

October 2026 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 constructive risk stance with a tactical neutral to credit. The economic backdrop remains supportive enough to stay invested, but tight valuations and the possibility of higher rates argue against moving aggressively above neutral. We continue to favor selective sources of income over broad additions to credit risk.

The most important change since Policy Week has been in relative value rather than in the macro-outlook. Agency MBS have widened and become more attractive, and we have been adding exposure. At the same time, securitized credit has performed well enough that we are taking some risk off in ABS and CLOs. Emerging markets and selected data-center financings remain areas we like, and we are also beginning to find opportunities in non-software loans.

September's massive new-issue calendar has now passed, so the question is no longer simply whether heavy supply will pressure markets. Instead, we are assessing where that supply is creating useful entry points. Thus far, the effects have differed considerably by sector, reinforcing the case for relative-value positioning rather than a broad directional credit call.

The main macro risks remain higher real yields and elevated energy prices. Neither necessarily leads to materially wider spreads if growth stays firm, but a

rapid move in rates or a persistent energy shock would make today's valuations more difficult to sustain. Conversely, some easing in geopolitical tensions or clearer evidence that central banks intend to keep any renewed hiking cycle modest would improve the backdrop for credit.

What we like:

Lower-risk strategies: Agency MBS are now a modest overweight. Recent widening has improved the entry point, and we have been adding rather than waiting for a larger dislocation. Within the sector, we continue to prefer production coupons and the upper belly, including selected specified pools, while remaining cautious on deep discounts. In investment grade, we are more comfortable than earlier in the year but still see the best opportunities in selected new issues and data-center financings rather than in broad market exposure. These structures can offer additional compensation while retaining exposure to high-quality underlying tenants.

Higher-risk strategies: Emerging market high yield remains one of our preferred areas, particularly selected Latin American sovereigns and corporates where carry and fundamentals remain supportive. We also continue to favor selected data-center financings where structure and tenant quality provide a clearer path to repayment than more speculative AI-related exposures. In leveraged loans, our view is becoming more differentiated: we remain

cautious on software, where margins, refinancing needs and potential liability-management activity remain concerns, but we are looking to add selected non-software loans where the underlying credit story is cleaner.

What we are watching:

Geopolitics and energy: A calming of the war and a corresponding decline in energy prices would be a meaningful positive for credit. It would ease one of the clearest threats to both inflation and real household income and reduce the risk that central banks need to respond more aggressively.

The central-bank reaction function: A modest hiking cycle would be more manageable for credit than the more aggressive scenarios discussed during Policy Week. Any indication that central banks are comfortable moving gradually, particularly if inflation breadth improves, would reduce the risk of an abrupt tightening in financial conditions.

How October calendar clears: With the month already well underway, the impact has been uneven rather than uniformly negative. Agency MBS have cheapened enough for us to add, while parts of securitized credit have outperformed enough for us to trim. The key question is whether October supply will further alter relative-value relationships or create new opportunities elsewhere.

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 30 September)

Sector	View and Change Versus Prior Month	Comments	■ Negative ■ Neutral ■ Positive ▼ Prior month position
Global High Yield (HY) Corporates		— Fundamentals remain broadly constructive, but valuations leave limited room for disappointment. — We continue to prefer selective primary-market opportunities and higher-quality issuers rather than adding broad beta. — Within the opportunity set, data-center financings backed by strong counterparties remain attractive, while weaker credits require greater discipline around refinancing and recovery risk.	
Bank Loans		— We are becoming more constructive on non-software loans and are looking for opportunities to add. — Software remains the key area of caution: weaker businesses face pressure on margins, refinancing costs and capital structures, and we do not yet see enough compensation to add broad software exposure. — The distinction between software and the rest of the loan market is increasingly important.	
EM USD Sovereign and Corporate Credit		— We continue to favor higher-yielding EM credit over investment-grade EM, with Latin America offering several of the more attractive opportunities. — Energy and resource exposure, stronger nominal growth and less direct exposure to the current developed-market supply cycle are supportive. We remain selective in frontier markets and in long-duration EM investment grade, where valuations are less compelling.	
Global Investment-Grade (IG) Corporates		— The outlook has improved from earlier in the year, particularly in the long end of the U.S. market, but broad valuations still argue for selectivity. — We prefer new issues and selected data-center financings where additional compensation is available. — European investment grade remains less attractive, while long-duration U.S. exposure is more balanced than it was previously.	
Securitized Credit		— After recent outperformance, we are lightly trimming ABS and CLO exposure rather than maintaining a broad overweight. RMBS remains the most attractive subsector: housing-credit deterioration appears contained, with CRT, HELOCs and selected Non-QM offering opportunities. — In CLOs we still favor selected Tier-2 AAA/AA and new-issue structures, but recent performance warrants some profit-taking. ABS remains selective, while within CMBS we prefer SASB and selected CRE CLOs over conduit exposure.	
Agency MBS		— Recent widening has improved relative value, and we have been adding exposure. We favor production coupons and the upper belly, with TBA exposure in current coupons and selected specified pools in higher coupons. — Supply remains contained and the buyer base is reasonably broad. We remain cautious on deep discounts, but current valuations now offer enough compensation to move from neutral to a modest overweight.	
Taxable Municipals		— Technical support remains strong, but valuations continue to offer limited relative value compared with other high-quality alternatives. — We prefer to retain selected idiosyncratic positions rather than broad exposure and would need more meaningful cheapening to become more constructive.	

Sector statistics and returns

As of 30 September 2026

	Credit Spreads (basis points)							Total Returns (%) ¹		
	Yield to Worst (%)	Duration (years)	Current Spread	M/M Change	1YR High	1YR Low	1YR Avg.	1M	YTD	1YR
High Yield Corporates										
Global HY	8.00	3.61	314	42	353	271	294	-2.48	0.72	3.08
US HY	8.35	3.10	311	50	335	250	275	-2.52	0.10	1.41
Euro HY ²	8.31	2.93	321	44	349	264	290	-1.66	1.36	2.55
Asia HY	8.53	2.88	339	18	467	308	360	-1.20	3.78	4.79
Loans ³	9.38	0.25	468	7	496	419	456	0.24	3.51	4.89
Emerging Markets										
EM Sovereigns (USD)	7.23	6.05	232	-15	303	213	260	-3.34	-0.67	2.59
EM Corporates (USD)	6.93	3.98	208	12	249	186	215	-1.96	0.34	1.63
Investment Grade Corporates										
Global IG	5.51	5.52	85	5	94	74	81	-2.10	-1.87	-0.96
US IG	6.04	6.34	80	2	93	71	78	-2.72	-3.11	-2.30
Euro IG ²	5.97	4.46	91	11	98	73	81	-1.16	-0.03	1.02
Asia IG	5.68	4.83	56	1	69	50	58	-2.04	-1.94	-0.88
Securitized Credit										
CLOs	6.75	1.73	203	-18	253	197	215	0.38	3.83	5.14
CMBS	5.72	3.54	67	1	77	63	69	-1.65	-1.06	0.26
ABS	5.35	2.81	40	-4	56	39	48	-0.96	0.26	1.52
Other Spread Sectors										
Agency MBS	5.95	5.83	43	14	45	14	24	-3.38	-3.31	-1.65
Taxable Munis	6.04	8.43	69	0	76	58	70	-3.55	-3.94	-2.74

Common Benchmarks

Total Returns (%)¹

Index	Yield to Maturity (%)	Duration (years)	1M	YTD	1YR
Global Aggregate	4.44	6.01	-1.64	-1.42	-0.64
US Aggregate	5.56	5.70	-2.61	-2.91	-1.84

Sovereign Yields

10-Year Rates	Yield to Maturity (%)	M/M Change (bps)	1YR High (%)	1YR Low (%)
U.S. Treasury	5.28	53	5.28	3.94
German bund ²	5.13	40	5.21	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, J.P. Morgan. Data as of 30/09/2026. 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.

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