

September outlook: Fixed income credit sector views

Ahead
of the
Curve

Risk neutral in September

This month, T. Rowe Price's Sector Strategy Advisory Group (SSAG) has dialed back its risk stance to a more neutral regime, reflecting a pragmatic pivot in the face of richening valuations and fading technical support for further spread tightening. Importantly, a neutral risk position implies a structural credit overweight in the team's framework.

What's behind the rethink? First, valuations across credit markets have continued to migrate into the extremes, with spreads in the richest quartile across nearly every sector on a post-GFC lookback. Second, technical tailwinds from CTA flows and supply dynamics have moderated: supportive, but no longer providing the powerful uplift seen earlier in the summer.

Yet evidence to support the structural credit overweight persists. Macro signals—from the accelerating AI-driven CAPEX boom to resilient US consumer fundamentals—suggest growth could surprise to the upside as we push into 2026. Earnings are beating expectations, demand for new issuance remains robust, and policymakers are still easing in tandem, adding an extra layer of support to risk assets. The forward-looking activity data shows equity market optimism isn't

just hollow sentiment, while labor market softness appears to be unfolding gradually.

What we like: Sub-Investment Grade Credit

Reflective of our structural credit overweight bias as well as our constructive outlook on growth, the team is recommending tactical overweights to sub-investment grade credit, with a preference for fixed rate high yield bonds over floating rate bank loans.

Despite uncompelling valuations, yields around 6.8% are still attractive relative to historical levels. The sector benefits from solid fundamentals, including low default rates and improved issuer quality—the latter of which stands in contrast to its investment grade counterpart where we have seen a deterioration in credit quality at the index level but equally rich valuations. Within high yield, the team prefers US credits, driven by a supportive technical backdrop and growth outlook.

Floating rate bank loans are a key overweight as well. Despite the potential for the Fed to cut front-end rates in the near-term, yields around 7.5% today make the sector among the most attractive from a carry perspective. The sector could also benefit from an improving economic outlook and serves as a relatively good hedge on upside surprises in inflation data—a risk we continue to monitor closely.

What we are watching: Labor market, rates, and inflation

After several months of deteriorating trends—including significant payroll revisions and negative surprises—we may be nearing a trough in employment softness. We are watching closely for any early signs of stabilization or a positive inflection in hiring, participation, or wage growth. These backward-looking data have kept Treasury yields suppressed and driven expectations for aggressive policy easing.

Any meaningful rebound in the labor market could prompt a reassessment of both growth and inflation narratives, putting upward pressure on yields from current YTD lows. This scenario would affect two of our tactical sector calls. Agency MBS, a key underweight, and long-end US investment grade corporates could face renewed pressure in an environment where yields recalibrate higher.

Inflation data also remains crucial. Persistent core services inflation and gradual tariff-driven pass through have kept inflation expectations elevated.

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

Figure 1: Our views on the different sectors in September; and the reasoning behind that view (as of 16 September)

Sector	View and Change Versus Prior Month	Comments
Global High Yield (HY) Corporates		<ul style="list-style-type: none"> 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. The shift to overweight is supported by still-attractive all-in yields (~6.5% today for Global HY), stable fundamentals—defaults remain below average—and improving issuer quality.
Bank Loans		<ul style="list-style-type: none"> Floating rate structure and constructive risk backdrop mean the asset class is conducive to a higher rate environment. The sector is also relatively insulated from further tariff-related risks being comprised largely of services, technology, and financials industries. Yields remain among the highest in credit – around 7.8% today – with improving fundamentals and positive fund flows.
EM USD Sovereign and Corporate Credit		<ul style="list-style-type: none"> 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. 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.
Global Investment-Grade (IG) Corporates		<ul style="list-style-type: none"> 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. Most notable caution is in the long end where duration risk is most pronounced. 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.
Securitized Credit		<ul style="list-style-type: none"> This month, we still favor high-quality securitized assets—specifically high-quality CLOs—as defensive carry positions that offer structural protections and spread pick-up versus similarly rated corporates. We moved CMBS to a tactical underweight on deteriorating valuations and technicals. 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.
Agency MBS		<ul style="list-style-type: none"> In our view, the outsized overweight to Agency MBS among money managers could become a technical headwind, particularly in a volatile environment, where concentrated ownership can exacerbate spread moves and liquidity challenges. While there are some idiosyncratic opportunities in the MBS market—such as premium coupons—overall valuations, in combination with the afore mentioned technical headwinds, are not attractive enough to recommend a neutral weight.
Taxable Municipals		<ul style="list-style-type: none"> While spreads have modestly tightened versus corporates since our last update, they continue to trade at largely fair, investable levels—albeit now at the tighter end of that range. 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.

Sector statistics and returns

As of 29 August 2025

	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	6.78	3.44	308	0	471	301	341	1.14	6.81	9.93
US HY	6.75	2.71	272	-6	453	253	297	1.25	6.35	8.29
Euro HY ²	7.55	2.79	296	6	446	276	329	0.45	5.43	8.98
Asia HY	7.36	2.56	332	-4	635	329	448	1.30	6.74	9.23
Loans ³	7.52	0.25	422	0	514	419	440	0.43	4.14	7.34
Emerging Markets										
EM Sovereigns (USD)	7.29	6.49	298	-1	403	286	333	1.63	8.73	8.59
EM Corporates (USD)	6.03	4.14	237	2	296	229	250	1.29	6.33	6.77
Investment Grade Corporates										
Global IG	4.38	5.79	83	4	120	77	92	0.75	4.86	4.69
US IG	4.91	6.73	79	3	119	73	85	1.01	5.30	3.62
Euro IG ²	5.55	4.59	85	4	128	79	99	0.12	3.68	6.08
Asia IG	4.56	5.18	62	-1	101	60	77	1.33	6.00	5.10
Securitized Credit										
CLOs	5.57	1.20	200	-3	270	178	217	0.51	3.99	6.62
CMBS	4.52	3.84	78	-2	101	75	86	1.47	5.91	5.51
ABS	4.23	2.61	51	0	75	42	55	0.96	4.05	4.92
Other Spread Sectors										
Agency MBS	4.86	5.86	34	-6	49	31	39	1.61	5.48	3.14
Taxable Munis	5.21	9.02	77	-3	97	71	81	1.24	4.68	1.25

Common Benchmarks

Index	Yield to Maturity (%)	Duration (years)	Total Returns (%) ¹		
			1M	YTD	1YR
Global Aggregate	3.49	6.37	0.55	3.29	3.4
US Aggregate	4.44	5.94	1.20	4.99	2.89

Sovereign Yields

10-Year Rates	Yield to Maturity (%)	M/M Change (bps)	1YR High (%)	1YR Low (%)
U.S. Treasury	4.23	-9	4.79	3.62
German bund ²	4.95	-13	5.16	3.50

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

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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The team

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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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