T. Rowe Price

August 2026 outlook:

Fixed income credit sector views

Ahead of the Curve

Risk Off in August

T. Rowe Price's Sector Strategy Advisory Group (SSAG) maintained a cautious risk stance with a tactical underweight to credit.

The recommendation is best expressed by keeping portfolios' credit risk near the lower end of their ranges, not by positioning for a deep credit downturn. Bond and CDX spreads were modestly wider over the past month, but that stability concealed widening dispersion: IG and HY corporate indices widened with long-dated technology and communications debt absorbed growing AI-related supply, while RMBS and selected floating-rate assets held in better. With spreads still close to multi-year tights and the average sector fundamental conviction score negative, the market offers limited compensation for broad credit beta.

The near-term backdrop likely remains supportive enough to prevent a disorderly repricing. Summer supply should lighten and all-in yields continue to attract demand. U.S. growth remains resilient, supported by AI capex, easier financial conditions, tariff refunds, and a firmer labor backdrop. At the same time, inflation is moderating only gradually, and central banks are becoming more hawkish, tightening financial conditions globally. Our baseline forecast is for the Fed to keep short-term rates on hold but acknowledge there exists meaningful two-sided risk.

The more durable issue is funding. AI infrastructure is becoming a cross-sector credit theme spanning hyperscaler bonds, data-center debt, high-yield compute, loans, utilities, and structured finance. Quality should keep markets open, but the quantity of issuance can still reset clearing spreads and crowd out unrelated long-duration credit. Guarantees and contracted leases improve individual structures, yet they may not provide independent protection in a broad AI downturn.

What we like: income with structure

For lower-risk strategies, we favor RMBS and CLOs, with CLOs added to the overweight this month. RMBS remains the committee's top-ranked securitized sector, supported by resilient housing collateral, structural credit enhancement, and relative value in HELOC and CRT uncapped floaters. AAA CLOs offer a 5% yield, ~125 bps of spread, and 1.5-year duration profile – more spread and less rate sensitivity than comparably-rated investment-grade corporates. Within intermediate credit, data centers with strong contractual protections and U.S. large banks are preferred.

In higher-risk strategies, we prefer cash high yield to synthetic beta and are concentrating risk in specific structures rather than lifting the entire asset class. Global HY offers ~290-bp spread; that income is investable, but near their one-year low. The best opportunities are selected U.S. HY data-center financings with secured collateral, investment-grade tenants or lease guarantees, short non-call structures, and potential ratings catalysts after construction. We recommend strategies seek to eliminate an underweight to Euro HY as the new-issue mix improved and portfolios found more deals worth owning, even though broad valuations remain tight.

What we are watching: AI funding and rate transmission

First, we are watching whether AI financing remains a contained technical issue or begins to reprice the broader credit market. Leveraged-finance AI issuance could approach $100 billion in 2026, while total technology issuance could exceed $300 billion in 2027. The upside case is continued strong demand, shorter-duration issuance, disciplined leverage, and fully contracted capacity. The base case is orderly widening in AI-linked curves, with non-AI long-duration credit gradually cheapening as investor risk budgets are consumed. The bear case scenario is weaker leasing economics, speculative construction, reduced amortization, and spillover into unrelated long-end IG.

Second, we are considering whether contractual support is truly diversifying. Parent guarantees and residual-value protections are meaningful in an idiosyncratic default, but less powerful when the tenant, guarantor, collateral, and refinancing market depend on the same AI capex cycle. We are monitoring lease terms, termination rights, GPU utilization and rental rates, tenant concentration, construction delays, and the use of vendor-linked guarantees.

Finally, the macro guidepost is the rates channel. Renewed core disinflation and stable policy would support carry; a renewed oil or services-inflation impulse, stronger labor data, or market pricing of multiple Fed hikes would pressure synthetics and long-duration cash credit first.

Our views on the remaining sectors are shown in Figure 1.

Sources: Analysis by T. Rowe Price, Bloomberg, and J.P. Morgan. Data as of 31 July 2026.
AAA CLOs: J.P. Morgan CLOIE AAA Index. Global HY: Bloomberg Global High Yield Bond Index (USD Hedged).

Figure 1: Our views on the different sectors; and the reasoning behind that view (as of 31 July)

Negative Neutral Positive ▼ Prior month position

Sector	View and Change Versus Prior Month	Comments
Global High Yield (HY) Corporates		– Spreads remain tight versus a one-year look-back, so we favor carry and security selection over a broad upgrade. – Structural factors partially justify tighter spreads such as improved credit quality makeup, increased secured issuance, shorter duration profile, and improved liquidity. – U.S. HY remains the preferred region, particularly selected secured data-center credits and we upgraded Euro HY from underweight to evenweight the new-issue mix materially improved versus a month ago. – Default environment remains benign and within the range of historical averages.
Bank Loans		– Loans continue to offer attractive current income, senior-secured positioning, and limited Treasury sensitivity, but the asset-class view continues to be more cautious. – Software concentration, AI-driven moat and margin risk, high LTVs, and upcoming maturity walls offset the headline yield. Prefer stronger secured structures and avoid generic software beta. – Loan yields remain appealing in a benign credit backdrop, but the index looks less compelling once software and AI-impacted issuers are stripped out.
EM USD Sovereign and Corporate Credit		– Both spreads sit near one-year lows, limiting broad valuation upside. The neutral view on the asset class is unchanged as the Latin America relative value thesis largely realized. – Relative value rankings favor selected HY sovereign and corporate opportunities over IG, especially idiosyncratic issuers less exposed to the AI funding cycle. – All-in yields remain attractive, but valuations are no longer as compelling.
Global Investment-Grade (IG) Corporates		– Global IG remains vulnerable to stretched valuations and higher-rate volatility, particularly in longer-duration exposures. – Technicals are strong, but spread compensation is thin and supply risk offsets demand. – We prefer up-in-quality, shorter/intermediate carry, and select sectors such as communications, aerospace and defense, utilities, and AI infrastructure beneficiaries, while remaining sellers of more cyclical long-duration credit where valuation support is limited.
Securitized Credit		– Securitized credit remains one of the better areas to retain carry with more structural protection. RMBS and CLOs are ranked first within the securitized bucket, followed by ABS and CMBS. – Favor Tier 2 AAA and AA tranches, particularly very short maturities as stable diversifiers, with a preference for primary issuance in AAs. – Within RMBS, we favor CRT M1 and HELOC securities, while selectively moving down the capital structure in Non-QM transactions. – In the ABS sub-sector, we like discounted whole-business securitizations, synthetic prime auto seniors and subordinated tranches, and private student loans. – While we maintain an underweight view on CMBS, we find value in LCF bonds in new issuance and seasoned or secondary SASB subordinated bonds, particularly in non-mall retail, industrial, and select office properties.
Agency MBS		– The view is unchanged from last month: liquidity and income are useful, but rate volatility and limited spread compensation cap conviction. – We favor production coupons and upper-belly exposure – particularly 4.5s and 5s in TBA/generics, specified pools in 5.5s and above, and low-WAC IOs for carry and diversification – while remaining underweight deep discounts and neutral on premiums.
Taxable Municipals		– Taxable municipals remain supported by strong technicals and limited supply, but valuations are stretched and do not offer enough relative compensation versus corporates. – Valuations are only 2 bps above their one-year low and below the 72-bp average, leaving little cushion for the sector's long duration. The view is unchanged. – We would avoid generic exposure and retain only select idiosyncratic positions where structure or credit fundamentals are compelling.

Past performance is not a guarantee or a reliable indicator of future results.
Source: Analysis by T. Rowe Price. Bloomberg Index Services Limited.
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Sector statistics and returns

As of 31 July 2026

	Yield to Worst (%)	Duration (years)	Credit Spreads (basis points) Current Spread	M/M Change	1YR High	1YR Low	1YR Avg.	Total Returns (%)[1] 1M	YTD	1YR
High Yield Corporates										
Global HY	7.22	3.55	294	13	353	273	298	-0.48	2.28	6.55
US HY	7.48	2.93	289	19	335	250	276	-0.35	1.53	4.89
Euro HY[2]	7.47	2.85	291	7	349	264	291	-0.26	2.28	4.76
Asia HY	7.94	2.78	345	-9	467	311	363	0.08	3.78	7.87
Loans[3]	8.78	0.25	473	-2	496	419	449	0.72	2.22	4.48
Emerging Markets										
EM Sovereigns (USD)	7.20	6.19	242	6	315	225	261	-1.12	2.12	9.19
EM Corporates (USD)	6.25	4.06	201	0	249	194	224	-0.40	1.85	5.57
Investment Grade Corporates										
Global IG	4.95	5.70	82	4	94	74	80	-1.49	0.06	2.83
US IG	5.45	6.55	80	6	93	71	78	-2.03	-0.76	2.41
Euro IG[2]	5.35	4.60	80	0	98	73	81	-0.83	1.26	3.12
Asia IG	5.08	4.97	57	2	70	50	60	-1.10	-0.15	3.05
Securitized Credit										
CLOs	6.27	1.66	220	-4	253	197	212	0.41	2.84	5.27
CMBS	5.03	3.64	65	1	81	63	71	-0.46	0.52	3.60
ABS	4.75	2.75	41	-3	56	41	50	-0.16	1.04	3.75
Other Spread Sectors										
Agency MBS	5.23	5.56	28	4	40	14	25	-1.46	-0.03	4.28
Taxable Munis	5.52	8.75	67	-1	80	65	71	-2.25	-0.37	3.56

Common Benchmarks

Index	Yield to Maturity (%)	Duration (years)	Total Returns (%)[1] 1M	YTD	1YR
Global Aggregate	3.98	6.13	-1.07	0.29	2.34
US Aggregate	4.94	5.77	-1.49	-0.47	2.72

Sovereign Yields

10-Year Rates	Yield to Maturity (%)	M/M Change (bps)	1YR High (%)	1YR Low (%)
U.S. Treasury	4.68	21	4.69	3.94
German bund[2]	4.60	23	5.08	4.36

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Source: Analysis by T. Rowe Price, Bloomberg Index Services Limited. J.P. Morgan. Data as of 31/07/2026. Please see Additional Disclosures for additional legal notices and disclaimers.

[1] Returns are hedged to USD.

[2] Yields are hedged to USD.

[3] Loan yields and spreads are forward to maturity.

T. Rowe Price Sector Strategy Advisory Group (SSAG)

The team

The T. Rowe Price Sector Strategy Advisory Group (SSAG) is comprised of select Fixed Income investment professionals, specializing in a range of disciplines, who collaboratively generate investment ideas for use in portfolios across our platform. Views are based on SSAG research and discussions, combining fundamental analysis from sector specialists with insights from our quantitative research experts and proprietary tools. The primary goal of SSAG is to help answer two key questions: how much credit risk to take; and within what sectors to take it. Views are intended to be tactical, are as of the date indicated, and are subject to change.

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Market indices shown on page 3 represent the following:

Global HY: Bloomberg Global High Yield Bond Index USD-Hedged; US HY: Bloomberg US Corporate High Yield Bond Index; Euro HY: Bloomberg Pan-European High Yield Bond Index USD-Hedged; Asia HY: Bloomberg Asia USD High Yield Bond Index; Bank Loans: J.P. Morgan Leverage Loan Index; EM Sovereigns (USD): J.P. Morgan EMBI Global Diversified Index; EM Corporates: J.P. Morgan CEMBI Broad Diversified Index; Global IG: Bloomberg Global Aggregate – Corporate Index USD-Hedged; US IG: Bloomberg US Corporate Bond Index; Euro IG: Bloomberg Pan European Aggregate Corporate Index USD-Hedged; Asia IG: Bloomberg Asia USD Investment Grade Bond Index USD-Hedged; CLO: J.P. Morgan CLO Post-Crisis Index; CMBS: Bloomberg US CMBS ERISA Eligible Index; ABS: Bloomberg US ABS Index; Agency MBS: Bloomberg US MBS Index; Taxable Munis: Bloomberg Taxable Muni US Agg Eligible Index; Global Aggregate: Bloomberg Global Aggregate Bond Index USD-Hedged; US Aggregate: Bloomberg US Aggregate Bond Index.

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