

## November outlook: Fixed income credit sector views

Ahead  
of the  
Curve

### Risk neutral in November

This month, T. Rowe Price's Sector Strategy Advisory Group (SSAG) maintained a neutral risk regime with an implicit structural overweight to credit. The committee's conviction was supported by three converging themes: evidence that US growth will likely reaccelerate in early 2026 as fiscal stimulus kicks in, valuations that while tight leave room for spread compression if growth and labor data surprise to the upside, and technical tailwinds from systematic strategies that are now positioned to add risk if volatility remains contained.

The macro backdrop hinges critically on labor market dynamics. The labor market has normalized to a structural equilibrium of roughly 25-75K monthly job additions—largely reflecting reduced immigration supply rather than cyclical weakness. Fixed income markets, however, still price in more caution around labor trends. Near-term government employment data will be crucial in validating our thesis.

Additionally, tight credit valuations serve as a constraint on our broader economic optimism. The lack of spread cushion means credit becomes vulnerable to downside surprises to data or any shock that forces repricing. This valuation reality tempers the committee's constructive stance even as fiscal tailwinds entering Q1 2026 are poised to reignite consumer

spending, while capex incentives for AI infrastructure continues to support GDP growth. For these latter reasons we are inclined to add risk on pull-backs.

### What we like: High quality carry

ABS and RMBS 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 bp and non-QM AAA RMBS at 130 bp both provide superior spread pickup vs. duration-matched corporates while maintaining AAA/AA credit quality. Consumer fundamentals remain resilient: auto delinquencies have normalized modestly but stay below pre-pandemic levels, credit card performance remains healthy despite elevated balances, and equipment ABS continues to demonstrate strong credit metrics.

Below investment grade corporates offer compelling value for higher-risk credit portfolios, supported by a low default environment, a favorable U.S. economic outlook, and select M&A opportunities. While spreads appear tight versus history, the 7.25%\* yield remains attractive—especially relative to equity valuations (S&P 500 forward earnings yield ~4%). Despite our constructive view, selectivity is key, as recent bankruptcies (Frist Brands, Tricolor, Brightline) highlight idiosyncratic risk. We don't see a systemic default cycle emerging

but continue to emphasize the importance of active fundamental diligence.

### What we are watching: Hybrid structures and labor market








Hybrid public-private financing structures are proliferating as companies address the \$5.3 trillion in AI and datacenter capex needs projected by JP Morgan over the next five years. While \$1.5 trillion is expected to come from organic cash flows and \$2.0 trillion from public debt markets, nearly \$2.0 trillion will require innovative structures—such as off-balance-sheet deals with asset separation and lease strategies.

These non-index-eligible securities offer an attractive spread pickup (liquidity premium) for investors, creating actionable opportunities for active managers able to underwrite complex credits. Our team is selectively participating in these financings, capitalizing on liquidity premiums while remaining attentive to embedded structural risk.

Recent issuance from hyperscalers—Oracle, Alphabet, and Meta—demonstrates these hybrid debt financing structures blur lines between public and private markets, corporate and securitized markets, and non-index-eligible securities.

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

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

Sector	View and Change Versus Prior Month	Comments	<span style="color: red;">■</span> Negative <span style="color: gray;">■</span> Neutral <span style="color: green;">■</span> Positive <span style="color: darkblue;">▼</span> Prior month position
Global High Yield (HY) Corporates		<ul style="list-style-type: none"> <li>US HY spreads at 281 bp deliver a 7.25% yield, which offers a compelling risk-adjusted alternative to equities (S&amp;P 500 forward earnings yield ~4%).</li> <li>Asset class fundamentals remain healthy, default rates are low, and we see positive M&amp;A optionality in certain industries.</li> <li>The average credit quality continues to improve in high yield bonds and underwriting standards remain disciplined.</li> </ul>	
Bank Loans		<ul style="list-style-type: none"> <li>Loans offer the best carry in credit markets with a 7.6% yield and minimal interest rate duration risk – an especially attractive yield given our view that future Fed Funds rates will be above current market expectations.</li> <li>Loan default levels are moderating after reaching 4.3% in July following a period of aggressive underwriting and higher interest rates pressured many weaker cap structures.</li> <li>Focusing on loans with healthy fundamentals and prudent underwriting may provide the potential for attractive risk-adjusted yield for higher risk portfolios.</li> </ul>	
EM USD Sovereign and Corporate Credit		<ul style="list-style-type: none"> <li>Outstanding recent performance in EM USD sovereigns and corporates have caused valuations to compress even further, but momentum and diversification benefits warrant a neutral allocation.</li> <li>Both sectors still offer some relative carry advantage—262 bp and 228 bp in sovereigns and corporates, respectively—and idiosyncratic events over the past month have offered some attractive opportunities in select credits.</li> <li>The team has a slight preference for EM corporates over sovereigns given their lower duration risk, more resilient characteristics, and greater spread pickup vs. US credits.</li> </ul>	
Global Investment-Grade (IG) Corporates		<ul style="list-style-type: none"> <li>US IG spreads at 78 bp leave valuations in the top 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.</li> <li>While October's 10-15 basis point curve steepening validated last month's underweight recommendation to long-end IG, it also reflects supply pressure likely to persist.</li> <li>Tight valuations and low carry in long-end US corporates still leave little room to withstand spread widening while M&amp;A and further AI financing could weaken technicals.</li> </ul>	
Securitized Credit		<ul style="list-style-type: none"> <li>ABS and RMBS represent attractive overweights for lower-risk portfolios, offering high-quality carry with robust structural protections such as credit enhancement, overcollateralization, and reserve accounts.</li> <li>With ABS at 55 bp and non-QM AAA RMBS at 130 bp both may offer a spread pick up vs. duration-matched corporates while maintaining AAA/AA credit quality.</li> <li>Modest technical support remains: steady demand from insurance companies and banks meets manageable supply, albeit dealer inventories are heavier.</li> </ul>	
Agency MBS		<ul style="list-style-type: none"> <li>With spreads at 2.0 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.</li> <li>The team suggests maintaining neutral weight versus benchmark with tactical emphasis on belly-to-production coupons, as the threat of housing emergency actions provides a ceiling against significant spread widening.</li> </ul>	
Taxable Municipals		<ul style="list-style-type: none"> <li>Spreads outperformed versus corporates month-over-month and traded to rich levels.</li> <li>However, the sector still offers important diversification benefits and robust technical tailwinds are expected to persist into year-end.</li> <li>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.</li> </ul>	

## Sector statistics and returns

As of 31 October 2025

	Credit Spreads (basis points)							Total Returns (%) <sup>1</sup>		
	Yield to Worst (%)	Duration (years)	Current Spread	M/M Change	1YR High	1YR Low	1YR Avg.	1M	YTD	1YR
<b>High Yield Corporates</b>										
Global HY	6.68	3.50	303	-4	471	294	332	1.08	8.65	9.88
US HY	6.78	2.76	281	14	453	253	293	0.16	7.39	8.16
Euro HY <sup>2</sup>	7.20	2.79	291	10	446	270	318	0.32	6.5	8.05
Asia HY	7.38	2.66	335	14	635	311	416	0.89	9.39	9.04
Loans <sup>3</sup>	7.62	0.25	430	11	514	419	436	0.39	5.01	6.55
<b>Emerging Markets</b>										
EM Sovereigns (USD)	6.82	6.66	262	-21	393	262	320	2.13	13.02	12.76
EM Corporates (USD)	5.88	4.21	228	3	296	225	246	0.56	7.95	8.01
<b>Investment Grade Corporates</b>										
Global IG	4.29	5.86	80	2	120	76	89	0.61	6.74	6.82
US IG	4.82	6.81	78	4	119	72	83	0.38	7.29	6.62
Euro IG <sup>2</sup>	5.19	4.61	78	-2	128	77	94	1.05	5.42	6.85
Asia IG	4.46	5.21	58	-2	101	58	73	0.75	7.74	7.13
<b>Securitized Credit</b>										
CLOs	5.57	1.42	204	7	233	178	207	0.36	4.92	6.16
CMBS	4.50	3.79	77	2	101	75	83	0.46	6.82	7.21
ABS	4.22	2.69	55	6	75	42	53	0.38	5.02	5.70
<b>Other Spread Sectors</b>										
Agency MBS	4.66	5.60	28	-3	49	24	37	0.86	7.68	7.32
Taxable Munis	5.02	9.12	69	-7	97	66	79	1.32	7.82	6.36

### Common Benchmarks

Index	Yield to Maturity (%)	Duration (years)	Total Returns (%) <sup>1</sup>		
			1M	YTD	1YR
Global Aggregate	3.43	6.37	0.79	4.87	5.3
US Aggregate	4.33	5.95	0.62	6.80	6.16

### Sovereign Yields

10-Year Rates	Yield to Maturity (%)	M/M Change (bps)	1YR High (%)	1YR Low (%)
U.S. Treasury	4.08	-7	4.79	3.95
German bund <sup>2</sup>	4.62	-17	5.16	3.68

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

<sup>1</sup> Returns are hedged to USD.

<sup>2</sup> Yields are hedged to USD.

<sup>3</sup> Loan yields and spreads are forward to maturity.

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# 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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