Market Outlook | 2026

Investment Grade Credit in 2026: Attractive Yields Still Doing the Heavy Lifting

With spreads tight and issuance set to rise, elevated all-in yields remain the key force anchoring investment grade credit returns in 2026.

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Executive summary

High coupons anchor returns despite tight valuations.

U.S. investment grade (IG) credit delivered solid absolute returns in 2025, even as spreads remained near multi-decade tights for much of the year. Markets proved resilient through tariff uncertainty, geopolitical noise, and episodic volatility, with strong technicals and stable fundamentals allowing spreads to remain compressed. While valuations were not compelling on a relative basis, elevated all-in yields once again did the heavy lifting for returns, reinforcing the importance of income as the dominant driver of IG performance.

Key trends in 2025

- **Spreads weathered multiple volatility shocks,** including the April tariff-driven selloff, and ultimately finished the year little changed, underscoring the durability of demand for IG credit.
- **Performance dispersion widened** across sectors and maturities, with financials and the intermediate part of the curve outperforming amid strong balance sheets and favorable supply dynamics.
- **A resurgence in issuance**—particularly from large technology and AI-related issuers late in the year—began to pressure some sectors and the long end of the curve, even as overall fundamentals remained healthy.

2026 outlook

IG credit enters 2026 with attractive starting yields, a supportive macro backdrop, and solid issuer fundamentals. Although spreads are tight and net issuance is expected to rise—driven by AI-related capex and a potential pickup in M&A—income should continue to anchor total returns. Historically, starting yields near current levels have provided a meaningful cushion against spread widening, making negative total returns unlikely absent a material deterioration in growth or policy conditions.

- **Higher gross and net issuance** may temper spread performance but should also create opportunities for active security selection.
- **Fundamentals remain solid,** with stable leverage, strong interest coverage, and a continued bias toward positive ratings migration.
- **The macro environment should remain constructive,** though elevated policy and political risks warrant close monitoring.

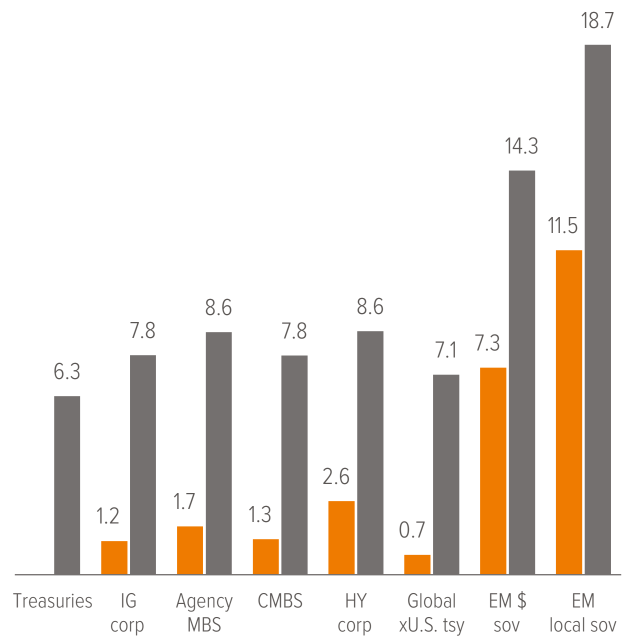
Review of 2025

In 2025, financial markets remained resilient despite challenges such as tariff uncertainty, geopolitical tensions, and a prolonged U.S. government shutdown (Exhibit 1). Markets experienced volatility after the announcement of reciprocal tariffs in early April but they quickly recovered as trade fears eased and economic data improved. Credit spreads normalized, primary issuance resumed, and investor focus returned to monetary policy and economic indicators. Later in the year, political gridlock and high-profile bankruptcies caused renewed market jitters, including concerns about an AI-driven valuation bubble and tech sector debt. Despite periodic volatility, supportive economic conditions boosted equities and fixed income returns, with both rates and spreads ending the year lower. Corporate credit remained solid, underpinned by steady growth and strong fundamentals, while worries about restrictive Fed policy diminished.

Looking closely at the U.S. investment grade (IG) credit market, aside from April's brief spike in volatility, spreads were largely insulated from the broader macro noise. After widening out to 119 basis points (bp) in April, the easing of trade jitters and strong technicals drove spreads tighter; they reached a multi-decade low of 72 bp in September before ending the year at 78 bp. This level was just 2 bp tighter than at the start of the year, displaying the spread's ability to remain at tight levels for an extended time frame. Key drivers included favorable technicals, supported by strong investor demand and still-limited net supply, alongside solid underlying fundamentals.

Exhibit 1: Risk assets delivered strong returns in 2025 despite the heightened volatility

2025 returns (%)



As of 11/30/25. Source: Bloomberg Index Services Limited, J.P. Morgan, Voya IM. Excess returns for the U.S. Agg, Treasuries, IG corp, agency MBS, CMBS, HY corp and global ex-U.S. Tsy are represented by the excess returns for the respective Bloomberg indexes. Excess return for EM $ sov is represented by the spread return for the J.P. Morgan EMBI Global Diversified Index. Excess return for EM local is represented by the total return for the J.P. Morgan GBI-EM Global Diversified Index (Tax-Adjusted Local Return) less the total return of the Bloomberg U.S. Treasury 3-7 Year Index. See endnotes for index definitions and additional disclosures.

Exhibit 2: Financials and the most liquid part of the curve outperformed

		YTD OAS (bp)	YTD change in OAS (bp)	YTD total return (%)	YTD excess return (%)
	IG corporates	**78**	**-2**	**7.77**	**1.19**
Industry	Industrials	76	-2	7.50	0.93
	Utilities	85	3	7.76	1.10
	Financials	78	-4	8.24	1.10
Quality	AA	48	3	6.66	0.45
	A	64	-4	7.87	1.28
	BBB	97	0	7.93	1.26
Maturity	1-5yr	60	0	6.81	1.07
	5-10yr	83	-3	9.58	1.69
	10-25yr	92	-5	8.28	1.22
	25yr+	98	-2	5.94	0.73

As of 12/26/25. Source: Barclays, Bloomberg. See endnotes for index definitions and additional disclosures.

Performance across investment grade subsectors was more differentiated. Financials benefited from solid balance sheets and limited new supply, outperforming both industrials and utilities, which were hindered by thematic factors, including a sharp increase in AI-related issuance from the technology space. Several large tech companies—largely absent from the primary market in recent years—returned in strong fashion during the fourth quarter with multiple jumbo-sized transactions, putting pressure on spreads in the tech space. Elevated supply also weighed on the long end of the curve, contributing to underperformance as surging issuance steepened the 10s30s curve. In contrast, the intermediate segment of the curve delivered the strongest performance, while returns across rating buckets were relatively consistent between single-A and BBB issuers (Exhibit 2).

As we turn to our outlook for 2026, we identify the key themes we expect to drive spread performance for IG credit. And, in fact, this year's starting point shares several similarities with last year's, beyond just spread levels. The macro backdrop remains supportive, with the economic impact of the recent fiscal spending bill and additional rate cuts providing tailwinds to the economy. Valuations are still far from compelling but remain anchored by stable fundamentals and sustained demand for yield. At the same time, new dynamics are emerging and worth paying close attention to, including the ongoing AI buildout and potential pickup in M&A. Overall, the setup for IG credit remains constructive, positioning the asset class for another year of potentially attractive returns. To the extent that spreads widen, such moves could offer compelling opportunities for active managers to add risk.

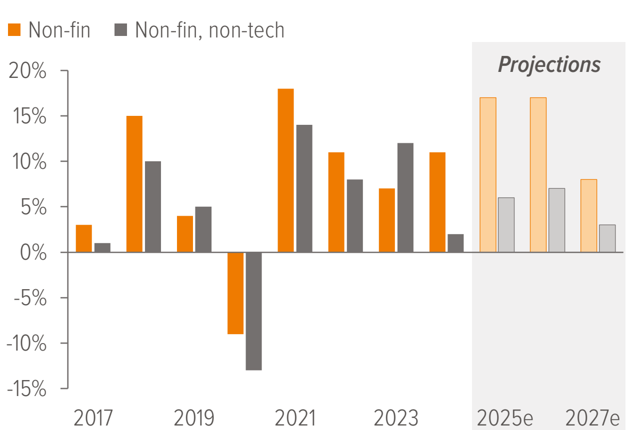
AI capex to drive new issuance higher

AI has been a major driver of growth in the U.S. and will likely continue to support economic activity in the future through stronger expected business investment and potential productivity gains. Stock valuations have been boosted by AI enthusiasm, supporting consumer behavior and balance sheets via positive wealth effects. Until more recently, the AI narrative had limited direct impact on credit markets. That changed in recent months as issuance from hyperscalers (primarily defined as AMZN, GOOGL, META, MSFT, and ORCL) accelerated sharply. The strong uptick in issuance volumes from hyperscalers, other industrial issuers, and utility companies pushed total gross supply figures above 2024 levels.

As companies continue to build out their data center infrastructure, debt markets are expected to remain a key funding channel for future projects, with the IG bond market expected to do much of the heavy lifting in the near term (Exhibit 3). With approximately $120 billion of issued supply in 2025, most of it concentrated in recent months, 2026 will likely see a further pickup in issuance from hyperscalers, alongside other AI-focused tech companies. In addition, other industries involved in powering AI projects, such as utilities and energy, will likely also experience higher capex spend next year. Higher issuance should also be supported by increased M&A activity, which was subdued for much of the year but picked up in the last quarter. A more accommodating regulatory environment suggests further acceleration in the year ahead on the M&A front. As a result, we expect gross supply to reach a new record for the asset class in 2026. With maturities projected to remain broadly

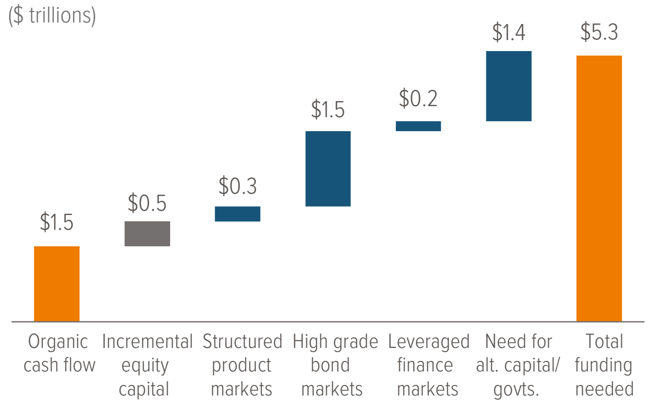
Exhibit 3: The AI buildout requires massive financing

Capex growth will continue to be fueled by tech



IG bond market expected to do much of the heavy lifting for global AI / data center buildout

($ trillions)

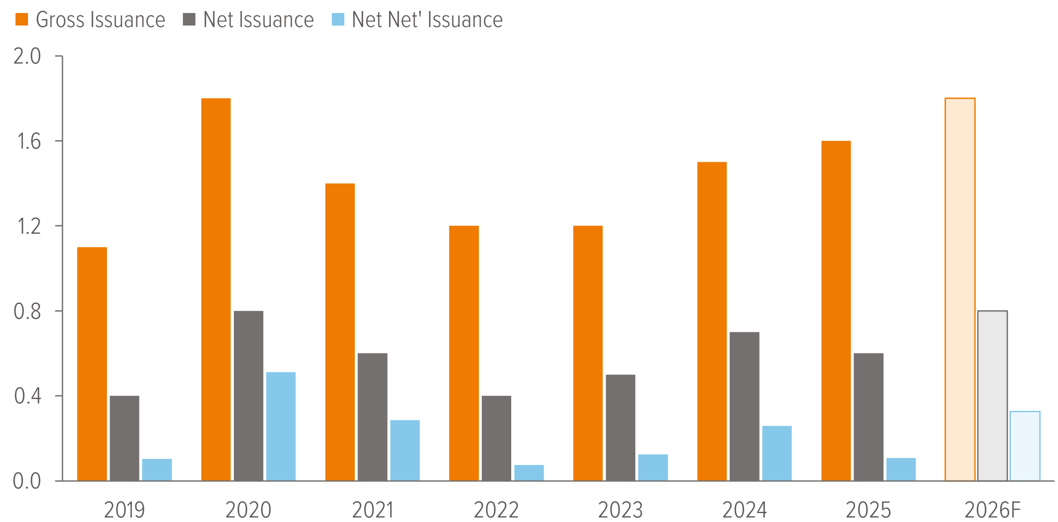


As of 11/30/25. Source: J.P. Morgan.

unchanged, net issuance should rise to the highest level since 2020. After accounting for roughly $500 billion in estimated coupon income, “net net” supply is also expected to increase, although it will likely remain well below the $512 billion peak recorded in 2020 (Exhibit 4).

Exhibit 4: “Net net” issuance expected to be 3x larger than in 2025

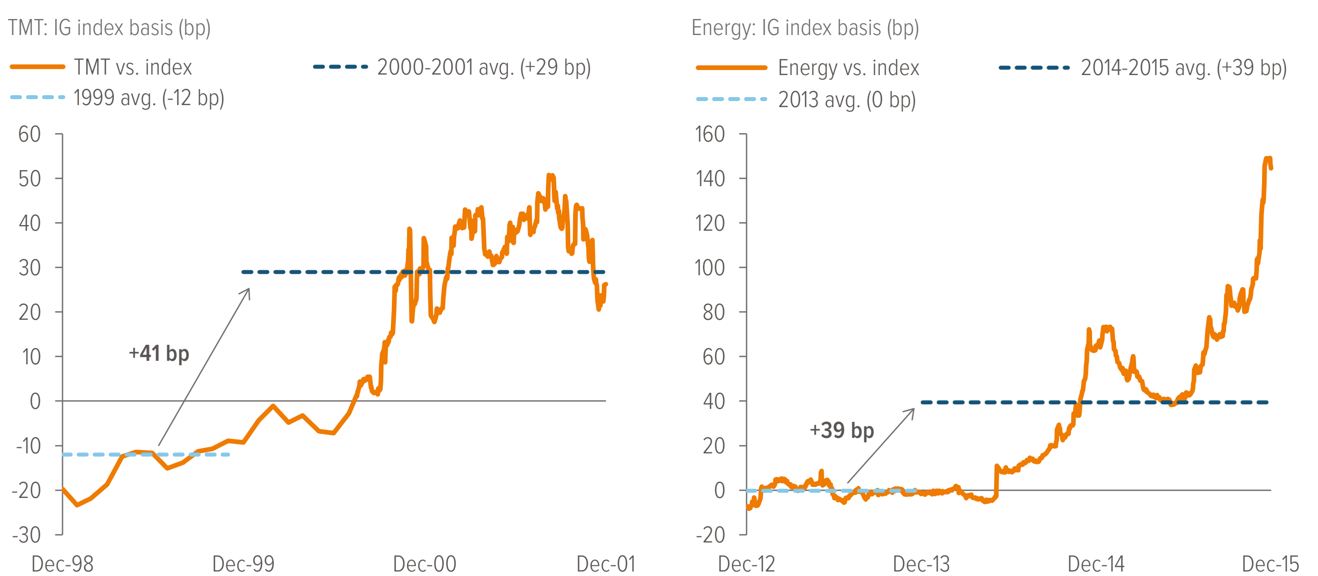
($ trillions)



As of 12/31/25. Source: J.P. Morgan.

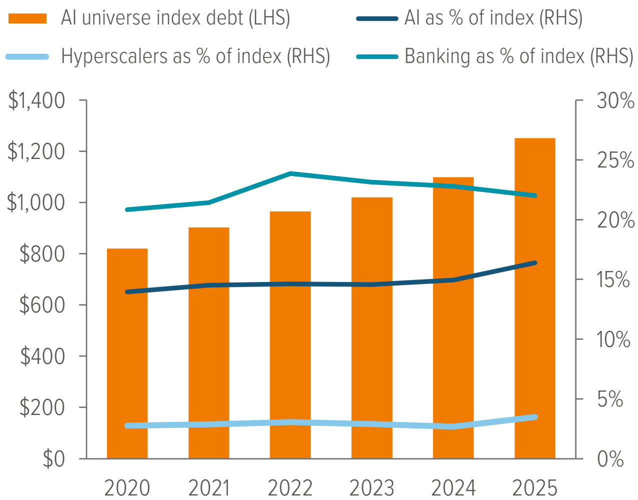
The projected increase in net issuance implies a less favorable backdrop for spreads, compared with recent years. With AI infrastructure likely at the center of dealmaking, the tech sector could face additional pressure on spreads. When looking at historical parallels, periods of heavy capex have often coincided with wider spreads in the relevant sectors. As examples, TMT underperformed in 1999-2001 and energy underperformed in 2013-2015 as elevated supply weighed on valuations (Exhibit 5). With that said, today’s large tech companies generally display stronger credit profiles than their past counterparts, supported by robust balance sheets and strong ratings (Exhibit 6).

Exhibit 5: Historical context for previous issuance spikes



As of 12/31/25. Source: Bloomberg, Barclays Research.

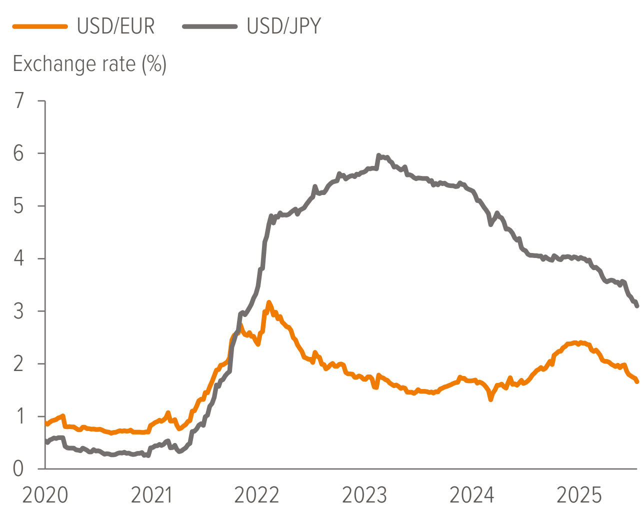
Exhibit 6: Hyperscalers are cash rich and have strong fundamentals



Credit metrics by sector, 2Q25				
Sector	**Gross leverage**	**Net leverage**	**Cash / debt**	**Median rating**
Communication services	2.3x	1.2x	53%	BBB+
Consumer	2.4x	1.8x	21%	BBB
Energy	1.9x	1.6x	7%	BBB
Health care	2.5x	1.9x	21%	BBB
Information technology	1.9x	0.7x	54%	BBB
Hyperscalers	1.4x	0.7x	132%	AA-
Materials	2.2x	1.8x	16%	BBB
Utilities	5.6x	5.6x	1%	BBB
Non-fin IG	**2.4x**	**1.8x**	**17%**	**BBB**

As of 12/31/25. Source: Bloomberg, Voya IM.

Exhibit 7: Above-average yields and strong foreign demand



As of 12/31/25. Source: Bloomberg, Voya IM.

We believe demand will provide a positive counterbalance to higher supply totals, as yields enter the year at still-attractive levels (Exhibit 7). Demand for U.S. IG corporate bonds spans across various investor channels, including domestic mutual funds and ETFs, domestic insurance and pensions investors, and foreign investors—creating a highly diversified buyer base for the asset class. In 2025, flows from the retail segment remained robust, surpassing the $350 billion mark for a second consecutive year. This was driven by attractive return potential and investors seeking to lock in longer-term rates given expected Fed cuts. While retail appetite should remain constructive, we expect inflows from this segment to moderate due to lower starting yields.

Importantly, any moderation in retail demand is likely to be offset by stronger participation from domestic institutional and foreign buyers. For these investors, U.S. IG credit continues to offer elevated yields, particularly as the asset class has improved in ratings quality over the past few years (with a record-low cohort of BBB- issuers). A steeper Treasury curve provides an additional tailwind, historically coinciding with improved credit demand while also easing currency-hedging costs for overseas investors, which are expected to be increased buyers in 2026. Against this backdrop, demand should remain both resilient and well balanced, helping support spreads despite a heavier expected issuance calendar.

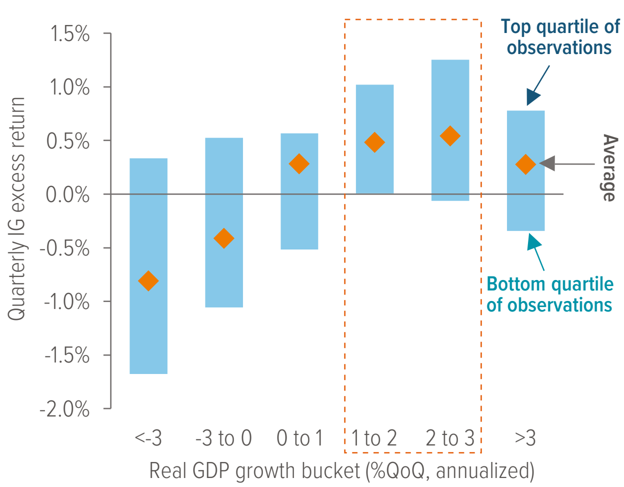
Stable macro environment should support spreads

We believe the macro environment will continue to remain supportive for investment grade issuers. While the backdrop was volatile in 2025 given tariff uncertainty, geopolitical noise, and the government shutdown, macro conditions remained largely positive. The AI boom has become a critical driver of the U.S. growth outlook, alleviating concerns about a potential slowdown. In addition, easing financial conditions and limited impact from trade policy have further supported investor sentiment.

Looking ahead, growth is expected to remain near trend at 1.5-2%, buoyed by easing monetary conditions and a fiscal boost to disposable income from the "Big Beautiful Bill." Historically, modest but positive growth has supported credit sectors through continued earnings expansion and positive excess returns (Exhibit 8). Although inflation remains sticky, it has continued to exhibit decelerating trends on the services side, while the pass-through effects of tariffs have yet to significantly impact goods prices. As a result, market participants and the Fed have shifted their focus on the recent cyclical weakness in the labor market, which continues to present downside risks. However, any further softness may partially be offset by the Fed's reaction function. That said, uncertainty remains elevated given the risk of policy error and negative political headlines surrounding Fed independence, midterm election outcomes, and Supreme Court decisions—all of which could heighten investor unease and result in market volatility.

Exhibit 8: Steady economic backdrop sets the stage for IG credit performance

IG credit performance vs. GDP: 1948-2024 quarterly excess returns vs. quarterly real GDP cohorts

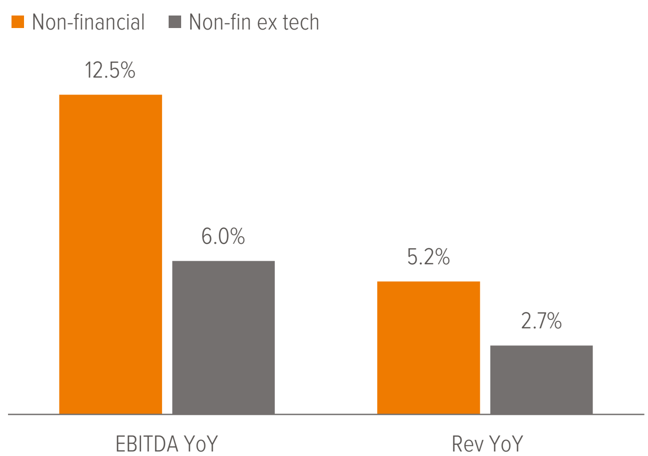


Source: Bloomberg, ICE BofA, Ibbotson, Morgan Stanley Research.

Fundamentals starting from a solid position

Credit fundamentals enter 2026 on solid footing (Exhibit 9). Most credit metrics continue to convey healthy trends, as evidenced by stable leverage and interest coverage ratios alongside limited dividend and share buyback activity. Meanwhile, earnings have surprised to the upside recently, with numbers coming in well above expectations. As of 2Q25, EBITDA growth excluding commodities was the strongest in 13 quarters at 8.1%, according to J.P. Morgan Research. Much of this growth, however, was driven by the tech sector, which accounted for 60% of the growth on a dollar basis. Excluding tech and commodities, EBITDA growth was more modest at 4.4% year over year. Although earnings expectations remain strong given the supportive macro backdrop, the heavy reliance on tech could slow the momentum if tech earnings underwhelm.

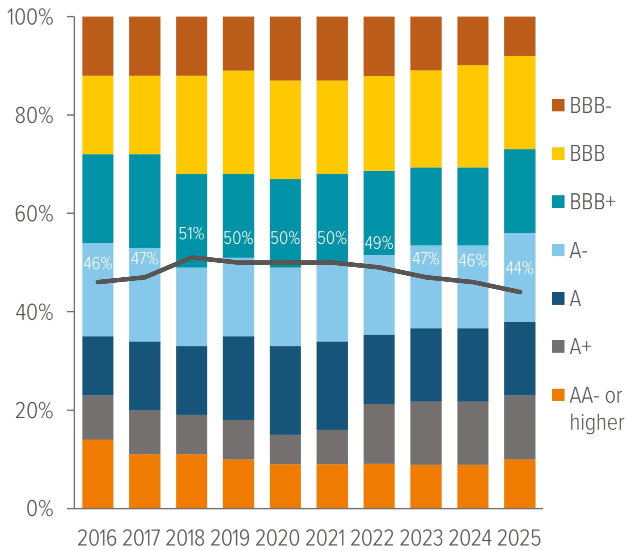
Exhibit 9: Credit fundamentals look solid



As of 12/31/25. Source: Compustat, FactSet, Bloomberg, Barclays Research.

The multi-year trend of strong rating upgrades that began in 2021 continued into 2025, although at a slower pace. For context, upgrades still outnumbered downgrades by roughly 1.9x through the end of November, which is down from an average ratio of around 4x in 2022-2024 (peaking in 2024 at 4.7x). One contributing factor to the moderation was the increase in fallen angel activity, which exceeded rising stars for the first time since 2020, although this was primarily concentrated in a few large issuers. Nonetheless, the IG market experienced positive net ratings migrations overall, with 56% of upgrades occurring within the BBB bucket. As a result, the share of BBB- debt fell to a record low of just 7.7% in 2025 (Exhibit 10). Looking ahead, we expect ratings trends to remain broadly positive, while downgrades will largely be driven by idiosyncratic factors.

Exhibit 10: The share of BBB- rated debt hits lowest level ever



As of 12/31/25. Source: J.P. Morgan.

Why IG now?

Elevated all-in yields support the case for staying invested despite compressed valuations.

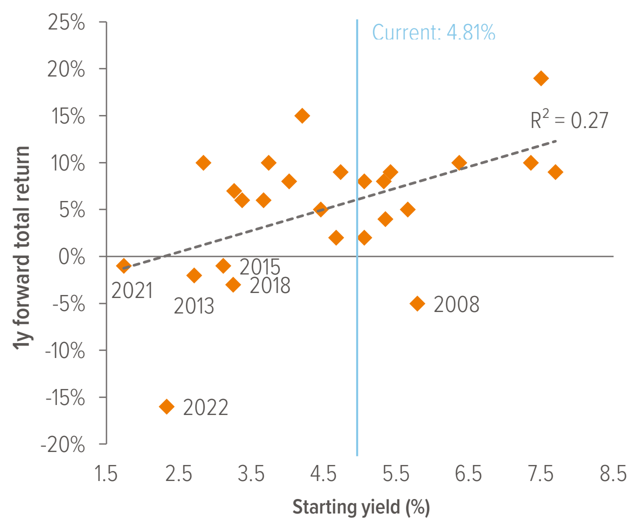
Yes, spreads are still tight entering the year at 78 bp, and they have traded within a narrow range for the past 18 months, save two bouts of volatility (August 2024 and April 2025). However, attractive total returns may still be achieved even in the face of spread-widening events. 2025 is a great example, with the Bloomberg U.S. Corporate Index producing total returns of 7.77% despite spreads trading in a narrow range for most of the year (apart from the brief Liberation Day selloff). In addition to attractive current yield levels, when you peel back the onion on sources of return for IG, there are other factors setting up investment grade credit to potentially perform as a core fixed income allocation.

The first are duration, spread duration, and convexity. With the rise in yields since 2022, IG has seen both its duration (sensitivity to changes in interest rates) and spread duration (sensitivity to changes in spreads) decline by over 1 year. Combine these factors with positive convexity and—dare we repeat ourselves—attractive all-in yields, and you have an asset class poised to deliver attractive income and potential total returns over the long term without meaningfully stretching credit risk.

The starting yield matters for annual total returns in IG. Overall, negative total returns are quite rare, showing up in just 6 of the last 25 years. The average starting yield for those negative years was 3.44%, whereas the average starting yield for positive return years was 4.99%, close to where we sit entering 2026. More importantly, the Fed raised rates in three of the negative return years (2015, 2018, and 2022), and it held rates steady in two others (2013 and 2021). With a starting yield entering 2026 of 4.81%, the breakeven for total returns means that yields would have to move 84 bp higher to flip returns to negative over the next 12 months. The only calendar year in which IG produced negative total returns with yields above current levels was 2008 (Exhibit 11).

Exhibit 11: IG has a strong track record at these yield levels

IG has produced negative calendar year returns only once (2008) when starting yields were at or above current levels.



As of 12/31/25. Source: Bloomberg.

Other factors supporting positive return potential include the solid corporate fundamental backdrop, which is underpinned by positive economic growth and the improved quality of the market, as discussed earlier. While heavy supply from AI capex and increased M&A could weigh on spreads, we believe this will produce opportunities for security selectors and active managers. Supply will be led by the financials sector entering the year, which means most of the supply will be focused on the 3-to-10-year segment of the credit curve. Once we begin seeing supply issued by industrials and utilities, that could lead to a steepening of the credit curve, creating opportunities in the long end.

For now, we maintain our preference for financials and utilities over industrials heading into the new year, where M&A and trade policy risks are more pronounced. The ongoing capex cycle should also generate opportunities to selectively add attractively priced new issues from hyperscalers and other technology issuers. Along the curve, we remain overweight the intermediate segment. While the 10s30s curve steepened in 2025, it remains historically tight, and we prefer to wait for more attractive levels before adding significant exposure. From a ratings standpoint, we maintain a modest preference for BBBs, and we continue to hold some cash to capitalize on potential bouts of spread volatility.

In the current environment, U.S. IG corporate bonds continue to offer an attractive entry point for long-term investors. The macro outlook remains supportive, as do credit fundamentals for issuers. While current spreads are tight and downside risks certainly exist, still-elevated starting yields provide protection in the event of increased volatility. Historically, the starting yield for the U.S. IG Index has been a good indicator for long-term returns, while also having the ability to mitigate the impact of both a move higher in rates and spreads.

A note about risk

Bonds are subject to market, issuer, credit, prepayment, extension and other risks, and their values may fluctuate. Indexes are unmanaged and not available for direct investment.

Index definitions

An investor cannot invest directly in an index, and index performance does not reflect the deduction of any fees, expenses or taxes. Index comparisons have limitations, as volatility and other characteristics may differ from a particular investment. The S&P 500 Index is an unmanaged index that measures the performance of securities of approximately 500 of the largest companies in the United States. The Nasdaq Composite Index measures all domestic and international common stocks listed on the Nasdaq Stock Market. The Bloomberg U.S. Treasury Index is an unmanaged index that includes public obligations of the U.S. Treasury. Treasury bills and certain special issues, such as state and local government series (SLGS) bonds, as well as U.S. Treasury TIPS and STRIPS, are excluded. The Bloomberg U.S. Corporate Index measures the performance of investment grade, USD-denominated, fixed-rate, taxable corporate bond market securities. The Morningstar LSTA Leveraged Loan Index is an unmanaged total return index that captures accrued interest, repayments and market value changes. The Bloomberg U.S. High Yield Index covers the universe of fixed-rate, non–investment grade debt. Eurobonds and debt issues from countries designated as emerging markets are excluded, but Canadian and global bonds of issuers in non-EMG countries are included. The Bloomberg Corporate High Yield Index is an unmanaged index that measures the performance of fixed income securities generally representative of corporate bonds rated below investment grade. Bloomberg® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). Bloomberg or Bloomberg's licensors own all proprietary rights in the Bloomberg Indexes. Bloomberg does not approve or endorse this material, nor guarantee the accuracy or completeness of any information herein, nor make any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, shall not have any liability or responsibility for injury or damages arising in connection therewith.

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