February 2026 outlook:

Fixed income credit sector views

Ahead of the Curve

Risk on in February

This month, T. Rowe Price's Sector Strategy Advisory Group (SSAG) maintained a positive risk regime with a tactical overweight to credit. Credit risk premia continue to compress against a backdrop of resilient growth, contained inflation, and supportive liquidity. Three developments shaped spreads over the past month.

First, January's heavy primary supply—particularly in U.S. IG—was absorbed with minimal concession. Strong domestic and overseas demand kept long-end spreads stable despite elevated issuance, reinforcing the durability of current technical conditions.

Second, dispersion widened meaningfully within sub-IG credit, led by software and technology-related issuers in the loan market. AI-driven disruption triggered sharp widening in select B/CCC loans, but weakness has remained concentrated rather than systemic. Broad index moves have been driven by a narrow subset of names, not generalized deterioration.

Third, our proprietary quantitative models continue to signal a positive credit regime. Financial conditions are easy, volatility remains contained, and cross-asset correlations are stable. While valuations are rich across most DM corporates, momentum and liquidity do not yet suggest regime transition.

Macro remains supportive but secondary. Above-trend nominal growth and steady labor conditions reinforce spread resilience. A material shift in inflation expectations or liquidity would challenge this view, but such evidence is not yet present.

What we like: carry in securitized, EM, and loans

For lower-risk strategies, ABS remains our highest conviction sector overweight. Short duration, structural protections, and amortizing cash flows provide attractive carry relative to similarly rated corporates. Despite January tightening, spreads remain in the 30th–40th percentile range versus history. We favor prime and subprime auto, equipment, and private student loan subsectors. Within IG, we prefer CDX IG over cash bonds and modestly reduced long-end IG underweights following the recent credit curve steepening.

For higher-risk strategies, EMD remains a preferred overweight. While spreads are tight (EM sovereigns ~300 bps), structural improvements in several LatAmsovereign complexes and reduced tail risks support stability at current levels. We prefer higher-quality sovereign high yield and select corporates, with a focus on countries where fiscal and political trajectories are improving. Bank Loans remain a selective overweight. The asset class offers the highest all-in yield (~7.5%+) with minimal duration risk. However, AI-related disruption risk in software (≈15–20% of index exposure) warrants selectivity. We favor loans with low AI disruption risk and strong equity cushions.

What we are watching: AI disruption, IG issuance, vol regime

The committee is focused on three themes that could challenge our tactical allocation.

1. AI Dispersion and Contagion Risk: The recent selloff in software loans has not meaningfully spilled into broader sub-IG markets. We are monitoring downgrade velocity and CCC migration risk. A broadening beyond the technology/services cohort could pressure CLO collateral and loan technicals. For now, the disruption appears contained.

2. Supply Absorption and Technical Fatigue: January issuance was heavy across IG and EM but well absorbed. Continued strength depends on stable global liquidity and sustained overseas demand. Any deterioration in dollar funding markets or cross-currency basis could challenge this equilibrium.

3. Volatility Regime Shift: Equity implied volatility has risen modestly, and cross-asset dispersion remains elevated. While credit vol remains subdued, a sustained rise in equity correlation historically precedes broader credit widening. We are monitoring credit derivatives markets for signs of capitulation or stress.

Our views on the remaining sectors are shown in Figure1.

Source: Analysis by T. Rowe Price, Bloomberg Index Services Limited. Data as of 31/01/2026.
Please see Additional Disclosures for additional legal notices and disclaimers.

Figure 1: Our views on the different sectors; and the reasoning behind that view (as of 17 February)

Negative Neutral Positive Prior month position

Sector	View and Change Versus Prior Month	Comments
Global High Yield (HY) Corporates		– Remain neutral in Global HY with all-in yields around 6.5%, healthy fundamentals and low default rates, the sector remains an attractive alternative to stretched equity valuations. – Increased dispersion within the lower-quality segments has created selective opportunities. – While the OAS of +283 bps appears rich versus history, we envision spreads remaining at historically low levels so long as interest rates remain elevated, fundamentals remain healthy and there are few significant volatility events.
Bank Loans		– Loans have underperformed on concentrated software/AI disruption concerns, but weakness remains industry-specific rather than broad-based. – Strong CLO demand continues to anchor the asset class, and all-in yield remains compelling relative to HY with minimal duration risk. – We favor loans with low AI-disruption risk and select second liens where security selection will deliver the most impact.
EM USD Sovereign and Corporate Credit		– Structural improvement across several LatAm sovereigns and reduced tail risks have compressed risk premia, with flows remaining supportive despite tight spreads. – The backdrop favors stability rather than aggressive compression from here; we maintain a LatAm focus, including select sovereign high yield and corporates. – The team maintained the overweight recommendation, though future performance is increasingly dependent on global risk conditions rather than idiosyncratic re-rating.
Global Investment-Grade (IG) Corporates		– IG continues to demonstrate impressive resilience. .January's heavy issuance was absorbed cleanly,supported by strong domestic yield demand and persistent overseas flows,leaving spreads near cycle tights despite elevated supply. – Valuations offer limited cushion, particularly in the long end. We favor intermediate exposure expressed synthetically via CDX IG and prefect tecch/telco over utilities. – We modestly reduced the long-end underweight following curve steepening but remain cautious overall; Euro IG remains an underweight within this segment given similarly rich valuations and less compelling relative value.
Securitized Credit		– ABS remains the most attractive risk-adjusted carry opportunity in lower-risk mandates, benefiting from short duration, structural protections, and amortization tailwinds. – Despite January tightening, spreads remain in mid-historical percentiles and compare favorably to corporates on carry per unit of volatility. – CLOs remain supported by technicals and active management flexibility amid loan dispersion. – AI-driven loan volatility has not meaningfully impaired higher-quality tranches, where structural protections remain robust. We maintain a neutral-to-overweight bias to CLOs. – We are neutral RMBS and recommend investors maintain a tactical underweight to CMBS.
Agency MBS		– GSE purchase mandates drove spreads to multi-year tights, creating asymmetric risk should policy momentum fade or volatility rise. – Heavy money-manager positioning and policy uncertainty argue for caution despite strong recent performance. – Underweight maintained.
Taxable Municipals		– Taxable municipals remain neutral, with spreads versus corporates near the tighter end of their one-year range. – The sector still offers important diversification benefits and robust technical tailwinds. – The team sees potential for attractive primary-market concessions in AAA paper, supporting the neutral stance.

Past performance is not a guarantee or a reliable indicator of future results.
Source: Analysis by T. Rowe Price. Bloomberg Index Services Limited. Data as of 31/01/2026.
Please see Additional Disclosures for additional legal notices and disclaimers.

Sector statistics and returns

As of January 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	6.50	3.46	283	-8	471	274	326	0.75	0.75	9.38
US HY	6.58	2.73	265	-1	453	250	294	0.51	0.51	7.70
Euro HY[2]	6.88	2.78	273	-8	446	264	309	0.86	0.86	7.70
Asia HY	7.11	2.61	324	-52	635	311	398	1.95	1.95	11.58
Loans[3]	7.92	0.25	449	14	514	419	437	-0.27	-0.27	4.93
Emerging Markets										
EM Sovereigns (USD)	6.78	6.51	245	-9	393	242	303	0.68	0.68	13.45
EM Corporates (USD)	5.83	4.11	212	-15	296	212	244	0.74	0.74	8.67
Investment Grade Corporates										
Global IG	4.34	5.79	75	-5	120	74	87	0.41	0.41	6.85
US IG	4.84	6.73	73	-5	119	71	83	0.18	0.18	7.16
Euro IG[2]	5.02	4.59	75	-4	128	74	89	0.82	0.82	5.98
Asia IG	4.50	5.03	58	-5	101	56	69	0.09	0.09	7.46
Securitized Credit										
CLOs	5.53	1.02	203	3	233	178	206	0.53	0.53	5.71
CMBS	4.43	3.78	67	-8	101	67	81	0.35	0.35	7.25
ABS	4.12	2.75	48	-4	75	46	55	0.25	0.25	5.81
Other Spread Sectors										
Agency MBS	4.64	5.54	16	-6	49	14	32	0.41	0.41	8.24
Taxable Munis	5.14	9.00	72	-1	97	66	79	-0.02	-0.02	6.92

Common Benchmarks

Index	Yield to Maturity (%)	Duration (years)	Total Returns (%)[1]: 1M	YTD	1YR
Global Aggregate	3.53	6.24	0.24	0.24	0.24
US Aggregate	4.36	5.87	0.11	0.11	0.11

Sovereign Yields

10-Year Rates	Yield to Maturity (%)	M/M Change (bps)	1YR High (%)	1YR Low (%)
U.S. Treasury	4.24	7	4.62	3.95
German bund[2]	4.54	-1	5.16	4.19

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

Source: Analysis by T. Rowe Price, Bloomberg Index Services Limited. Data as of 31/01/2026. 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.

Kenneth Orchard
Head of International Fixed Income

Christopher Brown
Head of U.S. Multi-Sector and Portfolio Manager, Fixed Income

Anna Dreyer
Co-portfolio manager, US Core Bond and Total Return Strategies

Vincent Chung
Portfolio Manager, Diversified Income Bond

Michael Connelly
Portfolio Manager, Global High Income

INVEST WITH CONFIDENCE™

T. Rowe Price identifies and actively invests in opportunities to help people thrive in an evolving world, bringing our dynamic perspective and meaningful partnership to clients so they can feel more confident.

Fixed-income securities are subject to credit risk, liquidity risk, call risk, and interest-rate risk. As interest rates rise, bond prices generally fall.

Additional Disclosures

Unless stated otherwise, all references to currency is in U.S. dollars.

Where securities are mentioned, the specific securities identified and described are for informational purposes only and do not represent recommendations.

Bloomberg Index Services Limited and J.P. Morgan do not accept any liability for any errors or omissions in the indexes or data, and hereby expressly disclaim all warranties of originality, accuracy, completeness, timeliness, merchantability and fitness for a particular purpose. No party may rely on any indexes or data contained in this communication. Visit troweprice.com/marketdata for additional legal notices & disclaimers.

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.

Important Information

Outside of the United States, this is intended for investment professional use only. Not for further distribution. This material is being furnished for general informational and/or marketing purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a guarantee or a reliable indicator of future results.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price. T. Rowe Price Fixed Income does not have a house view and portfolio managers may make separate investment decisions.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request.

DISCLOSURE CONTINUES ON THE FOLLOWING PAGE.

Important Information (cont.)

Australia—Issued by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 28, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000, Australia. For Wholesale Clients only.

Brunei—This material can only be delivered to certain specific institutional investors for informational purpose only. Any strategy and/or any products associated with the strategy discussed herein has not been authorised for distribution in Brunei. No distribution of this material to any member of the public in Brunei is permitted.

Canada—Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.'s investment management services are only available to non-individual Accredited Investors and nonindividual Permitted Clients as defined under National Instrument 45-106 and National Instrument 31-103, respectively. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

Colombia, Chile, Mexico, Perù, Uruguay—This material is prepared by T. Rowe Price International Ltd - Warwick Court, 5 Paternoster Square, London, EC4M 7DX which is authorised and regulated by the UK Financial Conduct Authority - and issued and distributed by locally authorized distributors only. For professional investors only.

DIFC—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd which is regulated by the Dubai Financial Services Authority as a Representative Office. For Professional Clients only.

EEA—Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

Hong Kong—Issued in Hong Kong by T. Rowe Price Hong Kong Limited, 6/F, Chater House, 8 Connaught Road Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

Indonesia—This material is intended to be used only by the designated recipient to whom T. Rowe Price delivered; it is for institutional use only. Under no circumstances should the material, in whole or in part, be copied, redistributed or shared, in any medium, without prior written consent from T. Rowe Price. No distribution of this material to members of the public in any jurisdiction is permitted.

South Korea—This material is intended only to Qualified Professional Investors. Not for further distribution.

Mainland China—This material is provided to qualified investors only. No invitation to offer, or offer for, or sale of, the shares will be made in the mainland of the People's Republic of China ("Mainland China", not including the Hong Kong or Macau Special Administrative Regions or Taiwan) or by any means that would be deemed public under the laws of the Mainland China. The information relating to the strategy contained in this material has not been submitted to or approved by the China Securities Regulatory Commission or any other relevant governmental authority in the Mainland China. The strategy and/or any product associated with the strategy may only be offered or sold to investors in the Mainland China that are expressly authorized under the laws and regulations of the Mainland China to buy and sell securities denominated in a currency other than the Renminbi (or RMB), which is the official currency of the Mainland China. Potential investors who are resident in the Mainland China are responsible for obtaining the required approvals from all relevant government authorities in the Mainland China, including, but not limited to, the State Administration of Foreign Exchange, before purchasing the shares. This document further does not constitute any securities or investment advice to citizens of the Mainland China, or nationals with permanent residence in the Mainland China, or to any corporation, partnership, or other entity incorporated or established in the Mainland China.

Malaysia—This material can only be delivered to specific institutional investor. This material is solely for institutional use and for informational purposes only. This material does not provide investment advice or an offering to make, or an inducement or attempted inducement of any person to enter into or to offer to enter into, an agreement for or with a view to acquiring, disposing of, subscribing for or underwriting securities. Nothing in this material shall be considered a making available of, solicitation to buy, an offering for subscription or purchase or an invitation to subscribe for or purchase any securities, or any other product or service, to any person in any jurisdiction where such offer, solicitation, purchase or sale would be unlawful under the laws of Malaysia.

New Zealand—Issued by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 28, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000, Australia. No Interests are offered to the public. Accordingly, the Interests may not, directly or indirectly, be offered, sold or delivered in New Zealand, nor may any offering document or advertisement in relation to any offer of the Interests be distributed in New Zealand, other than in circumstances where there is no contravention of the Financial Markets Conduct Act 2013.

Philippines—ANY STRATEGY AND/ OR ANY SECURITIES ASSOCIATED WITH THE STRATEGY BEING DISCUSSED HEREIN HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE. ANY FUTURE OFFER OR SALE OF THE STRATEGY AND/ OR ANY SECURITIES IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE, UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

Singapore—Issued by T. Rowe Price Singapore Private Ltd. (UEN: 201021137E), 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

South Africa—Issued in South Africa by T. Rowe Price International Ltd (TRPIL), Warwick Court, 5 Paternoster Square, London EC4M 7DX, is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (Financial Services Provider (FSP) Licence Number 31935), authorised to provide "intermediary services" to South African Investors. TRPIL's Complaint Handling Procedures are available to clients upon request. The Financial Advisory and Intermediary Services Act Ombud in South Africa deals with complaints from clients against FSPs in relation to the specific services rendered by FSPs. The contact details are noted below: Telephone: +27 12 762 5000, Web: www.faisombud.co.za, Email: info@faisombud.co.za

Switzerland—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

Taiwan—This does not provide investment advice or recommendations. Nothing in this material shall be considered a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person in the Republic of China.

Thailand—This material has not been and will not be filed with or approved by the Securities Exchange Commission of Thailand or any other regulatory authority in Thailand. The material is provided solely to "institutional investors" as defined under relevant Thai laws and regulations. No distribution of this material to any member of the public in Thailand is permitted. Nothing in this material shall be considered a provision of service, or a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person where such provision, offer, solicitation, purchase or sale would be unlawful under relevant Thai laws and regulations.

UK—This material is issued and approved by T. Rowe Price International Ltd, Warwick Court, 5 Paternoster Square, London EC4M 7DX which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

USA—Issued in the USA by T. Rowe Price Investment Services, Inc., distributor and T. Rowe Price Associates, Inc., investment adviser, 1307 Point Street, Baltimore, MD 21231, which are regulated by the Financial Industry Regulatory Authority and the U.S. Securities and Exchange Commission, respectively.