



**PGIM**

# **PUBLIC AND PRIVATE FIXED INCOME OUTLOOK**

**Q1 2026**



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## Total Returns (%)

Individual Fixed Income Sectors	Q4 '25	2025	2024	2023	2022
EM Hard Currency Sovs.	3.29	14.27	6.53	11.09	-17.78
Mortgage-Backed (Agency)	1.71	8.58	1.20	5.05	-11.81
EM Local (Hedged)	1.69	8.34	3.77	7.60	-8.85
EM Currencies	1.67	13.11	-1.08	8.44	-7.14
Municipal Bonds	1.56	4.25	1.05	6.40	-8.53
CMBS	1.34	7.75	4.68	5.42	-10.91
U.S. High Yield Bonds	1.31	8.62	8.19	13.45	-11.19
U.S. Leveraged Loans	1.19	5.94	9.05	13.04	-1.06
U.S. Treasuries	0.90	6.32	0.58	4.05	-12.46
U.S. IG Corporate Bonds	0.84	7.77	2.13	8.52	-15.76
European Leveraged Loans	0.67	4.00	9.17	13.53	-3.36
European High Yield Bonds	0.66	4.86	9.14	12.78	-11.13
European IG Corporate	0.27	3.03	4.74	8.19	-13.65
Long U.S. Treasuries	-0.05	5.59	-6.41	3.06	-29.26
U.S. Long IG Corporates	-0.11	7.44	-1.95	10.93	-25.62
Multi-Sector					
U.S. Aggregate	1.10	7.30	1.25	5.53	-13.01
Global Agg. Hedged	0.78	4.86	3.40	7.15	-11.22
Global Agg. (Unhedged)	0.24	8.17	-1.69	5.72	-16.25
Euro Aggregate (Unhedged)	0.23	1.25	2.63	7.19	-17.18
Yen Aggregate	-2.20	-6.10	-3.07	0.51	-5.30
Other Sectors					
S&P 500 Index	2.65	17.88	25.00	26.29	-18.11
SOFR	1.03	4.40	5.40	5.18	1.66
U.S. Dollar (DXY Index)	0.56	-9.37	7.10	-2.11	8.21

Past performance is not a guarantee or a reliable indicator of future results. See Notice for important disclosures and full index names. All investments involve risk, including possible loss of capital. Sources: Bloomberg except EMD (J.P. Morgan), HY (ICE BofA), Bank Loans (S&P UBS). European returns are unhedged in euros unless indicated. Performance is for representative indices as of December 31, 2025. An investment cannot be made directly in an index.

# THE YIELD IS DESTINY BULL MARKET: WELCOME TO YEAR FOUR

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and Head of Global Bonds

With 2026 underway, a few factors are readily apparent across the global fixed income markets: the slow-going bull market remains in the sweet spot; attractive yield levels should continue to accrue into solid returns over the intermediate to longer term; and the unusual geopolitical backdrop (see our global economic section for insights on Venezuela) and asynchronous central bank cycles should continue to create opportunities to add value through active management.

## Bull Market Year 3: Smooth Sailing

Thanks to the bear market of 2022 lifting long-term yields back to historically attractive levels, the “yield is destiny” bond bull market has rolled along with the broad market benchmarks wrapping up their third calendar year of solid returns (Figure 1). Although events like Q1’s tariff unveiling and accompanying market swoon created bumps along the way, the ongoing economic expansion with moderate growth and inflation has kept yields generally high and range bound—a “High Plains Drifter” environment where the highest-yielding sectors continue to post the highest returns.

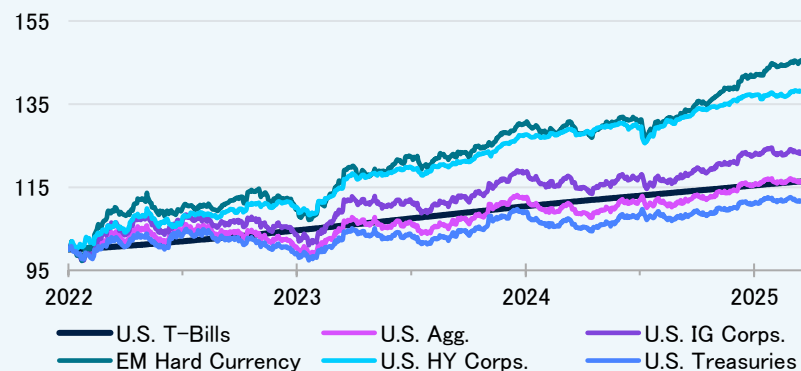
Since late 2022, the incremental income from spread product along with capital appreciation from spread compression almost entirely fueled the bull market.

Meanwhile, until 2025, Treasuries were a bit of a drag on returns, underperforming cash as a result of range bound long rates and generally inverted yield curves (see Treasuries performance in Figure 1).

However, the situation changed in 2025. Thanks to central bank rate cuts in the U.S. and around the world, yield curves have steepened and turned positive (Figure 2), improving the odds of bonds outperforming cash going forward.

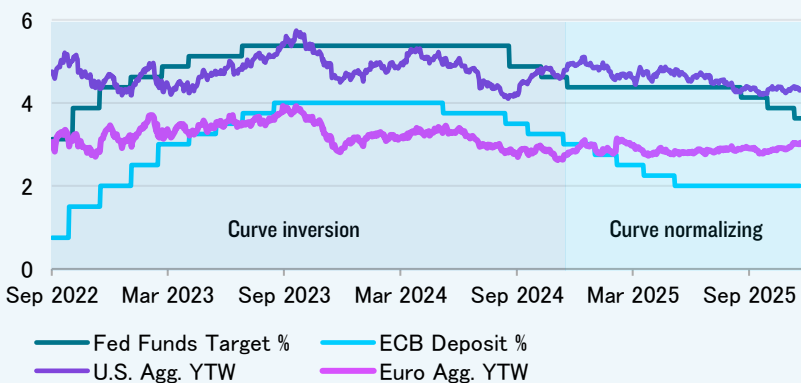
As a point in fact, thanks to the positive yield curve and a slight drop in yields, Treasuries finally outperformed cash and joined the bull market last year (Figure 3). So, while we expect a smaller return contribution from spread product going forward, long-term fixed income should pick up a tailwind from the

Figure 1: The highest-yielding sectors again delivered the highest returns in 2025. Yet, Treasuries underperformed cash since 2022 amid range-bound yields and curve inversion.



Source: Bloomberg. Indexed to 100; October 1, 2022 = 100

Figure 2: Central bank rate cuts allowed yield curves to normalize in 2025, giving long-term government bonds and broad market indices a yield/carry and roll down advantage over cash.



Source: Bloomberg

# BOND MARKET OUTLOOK

**yield advantage and roll down benefits provided by the newly-positive yield curves.**

## On a Sea of Divergences

The veneer of steady, broad market returns in recent years hid a turgid sea of divergence across central bank cycles, long-term interest rates, currencies, and the inter-sector performance of spread products.

## Central Banks on the Clock

At the heart of the divergence in long-term rates was a shift in the central banking landscape. Coming into 2025 and throughout the first half of the year, virtually all EM and DM central banks were in sync and widely expected to continue cutting rates from their post-COVID peaks. In our stylized central bank clock in Figure 4, most were clustered around 3 o'clock: somewhere in the middle of their respective rate cutting cycles (except Japan, which was and remains in the mid-innings of a hiking cycle).

## Suddenly It Was Later than it Seemed...

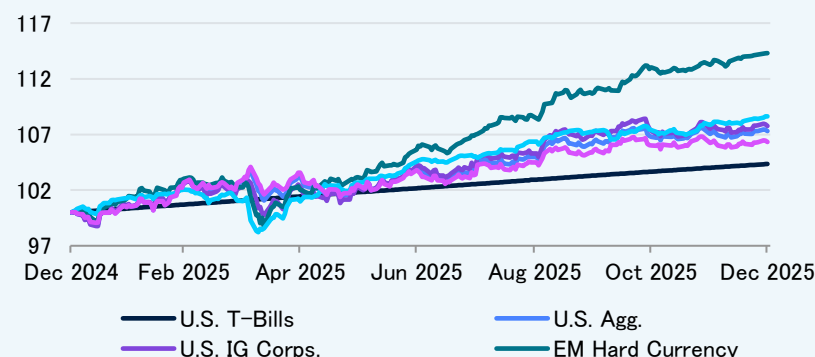
Yet, expected rate paths shifted meaningfully in the second half of '25.

Indeed, much of the field shifted from the 3 o'clock "rate cut" quadrant down to 6 o'clock, i.e., towards the hawkish "rates rising" half of the clock (Figure 4). **The principal cause of these shifts from dovish to neutral (or hawkish) can be attributed to a combination of hitting neutral earlier than expected while inflation has remained above target.**

## Asynchronous Central Banks and Debt Management Shifts Drive a Wedge in Long-term Rates

In some cases, the negative impact of central banks' hawkish shifts were amplified by moves to boost government spending, as was the case in Europe, China, and Korea. Breaking with a tradition of fiscal prudence, perhaps the most dramatic shift came from Germany, which charged ahead with its efforts to boost issuance to fund a higher trend level of defense and infrastructure spending. The ECB's subsequent shift from "cutting" to "on hold" prompted bear steepening across the bund curve.

**Figure 3: Duration contributed to returns in '25 as Treasuries outperformed cash. A positive yield curve and range bound market highlight two themes: 1) bonds should outperform cash on yield; 2) swings in sentiment should lift duration management as a tactical alpha driver.**



Source: Bloomberg. Indexed to 100; January 1, 2024 = 100

**Figure 4: Central banks are on the clock, and it's getting late.**



Source: PGIM

# BOND MARKET OUTLOOK

## U.S. & UK Outperform; Why? Debt Management...

Despite ongoing fiscal concerns in the U.S. and UK, their long rates nonetheless remained contained (Figure 5). In doing so, they outperformed many DM and EM markets, why? While expectations for additional rate cuts anchored long UK and U.S. rates to some extent, an additional downforce may have come from proactive debt management efforts. In the case of the U.S., the Treasury has resisted calls to issue more long-term debt, instead opting to fund larger deficits through short-dated T-Bills, while also carrying out limited Treasury buybacks along the yield curve. Meanwhile in the UK, the Exchequer has shortened the maturities of new issuance in a successful effort to tamp down long yields.

## Spreads: the new “steady for now” state?

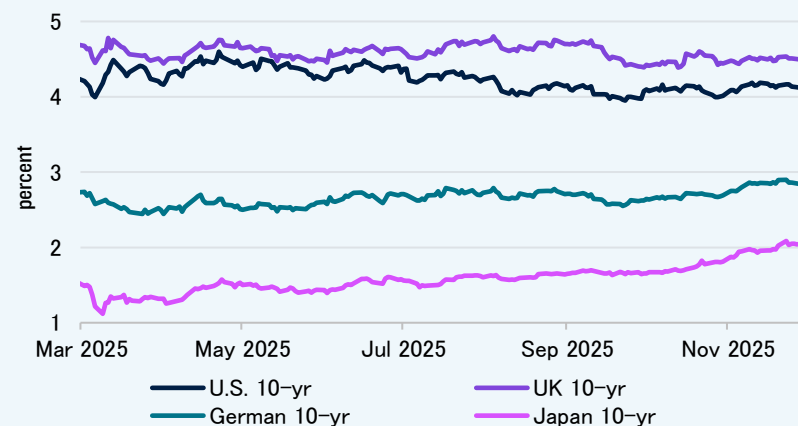
Although excess returns from spread products were once again positive in 2025—as they have been throughout the three years of the bull market—they were more muted last year. Spreads are narrower, and the bulk of

the capital gains potential from narrowing spreads is well behind us at this point of the cycle (Figure 6). **We are in a carry environment.**

With spreads in the vicinity of all time tights, the market is scanning for potential cracks in the foundation of the heretofore fundamentally firm credit environment ([see our credit summary for more](#)). **In addition to the usual free floating, late-cycle recession anxiety, concerns continue to mount regarding growing M&A risks, as well as the massive AI infrastructure buildout:** i.e., will the revenues materialize to pay for the infrastructure and will the supply be digestible? And just how reliant is the K-shaped economy on a buoyant stock market perched atop the AI wave?

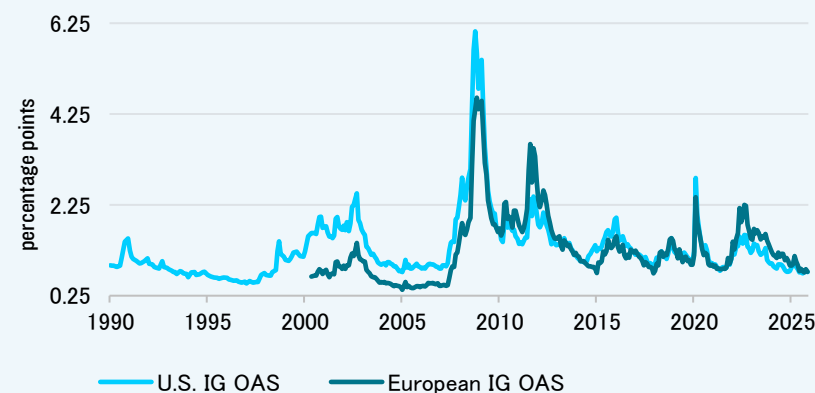
Despite the AI and M&A concerns, industrials and utilities have continued to deliver positive excess returns, but these concerns have weighed on a relative basis, allowing the seemingly safer, heavily-regulated financial sector to outperform.

Figure 5: While deficit spending and central banks' shift from rate cuts generally pushed long rates higher, the UK and U.S. were spared—perhaps as a result of debt management efforts.



Source: Bloomberg

Figure 6: Credit product may remain range bound amid historically tight spreads, like the mid-2000s, setting up for positive, more modest, excess returns (barring the unforeseen).



Source: Bloomberg



# BOND MARKET OUTLOOK

## What are the Risks?

What are the risks to our overall “earn the yield” and alpha-positive outlook? **While it remains tempting to fear a mushrooming of geopolitical risk or an unforeseen economic downturn, we continue to fear fire over ice.** That is, should economic cycles turn up, resulting in a combination of stronger growth and/or higher inflation that forces more central banks towards tighter policy, fixed income could encounter a temporary buyers strike that would likely push yields higher and spreads wider.

Be it fire or ice, we will remain vigilant. **After all, during the past three years of range bound yields and relatively steady spread sector outperformance, there have been repeated swings from optimism to pessimism and vice versa.** In short, we continue to monitor and evaluate the investment backdrop, relying on our fundamental research to discern the signal from the noise in our efforts to find relative value opportunities and to add value during periods of market dislocations.

## Putting it all Together: Year Four of the Bull Market Ahead?

While we can hardly be certain as to what this year will bring, our *a priori* is more of the same: high and range bound yields look set to persist, allowing this slow go bull market to continue, where returns accrue not by a quick drop in yields and rise in prices, but rather thanks to the ongoing earning of yield itself. Additionally, albeit by thinner margins and with more idiosyncratic risk, spread product looks set to deliver positive, but perhaps narrower, excess returns. Additionally, as mentioned earlier, newly positive yield curves should give long-term fixed income a performance advantage relative to cash in the quarters ahead.

## Risk/Return Outlook Improvements: Relative Valuation, Fed Biased to Ease

As highlighted in “the case for moving out of cash,” **fixed income valuations have moved to the “attractive” range relative to equities—a configuration that has**

**historically signaled competitive risk adjusted returns from bonds relative to stocks.** Additionally, in terms of the stock-bond correlation, the Fed remains either on hold, or more likely, biased to ease. Unlike 2022 when bonds and stocks tumbled in unison, history would suggest that under these conditions, **if stocks suffer a severe correction, bonds should deliver strong returns, providing ballast to portfolios.**

## Investment Summary:

We remain guardedly optimistic on entry into what stands to be year four of the “yield is destiny” bond bull market, where high and range bound yields result in solid returns, and confusion creates ample opportunities for adding value through active management. Given a wide spectrum of risks and outcomes, vigilance remains in order.

# GLOBAL SECTOR OUTLOOKS

## DEVELOPED MARKET RATES

**Outlook: Monitoring for higher volatility and repricing of term premia across developed market government yield curves, particularly as global central bank policies diverge. Steeper curves should enhance roll and carry opportunities.**

Two prevailing themes from late 2025—renewed divergence across global monetary policy rates and the repricing of term premia—will likely remain at play across developed market rate complexes with 2026 underway.

In the U.S., the Fed’s 25 bp rate cut in December carried a dovish tone, leading to a bull steepening along the curve with only slight movement in the 10-year yield. The narrow move on the 10-year underscored its prevailing low-volatility, range-bound conditions throughout 2025.

The low-volatility conditions in the U.S. were further exemplified by the selloff across other developed market yield curves late last year. Indeed, at the front of the curve, the 2-year U.S. yield outperformed its global counterparts—e.g., Australia, New Zealand, Spain, Canada, Germany, and France—by a wide margin as the end of several policy

easing cycles came into sight.

The potential end to easing cycles for certain central banks also raised the question of the Fed’s proximity to its terminal rate. At this point, we believe a January rate cut remains possible on the way to a 3% Fed funds rate by the end of Chair Powell’s term in May. While not our base case, once a new Fed chair is confirmed, the potential exists for the policy rate to decline towards a sub-neutral range of 2.0-2.5% in the second half of 2026.

After the record-long shutdown of the Federal government, the resumption of government-provided data could contribute to an increase in implied and realized volatility and prompt the 10-year yield to break out of its tight trading range. We believe that the low-volatility trajectory observed in the accompanying chart is unlikely to continue, hence underscoring our view

of expressing duration views through the options markets.

Furthermore, we anticipate that curve steepening trends will generally remain intact across developed market yield curves in 2026 as participants continue to adjust term premia expectations.

The steepening trend was clearly visible in the JGB market late last year as the Bank of Japan hiked its policy rate by 25 bps to 0.75%, marking the highest level in 30 years. The BoJ’s statement that “real interest rates are at significantly low levels,” indicated that it may be

Measures of implied volatility declined throughout much of 2025 amid a steep decline in realized volatility



Source: Bloomberg. \*As indicated by 3-month by 10-year implied volatility.

## GLOBAL SECTOR OUTLOOKS: DEVELOPED MARKET RATES

setting its sights on the lower end of its estimated neutral range of 1.0-2.5%, meaning that additional hikes may materialize in 2026. The 10-year JGB yield approached a generational high of 2.1% as the year concluded, and we anticipate further steepening along the 2- to 10-year portion of the JGB curve.

**European rate curves** also steepened in 2025—with the 10-year bund yield hitting a multi-year high in late December amidst a “disappointment trade”—as the likely end of the ECB’s rate cuts came into view. The ECB held its deposit rate at 2.0% to end 2025, and it expects an inflation undershoot in 2026 and 2027, which supports the potential for an additional 25 bp cut to 1.75% this year in what could represent the end of the easing cycle.

Elsewhere, policy easing should continue in the **UK** after the Bank of England’s late-year rate cut brought its policy rate to 3.75%. Looking ahead, we see three additional 25 bp cuts in the first half of 2026 amidst the sizable slack in the UK economy, a budget that may limit inflation pressures, and potential improvement in the country’s fiscal conditions in the first half of the year.



# GLOBAL SECTOR OUTLOOKS

## AGENCY MBS

**Outlook: Carry conditions. MBS carry remains intact vs. intermediate Treasuries despite tight spreads. We favor a barbell position consisting of near-par coupon and low coupon 30-year issues, while avoiding the middle of the stack. We are underweight higher coupons amid call risk concerns, and we continue to prefer specified pools over TBAs for better fundamental value and convexity.**

Agency MBS posted positive excess returns vs. U.S. Treasuries in Q4, benefitting from lower volatility, improved demand, and light origination volumes despite the general decline in mortgage rates. The Bloomberg MBS Index OAS reached its tightest level since early 2022 as domestic and international buyers—primarily in production coupons—sought the attractive carry of MBS while continued GSE purchasing removed supply from the market.

Despite easing mortgage rates, fixed-rate origination was contained amid higher adjustable-rate mortgage production given the shape of the yield curve. Refinancing activity rose during the period and prepayment speeds increased, the brunt of which were borne by higher coupons within GNMA and conventional MBS.

Although the elevated prepayment speeds were largely in line with sell-side expectations, loan closing times were shorter than anticipated—an important development underscoring technology advancements that are accelerating processing times.

The sector starts Q1 with tighter valuations relative to early Q4 due to easing Fed policy, lower volatility, constrained origination, and persistent demand for carry. While December's FOMC decision supported risk assets, further spread compressions will be difficult. **We see a potential opportunity to outperform the benchmark index by avoiding the realized prepayment speeds in high coupon premiums.** Specified pools should continue to offer better value versus newer production bonds, as the rising conforming limit will bring even

higher average loan sizes and less attractive OAS profiles into the index.

However, MBS refinancing risk in high premium coupons is unlikely to disappear as technology improvements accelerate loan processing. We continue to believe OAS models may not be adequately capturing this risk, which we believe will be unlike prior experiences during prepayment cycles.

Furthermore, originations could increase in response to lower primary rates—initially from refinancings and eventually from new purchase loans. Finally, the low level of volatility priced into the market may shift higher, posing headwinds for MBS.

**After prolonged spread tightening in 2024 and 2025, carry opportunities remain across the MBS sector.**



Source: Bloomberg

# GLOBAL SECTOR OUTLOOKS

## SECURITIZED CREDIT

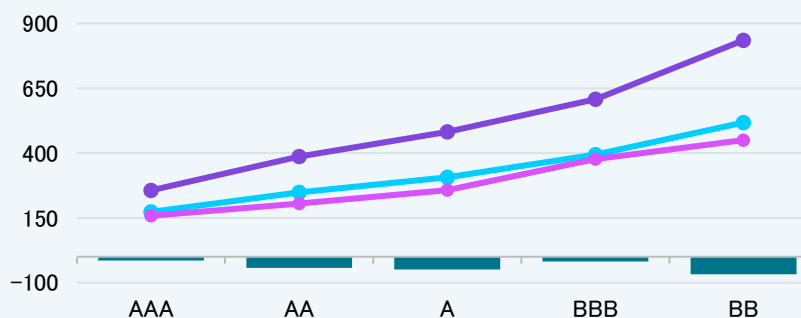
**Outlook: Carry conditions.** Spreads generally widened in 2025, yet remain tighter than average. Given the sector's flat credit curves, valuations on high-quality securitized assets remain attractive relative to other fixed income sectors. Our outlooks for CMBS, RMBS, CLOs, and ABS reflect tighter-than-average spreads and stabilizing or weakening underlying asset fundamentals, supporting carry conditions with limited potential for capital appreciation. We continue to focus on tranches at or near the top of capital structures and remain highly selective of more credit-sensitive positions as downside risks outweigh the rewards. Positive ABF flows continue, and we are targeting structures suited to perform through the cycle in residential, commercial, and prime consumer subsectors.

In **CMBS**, valuations for most property types have stabilized and we expect price appreciation to be flat for the year—likely no V-shaped recovery given long-term rate expectations. Rent growth continues normalizing across property types and may increase as supply pressures abate, but will likely stay within range of historical averages. Elevated single-asset, single-borrower (SASB) supply has contributed to attractive spreads, and we see value in high-quality deals with structural protections. In conduit markets, we favor shorter spread duration given the current term-curve profile.

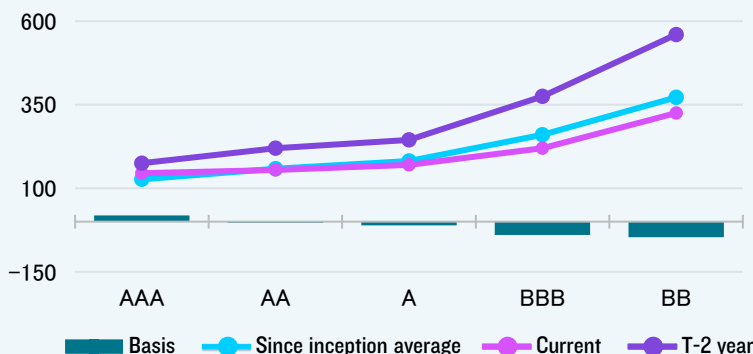
In **RMBS**, relatively tight inventories and strong demographics continue to support housing valuations despite historically high mortgage rates and regional pockets of softness. Mortgage credit remains solid overall, despite rising delinquencies among lower-credit tier borrowers. As non-qualifying mortgages (non-QM) are the most scalable opportunity to gain mortgage credit exposure, we favor less negatively convex collateral subtypes. We are adding AAA Non-QM and second-lien/HELOC deals for their attractive spread pickup versus other fixed income assets. Although we are still

Securitized credit curves remain too flat to travel down the capital stack

CMBS (SASB) credit curve (OAS bps, Treasury)



RMBS credit curve (non-QM; bps, Treasury)



Source for CMBS credit curve: JPMorgan CMBS Indices. Dates January 3, 2012 to August 31, 2025. SASB refers to single asset single borrower. Source for RMBS Credit Curve: JP Morgan RMBS Indices. Since Inception date January 17, 2019.

## GLOBAL SECTOR OUTLOOKS: SECURITIZED CREDIT

constructive on credit risk transfer, we are biased towards rotating away from these instruments as valuations appear stretched.

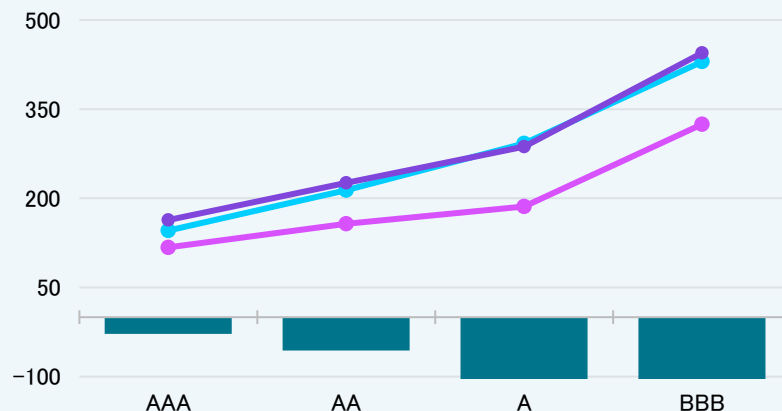
**CLO** fundamentals are improving—supported by revenue and earnings growth with generally positive outlooks—but tail risks remain, i.e., more than 10% of underlying collateral features stressed interest-coverage ratios (below 1.5x). Senior CLO tranches continue to offer attractive relative value compared to many fixed income asset classes. We see the most value in senior tranches, while selectively adding higher-quality mezzanine tranches. With spreads still inside of long-term averages, but wide of 2025 tight, we expect mixed valuations near term, creating entry points at wider levels. In the U.S. and Europe, we see value in primary transactions—particularly in AAAs and AAs—and in selling secondaries trading at premiums.

In **ABS**, the consumer remains stretched—especially the non-prime cohort—as they take on more debt and the elevated rate of defaults continues in seasoned ABS trusts. Considering the spread compression globally along with pronounced credit tiering, we’re

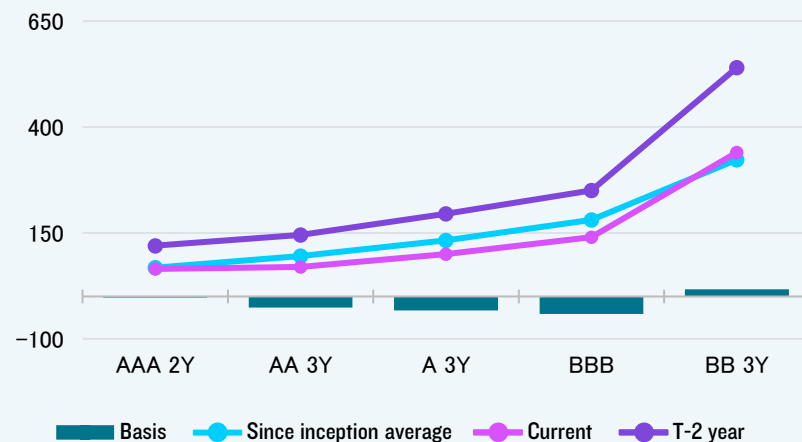
positioned toward top-tier originators. Thematically, we favor bank originated collateral, defined versus general purpose loans, short-dated consumer loans, and commercial obligor exposures. We’re constructive on select, higher-quality issuers across the capital stack within auto, consumer loans, and commercial sectors, offering favorable relative value within a global opportunity set.

In **ABF**, inflows continue, especially from liability-driven investors seeing demand in retirement products and who are diversifying or complementing their corporate credit exposures. As elevated tariff, inflation, and macroeconomic risks continue, we are targeting structures that can adequately perform through the cycle. We are focused on prime consumer, commercial, and residential subsectors: in commercial, we are originating financing for critical-use assets in transportation, digital infrastructure, and datacenters, as well as equipment financing for small- and medium-sized businesses; within consumer, we see opportunities in providing capital to prime homeowners for home improvement and efficiency needs.

CLO credit curve (OAS bps, SOFR)



ABS credit curve (subprime auto; OAS bps, Treasury)



Source for ABS credit curve: JPMorgan ABS Indices. Dates January 3, 2012 to August 31, 2025. Source for CLO Credit Curve: PGIM. SI dates vary. CLO AAA, AA from December 22, 2014. CLO A, BBB, BB from December 29, 2017.

# Q1 2026 CREDIT RESEARCH SUMMARY

The following provides a general description of credit conditions across our credit research universe and as observed in the accompanying tables. We conclude with insights on how AI-related capex and U.S.-imposed tariffs may affect credit conditions this year.

In the accompanying tables, fundamental scores relate to the relative health of each sector with 1 being very weak to 4 being very strong. Trend scores are short-term (1-2 quarters) views on the direction of fundamentals.

In **U.S. and European IG**, our fundamental scores skew positive and are essentially unchanged from Q4 '25. The U.S. IG trend score leans negative with a slight deterioration from Q4. The European IG trend score skews positive with a solid improvement from Q4. In leveraged finance, our U.S. fundamental scores slipped for a third consecutive quarter. The trend score also continued its deterioration over the prior four quarters.

Following the general strength of corporate results in 2025, the picture appears more mixed in 2026. In the U.S., full-year 2025 estimates call for 12.3% earnings growth on 7.0% revenue growth (continued...).

Sector Fundamental Score				
Weak		Strong		
1		2		3
				4
Communications	(IG) Media ● (HY) Print/publishers ✓ (HY) Radio broadcasters ✓ (HY) TV broadcasters ✓	(IG, HY) Cable ✓ (HY) Wireline ●	(EU IG) Telecom ↗ (IG) Telecom ● (HY) Outdoor ● (HY) Wireless ●	
Consumer	(IG) Food & beverage ● (HY) Consumer products ● (HY) Retail ●	(IG) Retailers ● (IG) Healthcare services ● (IG) Supermarkets ● (HY) Restaurants ● (HY) Automotive ● (IG) Restaurants ●	(IG, HY) Lodging ● (EU IG, IG) Consumer products ● (IG) Healthcare products ↗ (IG) Pharmaceuticals ● (IG) Tobacco ● (IG, HY) Airlines ● (IG, HY) Food & beverage ● (HY) Gaming ✓ (HY) Leisure (HY) Supermarkets ● (EU IG) Luxury goods ● (IG) Automotive ●	
Financials		(IG) Canadian banks ● (IG) Finance companies ● (IG) Life insurance ✓ (EU IG) European RE ●	(IG) U.S. money centers ● (IG) U.S. regionals ● (EU IG) Australian banks ● (EU IG) European Insurance ●	(IG) P&C insurance ● (IG) REITs ● (EU IG) European banks ●
Healthcare		(IG) Healthcare services ●	(IG) Healthcare products ● (IG) Pharmaceuticals ● (HY) Healthcare ●	(IG) Healthcare REITs ↗
Housing		(HY) Building materials ✓	(EU IG, IG) Building materials ● (IG) Lodging ● (HY) Homebuilders ✓	(IG) Residential REITs ●
Trend Score Key		Positive ↗ (4 trend score)	Neutral ● (2-3 trend score)	Negative ✓ (1 trend score)

## Q1 2026 CREDIT RESEARCH SUMMARY: CONTINUED

This year, estimates call for earnings growth of 14.2% on 7% revenue growth (up from 6.5% previously). Initial estimates for European earnings growth in Q4 '25 growth stood at 7%, but those expectations moderated throughout the year. Recent expectations for Q4 stood at -2.9%, and estimates see 2.2% earnings growth in Q1 '26, down from 2.4% previously.

While the impact of AI integration and capex varies across industries, most analysts see the opportunities outweighing the risks (i.e., slow adoption and commoditization risks). The opportunities include improved data analysis, assorted tech developments, operational efficiencies, and demand growth via infrastructure. From a credit perspective, the return on invested capital from AI capex will remain a “show me” story.

In Europe, as the effects from U.S.-imposed tariffs continue to develop, we see high impact in the auto sector, with medium impact in the consumer, industrial, manufacturing, and logistic sectors. We see a low impact in communications, financials, real estate, tech, utilities, and infrastructure.

Sector Fundamental Score				
Weak		Strong		
1		2		3
				4
Industrials & manufacturing	(IG) Chemicals ✓ (HY) Chemicals ●	(IG) Railroads ● (HY) Industrials & services ● (EU IG) Chemicals ● (EU IG) European autos ● (IG) Paper & packaging ● (HY) Paper & packaging ●	(IG, HY) Aerospace/defense ● (EU IG, HY) Capital goods ● (EU IG) Aerospace/defense ↗	(IG) Diversified manufactures ● (IG) Industrial REITs ●
Metals & mining			(HY) Steel & related mats ●	(IG) Metals & mining ● (HY) Non-ferrous metals ●
Oil & gas		(HY) Oil field services ● (HY) Refining ●	(IG) Oil field services ● (HY) Gas E&P ↗ (HY) Oil E&P ✓	(IG) Independents ● (IG) Integrated ● (IG) Refining ● (IG, HY) Pipelines ●
Technology			(EU IG, IG) Technology ● (HY) Hardware & semis ● (HY) Software ● (EU IG) Media & Tech	
Utilities & power		(IG) Electric ●	(HY) Electric/IPPs ↗ (EU IG) Utilities ● (EU IG) Infrastructure & transport ●	
Trend Score Key		Positive ↗ (4 trend score)	Neutral ● (2-3 trend score)	Negative ✓ (1 trend score)
Source: PGIM				

# GLOBAL SECTOR OUTLOOKS

## INVESTMENT GRADE CORPORATE BONDS

**Outlook: Carry conditions.** While spreads may widen in the short term, economic resilience, supportive yields, sound technicals, and stable credit fundamentals should help keep spreads near historical tights. However, the current environment is considered ripe for M&A—especially as companies seek AI-related cost efficiencies. We generally anticipate that heavier issuance will lead to some softening in technicals and credit fundamentals.

In the U.S., spreads on the IG Index remain tight, credit curves are flat, and BBBs are tight to As. Increased supply—attributed to a pickup in M&A and capex activity—could cause credit curves to steepen in 2026. Notably, leverage has been stable, and profit margins are near historical highs. While it is uncertain how aggressive management teams will be with balance sheets, more credit dispersion is expected. Overall, we believe spreads on the Index will likely trade within a 90-95 bps range.

Broader-based earnings growth is expected as earnings estimates call for 12.3% earnings growth on 7.0% revenue growth YoY in 2025. Unlike in prior years, growth for 2025 is not concentrated in the “Mag 7.” In fact

EPS is expected to grow ~12% YoY in 2026, with slightly more than half of that growth coming from the S&P 493.

A significant supply increase is expected in 2026 with about \$1.8 trillion to \$2.2 trillion in gross issuance and \$850 billion to \$950 billion in net issuance. Most of the supply will come from higher-quality, non-financial issuers in technology (e.g., hyperscalers), utilities (related to the AI buildout), pipelines, and pharmaceuticals (tariff-related).

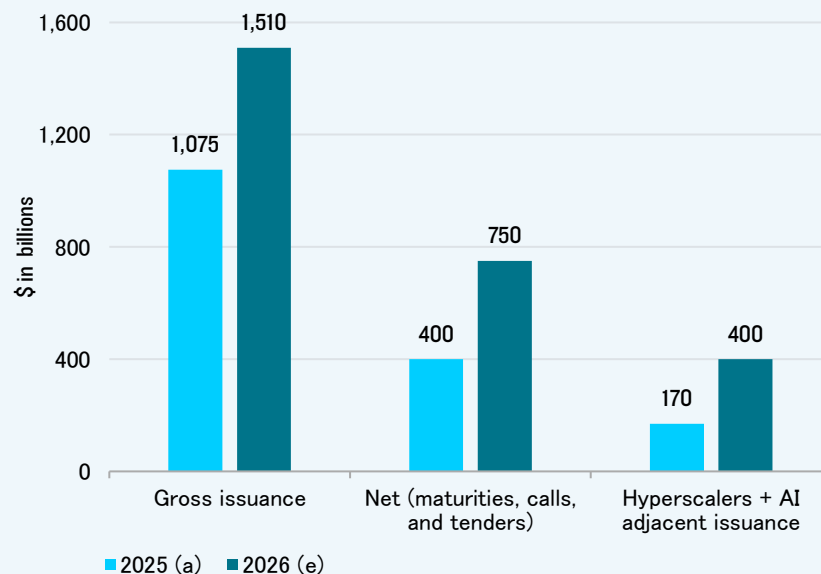
As for U.S. portfolio positioning, we are underweight spread duration, using roughly 20% of our risk budget. We favor banks, technology, select utilities, and select finance companies/BDCs. We are underweight life insurance, chemicals, and pharmaceuticals.

We believe **Euro IG spreads** will trade within an 85-90 bps range in 2026. Outside of major policy missteps or heightening in global risks that drive spreads materially wider (e.g., U.S.

stock or AI correction), supply/demand dynamics will be key to determining volatility.

Generally, when spreads widen to 90-95 bps and EUR rates remain stable,

Anticipating an increase in non-financial IG corporate supply



Source: Bloomberg, Dealogic, PitchBook LCD, Morgan Stanley Research forecasts. \*2025 figures based on actual issuance/calls/tenders through October 2025 and estimated issuance/calls/tenders through end of year.



## GLOBAL SECTOR OUTLOOKS: INVESTMENT GRADE CORPORATE BONDS

the sector experiences a surge in demand—particularly from overseas investors, including those in Japan. While Euro spreads have tightened more than U.S. spreads, we do not foresee a trade-through basis that exceeds 5-7 bps. The Euro IG Index has significant U.S. credit exposure (~22%), making full decoupling from U.S. trends unlikely.

As for supply, €750 billion in gross issuance and €200 billion in net issuance is expected in 2026. Animal spirits are lower in European corporates compared to the U.S. Thus, the wild card is U.S.-originated supply and M&A activity. That stated, the European market is now large enough for multi-tranche deals and U.S. companies continue to issue in euros for investment hedging purposes.

In EUR portfolios, we are mostly flat spread duration in corporates, but risk-on in subordinated paper. Global portfolios reflect U.S. and EUR positions.

# GLOBAL SECTOR OUTLOOKS

## LEVERAGED FINANCE AND DIRECT LENDING

**Outlook: Carry conditions.** We expect spreads to maintain a range near historical tights as persistently strong technicals and a robust credit environment offset prevailing global macro risks. While still constructive overall, we maintain our close-to-home defensive positioning across all regions. Late-cycle conditions in direct lending warrant greater selectivity on new deals, heightened attention to lender protections, and an emphasis on add-on opportunities with existing portfolio companies.

We expect **U.S. high yield bond** spreads to remain range bound near historic tights over the coming months on strong technicals and robust credit fundamentals. We believe HY spreads entered a late-cycle phase—i.e., an environment of tight spreads and low volatility—that could last throughout much of 2026. Thus, our base-case is for spreads to end the year only marginally wider.

While relatively tame “animal spirits” have curtailed primary supply, we expect increased M&A, LBO, and AI-related capex transactions this year, limiting any meaningful spread tightening from current levels. That said, the sector should still generate positive total returns in the coming quarters, particularly as a potential rise in

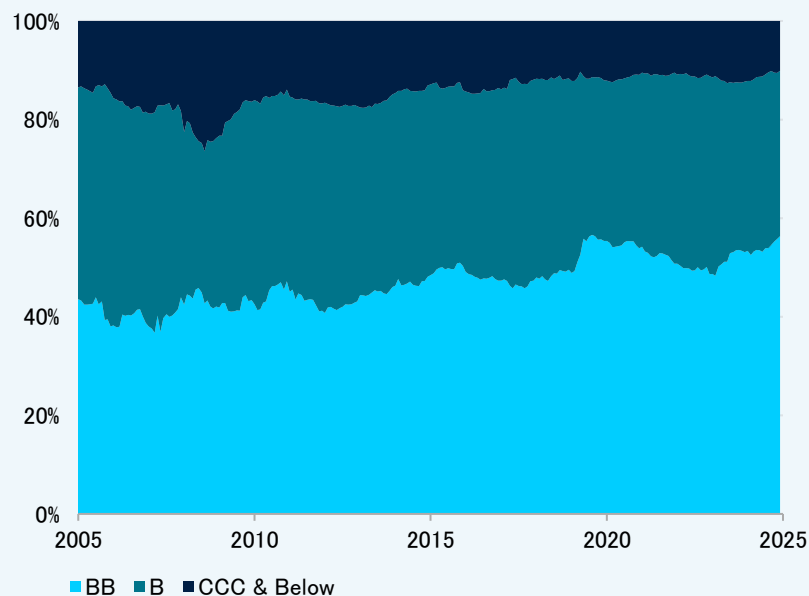
defaults amid re-leveraging and more aggressive behavior could be years away.

Solid market technicals should persist beyond Q1, supported by the healthy pace of refinancing, low speculative borrowing, and modest inflows. Further, the continued strength in credit fundamentals provides a buffer against macro uncertainty. Indeed, the accompanying chart shows today’s HY market is higher in credit quality with a shorter average duration when compared to the period of historically tight spreads in June 2007. However, geopolitical risks remain, while potential overheating from monetary and fiscal stimulus could push spreads wider, and the use of PE dry powder could reignite speculative issuance.

We’re maintaining our overweight to short-duration bonds and continue to reduce our underweight to high-quality issues. Looking at sectors, we are overweight home construction, telecom, and midstream energy, and underweight technology, media & entertainment, and

retailers & restaurants. However, recent adjustments include an increase to our overweight in paper & packaging, a further reduction in our overweights to building materials, home construction, and telecom, and an increase in our underweight to technology.

Historically High Credit Quality in U.S. High Yield



Source: Bank of America

## GLOBAL SECTOR OUTLOOKS: GLOBAL LEVERAGED FINANCE AND DIRECT LENDING

Heading into late 2025, **U.S. leveraged loan** returns were nearing 6%, inline with our expectations for the year. We expect a similar outcome in 2026, with returns in the 5.5-6% range, driven primarily by carry, but tempered by downward pressure from lower base rates, continued repricing transactions, elevated credit concerns, and potential technical pressures if net issuance accelerates. That said, we do not expect broad-based deterioration in fundamentals, but defaults and LMEs should remain elevated with recoveries below historical averages.

For 2026, we remain cautious on the lower-quality tail of the market, particularly on credits impacted by recent LMEs where recoveries and outcomes remain uncertain. In the primary market, net issuance should remain manageable, but risks of a higher supply include mounting datacenter-related financing, rising M&A activity, and more private-to-public transactions. Longer-term, the 2028 maturity wall looms, with approximately \$550 billion of maturities, including approximately \$168 billion rated B3 or lower. By the second half of 2026, these issuers are likely to face increased scrutiny and

pricing pressure amid elevated liquidity and refinancing concerns.

We continue to favor public BB and high B loans over sponsor-owned, low B and CCC loans as we expect those lower-quality facilities to be challenged by the fundamental backdrop. We believe that deep, fundamental credit research/modeling is increasingly important to credit selection. To that end, avoidance of defaults will likely be the biggest driver of alpha over the next 12-24 months.

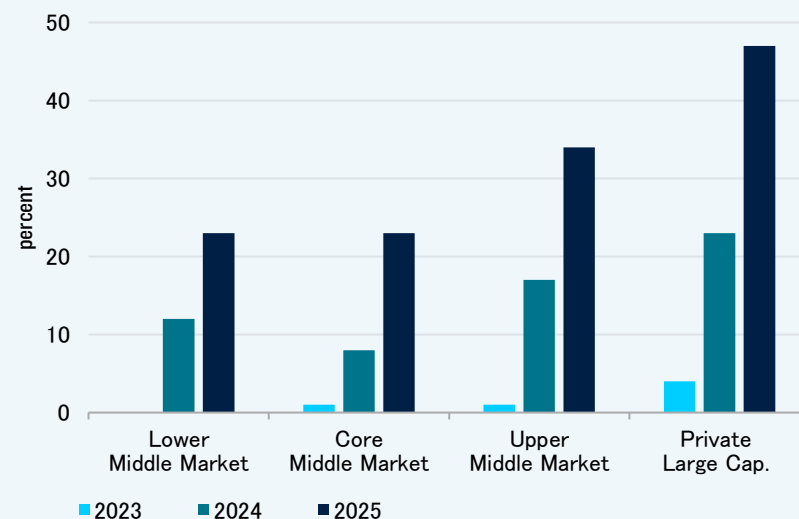
We expect the **European high yield bond and leverage loan** markets to remain resilient in early 2026, supported by strong technicals—i.e., limited net new supply, elevated yields, solid retail flows, overall short duration, solid fundamentals, and continued CLO formation (in the case of loans). Absent a broad market risk-off event, the technical environment should keep spreads near their current, historically tight levels. For full-year 2026, assuming a “Muddle Through” global economic scenario as a base case, we expect total returns in high yield bonds and bank loans to reach 5.5% and 4%, respectively.

We are cautiously constructive as we look ahead—while technicals are strong and spreads remain close to all-time tight, macro risks remain elevated. As such, we remain slightly overweight risk on an aggregate basis, with select overweights in cyclicals where the cycle is fully priced in. We continue to focus on relative value opportunities—maintaining a high-threshold for high-beta names in which we see elevated volatility given the relatively wide range of macro outcomes.

### Direct Lending

**Private direct lending** markets are characterized by conditions similar to those in the public leveraged finance markets. Credit health is generally sound, but late-stage market conditions persist. In the **upper middle market**, pressure on document protection and credit spreads continues to mount. This is despite still-falling base rates in the U.S. and UK. Our red line is weakness in security: with overall yields

Growing share of direct lending deals with sub S + 500 spreads (see following page)



Source: Houlihan Lokey

## GLOBAL SECTOR OUTLOOKS: GLOBAL LEVERAGED FINANCE AND DIRECT LENDING

lower than they have been in some time, we seek to maximize lien protection as insurance against economic uncertainty and capital market volatility.

In the **core middle market**, deal competition between non-bank lenders and banks remains fierce. As a result, we see rising pressure to go covenant-wide, or even covenant-lite, on deals with companies as small as \$50 million in EBITDA. The main drivers of covenant pressure are elevated levels of dry powder and continued slow M&A activity.

We expect these factors to begin to unlock in the first half of 2026, particularly if Q4's pick-up in activity is any indication. Given the prevailing market conditions, we are emphasizing add-on activity with existing portfolio companies, which has allowed us to exercise restraint when competing for new platforms. We find the non-sponsored market to be comparatively robust, particularly in Europe. We find more value in continental Europe compared with the UK.

In the **lower middle market**, similar supply/demand dynamics exist. The poor fundraising environment for many middle market lenders means more competition for smaller deals that fit reduced hold sizes. As a result, pricing for lower middle market deals in 2025 has been on top of, and in some cases through, core middle market deals. The increased vulnerability of smaller companies below \$15-\$20 million in EBITDA is particularly acute, so we exercise extreme selectivity in that tier, which we expect to continue in the first half of 2026.

# GLOBAL SECTOR OUTLOOKS

## EMERGING MARKETS

**Outlook: Modest spread tightening and attractive carry conditions. EM economic growth and improving fundamentals continue to attract flows into the sector despite tight spread levels. With the appropriate identification of bottom-up alpha opportunities, EM hard currency returns could still reach the high-single digit range. The return trajectory for EM corporates should also remain positive. Due to stretched valuations, we are cautious on EM rates, and, in EMFX, we expect the U.S. dollar to maintain its weakening bias.**

A mix of top-down and bottom-up drivers helped EMD outperform other asset classes in 2025. These include a combination of: 1) global/U.S. growth outperformance relative to expectations; 2) EM growth resilience based on fundamentals and EM trade dynamics; 3) a reversal of USD strength; 4) healthy global liquidity, resulting in investor reach for yield; 5) DM/EM rate cuts; and 6) a reframing of the new world order (see more on Venezuela here).

A common theme throughout 2025 was the dispersion of returns in **EM sovereigns**, with higher yielding/lower-rated issuers outperforming on the back of investor risk appetite and improved

fundamentals, as observed in the accompanying chart. Ratings upgrades resulted from several issuers emerging from default (e.g., Zambia, Sri Lanka, Ghana), improved balance of payments, and upgrades into the B (e.g., Egypt, Pakistan, Nigeria, El Salvador) and BB (e.g., Turkey, Ivory Coast) categories.

Considering that many investors were under-allocated to EMD to start 2025 and as investors increased their allocations amid 2025's strong performance, we do not believe any near-term selloffs will lead to an exodus from the sector. Importantly, the EM/DM growth differential should continue to play in EM's favor,

even as China's growth slows. A growth differential of 2.5% or higher often leads to flows into EMD.

Within the global backdrop, the extent to which slowing growth is still “good

enough” and whether relative EM growth continues to attract flows, all matter. However, country-specific drivers should dominate in 2026. In a context where the Fed cuts rates and the

Higher yielding/lower rated issuers outperformed



Source: JP Morgan and Bloomberg

## GLOBAL SECTOR OUTLOOKS: EMERGING MARKETS

U.S. fiscal outlook does not result in a massive bear steepening of the U.S. Treasury curve, EM hard currency returns could reach the high-single digit range with the appropriate identification of bottom-up alpha opportunities.

Fiscal weakness and populist policy tendencies, in part related to the upcoming EM election calendar, underscore a few vulnerabilities to the outlook. Brazil and Colombia face elections and both countries have polarized political policy outlooks coupled with large fiscal risks. While there are ratings risks for Colombia and Brazil, we do not anticipate downgrades that lead to major credit dislocations. Other elections include those in Peru, Hungary, and Costa Rica.

When viewed through the lens of geopolitical dynamics (including the broader U.S./China strategic competition and the focus on regional “spheres of influence”), election outcomes may result in alpha opportunities. This is particularly true for U.S./Latin America relations, where U.S. policy priorities related to immigration, trade, security (i.e. narco-trafficking) enabled some Central and South American EM issuers to benefit.

Elections in 2025 saw a shift to the right (e.g., Ecuador, Chile, Argentina, Romania). It is unclear how 2026 will play out and impact sentiment, but in countries with material election risks, we have adjusted positioning accordingly.

Similarly, changing trade dynamics will continue to play out in 2026. While effective tariff rates are likely to remain higher than before, other factors will likely limit their impact on growth. EM supply chain dynamics and trade diversion tactics will continue to play out and impact tech exports, such as those in Asia. Commodity-rich countries are beneficiaries of changing geopolitics. Fragmentation is a risk, but many EMs are less vulnerable as they have multiple trading partners, diversified trade baskets, and differing levels of exposure to the U.S.

We continue to see attractive opportunities in BBs (e.g., Mexican quasi-sovereigns, Ivory Coast, South Africa, Serbia), select B, and lower-rated “stressed” names (e.g., Ecuador, Argentina, Ghana, Lebanon). In the event of a broader risk-off event, BBs are well insulated and offer a yield cushion, and the “stressed” names either have support from the U.S., other

bilaterals, and/or multilaterals, as well as constructive fundamental dynamics.

Other geopolitical hotspots, including Ukraine and Venezuela, remain complicated. While vast uncertainty surrounds **Venezuelan-related** bonds, Maduro’s ousting may be considered a market-positive event. For now, the current Venezuelan leadership may cooperate with the U.S. on potential investment in the oil sector and with immigration issues. At a minimum, this puts possible, yet complex, debt restructuring on the horizon.

In the case of Ukraine, it is not clear that any likely outcome would lead to significant upside. There are a few issuers that face reasonable financing needs: Argentina, Romania (IG) Mexico (IG), select GCC countries, and Turkey. We expect some of these to employ the types of financial engineering that helped many issuers in 2025 (e.g., Mex/Pemex, Colombia, Panama). However, selectivity is key as some examples did not necessarily improve the debt dynamics. The use of credit enhancements is a positive development and can help lower-rated issuers, such as Ecuador and Argentina. We caution that for some EM IG issuers, the AI-

related supply from the U.S. hyperscalers could impact spread levels and limit some appetite.

**EM corporate** spreads remained well anchored in Q4, driving positive returns. We believe this will likely remain the case over the next quarter given the strong fundamentals and still-elevated spread pick-up to developed market HY. While EM corporates significantly lagged sovereigns over the past quarter and year, this came after a period of strong outperformance. Last year saw a pick-up in fundamental stress in select sectors, such as chemicals and Brazilian corporates, but we expect overall defaults to remain contained in the 3% area for EM HY going forward (in-line with developed markets) given very manageable refinancing needs and resiliency in the underlying EM economies.

The supply from EM infrastructure across energy and transportation is presenting some very attractive opportunities, and technicals remain supportive with cash on the sidelines—especially in Asia. Some of our favored sectors include subordinated Korea/Taiwan insurance, LatAm bank capital, Indian metals & mining, and Mexican



## GLOBAL SECTOR OUTLOOKS: EMERGING MARKETS

utilities. We continue to favor the BB/BBB space for the best risk-reward.

EM corporate fundamentals remain resilient with nominal revenues and EBITDA still growing (albeit slowly) and the strength in EM currencies supportive of EM corporates' ability to service USD bonds. Local financial conditions and surplus liquidity have opened more avenues for refinancing in local currencies. The tariff risks have mostly been mitigated through realignment of supply chains, but we are watchful of pressure on operating margins over the medium term. China's export resilience presents both risks and opportunities, and some countries have implemented safeguards, such as anti-dumping duties, to protect local industries.

The expectation for 2026 is that gross issuance remains elevated, with higher quality Middle East issuance continuing to grow given the investment needs. Notable exceptions to the higher issuance include India and China, which have chosen to issue in the local markets due to lower rates and abundant liquidity, keeping spreads anchored. The medium- and longer-

term return and information ratios for EM corporates look very attractive and we prefer to remain invested.

After stellar performance in 2025, we have turned cautious on **EM local rates**. The most notable feature among many EM countries last year was monetary easing, bringing terminal rates closer to the lower end of the neutral rate zone. Brazil was the only EM country that hiked in 2025.

Our base case in 2026 is that the majority of countries that cut rates last year are likely to stay on hold for the foreseeable future as reflected by the positive 2s5s spread on the swap curve. Swap curves in Korea, India, Mexico, and Colombia are showing outright hikes over the next two years. We expect only Colombia to embark on a hiking cycle soon, with the other three countries likely to stay on an extended hold.

Peru, Chile, Poland, and South Africa are in a sweet spot of one or two additional rate cuts based on their benign inflation trajectory. But beyond that, we expect their central banks to remain cautious. Indonesia, Philippines, Thailand, and Malaysia

have room to cut, but tight yield differentials with U.S. rates and financial stability concerns limit further easing. Hungary and Brazil are strong candidates for monetary easing in 2026 (domestic politics permitting). Turkey has room to cut aggressively and overshoot the 1000 bps of cuts priced in the curve.

Looking ahead, we expect to earn carry with very little price appreciation from yield compression. Unlike the directional long-duration theme in 2025, we expect more relative value alpha opportunities in 2026. We expect EM local yield curves to remain steep and vulnerable to steepening pressure from the DM rate complexes.

In **EMFX**, the U.S. dollar outperformed rate differentials for the second consecutive quarter in Q4, with high-carry currencies outperforming low-carry currencies. Looking ahead, we remain relative-value focused with the expectation that high-carry currencies will continue to outperform amid a broad-based weakening in the U.S. dollar due to several factors: a weakening U.S. labor market; additional Fed rate cuts; ample U.S. liquidity; a "Muddle Through" U.S.

economy that should benefit high-carry currencies; and EU fiscal measures that could offset growth downside, leading to higher growth vis-a-vis the U.S. Furthermore, after two quarters of underperformance, we believe Asia FX has scope for outperformance given valuations, little scope for rate cuts, lower USD carry, and the prospects of a trade deal with India.

Risks to this outlook include fewer Fed rate cuts than anticipated, a U.S. recession or global growth slowdown, increased geopolitical risks, and fiscal and election concerns in select countries, such as Brazil and Colombia.

In terms of positioning, we remain focused on relative-value opportunities, with high-carry long positions and low-carry short positions.

# GLOBAL SECTOR OUTLOOKS

## MUNICIPAL BONDS

**Outlook: Carry conditions. All-in yields, healthy fundamentals, and relative value opportunities will likely support demand going forward. The combined effect of anticipated Fed rate cuts and steep muni curves should help to mitigate potential volatility and encourage investors to extend duration.**

We enter 2026 with a very steep 10s/30s tax-exempt munis curve and reasonable long-end yield ratios. All-in yields are still very attractive, with the YTW on the Index around 2011 levels. In addition, taxable equivalent yields (TEY) are competitive relative to corporates. The AA muni index TEY is approximately 6% compared to IG corporates at around 5%. In addition, the HY muni TEY is approximately 9% compared to an HY corporate TEY of around 7%.

Furthermore, IG corporate spreads have tightened more than IG muni spreads, and HY muni spreads have widened. If IG corporate spreads widen, relative value may be challenged. As long as the economy remains resilient, we view the notable dispersion in HY muni performance as an opportunity to select credits with

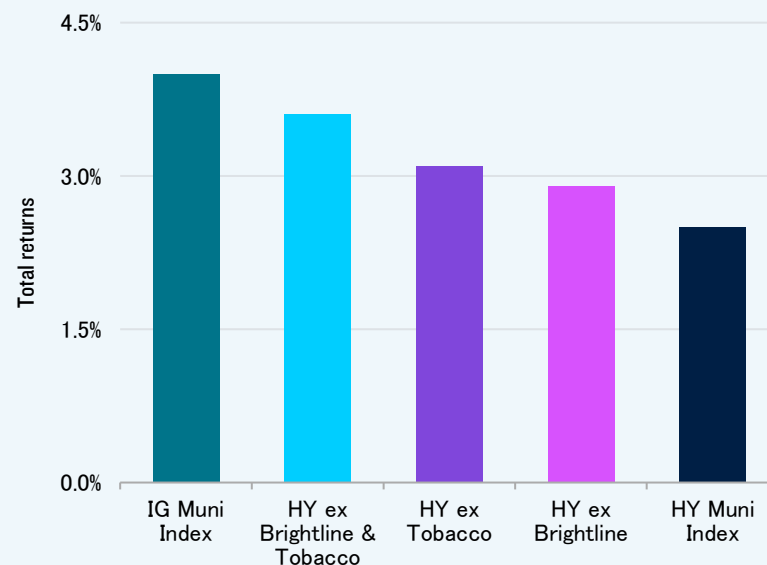
attractive relative value compared to corporates.

In terms of fundamentals, although state revenue growth is slowing (0.6% growth expected in 2026), so is state spending (median 0.2% growth expected in 2026). With GDP forecasted to grow at trend, we expect many revenue bond sectors (e.g., transportation, development, and dedicated tax bonds) will perform well. In addition, rainy day funds remain healthy and estimated expenses for 2026 have declined from the record reached in 2024 of 14.9%. While the upgrade/downgrade ratio has moderated to 1.1x, most sectors have held up well compared to higher education (0.7x) and charter schools (0.7x).

**On the technical front,** a pull-forward in issuance prompted by uncertainty, as seen in 2025 due to tax legislation or political scrutiny of vulnerable sectors (e.g., universities with cloudy fiscal outlooks), is not

expected to be repeated in 2026. That stated, we expect supply to be flat YoY, with ~\$600 billion in gross supply and \$100-\$200 billion of net supply anticipated.

**The High Yield muni index underperformed the IG muni index in 2025 due primarily to the poor performance of Brightline and MSA Tobacco**



Source: Barclays, as of December 12, 2025

## GLOBAL SECTOR OUTLOOKS: MUNICIPALS

While the estimated net supply is elevated, inflows are sufficient to support muni valuations.

**In taxable munis,** Rate volatility has returned to pre-liftoff levels, opening the door for more volatility going forward. Record IG corporate issuance in 2026 may also put pressure on taxable spreads.

**We continue to implement barbell positioning.** We have more conviction in the 1-3 year and 15-20 year portions of the muni curve, with most of our overweight allocation focused on the back end of the curve given its steepness. This overweight has been tempered to address the potential for an “Overheating” scenario, which could cause the long end to selloff. We favor prepaid gas despite the negative technical, student loans, planned amortization class (PAC) bonds, municipal utility district (MUD) bond anticipation notes (BANs), along with Puerto Rico, some tobacco, and multi-family housing bonds. We are cautious on healthcare, universities, and local government bonds (e.g., NYC and Chicago).

# SUMMARY OF OUTLOOKS & ASSET CLASS VIEWS

This summary consists of our short- and long-term (1-yr) sector outlooks. The latter is based on a scale of 1-5 with an accompanying description that indicates our expectation for the sector's total excess return.<sup>1</sup>

MARKET RATING: ● Carry

**DM Rates:** Monitoring for higher volatility and repricing of term premia across developed market government yield curves, particularly as global central bank policies diverge. Steeper curves should enhance roll and carry opportunities.

● U.S. ● UK  
● Europe ● Japan

**Agency MBS:** Carry conditions. MBS carry remains intact vs. intermediate Treasuries despite tight spreads. We favor a barbell position consisting of near-par coupon and low coupon 30-year issues, while avoiding the middle of the stack. We are underweight higher coupons amid call risk concerns, and we continue to prefer specified pools over TBAs for better fundamental value and convexity.

● Agency MBS

**Securitized Credit:** Carry conditions. Spreads generally widened in 2025, yet remain tighter than average. Given the sector's flat credit curves, valuations on high-quality securitized assets remain attractive relative to other fixed income sectors. Our outlooks for CMBS, RMBS, CLOs, and ABS reflect tighter-than-average spreads and stabilizing or weakening underlying asset fundamentals, supporting carry conditions with limited potential for capital appreciation. We continue to focus on tranches at or near the top of capital structures and remain highly selective of more credit-sensitive positions as downside risks outweigh the rewards. Positive ABF flows continue, and we are targeting structures suited to perform through the cycle in residential, commercial, and prime consumer subsectors.

● CMBS ● RMBS  
● CLOs ● ABS

**Global IG Corporates:** Carry conditions. While spreads may widen in the short term, economic resilience, supportive yields, sound technicals, and stable credit fundamentals should help keep spreads near historical tights. However, the current environment is considered ripe for M&A—especially as companies seek AI-related cost efficiencies. We generally anticipate that heavier issuance will lead to some softening in technicals and credit fundamentals.

● U.S. Corps. I-10 ● European Corps. I-5  
● U.S. Corps. IO+ ● European Corps. 5+

**Global Leveraged Finance:** Carry conditions. We expect spreads to maintain a range near historical tights as strong technicals and a robust credit environment offset prevailing global macro risks. While still constructive overall, we maintain our close-to-home defensive positioning across all regions. Late-cycle conditions in direct lending warrant greater selectivity on new deals, heightened attention to lender protections, and an emphasis on add-on opportunities with existing portfolio companies.

● U.S. High Yield I-5 ● Euro High Yield BB  
● U.S. High Yield 5+ ● Euro High Yield B & below  
● U.S. Leveraged Loans ● Euro Leveraged Loans

**EM Debt:** Modest spread tightening and attractive carry conditions. EM economic growth and improving fundamentals continue to attract flows into the sector despite tight spread levels. With the appropriate identification of bottom-up alpha opportunities, EM hard currency returns could still reach the high-single digit range. The return trajectory for EM corporates should also remain positive. Due to stretched valuations, we are cautious on EM rates, and, in EMFX, we expect the U.S. dollar to maintain its weakening bias.

● Sov. Hard Currency IG ● EMFX<sup>2</sup>  
● Sov. Hard Currency HY ● Corps. IG  
● Local rates<sup>2</sup> ● Corps. HY

**Municipal Bonds:** Carry conditions. All-in yields, healthy fundamentals, and relative value opportunities will likely support demand going forward. The combined effect of anticipated Fed rate cuts and steep muni curves should help to mitigate potential volatility and encourage investors to extend duration.

● Taxable

KEY TO MARKET RATINGS | ● Sell Off ● Correction ● Carry ● Modest Tightening ● Bull Market

<sup>1</sup> The positioning in a respective portfolio may not be identical to the long-term ratings. The ratings and information herein is for comparison purposes.

<sup>2</sup> The scores on the indicated asset classes are based on expectations for total excess returns.

# SUMMARY OF MARKET PERFORMANCE

	Total Return (%)		Spread Change (bps)		OAS (bps)
	Q4	YTD	Q4	YTD	12/31/25
U.S. IG Corps.	0.84	7.77	4	-2	78
Euro IG Corps.	0.27	3.03	0	-24	78

Source: Bloomberg.

	Total return (%)		Spread change (bps)		OAS / DM (bps)
	Q4	YTD	Q4	YTD	12/31/25
U.S. High Yield	1.31	8.62	-1	-20	266
Euro High Yield	0.66	4.86	0	-36	281
U.S. Leveraged Loans	1.19	5.94	4	-20	455
Euro Leveraged Loans	0.67	4.00	5	2	474

Source: ICE BofAML and S&P UBS.

	Total return (%)		Spread change (bps)		OAS / Yield (bps; %)
	Q4	YTD	Q4	YTD	12/31/25
EM Hard Currency	3.29	14.27	-30	-72	253
EM Local (Hedged)	1.69	8.34	-7	-53	5.86
EMFX	1.67	13.11	-9	-247	5.74
EM Corps.	1.29	8.72	4	-3	237

Source: J.P. Morgan

	Total return (%)	
	Q4	YTD
High Grade Tax-exempt	1.56	4.25
High Yield Tax-exempt	1.15	2.46
Long Taxable Munis Agg. Eligible	1.33	8.08

Source: Bloomberg. Represents the Bloomberg Municipal Bond Indices.

Sector	Subsector	Spread change (bps)		SOFR OAS 12/31/25
		Q4		
CMBS	CMBS: Conduit AAA	First-pay 10-year	-9	115
	CMBS: Conduit BBB-	BBB-	-8	488
	CMBS: SASB –Sr.	AAA	0	140
	CMBS: SASB – Mezz	BBB-	-5	225
	CMBS: Agency Multifamily	Senior	-9	78
Non-Agency RMBS	Legacy	RPL Senior	+2	154
	Legacy	'06/'07 Alt-A	0	190
	GSE Risk-Sharing	M2	+5	155
CLOs	CLO 2.0	AAA	+1	121
	CLO 2.0	AA	+5	160
	CLO 2.0	BBB	+10	265
ABS	Unsecured Consumer Loan ABS	Seniors	-12	110
	U.S. Auto	Senior	+1	65

Source: PGIM

Past performance is not a guarantee or a reliable indicator of future results. See Notice for important disclosures. All investments involve risk, including possible loss of capital. An investment cannot be made directly in an index. All data as of December 31, 2025.

Source(s) of data (unless otherwise noted): PGIM as of July 2025.

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## INDEX DESCRIPTIONS

### U.S. INVESTMENT GRADE CORPORATE BONDS

**Bloomberg U.S. Corporate Bond Index:** The Bloomberg U.S. Investment Grade Corporate Bond Index covers U.S.D-denominated, investment-grade, fixed-rate or step up, taxable securities sold by industrial, utility and financial issuers. It includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. Securities included in the index must have at least 1 year until final maturity and be rated investment-grade (Baa3/ BBB-/BBB-) or better using the middle rating of Moody's, S&P, and Fitch.

### EUROPEAN INVESTMENT GRADE CORPORATE BONDS

**Bloomberg European Corporate Bond Index (unhedged):** The Bloomberg Euro-Aggregate: Corporates bond Index is a rules-based benchmark measuring investment grade, EUR denominated, fixed rate, and corporate only. Only bonds with a maturity of 1 year and above are eligible.

### U.S. HIGH YIELD BONDS

**ICE BofAML U.S. High Yield Index:** The ICE BofAML U.S. High Yield Index covers US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch), at least 18 months to final maturity at the time of issuance, and at least one year remaining term to final maturity as of the rebalancing date.

### EUROPEAN HIGH YIELD BONDS

**ICE BofA European Currency High Yield Index:** This data represents the ICE BofA Euro High Yield Index value, which tracks the performance of Euro denominated below investment grade corporate debt publicly issued in the euro domestic or eurobond markets. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P, and Fitch). Qualifying securities must have at least one year remaining term to maturity, a fixed coupon schedule, and a minimum amount outstanding of €100 M. ICE Data Indices, LLC, used with permission.

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### U.S. SENIOR SECURED LOANS

**S&P UBS Leveraged Loan Index:** The Index is a representative, unmanaged index of tradable, U.S. dollar denominated floating rate senior secured loans and is designed to mirror the investable universe of the U.S. dollar denominated leveraged loan market. The Index return does not reflect the impact of principal repayments in the current month.

### EUROPEAN SENIOR SECURED LOANS

**S&P UBS Western European Leveraged Loan Index Hedged:** All Denominations EUR hedged. The Index is a representative, unmanaged index of tradable, floating rate senior secured loans designed to mirror the investable universe of the European leveraged loan market. The Index return does not reflect the impact of principal repayments in the current month.

### EMERGING MARKETS U.S.D SOVEREIGN DEBT:

**J.P. Morgan Emerging Markets Bond Index Global Diversified:** The Emerging Markets Bond Index Global Diversified (EMBI Global) tracks total returns for U.S.D-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, and Eurobonds. It limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible current face amounts of debt outstanding. To be deemed an emerging market by the EMBI Global Diversified Index, a country must be rated Baa1/BBB+ or below by Moody's/S&P rating agencies. Information has been obtained from sources believed

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### EMERGING MARKETS LOCAL DEBT (UNHEDGED)

**J.P. Morgan Government Bond Index-Emerging Markets Global Diversified Index:** The Government Bond Index-Emerging Markets Global Diversified Index (GBI-EM Global) tracks total returns for local currency bonds issued by emerging market governments.

### EMERGING MARKETS CORPORATE BONDS

**J.P. Morgan Corporate Emerging Markets Bond Index Broad Diversified:** The CEMBI tracks total returns of U.S. dollar-denominated debt instruments issued by corporate entities in Emerging Markets countries.

### EMERGING MARKETS CURRENCIES

**J.P. Morgan Emerging Local Markets Index Plus:** The JP Morgan Emerging Local Markets Index Plus (JPM ELM+ ) tracks total returns for local currency-denominated money market instruments.

### MUNICIPAL BONDS

**Bloomberg Municipal Bond Indices:** The index covers the U.S.D-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. The bonds must be fixed-rate or step ups, have a dated date after Dec. 13, 1990, and must be at least 1 year from their maturity date. Non-credit enhanced bonds (municipal debt without a guarantee) must be rated investment grade (Baa3/BBB-/BBB- or better) by the middle rating of Moody's, S&P, and Fitch.

### U.S. TREASURY BONDS

**Bloomberg U.S. Treasury Bond Index:** The Bloomberg U.S. Treasury Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index.

### MORTGAGE BACKED SECURITIES

**Bloomberg U.S. MBS—Agency Fixed Rate Index:** The Bloomberg U.S. Mortgage Backed Securities (MBS) Index tracks agency mortgage backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage.

### COMMERCIAL MORTGAGE-BACKED SECURITIES

**Bloomberg CMBS: ERISA Eligible Index:** The index measures the performance of investment-grade commercial mortgage-backed securities, which are classes of securities that represent interests in pools of commercial mortgages. The index includes only CMBS that are Employee Retirement Income Security Act of 1974, which will deem ERISA eligible the certificates with the first priority of principal repayment, as long as certain conditions are met, including the requirement that the certificates be rated in one of the three highest rating categories by Fitch, Inc., Moody's Investors Services or Standard & Poor's.

### U.S. AGGREGATE BOND INDEX

**Bloomberg U.S. Aggregate Bond Index:** The Bloomberg U.S. Aggregate Index covers the U.S.D-denominated, investment-grade, fixed-rate or step up, taxable bond market of SEC-registered securities and includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS sectors. Securities included in the index must have at least 1 year until final maturity and be rated investment-grade (Baa3/ BBB-/BBB-) or better using the middle rating of Moody's, S&P, and Fitch.

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