ROBECO
The Investment Engineers

CREDIT QUARTERLY OUTLOOK

When Pollyanna met Cassandra

- Robust fundamentals meet a more hawkish policy backdrop
- Tight spreads mask what is going on under the hood
- Valuations leave the asymmetry unattractive

On the face of it, the performance of credit this year has been nothing short of remarkable. Be it private credit jitters, AI disruption fears or geopolitical chaos – the market has shown little real concern. For all the noise, spreads look set to end the quarter wrapped around multi-year tights in most places.

During our most recent credit quarterly outlook, we found ourselves in broad agreement on many topics. But on other themes – including the AI endgame, geopolitics and private credit – we see a true divergence of opinion, ranging from Pollyanna-like optimism to predictions of impending disaster akin to Cassandra.

For us, the AI debate remains *the* million-dollar question. Or should that be the trillion-dollar question? In a short space of time, we are seeing widespread adoption and it's already deeply embedded in our daily lives. There can be little disagreement that this is game-changing technology. But will the vast investments actually pay off? We can't and won't try to settle that here; the more useful story for now is the widening *dispersion* within the AI complex, not the binary boom-or-bust call that so many seem keen to make.

In the following pages, we set out our latest thinking on credit market fundamentals, technicals and valuations, and what they mean for portfolio positioning heading into the second half – with some input from Pollyanna and Cassandra*.

* ***Cassandra****, in Greek mythology, was given the gift of prophecy but cursed never to be believed, even when her warnings proved correct.* ***Pollyanna****, by contrast, has come to represent instinctive optimism: the belief that things will turn out well, even when risks are visible. We use these two figures to frame the tension running through today's credit markets.*

OUTLOOK JUNE 2026
Marketing material for professional investors, not for onward distribution

Matthew Jackson
Investment grade

Sander Bus
High yield

Fundamentals

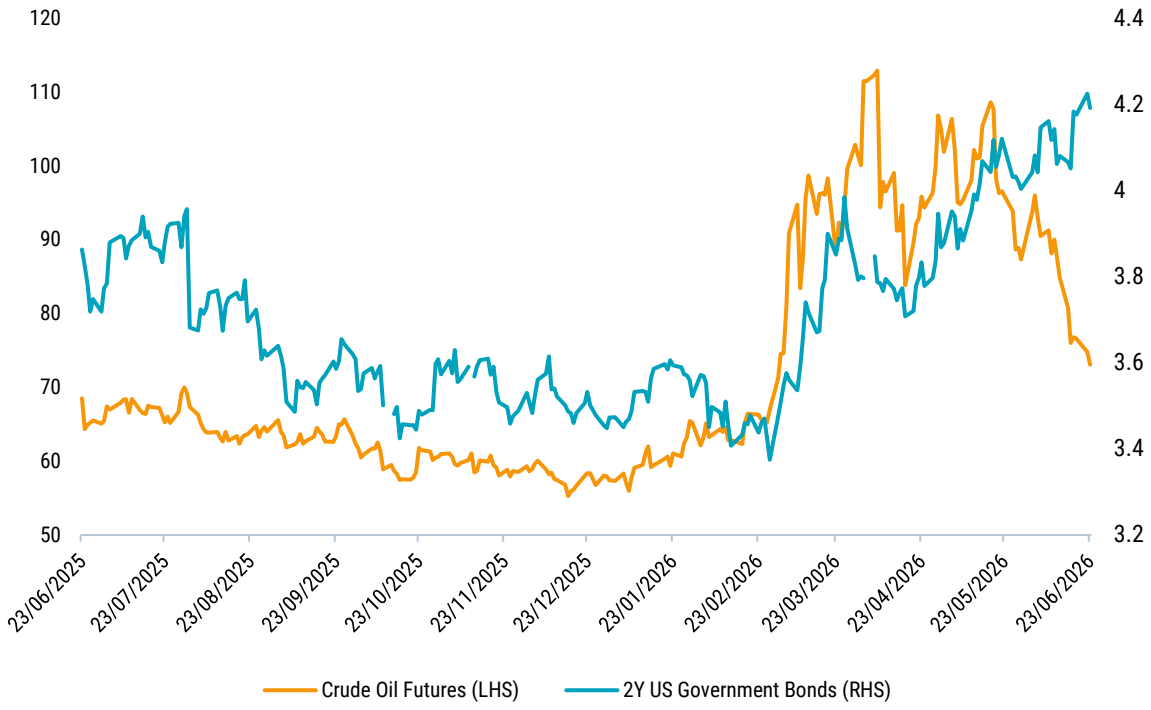
Pollyanna: *'The soft landing is playing out. Oil prices are falling sharply and inflation will return to target. Real rates are positive but manageable, and capex cycles are supportive. Recession is nowhere in sight.'*
Cassandra: *'The soft landing is priced to perfection. Any deviation — sticky services inflation, a growth scare, a further geopolitical shock — and you're repricing simultaneously from a rate and credit perspective. There's no cushion.'*

The growth picture has held up better than the headlines from February and March suggested. The Fed's June projections still see the US economy expanding at a "solid pace," with unemployment anchored around 4.3% and real GDP growth pencilled in at 2.2% for the year, only a touch softer than earlier estimates. The eurozone has been less fortunate: growth forecasts for 2026 have been trimmed to around 0.8%, with the Iran war's impact on energy costs, confidence and real incomes doing most of the damage. The UK and Japan sit somewhere in between, both still expanding, both newly preoccupied with inflation rather than growth.
That inflation has been the real surprise of the year.

US headline CPI has pushed back above 4%, core inflation is running close to 3%, and energy pass-through from the Hormuz disruption is only part of the story; tariff effects, sticky services prices and a resilient labour market have all played a role. The Fed's new leadership has responded by stripping the easing bias out of its policy language entirely, and futures markets are now assigning a meaningful probability to a hike before year-end rather than the cuts that were priced as recently as February.

The ECB delivered its first hike since 2023 in June, explicitly citing the war's inflationary impulse, and the Bank of Japan followed with its own quarter-point move days later, its third since last autumn. Major central banks tightening into a growth slowdown is not a combination credit investors have had to contend with for some time. That said, with oil prices and inflation expectations falling sharply, how long before central banks change their tune? (see Figure 1)

Figure 1 - Crude oil futures and 2-year US Treasury yields



Source: Bloomberg, June 2026

Developments in the Middle East will remain the key driver of near-term sentiment. While recent developments have been largely positive, it is a stretch to say we can confidently consign these events to history. The signing of the Memorandum of Understanding (MOU) between the US and Iran has seen a further reduction in hostility and a pickup in seaborne oil flows, but the calm is fragile. There is still considerable distance between the sides on the key issues and not all parties share the same priorities as the US (voter popularity and financial market performance) to achieve lasting peace.

Corporate fundamentals remain, in aggregate, in reasonable shape. Leverage, coverage and margins across both investment grade and high yield show no broad-based deterioration, but as ever the average obscures considerable dispersion underneath. The standout theme remains artificial intelligence and the capital it continues to absorb. Hyperscaler bond issuance hit roughly USD 121 billion in 2025, more than four times the prior five-year average, and forecasts for 2026 have already been revised higher more than once, with some estimates now pencilling around USD 200 billion for the full year from the largest five names alone.

“ The more useful story for now is the widening dispersion within the AI complex

The collective weighting of Meta, Alphabet, Amazon and Oracle* in the main US IG benchmark has nearly doubled over the past year. These remain, for now, strong balance sheets funding real and growing revenue streams rather than a speculative bubble in the 2000 sense, and we remain reluctant to call this an empty cycle. But the dispersion within the AI complex is becoming the more interesting story than the theme itself.

Further down the quality spectrum, crossover and high-yield names tied to data centre buildouts — bitcoin miners turned AI infrastructure landlords being a particularly vivid example — illustrate how thin the margin for error becomes once leverage and execution risk are added to the mix.

Private credit and the listed BDC sector remain a second, related source of dispersion. Here the AI question is not a tailwind but a structural threat, with software at the epicentre. Technology represents roughly a quarter of BDC holdings and business services a further chunk, and while exposure to the very highest-risk software looks lower than first feared, the medium-risk bucket is large.

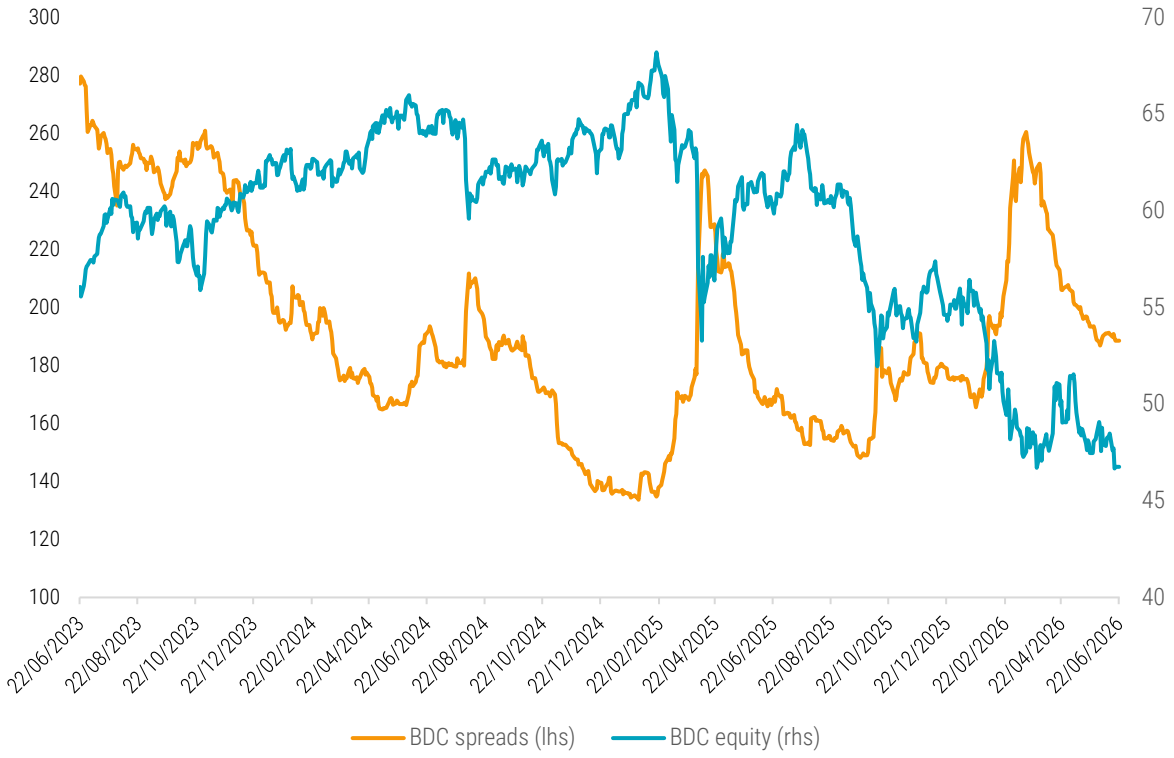
The hard data is already turning: NAVs across rated BDCs fell on average in the first quarter, a meaningful number of names cut dividends, and the sector carries a deteriorating ratings outlook. None of this looks systemic. But the asset class has grown enormously with little stress-testing through a genuine cycle, and higher-for-longer rates plus slower realisations are an unfriendly combination for vintages underwritten at the tights. The recent phenomenon of sharply tighter BDC spreads versus struggling BDC equity appears somewhat at odds (see Figure 2).

EM corporates continue to look comparatively healthy, with leverage low and rating migration still broadly positive, even if valuations leave little room for error there too.

“ Major central banks tightening into a growth slowdown is not a combination credit investors have had to contend with for some time.

* The companies shown here are for illustrative purposes only. No inference can be made on the future development of the company. This is not a buy, sell, or hold recommendation..

Figure 2 - BDC spreads and equity valuations



Source: Bloomberg, June 2026

Technicals

Pollyanna*: 'Technicals are exceptional — inflows are strong, there's genuine scarcity of paper, and the all-in yield story keeps drawing in new buyers. Don't try and fight it.'*
Cassandra*: 'Technicals are the last refuge of the bull running out of fundamental arguments. Flows reverse. When sentiment shifts, all those buyers – pension funds and insurers – who are yield-sensitive, not spread-sensitive — will simply stop. The bid disappears.'*

Demand technicals have remained the standout supportive factor for credit, even through the worst of the war-related volatility. The mechanism is straightforward and, for now, self-reinforcing: higher all-in yields attract yield-driven buyers — fixed-maturity funds in Europe, annuity demand and pension de-risking in the US — while simultaneously discouraging supply, as a higher cost of debt makes issuers more reluctant to come to market outside of AI-related need. War- related volatility has steepened, rather than flattened, the front-end of yield curves, which has made corporate bonds a far more compelling proposition than cash deposits and kept retail flows into the front end strong. As long as that front-end bid holds, it acts as glue keeping the rest of the market in check.

The bigger question for the second half is supply, and specifically how much the market can absorb before it demands better compensation. US IG gross issuance has run at a record pace, and forecasts have been revised up again, towards USD 2 trillion gross for the year. More striking is the net picture: with around USD 1 trillion of maturities and heavy coupon income to reinvest, 'net net' supply is still expected to reach the highest level since 2020 — on some estimates close to USD 410 billion, nearly three times last year's figure. M&A is a growing contributor, with a substantial pipeline of already-announced deals across healthcare, capital goods and consumer still to fund. There are early signs the marginal buyer is becoming more price-sensitive: new-issue concessions have stopped compressing, dealer inventories in the 10-year part of the curve have crept higher, and the easy ability to rotate into MBS or Treasuries without surrendering much yield gives investors a ready placeholder while

they wait for cheaper entry points. We read that as evidence that a significant cohort of active money views current spreads as something of a floor.

The USD long-end deserves particular attention because the supply dynamic there has become unusually bifurcated. Hyperscalers have issued heavily at longer tenors — partly because it is the slice of their funding they cannot easily place in other currencies — even as other issuers have stayed away from the long end. The result is that hyperscaler spread curves have actually steepened over the year while the rest of the market has flattened to the point of offering almost no term premium. With US life insurers, the natural long-end buyers, having moved from underweight to roughly neutral on the hyperscalers and with little incentive to go further given the prospect of yet more data-centre-related issuance, there is little obvious source of demand to flatten those curves from here.

A more supportive recent development has been the introduction of equity into the funding mix with a few of the large hyperscalers having done, or expected to do, sizeable rights issues. This potentially takes some of the strain from public bond markets, or maybe it just softens the impact of the next jump in capex guidance!

To be clear, the AI boom is not just about the hyperscalers. Data-centre demand is forcing record grid investment and a second structural supply wave for US utilities. This is pushing utilities to issue large amounts in hybrid debt to protect credit ratings as they fund this growth. Another recent phenomenon has been a rash of project-finance style, data-centre SPV deals in both investment grade and high yield. These are typically large deals that can offer some spread relative to the broader market but carry meaningful complexity.

Global credit markets 'becoming more global' is a theme we've highlighted for some time. While the USD and EUR combined still dominate, it has been notable that the frequency, size and issuer diversity in currencies such as CHF, SEK, AUD and CAD continues to grow.

Valuations

Pollyanna: *'Spreads are tight because the fundamentals justify it. The market isn't complacent — it's discerning.'*
Cassandra: *'Tight spreads are a function of excess demand and do not reflect creditworthiness or compensate sufficiently for risk.'*

Valuations are where our caution crystallises. For example, US investment-grade spreads widened only modestly through the conflict, and have since ground back to just a couple of basis points from their year-to-date tights — among the most compressed levels since the mid-1990s. The compensation on offer for credit risk has rarely been thinner: spreads now account for only around 16% of the all-in yield on global investment grade, the lowest share since before the financial crisis (see Figure 3).

For the many investors who anchor on all-in yield rather than spread, that is not necessarily a deterrent — a high-5%/6% coupon looks attractive in its own right, and is precisely what is drawing buyers in. But for those of us who treat spread over governments as the cleaner measure of value, the market is being paid very little to take corporate risk, and the deteriorating creditworthiness of sovereigns is not, to our mind, a satisfying justification.

Within IG, the BBB–A gap has compressed to its tightest since 2010. That supports the logic of up-in-quality positioning, though we would concede that the case for an imminent decompression is not strong: the structural decline in BBB index weight, itself partly a by-product of high-quality hyperscaler issuance, is a genuine technical that can keep the differential tight for longer than valuation alone would suggest. We would rather frame up-in-quality as cheap insurance than as a high-conviction directional call.

Figure 3 – Global IG spread as a percentage of yield

Past performance is no guarantee of future results. The value of your investments may fluctuate. Source: Bloomberg, June 2026

High yield tells a similar story with more dispersion. Headline spreads pushed wider during the volatility before grinding back, but the index average disguises a real bifurcation: high-quality issuers priced for near-perfection alongside a stressed tail concentrated in CCCs, software, and the private-credit-adjacent universe. Achieving anything close to benchmark spread without venturing into that tail is becoming genuinely difficult.

The counter-argument, which we respect, is that an inflationary, higher-yield environment has historically favoured compression — lower-rated bonds are among the few that still offer positive real yields, and there is a respectable case that down-in-quality, pricing-power-rich credits are the way to navigate a sticky-inflation world. We are not unsympathetic, but we would express any such tilt through fundamentally defensible names with demonstrable ability to pass through input costs, not through beta for its own sake. The fact is that spreads this tight have historically preceded lacklustre, not generous, excess returns over the following one to two years. With a live energy-driven inflation shock and a synchronised hawkish pivot as the backdrop, the risk/reward is clearly skewed.

Positioning

Our base case remains an orderly, grinding widening in spreads as the market gradually recalibrates to a less generous technical regime, rather than anything more dramatic. But starting valuations leave the asymmetry unattractive enough that we continue to run conservative beta across portfolios, and we would rather be early reducing risk than late. We are conscious that this puts us at odds with some more bullish calls for further tightening. Our response is that we agree the near-term path of least resistance may well be tighter, but that being right about direction and wrong about asymmetry is an expensive combination in a limited-upside, large-downside asset class.

We retain a constructive stance on banking sector credit, where capital and asset quality metrics remain strong, supply dynamics are benign relative to the non-financial market, and direct exposure to troubled private credit is too small to be a real headwind. Senior and senior non-preferred paper remain, in our view, the most attractive points in the capital structure, with subordinated instruments increasingly compressed and warranting careful attention to call risk and tenor.

Within non-financials, we are cautious and increasingly selective on technology and AI-adjacent credit. The strongest hyperscaler names offer some premium to current ratings; we would rather express conviction in the theme through those strongest balance sheets — and there is a reasonable argument that most of this year's hyperscaler supply is now behind us — while avoiding the weaker, more leveraged data-centre and software-adjacent names where the downside is asymmetric. In leveraged finance we would distinguish between the slow-motion nature of the AI-disruption threat, which gives time, and the structural direction of travel, which does not; the loan market's heavy software weighting is a genuine vulnerability even if the bulk of refinancing pressure does not crystallise until 2028.

Following a strong recovery in spreads in Q2, we remain cautious on private-credit-adjacent issuers, including BDCs and private-equity-backed insurance platforms, where we think valuation, earnings and rating pressure has further to run before it is fully reflected in spreads. We continue to prefer defensively positioned sectors with durable demand and pricing power over cyclically exposed industrials, and we are wary of sectors facing both tight spreads and structurally rising supply.

Geographically, we maintain a reduced overweight to euro-denominated credit against an underweight to the US dollar market, and within IG portfolios we continue to favour shorter-dated paper over the long end, where the combination of hyperscaler and Treasury supply offers inferior technical support and minimal term premium as compensation.

As for Pollyanna and Cassandra? As you might imagine, Pollyanna is very long risk and outperforming both her benchmark and peer group handsomely year to date. She just got paid a big bonus. Cassandra is limit short and really struggling. One day she'll be right of course, but it probably won't be tomorrow.

Table 1 – Our current positioning

	Constructive	Neutral	Cautious
Fundamentals		•	
Valuations			•
Technicals		•	
IG credit		•	
HY credit		•	
Financials	•		
Non-financials			•
Emerging		•	

Source: Robeco, June 2026

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