

## October outlook: Fixed income credit sector views

Ahead  
of the  
Curve

### Risk neutral in October

This month, T. Rowe Price's Sector Strategy Advisory Group (SSAG) maintained a neutral risk regime and structural overweight to credit, reflecting a balanced view on resilient US growth and cautious consensus. Recent fiscal policy is injecting momentum, stabilizing corporate balance sheets, and supporting credit into Q4. Labor market data appear soft, but the market is overlooking the sharp drop in labor supply from immigration reforms; the new breakeven rate (25–75k/month) marks an adapted equilibrium, with potential for reacceleration as businesses adjust.

A re-escalation in US-China trade tensions add complexity, with markets fixated on growth risks but missing inflationary impulses. Higher import costs and the AI-driven infrastructure build-out are likely to push inflation above market expectations, making floating rate sectors more attractive.

Deregulation and frothy risk markets are spurring increased M&A activity, substantiating our underweight to longer-dated, high-grade corporate credit. Expected deal financing will drive substantial long-end issuance, adding supply pressure to already multi-decade tight spreads. Combined with historically

rich valuations in an exuberant market environment, risk-reward dynamics remain unattractive.

### What we like: High quality carry and floating rate exposure

High-Quality ABS stand out in lower-risk portfolios. As investment grade corporate spreads have reached multi-decade tightness, ABS provide a more attractive entry point for credit risk. Fundamentals remain sound: while delinquencies and losses are normalizing modestly, overall repayment trends are still stronger than historic averages. Technicals are constructive, with steady demand and manageable supply supported by light dealer inventories.

High quality CLOs are favored for both their robust income and floating rate characteristics. Their diversified structures and built-in protections help manage downside risk, and their floating coupons provide a natural hedge should inflation or front-end rates surprise higher. CLOs have lagged other sectors, making valuations relatively attractive as risk/reward tilts back toward carry in tight spread markets.

Floating rate bank loans deliver an attractive carry—around 7.5%, or 420 bps in spread—making them an appealing source of income and inflation hedge. Recent high-profile bankruptcies has created minor sentiment-driven widening that presents attractive entry points for selective, higher-quality credits. Loans

are well positioned if growth or inflation re-accelerate into year-end while offering diversification within multi-asset portfolios.

### What we are watching: Macro data void & idiosyncratic risks








The US government shutdown this month has created a gap in incoming labor market data, leaving investors and policymakers to interpret an incomplete picture. We expect forthcoming data releases to shed light on whether the labor market stabilizes at this new breakeven level or begins to reaccelerate, potentially shifting risk sentiment as the year closes.

In parallel, episodic credit shocks continue to surface, with 2025 witnessing high-profile events. These credit meltdowns underscore the importance of monitoring idiosyncratic risk—even as technicals remain broadly supportive and valuations sit at tight levels, single-name volatility can quickly disrupt the benign market regime.

Together, these labor market dynamics and sudden credit events will be key drivers of risk and opportunity in the months ahead.

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 14 October)**

Sector	View and Change Versus Prior Month	Comments
Global High Yield (HY) Corporates		<ul style="list-style-type: none"> <li>Global High Yield's low duration profile and attractive yield/carry provide a buffer to modest amounts of spread widening relative to longer-dated, lower yielding asset classes</li> <li>Company credit fundamentals remain healthy. Some spread widening in the first two week of the month has created some decent values.</li> <li>European High Yield's recent outperformance versus US High Yield has resulted in a neutral view of European High Yield</li> </ul>
Bank Loans		<ul style="list-style-type: none"> <li>Floating-rate loans should perform relatively well in a constructive risk environment with higher interest rates</li> <li>The sector should be fairly insulated from tariff-related risks due to its large services, technology and financial services sectors</li> <li>Loans offer the best carry in credit markets with a 7.5% yield and minimal interest rate duration risk, making them particularly attractive given our higher-than-consensus inflation outlook</li> </ul>
EM USD Sovereign and Corporate Credit		<ul style="list-style-type: none"> <li>Despite solid recent performance in EM USD Sovereigns, current tight valuations soften the risk/return profile. The team has a slight preference for EM USD corporates over sovereigns given their lower duration risk, more resilient characteristics, and greater spread pickup vs. US credits.</li> <li>While both sectors still offer some relative yield advantage, particularly in select credits, macro and geopolitical uncertainties—including ongoing regional risks and potential volatility in global rates—are prompting a more balanced, neutral outlook.</li> </ul>
Global Investment-Grade (IG) Corporates		<ul style="list-style-type: none"> <li>Credit spreads are back to the tightest levels in over two decades despite a modest deterioration in overall credit quality of the index over the same time, highlighting valuation risk.</li> <li>Most notable caution is in the long end where duration risk is most pronounced.</li> <li>While technical support has persisted, tight valuations and low carry in long-end US corporates leave very little room to withstand even small spread widening.</li> </ul>
Securitized Credit		<ul style="list-style-type: none"> <li>This month, we still favor high-quality securitized assets—specifically high-quality ABS and CLOs—as defensive carry positions that offer structural protections and spread pick-up versus similarly rated corporates.</li> <li>Given a constructive backdrop for risk, we move high quality securitized credit to a neutral stance in favor of higher beta sub-investment grade sectors.</li> </ul>
Agency MBS		<ul style="list-style-type: none"> <li>Upgraded from underweight month-over-month as the potential Trump administration declaration of a 'national housing emergency' creates an implicit ceiling for spread widening</li> <li>Despite historically tight valuations at 31bp spreads (well below 1-year average of 38bps), the policy backdrop suggests MBS spreads could remain range-bound near-to-medium term.</li> </ul>
Taxable Municipals		<ul style="list-style-type: none"> <li>Spreads have moved sideways versus corporates since last month and continue to trade at largely fair, investable levels—albeit now at the tighter end of that range.</li> <li>Relative value opportunities persist, particularly in the 5- and 10-year A-rated space. The sector offers diversification benefits, attractive high-quality carry, and persistently low issuance continues to provide a technical tailwind for the sector.</li> </ul>

## Sector statistics and returns

As of 30 September 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	6.77	3.46	307	0	471	294	335	0.64	7.49	8.63
US HY	6.70	2.74	267	-5	453	253	294	0.82	7.22	7.41
Euro HY <sup>2</sup>	7.31	2.76	281	-15	446	270	322	0.67	6.14	8.55
Asia HY	7.26	2.56	321	-11	635	311	428	1.58	8.43	8.86
Loans <sup>3</sup>	7.53	0.25	419	-3	514	419	438	0.45	4.60	7.12
<b>Emerging Markets</b>										
EM Sovereigns (USD)	7.08	6.64	284	-14	393	279	325	1.78	10.66	8.52
EM Corporates (USD)	5.90	4.20	225	-12	296	225	247	0.95	7.34	6.48
<b>Investment Grade Corporates</b>										
Global IG	4.31	5.83	78	-5	120	76	90	1.17	6.09	4.45
US IG	4.81	6.81	74	-5	119	72	84	1.50	6.88	3.63
Euro IG <sup>2</sup>	5.39	4.56	80	-5	128	79	96	0.62	4.32	5.43
Asia IG	4.51	5.21	60	-2	101	60	74	0.89	6.94	4.76
<b>Securitized Credit</b>										
CLOs	5.51	1.15	197	-2	255	178	211	0.53	4.54	6.46
CMBS	4.51	3.83	75	-3	101	75	84	0.40	6.32	4.75
ABS	4.18	2.61	49	-2	75	42	54	0.55	4.62	4.57
<b>Other Spread Sectors</b>										
Agency MBS	4.74	5.72	31	-3	49	25	38	1.22	6.76	3.39
Taxable Munis	5.11	9.01	76	-1	97	71	80	1.66	6.42	1.75

### Common Benchmarks

Index	Yield to Maturity (%)	Duration (years)	Total Returns (%) <sup>1</sup>		
			1M	YTD	1YR
Global Aggregate	3.48	6.36	0.74	4.05	3.06
US Aggregate	4.37	5.97	1.09	6.13	2.88

### Sovereign Yields

10-Year Rates	Yield to Maturity (%)	M/M Change (bps)	1YR High (%)	1YR Low (%)
U.S. Treasury	4.15	-8	4.79	3.73
German bund <sup>2</sup>	4.79	-16	5.16	3.54

**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)

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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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