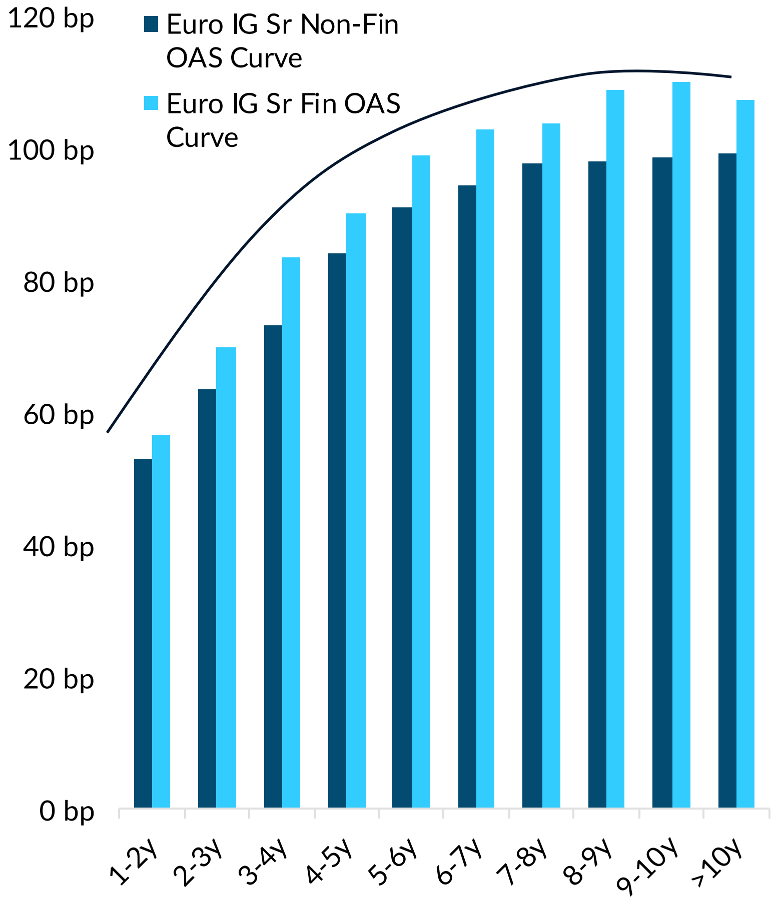
Source: CreditSights, ICE Data Indices.

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

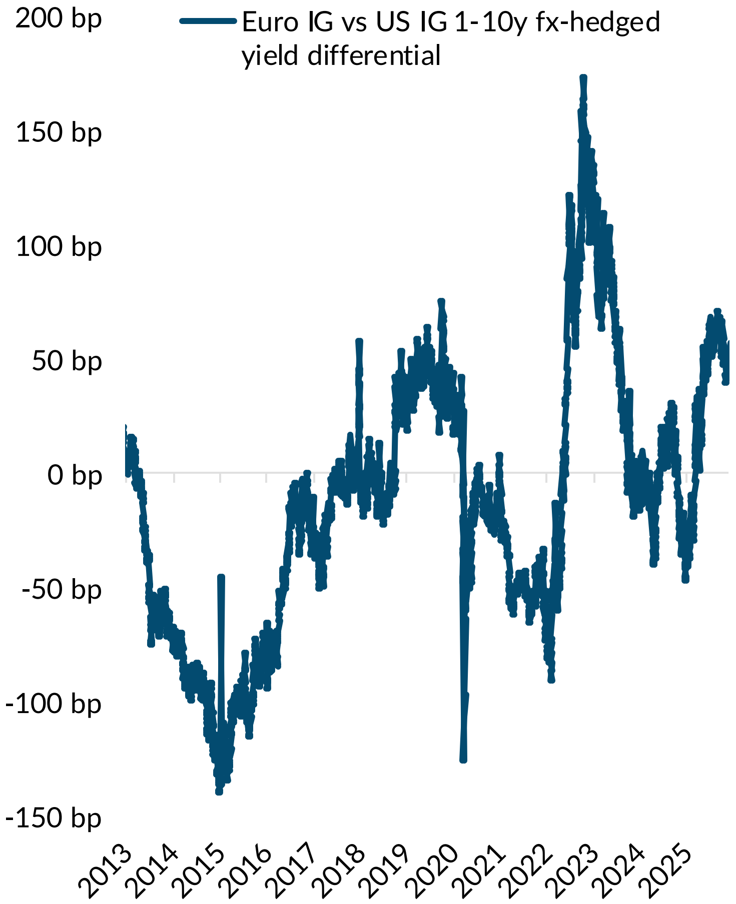
Tight Credit Spreads → Move Up in Quality



Position Along Steep Points on the Curve



Maintain Preference for Euro IG Over US IG



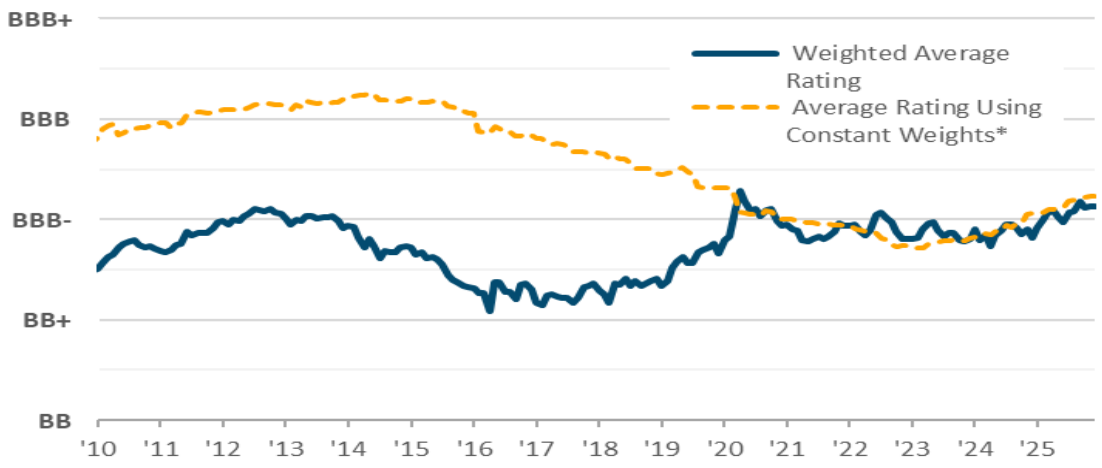
Source: CreditSights. , ICE Data Indices, Bloomberg, L.P

EM Sovereign Strategy Views for 2026

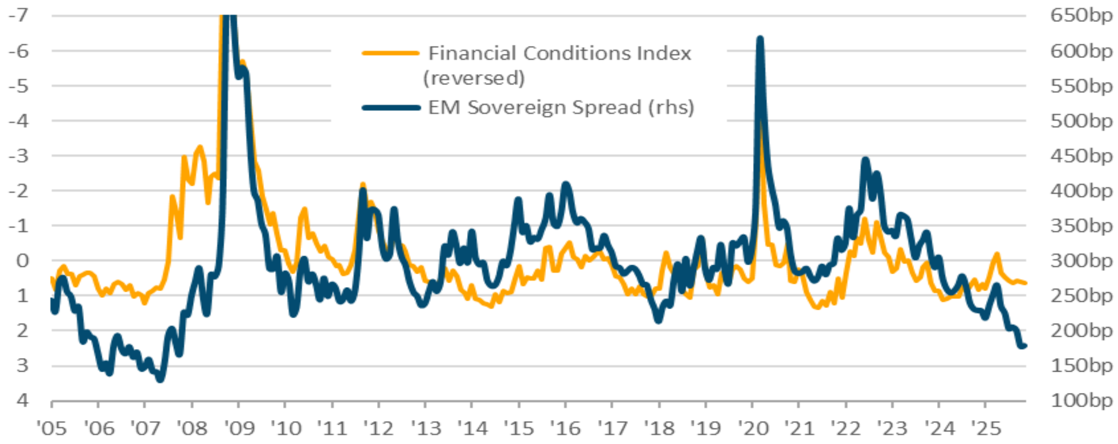
Key Expectations and Recommendations for 2026

- 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



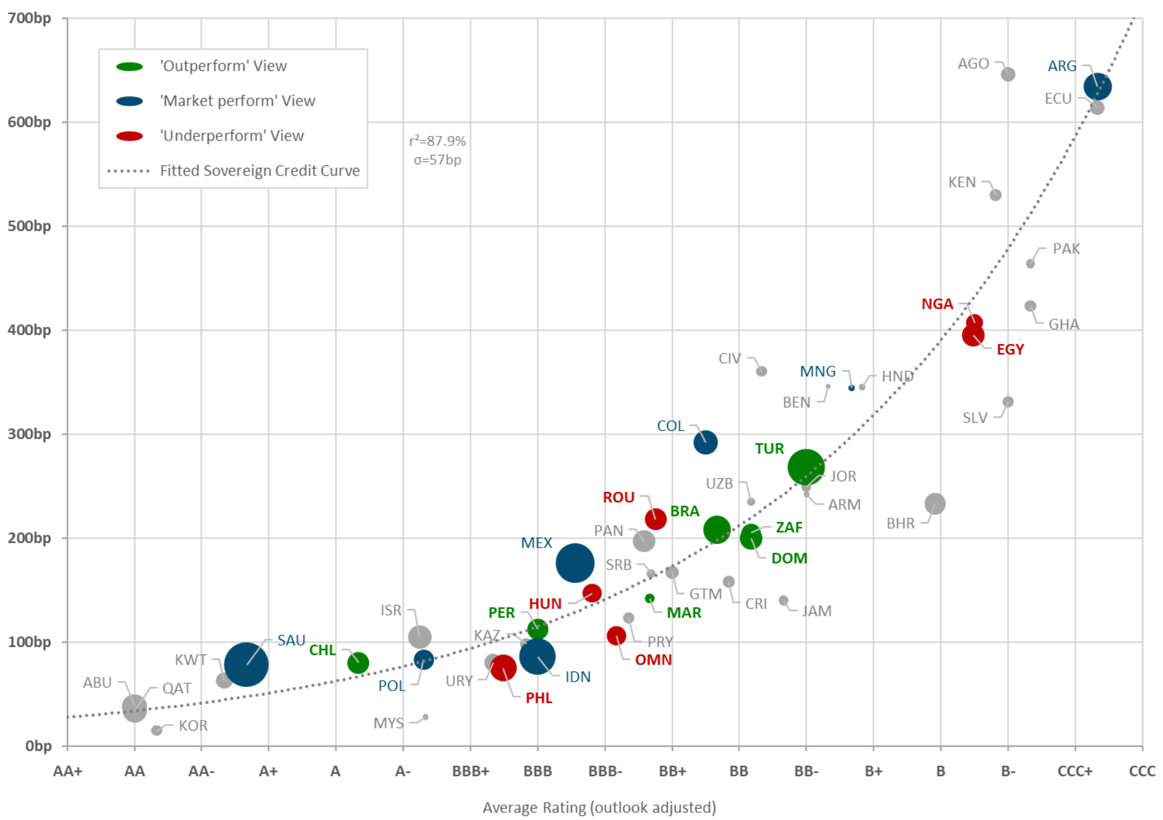
Very Tight EM Spread Valuations



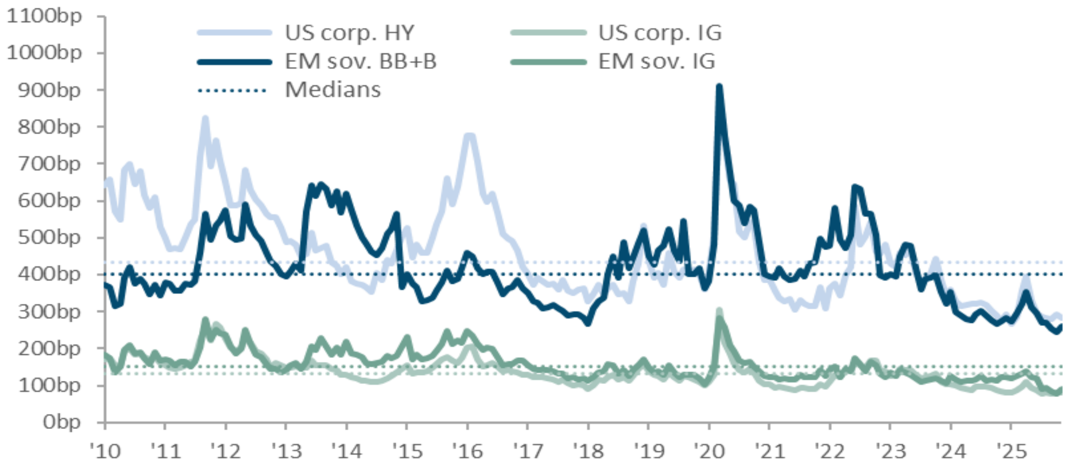
Source: CreditSights, ICE Data Indices.

EM Sovereign Strategy Views for 2026

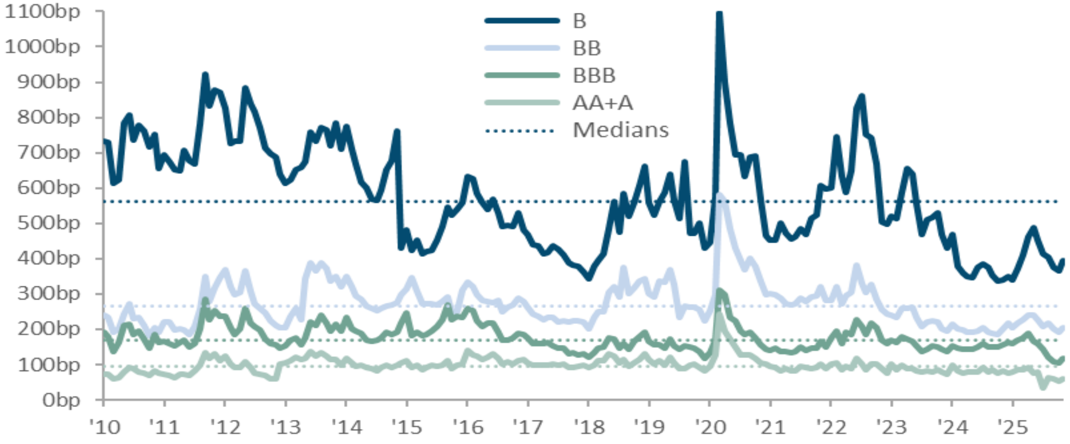
EM Country Views



Credit Spreads at Historical Tights



EM HYs and EM IGs at Risk of Mean Reversion



Source: CreditSights, ICE Data Indices.

Audience Question #3

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
Rates									**Yields**
US Treasuries		3.91%	6.1 yrs	$17,042	+6.1%	Overweight	Griffiths	Neutral	Lower
German Bunds[1]		4.43%	7.2 yrs	$1,732	-0.7%	Market Weight	Miller	Neutral	Higher
Investment Grade									**Spreads**
US Investment Grade	85 bp	4.86%	6.6 yrs	$9,149	+7.1%	Underweight	Griffiths	Neutral	Wider
Euro Investment Grade[1]	84 bp	5.09%	4.5 yrs	$3,683	+3.0%	Market Weight	Miller	Neutral	Sideways
Sterling Investment Grade[1]	87 bp	5.16%	5.9 yrs	$489	+5.5%	Underweight	Miller	Off	Wider
US Investment Grade Tax Exempt Munis[2]	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
Leveraged Finance									**Spreads**
US Broadly Syndicated Leveraged Loans[3]	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[1]	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[2]	141 bp	5.06%	6.8 yrs	$47	+3.0%	Underweight	Luby	Off	Sideways

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

1 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%.
2 Underweight recommendation for tax agnostic investors; Market Weight for US high-income retail investors.
3 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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