December 2025 outlook:

Fixed income credit sector views

Ahead of the Curve

Risk on in December

This month, T. Rowe Price's Sector Strategy Advisory Group (SSAG) upgraded to a positive risk regime with a tactical overweight to credit. The committee's conviction was supported by three converging themes: the One Big Beautiful Bill fiscal package will deliver tax refunds and investment incentives in early 2026, supporting resilient credit fundamentals despite tight valuations; proprietary quantitative models show systematic strategies positioned to add risk as volatility remains contained; and the Federal Reserve's announcement of reserve management purchases (RMP)—$40 billion per month in Treasury bills—demonstrates low tolerance for brewing funding pressures and provides explicit support for risk assets.

The macro backdrop for Q1 2026 hinges on fiscal stimulus and monetary policy normalization. Growth is expected to stabilize around trend, supported by corporate tax credits and capital investment acceleration. Inflation remains elevated at around 3% year-over-year, though base effects should provide relief in H2 2026. Labor market dynamics reflect structural rebalancing rather than cyclical weakness, with monthly breakeven job additions settling into a 25-75K equilibrium.

Credit market drivers over the near term present a nuanced picture. Valuations remain compressed across most sectors while technicals are supportive heading into year-end. The resilient economy, prudent underwriting standards, and low default environment support our constructive stance despite limited spread cushion.

What we like: High carry and liquid credit exposure

ABS trade at 55 basis points with a 4.13% yield and 2.67 years duration, offering superior spread pickup versus duration-matched corporates while maintaining AAA/AA quality through structural protections. Consumer fundamentals remain resilient with auto delinquencies below pre-pandemic levels and credit card performance healthy despite elevated balances.

Bank loans offer 7.6%* yields with minimal duration risk (0.25 years) and spreads at 436 basis points, making it the highest carry sector in fixed income. As loan default rates decline from 4.3% peaks to 3.5%, the sector benefits from improving fundamentals and potential rate cuts being priced in excess of what the Fed can deliver. The resilient US economic outlook, supported by fiscal tailwinds and easing financial conditions, creates favorable conditions for the sector while emphasizing the need for bottom-up credit selection given recent idiosyncratic bankruptcies.

What we are watching: Supply dynamics and structural evolution

January issuance dynamics represent the primary near-term risk to current valuations. Credit markets experience reduced supply in December, creating technical tailwinds that support spreads. However, January typically brings heavy issuance as corporates seek to front-load financing for the year, with elevated M&A activity and refinancing needs expected to drive supply. The market will need to demonstrate an ability to absorb this paper and underperformance of cash versus synthetics could materialize if supply meaningfully exceeds expectations.

The emergence of hybrid public-private financing structures to fund AI and data center buildouts will feature prominently in 2026, but these index-ineligible, illiquid securities require underwriting discipline. While they offer liquidity premiums for investors with strong credit expertise, we must be adequately compensated for the complexity and concentration risks. Fundamental underwriting is essential to capture opportunities while protecting against becoming over-levered to single vendor ecosystems and structural risks.

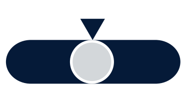
Our views on the remaining sectors are shown in Figure 1.

Source: T. Rowe Price, Bloomberg. Data as of 30/11/2025. Please see Additional Disclosures for additional legal notices and disclaimers.

*J.P. Morgan Leverage Loan Index as of 30/11/2025

Figure 1: Our views on the different sectors; and the reasoning behind that view (as of 15 December)

Negative | Neutral | Positive | ▼ Prior month position

Sector	View and Change Versus Prior Month	Comments
Global High Yield (HY) Corporates		– US HY outperformed most other sectors in November and still deliver a 6.6% yield, which offers a compelling risk-adjusted alternative to equities (S&P 500 forward earnings yield ~4%). – Asset class fundamentals remain healthy, default rates are low, underwriting standards remain disciplined, average credit quality continues to improve in high yield bonds, and we see positive M&A optionality in certain industries.
Bank Loans		– Loans offer the best carry in credit markets with a 7.6% yield and minimal interest rate duration risk – a benefit of floating-rate structures if the Federal Reserve cuts fewer times than markets expect. – Loan default levels are moderating after reaching 4.3% in July following a period of aggressive underwriting and higher interest rates that pressured many weaker cap structures. – Focusing on loans with healthy fundamentals and prudent underwriting may provide the potential for attractive risk-adjusted yield for higher risk portfolios.
EM USD Sovereign and Corporate Credit		– Outstanding YTD performance in EM USD sovereigns and corporates have caused valuations to compress to multi-year tights, though momentum and diversification benefits warrant maintaining neutral allocations. – Both sectors still offer some relative carry advantage—270 bp and 240 bp in sovereigns and corporates, respectively—and idiosyncratic events over the past month have offered some attractive opportunities in select credits. – The team has a slight underweight recommendation for EM corporates given stretched valuations, particularly long-end outperformance relative to US credits.
Global Investment-Grade (IG) Corporates		– US IG spreads at 80 bp put valuations in the richest decile over the past two decades and leave minimal cushion despite a modest deterioration in overall credit quality of the index over the same time. – The team maintains an underweight recommendation to the long end, where duration risk combines unfavorably with tight valuations. – Tight valuations and low carry in long-end US corporates still leave little room to withstand spread widening while M&A, further AI financing, and heavy supply in the new year could weaken technicals.
Securitized Credit		– ABS represent attractive overweights for lower-risk portfolios, offering high-quality carry with robust structural protections such as credit enhancement, overcollateralization, and reserve accounts. – With ABS at 55 basis points the sector offers superior spread pickup versus duration-matched corporates while maintaining AAA/AA quality. – CMBS warrants caution with an underweight bias given office sector stress, though select seasoned discount free-cash-flow conduits offer opportunities.
Agency MBS		– With spreads at 1.5 standard deviations rich versus trailing 12-month averages, and cross-sector relative value showing MBS rich versus investment grade corporates, valuations offer limited room for further compression. – The team suggests an underweight bias versus benchmark with tactical emphasis on belly-to-production coupons, as the threat of housing emergency actions provides a ceiling against significant spread widening.
Taxable Municipals		– Spreads outperformed versus corporates month-over-month and traded to rich levels. – However, the sector still offers important diversification benefits and robust technical tailwinds are expected to persist into year-end. – The team still sees potential for attractive deals coming to the primary market in the AA/A space where new-issue concessions could add incremental value.

Past performance is not a guarantee or a reliable indicator of future results.

Source: T. Rowe Price, Bloomberg Index Services Limited. Data as of 30/11/2025. Please see Additional Disclosures for additional legal notices and disclaimers.

Sector statistics and returns

As of 30 November 2025

	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	6.57	3.50	298	-5	471	294	331	0.48	9.17	9.12
US HY	6.57	2.76	269	-12	453	256	295	0.58	8.01	7.73
Euro HY[2]	7.10	2.79	288	-3	446	270	316	0.28	6.77	7.67
Asia HY	7.68	2.66	386	51	635	311	410	-0.79	8.53	8.70
Loans[3]	7.61	0.25	436	6	514	419	436	0.25	5.27	5.89
Emerging Markets										
EM Sovereigns (USD)	6.83	6.62	270	7	393	262	315	0.41	13.48	11.90
EM Corporates (USD)	5.93	4.22	241	13	296	225	246	0.24	8.21	7.62
Investment Grade Corporates										
Global IG	4.29	5.86	83	3	120	76	88	0.41	7.18	6.24
US IG	4.76	6.82	80	2	119	72	83	0.65	7.99	6.41
Euro IG[2]	5.19	4.60	83	5	128	77	92	-0.06	5.37	5.34
Asia IG	4.43	5.20	64	5	101	58	72	0.36	8.12	7.15
Securitized Credit										
CLOs	5.50	1.46	207	3	233	178	206	0.38	5.33	5.93
CMBS	4.38	3.79	76	-1	101	75	82	0.75	7.62	7.28
ABS	4.13	2.67	55	0	75	42	54	0.56	5.61	5.72
Other Spread Sectors										
Agency MBS	4.61	5.54	29	1	49	24	36	0.62	8.35	6.90
Taxable Munis	5.00	9.10	73	4	97	66	79	0.50	8.36	5.65

Common Benchmarks

Index	Yield to Maturity (%)	Duration (years)	Total Returns (%)[1] 1M	YTD	1YR
Global Aggregate	3.44	6.33	0.21	5.09	4.58
US Aggregate	4.27	5.93	0.62	7.46	6.08

Sovereign Yields

10-Year Rates	Yield to Maturity (%)	M/M Change (bps)	1YR High (%)	1YR Low (%)
U.S. Treasury	4.01	-6	4.79	3.95
German bund[2]	4.56	-8	5.16	3.68

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[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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