May 2026 outlook:

Fixed income credit sector views

Ahead of the Curve

Risk Neutral in May

T. Rowe Price's Sector Strategy Advisory Group (SSAG) downgraded its risk stance to neutral from positive in mid-March. The key change is not that fundamentals have broken; it is that the market has already retraced much of the March spread widening while uncertainty around energy, inflation, and policy remains unresolved.

The Middle East energy shock has become less of an abstract tail risk and more of a transmission risk through inflation expectations, central bank reaction functions, consumer income, and liquidity. As such, we expect credit to remain rangebound but more fragile. Technical demand and carry can support spreads, but the upside from broad spread compression is now limited.

The more durable issue is whether the oil shock fades without embedding in core inflation or whether it forces a higher risk premium across liquidity-sensitive and lower-quality credit. We expect returns to be driven more by carry, structure, liquidity, and security selection than by broad beta.

Our latest economics analysis still sees U.S. growth as resilient, supported by AI capex, productivity, and modest fiscal impulse, while labor remains in a low-hiring, low-firing equilibrium. However, higher oil prices are a near-term headline inflation shock and could constrain Fed flexibility if second-round effects appear.

What we like: resilient carry and selective beta

For lower risk portfolios, we prefer structured income over generic cash corporate beta. The current ranking across structured products is balanced, with ABS the top-ranked sub-sector, RMBS still selective, CLO technicals improved, and CMBS the marginal funder. In practice, that means incremental adds should favor shorter amortizing ABS—autos, equipment, private student loans—along with selective RMBS and CLO entries. We would fund securitized exposure from Global IG cash. For portfolios that need liquid beta, synthetics are preferable to cash bonds; CDX IG is still the cleaner implementation tool versus adding long cash corporate spread duration at tight levels.

For higher risk strategies, overweight has narrowed to EMD, still supported by improving policy credibility and structural reforms in Latin America. The asset class is presenting further opportunities for security selection amid the evolving dynamics within energy markets.

What we are watching: policy, liquidity, and oil

The central risk is whether the energy shock stays contained. The upside case is a durable normalization of shipping, product markets, and oil risk premia; that would lower inflation concern, allow rates volatility to fall, and keep credit supported by carry and demand. The base case is more uneven: oil remains elevated enough to lift headline inflation, but not enough to force a U.S. recession or a Fed hiking cycle. In that environment, spreads can hold in, but broad compression should be limited because investors still need compensation for policy uncertainty and thinner liquidity.

The bear case is a renewed disruption in energy flows or product shortages that pushes oil materially higher, tightens financial conditions, and forces central banks to prioritize inflation credibility over growth support. In that scenario, liquidity and credit premia would need to reprice, with cash corporates, bank loans, and private-credit-adjacent exposures most vulnerable. Markets are pricing a much larger right-tail probability of higher front-end rates, while the committee sees a high bar for Fed hikes unless core inflation pass-through becomes more visible.

We are also watching private credit and software risk. This is not yet a near-term systemic base case, but the market is increasingly focused on where private-credit deterioration could transmit into bank loans, BDCs, CLO demand, and public-market liquidity. The guidepost is not simply spread widening; it is whether selling becomes forced, liquidity discounts widen, or software credit stress moves from idiosyncratic to sector-wide.

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

Source: Analysis by T. Rowe Price. Please see Additional Disclosures for additional legal notices and disclaimers.

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Figure 1: Our views on the different sectors; and the reasoning behind that view (as of 05 May)

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 7.4%, healthy fundamentals and low default rates, the sector remains an attractive alternative to stretched equity valuations. – The sector is fairly insulated from software risk that has challenged the loan market and rather is concentrated in energy and industrial industries which have been in favor. – We prefer select U.S. exposure over European beta, with emphasis on short-duration BB carry, larger recent new issues, and idiosyncratic credits with defensible cash flow.
Bank Loans		– The 8.4% yield and carry advantage are compelling, but loans were downgraded to neutral this month: despite strong CLO technicals, software risk remains underappreciated after meaningful outperformance versus most sectors since February's markdown. – The committee is watching downgrade and LME activity, especially '28–'29 software maturities. – We have reduced exposure, avoided reaching for "cheap" loans without credit-specific comfort, and are preserving dry powder for true dislocation.
EM USD Sovereign and Corporate Credit		– EM credit has held in well through recent volatility, reinforcing conviction in the asset class. – Structural improvements across several sovereigns—particularly in Latin America—and 7.3% yields continue to support risk premia compression, though valuations are increasingly dependent on global risk sentiment rather than further idiosyncratic re-rating. – We favor selective sovereign exposure over broad EM corporate beta and would use spread weakness to add where country fundamentals and technicals remain supportive.
Global Investment-Grade (IG) Corporates		– US IG spreads have basically 'round-tripped' since the start of the conflict in the Middle East, bringing valuations back into the richest decile relative to history and leaving poor downside asymmetry if technicals weaken, supply remains elevated, or oil/Hormuz-related risks persist. – We prefer IG CDX first, then US IG cash, with Euro IG last given weaker macro fundamentals, energy sensitivity, and less attractive valuation/technical mix.
Securitized Credit		– All securitized credit sectors are now C3, with ABS ranked first, RMBS selective, CLO technicals improved, and CMBS the incremental funder. – Within ABS, the best risk/reward is in shorter amortizing structures, including autos, equipment, private student loans, discount whole-business ABS, and synthetic prime auto. – Within RMBS, the move is from broad overweight to selective carry. Non-QM AAAs tightened 20+ bps and now screen near fair, while supply and demand look balanced. Best ideas are now narrower: CRT M1, RPL AAAs, and selective down-stack non-QM. – Within CLOs, the tone has improved but remains selective. Technicals have flipped marginally positive as primary investors were starved of supply, dealer inventories declined, Japan remains active, and regulatory catalysts continue to support demand. – Within CMBS, we would use the sector as the marginal source of funds.
Agency MBS		– Agency MBS upgraded to neutral, with exposure near benchmark and expressed through targeted coupon/collateral selection. We favor production coupons and upper-belly exposure, where carry and technical support remain visible. – Valuation limits upside: spreads screen about 1.0 standard deviation rich versus their one-year range and 5 bps rich to IG. Rate volatility, originator supply, VantageScore-related prepay uncertainty, and crowded positioning argue against adding broad exposure.
Taxable Municipals		– Taxable municipals have outperformed their equivalently rated corporate counterparts year-to-date, leaving valuations less compelling versus corporates, but supportive technicals argue for a neutral rather than defensive stance. – We would maintain select idiosyncratic positions and avoid adding broad exposure at current levels, using strength to rebalance rather than materially reduce allocation.

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 30 April 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	6.94	3.56	289	-54	411	274	313	2.24	1.35	10.25
US HY	6.98	2.84	268	-49	384	250	285	1.69	1.19	8.84
Euro HY[2]	7.55	2.88	297	-50	378	264	302	1.97	0.9	6.85
Asia HY	8.22	2.65	403	-47	551	311	382	2.31	1.98	10.02
Loans[3]	8.30	0.25	466	-18	496	419	443	1.28	0.84	6.45
Emerging Markets										
EM Sovereigns (USD)	6.96	6.37	248	-41	368	240	282	2.86	1.57	13.79
EM Corporates (USD)	6.01	4.14	213	-24	278	210	236	1.61	1.40	8.11
Investment Grade Corporates										
Global IG	4.70	5.78	81	-12	110	74	84	0.63	0.10	4.95
US IG	5.14	6.70	78	-11	106	71	80	0.45	-0.09	5.29
Euro IG[2]	5.40	4.61	83	-14	113	73	85	0.99	0.31	4.11
Asia IG	4.75	5.07	56	-12	94	56	65	0.60	0.28	5.45
Securitized Credit										
CLOs	6.03	1.53	227	16	253	197	208	0.80	1.54	6.11
CMBS	4.71	3.71	67	-4	97	67	77	0.18	0.49	4.62
ABS	4.45	2.71	49	-4	74	47	53	0.29	0.61	4.45
Other Spread Sectors										
Agency MBS	4.89	5.29	20	-4	44	14	28	0.07	0.47	5.56
Taxable Munis	5.28	8.76	68	-3	94	66	76	-0.31	0.03	5.03

Common Benchmarks

Index	Yield to Maturity (%)	Duration (years)	Total Returns (%)[1] 1M	YTD	1YR
Global Aggregate	3.79	6.17	0.30	0.15	2.79
US Aggregate	4.61	5.79	0.11	0.07	4.06

Sovereign Yields

10-Year Rates	Yield to Maturity (%)	M/M Change (bps)	1YR High (%)	1YR Low (%)
U.S. Treasury	4.37	5	4.60	3.94
German bund[2]	4.62	-1	5.16	4.36

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 30/04/2026. 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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