

CREDIT QUARTERLY OUTLOOK

# Beauty in the AI of the bondholder?

- The fundamental backdrop appears supportive for risk assets, including credit
- Technicals have been exceptionally strong but this is changing
- Spread valuations remain far from cheap and offer limited cushion

**This last year will generally be remembered as a kind but chaotic one for investors. Major equity markets have delivered double-digit gains, credit markets are enjoying positive excess returns and gold bugs have been handsomely rewarded. Holders of long-dated European government bonds, the US dollar, oil longs and, more recently, crypto bulls might feel a little differently.**

Financial markets have seemingly been nervous about 'something' for the entirety of 2025. But prior concerns such as tariffs, unsustainable deficits and geopolitics have somewhat faded into the background for now, only to be replaced with new ones: the artificial intelligence (AI) boom and private credit 'cockroaches'. We suspect these topics are likely to dominate conversation for the foreseeable future. We believe the rest should be considered dormant and not extinct.

Given tight starting valuations, the resilience of credit this year has been particularly impressive in the face of so much noise. One supportive factor has clearly been widescale global monetary policy easing over the past twelve months. This will continue, but the path forward for the US Federal Reserve (Fed) especially will be a key focus for markets.

In the following pages, we outline our latest views on the economy, credit markets and our outlook looking forward.

*"This might be as good as it gets for technicals"*

## OUTLOOK DECEMBER 2025

Marketing material for professional investors, not for onward distribution



**Matthew Jackson**  
Investment grade



**Sander Bus**  
High yield

## Fundamentals

The outlook for global growth as we head into 2026 appears robust. In the US, the 'average' consumer remains alive and well but the oft-cited K-shaped economy continues to see the wealthy and big business flourish while low-income consumers and smaller businesses increasingly feel the strain. Looking forward, the AI investment boom, diminishing tariff uncertainty, continued loosening in monetary policy, a fiscal boost via the OBBA and potential tariff 'dividend' cheques should all be supportive for economic growth.

Bloomberg consensus looks for 2% real GDP growth for 2026, and that consensus has been edging up in recent months. There are (as always) risks to both sides of the growth outlook. The US labor market remains the primary source of downside concern following a string of weaker non-farm payroll prints and a slight uptick in the unemployment rate. While other labor market indicators such as jobless claims remain benign, advance layoff notices suggest they may rise from here. Recession fears have come and gone on numerous occasions post the rapid global policy tightening of 2022 and 2023 but very few seem concerned today. In fact, a more commonly floated alternative scenario for 2026 is now something of a strong reacceleration that would squash prevailing labor market fears and potentially reignite inflation concerns.

Indeed, US inflation remains above target but at a level that appears tolerable to policy makers and financial markets. While some tariff pass-through has been observed in goods prices, overall inflation hasn't accelerated to the extent many had feared given offsets from cooling services inflation, diminishing wage pressures and lower oil prices.

With financial conditions already easy by many measures (although not by Donald Trump's) the Fed continues to walk a tricky tightrope: balancing a generally solid economy and somewhat sticky inflation with a potentially weaker labor market, all amidst continued influence from the administration to get rates down.

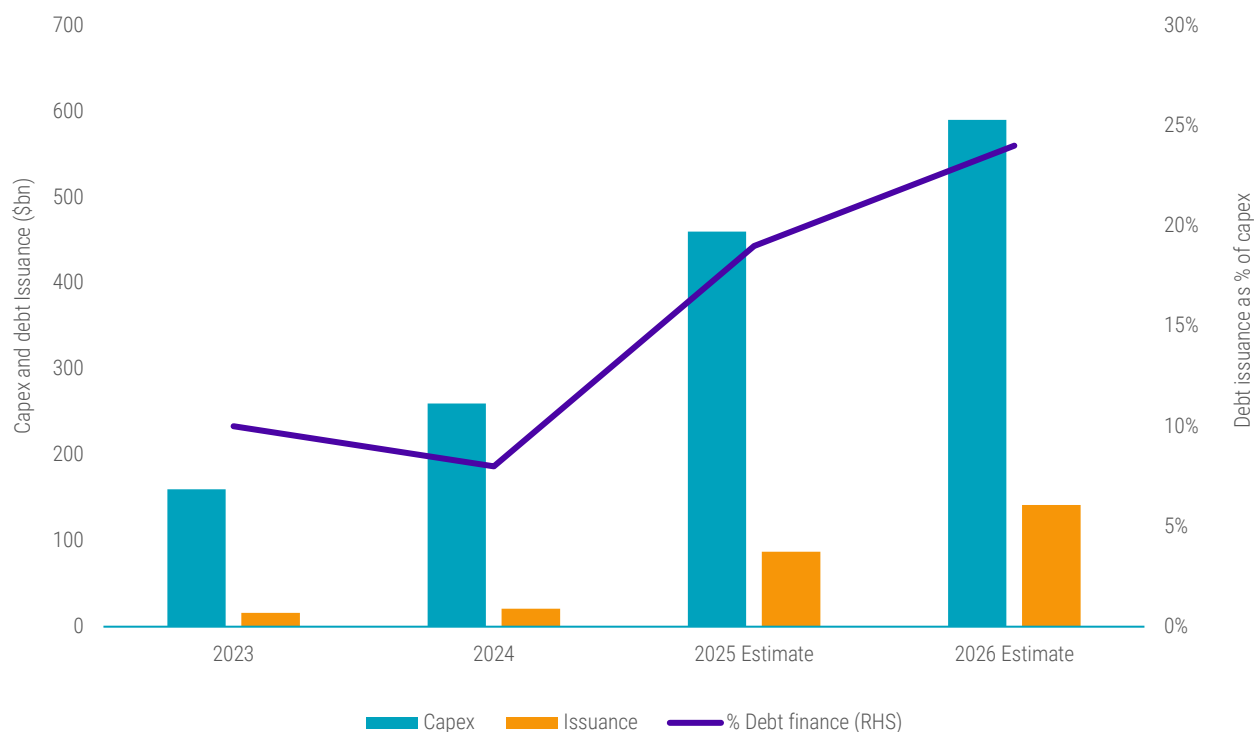
The eurozone looks set for another year of positive but unspectacular growth. The labor market is healthy, German fiscal stimulus should ultimately provide a positive impulse, and many interest rate cuts have already been delivered. Meanwhile, Europe still sees little inflationary pressure. Not much is expected from the European Central Bank (ECB) but we think the next move is more likely another cut rather than a hike at this stage.

Emerging markets (EM) continue to show resilience as tail risks from trade wars have faded, albeit they have not disappeared entirely. Inflation remains well anchored although emerging market easing cycles may be nearing maturity, particularly in Asia. The outlook for China seems to divide opinion. Further stimulus is likely forthcoming in an attempt to resuscitate household spending but this is easier said than done in the midst of a balance sheet recession. Just ask Japan. Exports from China have been surging to everywhere but the US and it will be interesting to see if this provokes protectionist measures elsewhere. *For further details on the Robeco macro outlook, please refer to our most recently published outlook piece: They want it all.*

We consider developed market (DM) corporate fundamentals in pretty good shape 'on average'. For both investment grade (IG) and high yield (HY) trends in leverage, interest coverage, margins, liquidity and earnings growth signal no major cause for concern. The problem is that 'the average' (or median) can and does mask a considerable degree of dispersion. The chemicals sector, for example, is facing significant challenges given the toxic mix of overcapacity and weak demand. The banking sector, on the other hand, continues to flourish. Amidst the AI frenzy and massive associated capex spending, the large hyperscalers are a focus for the IG market. These companies already benefit from massive free cash flow and start from a point of very low leverage.

Credit metrics will certainly weaken but we struggle to be overly concerned on the fundamentals for now. The question is more around how comfortably markets will digest this new supply of bonds as the IG market provides a substantial source of the required funding. Conversely, companies exposed to large AI-related spend that start from a position of less healthy cash generation and higher starting leverage clearly warrant more scrutiny and caution. There are understandable question marks around gaps between vast commitments and likely monetization, and circular financing.

Figure 1 – Hyperscaler capex and issuance



Source: UBS, December 2025

We take the point that all major default cycles have been preceded by large capex cycles but are reluctant to confidently assert that an AI bubble is forming (or already exists!). This is certainly not a classic, empty bubble. This is a real technological shift and revenues are already material. Valuations in many technology stocks do appear high but are some way from previous bubbles such as the 2000 dot-com mania. Put another way, we view a huge collapse in the share prices of US large tech that severely damages broad risk appetite as unlikely any time soon. However, much like the dot-com era, many will not emerge as ‘winners’ and some will simply not survive. This theme is rightly on top of every credit investor’s agenda as we enter the new year.

Away from the impact of AI capex on the technology and related sectors, such as utilities, we expect to see a material pickup in M&A volumes. Aside from the impact on credit fundamentals, which creates both ‘winners’ and ‘losers’, this represents another potentially material source of bond supply for the market.

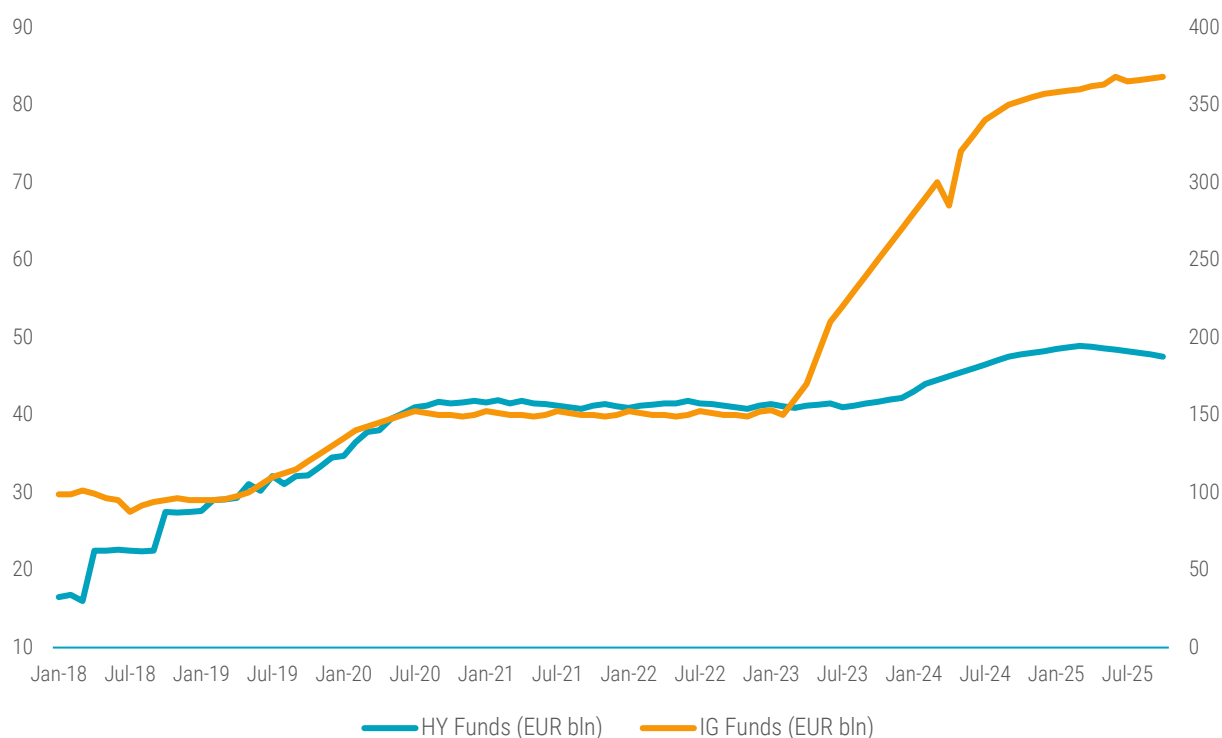
On the topic of private credit, a handful of recent problems have caused investors to view private markets and anything related somewhat skeptically. We know this is a market that has grown substantially in recent years and inevitably there will have been some erosion in lending standards. Will there be more cockroaches? Almost certainly. Will this prove to be a large systemic issue that really hurts the financial system and economy more broadly? We think not.

EM corporate fundamentals appear much stronger than their DM counterparts on many measures. Default rates remain very low and credit rating migration has been strongly positive, while EM corporate leverage remains at very low levels historically, especially among EM IG issuers.

### Technicals

Incredibly supportive credit market technicals have been in place for some time. Relentless demand for fixed maturity products in Europe, booming annuity sales in the US and pension derisking have been widely discussed as major drivers of credit buying.

**Figure 2** – Outstanding volume of Euro fixed-maturity funds



**Source:** BofA, December 2025

In addition, we know many investors have been cautiously positioned, ourselves included. But the softening of tariff rhetoric combined with ongoing fiscal and monetary support, has likely triggered some ‘fear of missing out’, or FOMO. As we were reminded in April, markets are generally rigged to the upside. Positioning data and surveys certainly suggest active money has been more willing to embrace risk of late.

This might be as good as it gets for technicals. The major ‘known unknown’ for the credit markets in 2026 is exactly how much supply we will see from the hyperscalers, when it will arrive and how generously this needs to be priced to keep attracting ample demand. Opinions range broadly and this implies meaningful uncertainty. Even deals outside of our world that begin life as private issues may ultimately percolate through the public markets. But it’s not just the hyperscalers we should care about in this context. The AI boom will require related sectors such as utilities and data centers to issue significantly more too. AI supply will also ‘compete’ with other apparently unrelated high-quality issuers and sectors globally.

A continued pick up in M&A activity seems likely to us, particularly in the US, given easing financial conditions and an improved growth outlook. This represents yet another likely source of heavy supply. The announcement of multiple deals recently in TMT and pharma would tend to support this thesis.

At the same time, the 'all-in yield' picture has changed somewhat in many parts of the market, largely on account of lower US government yields. This is not so much the case at the long end of yield curves where US yields ultimately changed very little year-to-date. What has changed is that US rates volatility has declined significantly. This, alongside tight spreads and flat credit curves, has seen something of a revival in longer-dated issuance from US corporates recently.

In the eurozone and Japan long yields have continued to rise considerably as fiscal stimulus meets loose monetary policy. For Europe specifically, Dutch pension reform has likely been a major catalyst for higher yields. Higher yields and steeper curves in Europe will likely stimulate ongoing demand from insurance buyers while deterring longer duration issuance. In Japan, yields have moved higher alongside a weak currency, suggesting policymakers may need to do more given the substantial fiscal expansion. As such a massive exporter of capital to the rest of the world, Japanese markets can have big ramifications elsewhere, so we believe investors should be on high alert in 2026.

Contrary to some expectations, demand for US assets has remained strong after Liberation Day. There is, however, evidence that some large overseas investors such as Asian insurers have begun to increase allocations to the European market. Against that positive tailwind for the Euro market, we have seen heavy 'reverse yankee' issuance (US issuers offering EUR bonds) with some recent large deals in the hybrid space standing out. Another trend worth watching is issuers diversifying funding into other currencies. There have been many recent examples of new deals in currencies such as Swiss franc, Swedish krona, Canadian and Australian dollars too. The global credit markets, long dominated by USD and EUR paper, may actually be becoming more truly global.

### Valuations

For us, spreads versus government bonds remain the primary metric for assessing value in the credit market – but we respect that 'all-in yield' remains the key consideration for other market participants. Spreads still comprise a relatively small portion of the overall yield, particularly in IG, and it is frequently argued that deteriorating sovereign credit worthiness justifies this. We remain unconvinced.

Spreads have widened a little from the October tights but remain far from cheap in a historical context. History shows that, at these starting valuations, excess credit returns (both IG and HY) tend to be lackluster at best over the following one to two years, and painful at worst. While it's plausible that tight valuations can persist, the risk/reward picture is clearly skewed.

We have previously noted the extreme compression between BBBs and As within investment grade, which tends to support the logic of 'up-in-quality' trades. That said, there are good reasons to believe we may not decompress any time soon. The weight of BBBs in the index has been declining due to both rating upgrades and a larger proportion of issuance from higher quality companies. In light of AI capex and expected M&A related issuance, the latter is a trend that should remain in place.

The European market has solidly outperformed the US market this year, providing a material benefit to client portfolios. We expect this can continue but have tempered the extent of our cross-currency positioning given the more limited room for outperformance. Typically, European credit does trade inside the US market on account of shorter duration, higher ratings and differing sectoral composition. It is also notable that European management teams tend to be more conservative with regards to M&A. It is also likely that the supply uptick we envisage will be more of a weight for the US market.

Credit curves in US IG remain very flat. The higher-yield environment has fueled investor demand to lock in these yields for as long as possible, alongside the belief that rates will be lower in the future. This has made borrowers more reluctant to issue longer-maturity paper. Corporate hybrids have performed very well and the pick-up versus senior paper is now skinny by historical standards.

Figure 3 – Non-financial subordinated – non-financial senior spreads



Source: Bloomberg, ICE BofA, December 2025

When assessing high yield valuations, it is important to recognize the considerable dispersion in the market. We currently observe a bifurcation. High-quality issuers are trading at tight spreads, while a stressed subset of credits is trading at significantly wider levels. This divergence is particularly pronounced within the CCC-rated segment. As a result, median spreads are tighter than the average, meaning that if you steer clear of distressed credits, attaining average benchmark spreads in your portfolio becomes challenging.

Valuations in EM credit remain historically tight, largely a result of technical factors. While technical factors such as limited USD issuance and the recent pickup in inflows into broader EM fixed income after three years of outflows, valuations now look stretched. Against this backdrop, we retain a more cautious stance, emphasizing selectivity over broad market exposure.

### Positioning

A 'Goldilocks' scenario of robust (not too hot, not too cold) global growth, tolerable levels of inflation and supportive policy makes it hard to be too bearish on credit. But we must be mindful that this is seemingly the overwhelming consensus and well reflected in current spreads.

Our base case, which seems far from controversial, would see spreads adjusting wider in an orderly fashion as the market recalibrates to a less favorable technical regime. But at today's level of spreads, the risks are highly asymmetrical. With the prospect of such meaningful supply next year, it seems unlikely that spreads can push much tighter from here. However, there is no shortage of reasons why spreads could reprice wider, many that we know about and monitor closely and many we can't predict. For this reason, we continue to run conservative betas across credit portfolios.

We continue to view the banking sector favorably, despite ongoing spread outperformance. Bank credit metrics are very strong today, rating pressure is to the upside and the sector should not be susceptible to a big change in supply dynamics in 2026. Within the capital structure, we believe senior non-preferred remains the sweet spot. Select opportunities continue to exist in more subordinated instruments but generally we consider it to be highly compressed, warranting a real focus on tenor and call probabilities.

The chemicals space is an obvious source of risk and return in 2026. Many names have exhibited very weak performance in recent quarters, ratings are under pressure and spreads have moved significantly wider. We maintain caution, but we consider valuations are beginning to look sufficiently interesting in certain names.

Both IG and HY portfolios maintain an overweight to the Euro market, against an underweight to the US dollar market. Within IG portfolios, we maintain a sizeable underweight to the long end of the US market, in the belief that shorter securities offer superior technical underpinning and better breakeven protection.

We continue to exercise caution around private credit-related issuers such as the US BDCs and private equity-backed insurance companies.

As for tech, we are underweight. The strongest names continue to trade at very tight spreads despite a less compelling fundamental and technical picture. However, the longer-term uncertainty surrounding the sector makes less established names a risky bet, particularly for credit investors who operate in a 'limited upside, total downside' world.

**Table 1** – Current positioning

	Constructive	Neutral	Cautious
<b>Fundamentals</b>		✓	
<b>Valuations</b>			✓
<b>Technicals</b>		✓	
<b>IG credit</b>			✓
<b>HY credit</b>			✓
<b>Financials</b>	✓		
<b>Non-financials</b>			✓
<b>Emerging</b>			✓

**Source:** Robeco, December 2025

On behalf of the Robeco global credit team, we'd like to wish you and your families a restful holiday season. Guests: The authors would like to thank Barnaby Martin (BoA) and Mislav Matejka (JP Morgan) in addition to our internal presenters Rikkert Scholten, Martin van Vliet, Mike Chen, Daniel Ernst, Frank Reynaerts and Daniel Ender for their valuable contributions to our outlook.



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