T. Rowe Price

January 2026 outlook:

Fixed income credit sector views

Ahead of the Curve

Risk on in January

This month, T. Rowe Price's Sector Strategy Advisory Group (SSAG) maintained a positive risk regime with a tactical overweight to credit.

Three developments have shaped January's backdrop: improved EM risk dynamics, a GSE mandate to purchase $200 billion of agency MBS, and escalating pressure on Federal Reserve independence. For credit investors, the first two matter most.

The political transition in Venezuela has removed a long-standing EM risk premium, while Argentina and Pemex have also materially improved, representing a watershed for Latin American risk premium compression. From a markets perspective, this removes key tail risks from the EM complex. The administration directed Fannie Mae and Freddie Mac to purchase roughly $200 billion of agency MBS to lower primary mortgage rates. Current-coupon MBS spreads have tightened sharply to three-year lows and near-historical tights, which in our view is unsustainable. We have used this strength to tactically underweight the sector.

DOJ subpoena of Federal Reserve leadership has raised questions about monetary policy independence, though risk markets have largely shrugged—stocks are higher to start the year and spreads tighter. The base case remains risk-on: above-trend nominal growth, supportive fiscal policy, and resilient fundamentals.

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

For lower-risk strategies, the committee recommends overweights to ABS, CLOs, and RMBS. ABS is a large overweight, offering attractive carry with short duration and strong structural protections. The amortizing nature of ABS enhances effective yield through consistent roll-down; as investors harvest spread income, shorter duration compounds returns beyond spread levels alone. With other credit areas near post-GFC tights, ABS yields roughly 4% with spreads around 50 bps*, valuations in the 30th–40th percentile range despite recent tightening.

For higher-risk strategies, EMD and bank loans merit tactical overweights. EMD spreads trade at historically tight levels (around 300 bps), yet we envision a potentially different regime going forward. With recent political improvements reducing tail risks in LatAm—the largest EM exposures—combined with contained inflation and policy support, spreads may remain stable or compress as investors reassess EM risk premiums more favorably. A focus on LatAm countries where recent developments have reduced systemic risks offers attractive risk-adjusted entry points.

Bank loans remain a core overweight—upgraded from more neutral positioning—delivering the highest all-in yield in public credit at roughly 7.6% with spreads above 400 bps and minimal interest-rate duration.

What we are watching: MBS technicals and supply across credit

The committee is focused on three themes that could challenge our tactical allocation. First, agency MBS technicals warrant close attention after the GSE purchase mandate drove a three-standard-deviation tightening, pushing valuations to three-year tights. With limited clarity on program design and capacity, spreads could retrace as non-economic buying fades, pressuring liquidity and mortgage strategies.

Second, inflation data, labor trends, and Fed reaction function remain pivotal for duration-sensitive sectors. Should inflation soften with cooling labor markets, the Fed may cut rates more aggressively, steepening the Treasury yield curve and supporting longer-duration valuations through spread compression. Conversely, renewed services inflation or tariff pressures would lift terminal rates, pressuring long-end IG, agency MBS, and longer-duration EM sovereigns. This dynamic underscores positioning for spread resilience over duration extension.

Third, elevated but well-absorbed primary supply argues for selective risk-adding. Greater dispersion in weaker consumer credits, commercial real estate, and highly levered structures requires sector rotation, security selection, and targeted synthetics to preserve carry while containing tail risks.

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

Source: Analysis by T. Rowe Price, Bloomberg Index Services Limited. Data as of 31/12/2025.
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*Bloomberg US ABS Index ass at 31/12/2025

Figure 1: Our views on the different sectors; and the reasoning behind that view (as of 20 January)

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 an attractive 6.8% yield, healthy fundamentals and low default rates. – While the OAS of +308bp 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 offer the best carry in credit markets with a 7.5% yield and minimal interest rate duration risk—a benefit of floating-rate structures if the Federal Reserve cuts fewer times than markets expect. – The team favors near- to moderate-dated loans at or below par to harvest spread with some base-rate certainty. – We also see good opportunities in selected second-lien loans. 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		– Global IG remains underweight, with particular emphasis on maintaining an underweight in long-end US IG corporates, though that underweight has been modestly reduced following curve steepening and spread widening in late 2025. – While fundamentals remain solid, heavy issuance supply, rich valuations, and meaningful rate sensitivity leave little cushion against policy or macro surprises. – The committee prefers CDX IG and intermediate-maturity cash bonds over the long end, and within IG cash, favors sectors like technology and telecommunications over utilities.
Securitized Credit		– Securitized credit shifts from overweight to neutral, reflecting a more nuanced intra-sector stance with a clear preference for ABS while remaining neutral on CLOs and RMBS and underweight CMBS. – Favor amortizing ABS subsectors – prime and subprime auto, equipment, and private student loans – and select CLO/RMBS exposure as carry engines in a low-default environment. – CMBS remains an underweight given full valuations and elevated credit concerns in commercial real estate.
Agency MBS		– Agency MBS remains underweight following the GSE purchase announcement, which drove valuations to extreme levels and created a risk-reward profile skewed toward future widening once current euphoria fades. – Technicals are temporarily strong due to official buying and heavy money-manager overweight positioning, but the committee expects a more volatile regime ahead as supply, hedging flows, and policy uncertainty interact.
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 31/12/2025.

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Sector statistics and returns

As of 31 December 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	6.48	3.48	291	-7	471	289	329	0.78	10.02	10.02
US HY	6.53	2.70	266	-3	453	256	295	0.57	8.62	8.62
Euro HY[2]	6.97	2.83	281	-7	446	270	313	0.56	7.38	7.38
Asia HY	7.59	2.67	376	-9	635	311	405	0.88	9.49	9.49
Loans[3]	7.72	0.25	435	-1	514	419	436	0.68	5.99	5.99
Emerging Markets										
EM Sovereigns (USD)	6.80	6.55	253	-16	393	253	309	0.72	14.30	14.30
EM Corporates (USD)	5.90	4.16	227	-14	296	225	245	0.48	8.73	8.73
Investment Grade Corporates										
Global IG	4.35	5.84	80	-3	120	76	88	-0.10	7.08	7.08
US IG	4.81	6.78	78	-2	119	72	84	-0.20	7.77	7.77
Euro IG[2]	5.10	4.63	79	-4	128	77	90	0.05	5.42	5.42
Asia IG	4.47	5.13	63	-1	101	58	71	-0.03	8.09	8.09
Securitized Credit										
CLOs	5.48	1.38	200	-7	233	178	205	0.51	5.86	5.86
CMBS	4.43	3.79	75	-1	101	74	81	0.12	7.75	7.75
ABS	4.09	2.79	52	-3	75	42	54	0.30	5.93	5.93
Other Spread Sectors										
Agency MBS	4.63	5.57	22	-7	49	20	34	0.21	8.58	8.58
Taxable Munis	5.09	8.99	0	-73	97	66	79	-0.56	7.75	7.75

Common Benchmarks

Index	Yield to Maturity (%)	Duration (years)	Total Returns (%)[1]: 1M	YTD	1YR
Global Aggregate	3.52	6.28	-0.21	4.86	4.86
US Aggregate	4.32	5.92	-0.15	7.30	7.30

Sovereign Yields

10-Year Rates	Yield to Maturity (%)	M/M Change (bps)	1YR High (%)	1YR Low (%)
U.S. Treasury	4.17	15	4.79	3.95
German bund[2]	4.55	-1	5.16	4.01

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Source: Analysis by T. Rowe Price, Bloomberg Index Services Limited. Data as of 31/12/2025. 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

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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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