U.S. Investment Grade Credit: 2H26 Update

Macro volatility and AI debt issuance headlines have been creating the noise; strong fundamentals and elevated rates have created the returns.

Travis King, CFA
Head of U.S. Investment Grade Corporates

Hans Sapra
Co-Head, Client Portfolio Management, Fixed Income

Voya Investment Management

Executive summary

Volatility persists, but so do opportunities

U.S. investment grade (IG) corporate credit ended the first half of 2026 relatively unaffected by conflict in Iran, AI substitution risk headlines, and the massive (and ongoing) wave of AI-related debt issuance. Despite tight spreads, elevated rates are keeping risk asset returns attractive, and investor demand remains high. The second half looks like it will be more of the same, with copious issuance and tight spreads anchored by healthy fundamentals. Periods of spread volatility are likely to persist, and they can be used as opportunities to buy into high-quality issuers.

Key trends in 1H 2026

- **Elevated rates and macro volatility failed to dent 1H's returns,** which stayed positive on healthy fundamentals and strong demand for quality credit.
- **Utilities outperformed both financials and industrials,** supported by strong demand tied to data center growth, lower new issuance, and the sector's more defensive characteristics.
- **Investment grade corporate bond issuance had a record-breaking first half,** led by AI-related debt, which tended to subdue performance in the longer-dated and higher-quality end of the curve.
- **Ratings momentum turned more positive in 2Q,** highlighting the resilience of most corporate balance sheets.

2H 2026 outlook

- **AI debt issuance is likely to moderate slightly in 2H** but is still on course to end 2026 at nearly double 2025's total, driven by record capex spending.
- **Hyperscalers remain high-quality credits** with healthy balance sheets and diversified revenue streams, despite the rapidly growing AI investment grade debt sector.
- **2H's IG debt supply should be calmly digested by the market,** as steady Asian interest and strong domestic insurance demand (driven by annuity sales) are keeping appetites sharp.
- **Despite a broadly positive market environment, spread volatility is likely to continue,** both on the macro side and surrounding the AI growth and disruption stories; this can potentially create attractive entry points to high-quality issuers.

Market review: 1H 2026

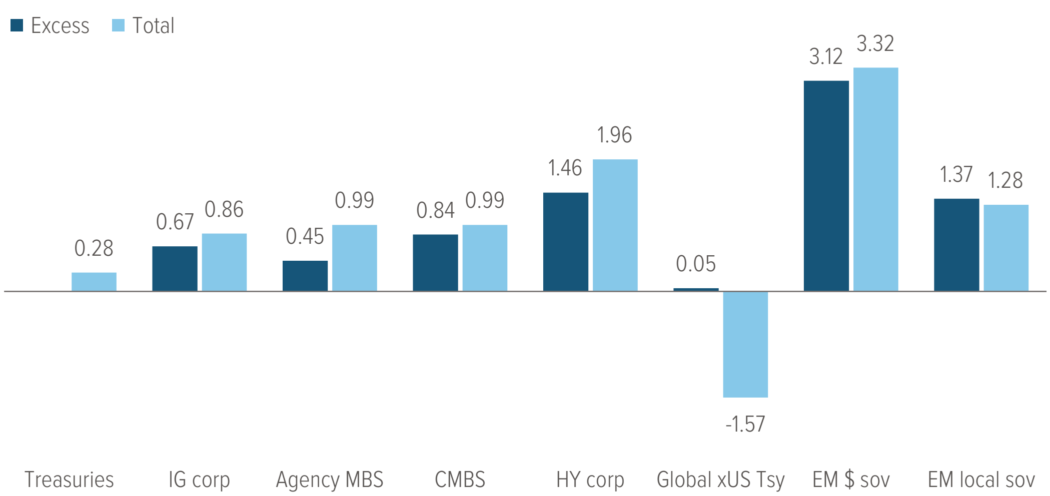
Markets entered 2026 with no shortage of volatility. After tariff and policy uncertainties dominated headlines in 2025, geopolitical risk moved to the forefront in late February with the start of conflict between the U.S. and Iran. The resulting closure of the Strait of Hormuz—a critical chokepoint for global maritime trade—pushed energy prices higher and contributed to renewed inflation pressure, complicating the monetary policy picture.

Although tensions eased after a series of ceasefire discussions, the conflict left a lasting imprint on fixed income markets. Higher energy costs and firmer inflation expectations pushed Treasury yields higher, particularly at the front end of the curve, as investors scaled back expectations for Federal Reserve rate cuts.

Despite elevated rates and macro volatility, markets have, through the halfway point of the year, rewarded investors for maintaining exposure to spread-oriented assets. Credit spreads have tightened since the start of the year on strong technicals and healthy fundamentals, while equities have rebounded on solid quarterly results, stronger AI-driven earnings, a robust capex cycle, and optimism that a conflict resolution could limit macro damage. As a result, fixed income risk assets have broadly delivered positive total and excess year-to-date returns (Exhibit 1).

Exhibit 1: Risk assets have delivered positive returns in 1H 2026 despite heightened volatility

YTD returns (%)



As of 06/30/26. 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.

Much like other risk assets, investment grade credit experienced a volatile start to 2026. IG spreads reached 93 bp in mid-March—their widest level since May 2025—before ending the quarter at 89 bp, 11 bp wider than where they began the year.

Early weakness was tied to growing concerns over AI-driven disruption in software and its implications for business development company (BDC) exposure, while the escalation of the Iran conflict and the resulting rise in oil prices intensified the risk-off tone later in the first quarter. A record wave of new issuance also weighed on market technicals by shifting the supply/demand balance less favorably.

Performance improved notably in the second quarter as geopolitical tensions eased and record corporate earnings drove renewed investor optimism. In April, IG spreads tightened 11 bp to 78 bp, retracing the first-quarter widening. They continued to trade near decade tights in May and June before ending the second quarter at 74 bp. The de-escalation in Iran, strong first-quarter earnings, and new highs in equities supported risk sentiment, allowing excess returns to offset the headwind from higher rates.

Across subsectors, performance was positive overall but uneven (Exhibit 2). Utilities outperformed both financials and industrials, supported by strong demand tied to data center growth as well as the sector's more defensive characteristics.

Industrials and financials, by contrast, faced heavier supply pressure during the first half, with hyperscalers and banks accounting for a meaningful share of new issuance and driving net supply above prior-year levels. This supply dynamic also contributed to underperformance at the long end of the curve on an excess return basis, given the increase in longer-dated issuance. From a quality perspective, BBBs outperformed single-As, as first-half supply was largely concentrated among higher-quality issuers.

Exhibit 2: Utilities and the less oversupplied parts of the market outperformed in 1H

YTD returns (%); OAS (bp)

		YTD OAS	YTD change in OAS	YTD total return	YTD excess return
	IG corporates	**74**	**-4**	**0.86**	**0.67**
Industry	Industrials	73	-3	0.87	0.67
	Utilities	78	-7	1.15	0.95
	Financials	75	-3	0.75	0.57
Quality	AA	52	4	0.28	0.03
	A	62	-2	0.72	0.54
	BBB	92	-5	1.12	0.94
Maturity	1-5yr	53	-7	0.93	0.57
	5-10yr	82	-1	0.52	0.78
	10-25yr	90	-2	1.04	0.81
	+25yr	101	3	1.16	0.55

As of 06/30/26. Source: Bloomberg Index Services Ltd.

Market outlook: 2H 2026

Although 2026 has already delivered some surprises, many of our original outlook themes remain intact heading into the second half of the year. Issuance should remain exceptionally strong, but robust yield-driven demand will keep technicals in check. When combined with healthy fundamentals, the current setup can continue to anchor credit spreads, even near decade-tight levels. Furthermore, elevated starting yields provide a meaningful cushion if slower growth and policy uncertainty weigh on spreads.

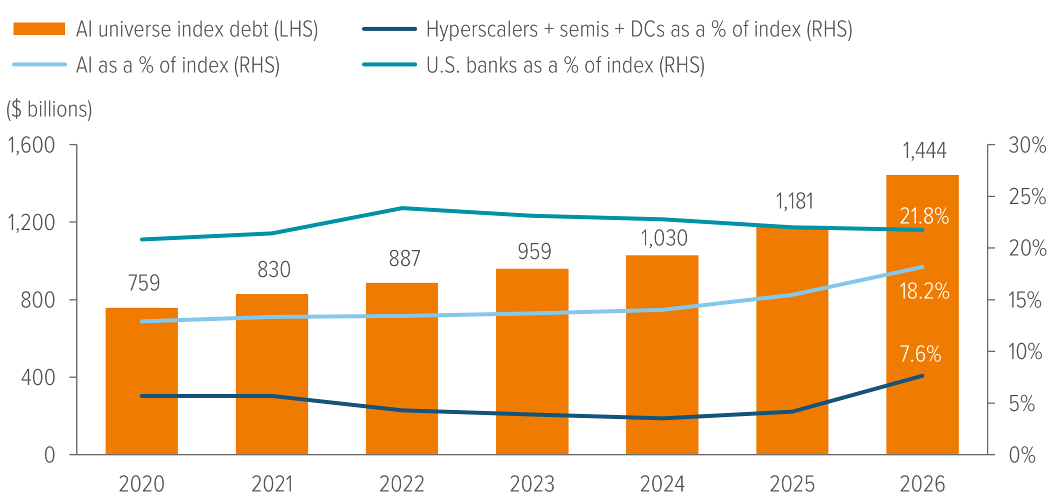
Nonetheless, volatility is likely to remain elevated, particularly if rate swings persist or AI-related spending disappoints. While these risks could pressure spreads in the short term, they also create attractive opportunities for active managers to add risk.

AI-driven issuance to continue its record-breaking pace, but strong demand from yield-based buyers will provide a key counterbalance

Investment grade corporate bond issuance reached a record pace in the first half of 2026, with gross supply totaling $1.19 trillion. To put it into perspective, three of the first six months saw issuance exceed $200 billion. Financial supply remained sizeable, led by banks, which tend to have more front-loaded issuance. Non-financial issuance totaled $726 billion, or roughly 70% of aggregate supply, with technology companies contributing $210 billion alone.

While hyperscaler issuance remained a key driver, AI-related financing has broadened beyond the largest technology issuers. As a result, this wave of supply has reshaped the composition of the IG market, with more than 16% now tied to artificial intelligence (Exhibit 3).

Exhibit 3: AI-related debt is now one of the larger sectors in the corporate index



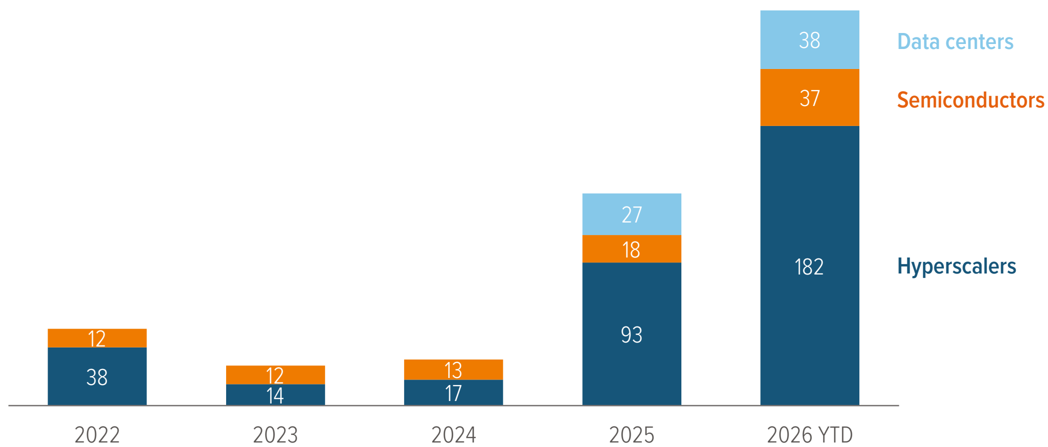
As of 06/30/26. Source: J.P. Morgan Research.

Looking toward the balance of the year, primary market activity is expected to remain robust even as financial issuance moderates. Strong earnings, a healthy macro backdrop, and continued capex requirements support our view that non-financial issuance can remain resilient.

While monthly supply is likely to slow from the record-setting pace of the first half, full-year issuance is still poised to surpass the prior record set in 2020. A large part of the increase in supply is expected to come from AI-related issuance, which has already exceeded 2025's full-year total (Exhibit 4).

This issuance bonanza is primarily driven by hyperscaler capex expectations, which have been revised higher and remain extremely elevated through 2026 and 2027 (Exhibit 5). Not only is hyperscaler capex at record highs, more of it is flowing through to the IG market than previously thanks to public markets' absorption of hyperscalers' off balance sheet financing (in the form of data center project bonds).

Exhibit 4: AI-related IG bond issuance in 1H 2026 has already exceeded 2025's full-year level
($ billions)



As of 07/31/26. Source: J.P. Morgan Research.

While heavy issuance can periodically create supply indigestion and pressure credit spreads, that dynamic has been limited to mostly hyperscalers and technology sector, both of which now trade modestly wide of the broader index (Exhibit 6). Additionally, much of the new hyperscaler supply has come out the curve, which has led to a steepening in credit curves among hyperscalers, whereas the broad index credit curve remains fairly flat.

Strong demand from a broad global investor base has provided an important counterbalance, supported by the asset class's historically elevated yields. Domestic fund flows have been solid ($1.5 billion per day average, YTD), helped along by strong insurance demand from robust annuity sales. Overseas demand has benefited from steady Asian participation, including renewed interest from Taiwan in the long end of the curve. We expect demand to continue to help absorb the strong pace of new issuance and keep technicals supportive.

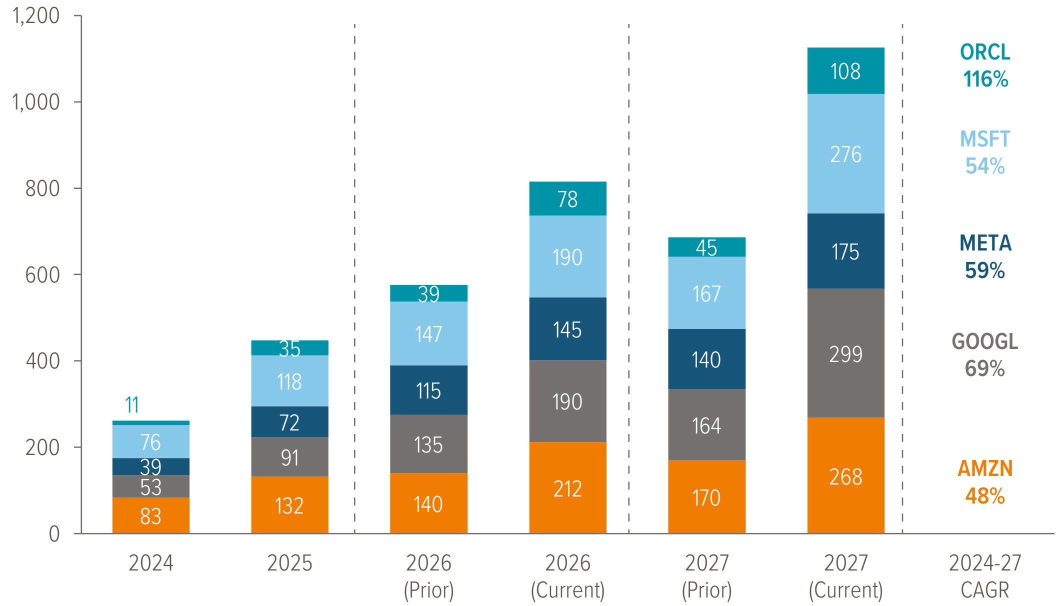
However, a meaningful rally in yields could slow the pace of future inflows and pressure spreads should supply remain historically elevated.

Fundamentals remain healthy overall despite a modest uptick in debt

Credit fundamentals remain solid heading into the second half, supported by strong earnings, stable credit metrics, and positive ratings momentum. In 1Q26, revenue rose 6.9% YoY, in line with the three-year average and the strongest pace in 12 quarters, while EBITDA increased 8.9% YoY, the fastest growth since 4Q22. Debt growth accelerated to 8.5% YoY, roughly 2.6x the prior three-year average, though the increase remains concentrated among hyperscalers. Excluding hyperscalers, debt growth was more moderate at 5.5%.

Exhibit 5: Hyperscaler capex expectations have been revised meaningfully higher

($ billions)

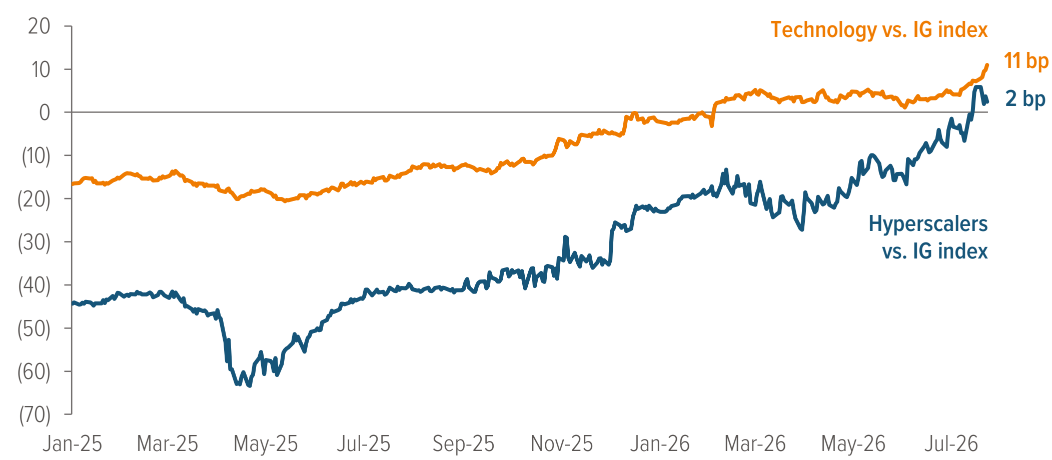


As of 06/30/26. Source: Morgan Stanley Research estimates, company data. ORCL estimates included above only reflect cash capex and do not include PP&E acquired via finance leases. Prior estimates as of Nov 2025.

Despite elevated issuance, hyperscalers remain high-quality credits with healthy balance sheets and lower leverage than the broader high-grade market (net leverage of 0.8x versus 2.9x for the rest of the IG corporate universe). As a result, they continue to have the capacity to fund additional AI-related investment before credit metrics come under meaningful pressure.

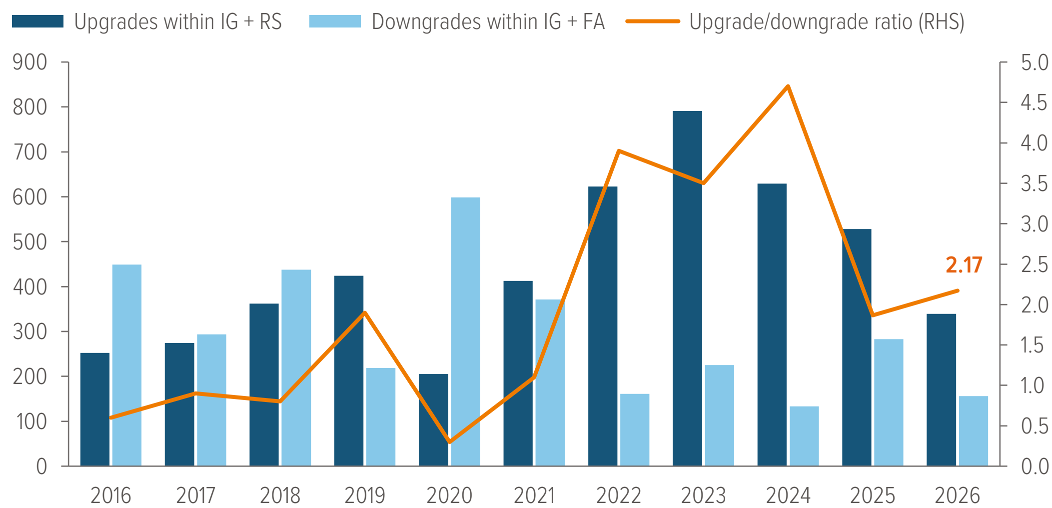
More broadly, leverage remains healthy across the IG market despite a modest YoY increase, and ratings momentum has improved following a weaker start to the year. The YTD upgrade-to-downgrade ratio increased to 2.17x and is now back above the 2025 ratio—with 2Q26 seeing the largest amount of net upgrades since 1Q24 (Exhibit 7).

Exhibit 6: Tech and hyperscalers now trade wide of the broad index



As of 07/25/26. Source: Voya IM; Bloomberg. Hyperscaler comparison only includes high-quality credits (sorry Oracle), with on average an AA rating.

Exhibit 7: Ratings momentum shifted more positive in 2Q26
($ billions)



As of 06/30/26. Source: J.P. Morgan Research.

Macro environment to remain positive but with more volatility, while yields should continue to provide an important cushion

We expect economic growth to remain resilient, supported by robust AI investment, fiscal spending, and higher-income consumption aided by a generational wealth transfer. However, the consumer is becoming a less reliable driver, as lower-income households face cumulative inflation, higher borrowing costs, and slower real income growth.

As a result, the expansion is increasingly dependent on continued AI spend, which could be periodically pressured if productivity or revenue fail to meet expectations.

While tight spreads leave less room for disappointment from slower growth, inflation surprises, or policy volatility, elevated IG yields still provide a meaningful cushion and an attractive opportunity to lock in longer-term income (Exhibit 8).

Exhibit 8: IG yields remain attractive and are currently 128 bp above their 10-year average
(%)

As of 06/30/26. Source: Voya IM, Bloomberg Indexes.

AI disruption has targeted the software industry as its first victim, but the selloff creates potential opportunities for credit pickers

Although software companies represent a small overall portion of the investment grade corporate bond market (compared with private credit and senior bank loans), AI displacement fears have created opportunities within the sector.

We believe AI is a credit differentiator rather than a vehicle for product replacement. Furthermore, it enforces existing competitive moats built on proprietary data, embedded workflows, regulatory trust, and high switching costs.

Across the sector, we have developed a framework to help differentiate winners and losers with regard to the impact of AI on software and data providers. Specifically, we are looking at where the companies' products and services fall across a continuum ranging from deterministic to probabilistic use cases (Exhibit 9).

- **Deterministic systems** of records sit at the point of control in an enterprise. They define what is true in a workflow and create the audit trail that enables reconciliation, policy enforcement, and compliance. Because the cost of error is high, customers pay for correctness, consistency, and governance.
- **Probabilistic systems** rely on pattern recognition and are suited to search, summarization, drafting, and other unstructured tasks where speed and usefulness matter more than precision. In general, we believe that probabilistic products will be less resilient to AI substitution risk.

Exhibit 9: AI substitution risk is likely to be higher in probabilistic systems than deterministic ones

Deterministic				Probabilistic
Specialized technical design software		Advertising agencies		Digital-native service platforms
Security software	Rating agencies		Information services providing professional-grade solutions with defendable proprietary data sets	
Information services providing fiduciary-grade solutions	Integrated business operating platforms			Creative companies providing general-grade solutions

As of 06/30/26. Source: Voya IM.

Ultimately, we believe winners and losers will be determined by technological flexibility, innovation speed, pricing discipline, and margin management.

AI-related headlines aren't going away. They may be positive or negative depending on whether improvements come from internal capabilities or external LLMs. This dynamic should contribute to greater spread volatility within the sector, potentially creating attractive entry points in high-quality issuers.

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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