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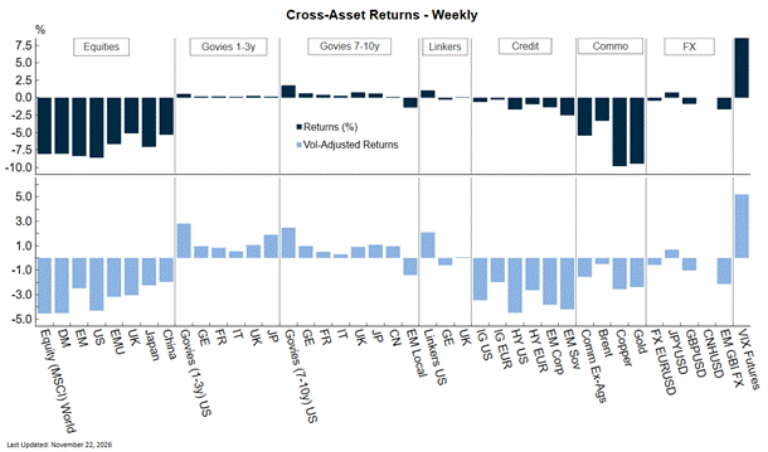
As the AI Ecosystem Turns

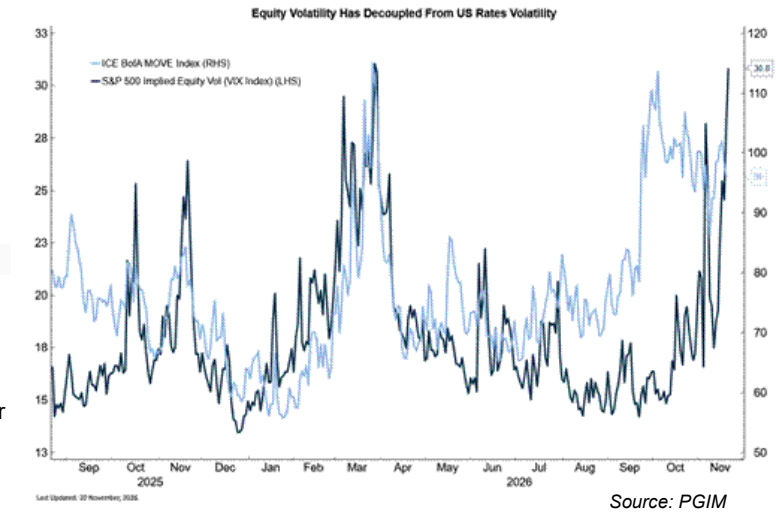
WEEKLY VIEW FROM THE DESK | November 23, 2026

LINK TO WEEKLY RETURNS TABLE

MACRO

- As the Nvidia drama unfolds, we see three potential implications from the situation: tighter U.S. chip controls, potential escalation in U.S.-China tensions, and tighter financial conditions across the AI ecosystem. We see a high likelihood of **tighter controls** on chip exports with limited macro effects. Tightened restrictions would close the remote-access loophole that reportedly allowed China-linked firms to obtain advanced computing capacity through third-country data centers. Considering that advanced chips remain supply-constrained, rather than demand constrained, displaced Nvidia chips from tightened controls would likely find buyers elsewhere, hence the limited macro effects. Tighter controls could reduce data-center activity in markets such as Singapore, Malaysia, Thailand, and Indonesia.
- We see heightened **U.S.-China tensions** as a moderate tail risk over the medium term. Although we expect the current truce to mostly hold during the remainder of the Trump Administration, bipartisan pressure for a tougher stance toward China could mount and potentially involve higher tariffs—e.g., see today's newly announced tariffs pertaining to China. Chinese retaliation could involve strategic supply-chain chokepoints, such as rare earths.
- We see moderate probability of **tighter AI financing** conditions, which could be the most consequential macro transmission channel. Nvidia has become deeply intertwined with financing the broader AI ecosystem through equity stakes, guarantees, and cloud-capacity commitments. A pullback could expose highly leveraged players, particularly neoclouds, and weaken AI-related capital spending. See last week's edition for our **AI buildout scenarios**.
- A more moderate buildout process has several implications, including slower economic growth and less AI-related credit issuance, both of which could be positive for fixed income (see the top chart for last week's cross-asset performance). Another outcome is broader dispersion across the AI ecosystem. Withdrawal of the Nvidia capital backstop could expose the most-levered players, and the companies most levered to the AI buildout, such as the levered neoclouds, become riskier. Therefore, AI's intense creative-destruction process could result in faster segmentation of the winners and losers.





Source: PGIM

DEVELOPED MARKET RATES

- While DM rates reacted to the recent, tech-led market uncertainty (see bottom chart), we continue to anticipate a gradual, stair-step higher in yields as the market follows the forward curve until inflation convincingly moves back toward target. We see a wide, current trading range on the U.S. 10-year yield of roughly 4.25%-5.50%, potentially centered near 4.90%. That range could shift to 4.75%-6.00%, with a central tendency of 5.30%, by the end of next year.
- With that rate backdrop and the potential for additional equity volatility going forward, credit markets may remain relatively resilient. Corporate fundamentals are stronger than prior stress episodes of the 2000s, such as the telecom credit collapse or the '08/09 financial crisis. More recently, credits have weathered COVID, the 2022 rate shock, and last year's tariff-related volatility.
- Elsewhere, we have turned more constructive on agency MBS due to the sector's light supply, reasonable valuations, and a year-end technical tailwind. We favor seasoned 30-year coupons and lower.

IG CORPORATES

- We think the market has a near-term tailwind after last week's uncertainty when the corporate index widened 10 bps to 96 bps, while a benchmark ETF widened by about 10.7 bps. AI/tech was the pressure point. Oracle and SpaceX each widened by roughly 33 bps, while non-cyclicals and financials were less volatile.
- Technicals remain supportive. Gross issuance has already exceeded $2T for 2026, although supply is expected to slow sharply this week. Elevated all-in yields and limited long-end corporate issuance continue to underpin demand. Last week saw new issuance of about $43B, with deals 3.4x oversubscribed and coming with a 3.1 bps concession.
- European IG spreads also widened last week and partially retraced on Monday. French banks were among the stronger performers as French sovereign spreads improved. Light issuance in December could bring some technical support as well.

LEVERAGED FINANCE

- U.S. high yield markets sold off sharply last week, as a broad-based unwind of the AI trade drove risk assets lower across the globe and pushed credit spreads to their widest levels in roughly 18 months. Lower-quality, higher-beta names underperformed meaningfully throughout the week, with CCC-rated credits bearing the brunt of the selloff as investors reduced risk across the ratings spectrum.
- The technical backdrop deteriorated over the course of the week, with fund flows turning sharply negative and spreads reaching year-to-date wides. Total returns were mixed across sectors, with the best performers being paper, aerospace, and food/bev/tobacco, while the worst performing sectors were telecom, media, and healthcare.
- High yield reported negative flows for the week totaling -$2.3B (-$1.7B ETFs). It was the second-largest weekly outflow in almost eight months, bringing YTD flows to -$4.1B (+$2.4B ETFs).
- The high yield primary market priced approximately $7.4B across 10 deals compared to $2.3B priced the prior week. Notable transactions were CVR Energy ($1.25B), Proofpoint ($1.25B), and Smyrna Ready Mix Concrete ($1.0B).
- European HY widened roughly 28 bps to about 366 bps, while European leveraged loans widened about 12 bps to 541 bps. BBs held up considerably better than single Bs, and the gap was even more pronounced in loans: single-B loans remain positive YTD, while lower-quality loans have generated sharply negative returns. With real-money HY facing negative annual returns and credit hedge funds under pressure, investors are becoming increasingly defensive into year-end.

EMERGING MARKETS

- EM credit sold off sharply last week. Sovereign spreads widened roughly 37 bps and corporate spreads about 32 bps, with particularly pronounced decompression in lower-quality credit. High yield bore the brunt of the weakness. Both sovereign and corporate high yield widened by more than 50 bps, while Argentina, Venezuela, Ukraine, Lebanon and Ecuador declined roughly 4%-7%.
- Technicals likely exaggerated the move. More than $1.5B of retail outflows, concentrated hedge-fund and real-money positioning, and limited dealer appetite to warehouse risk into year-end contributed to the selloff. Some valuations now look disconnected from fundamentals. Argentina spreads may have reached levels that appear excessive relative to its idiosyncratic fundamentals.
- Dollar resilience was an important signal. High-carry, cyclical currencies, particularly in Latin America, weakened amid falling commodity prices, but the dollar also remained firm against low-carry currencies despite declining Treasury yields and less favorable rate differentials.
- That dollar strength suggests financial conditions could stay tight for longer. We characterize the environment as somewhere between 2018 and 2022, with tightening financial conditions potentially persisting rather than quickly reversing. The team retains a long-dollar bias. Although some exposure has been reduced, the intention is to rebuild long-dollar positions on a retracement.
- We are more constructive on EM local rates. Lower commodity prices, particularly energy, have improved the outlook for rates, although persistent dollar strength remains a source of caution. Higher-quality local markets are preferred. Positioning is concentrated in countries where central banks have greater ability to conduct independent monetary policy and are less constrained by capital flows. Those markets have generally traded directionally in line with Treasuries.

SECURITIZED PRODUCTS

- Senior securitized spreads remained resilient despite the risk-off volatility, reflecting the sector's diversification attributes. Dispersion is more evident lower in the capital structure as mezzanine and credit tranches show greater differentiation based on underlying collateral quality, subsector, and portfolio performance. After elevated securitized issuance through much of the year, we expect issuance to slow and support conditions in the near term.
- Overall positioning is leaning positive CMBS, CLOs, and RMBS, while maintaining a more neutral short-term stance on ABS. ABS was the relative laggard last week. AAA spreads widened roughly 5 bps, while mezzanine spreads moved about 25-30 bps wider. Fiber-related BB exposure was an area of particular pressure last week.

MUNICIPALS

- Munis sold off throughout last week, leading to negative returns (-0.27%), and underperforming Treasuries. Taxable munis were more resilient, with spreads only drifting modestly wider. Extremely limited taxable issuance continues to provide a supportive technical backdrop, and we have upgraded our short-term outlook on taxable munis to positive.
- Relative value is improving. The short-to-intermediate curve has moved back toward neutral/fair value, while the long end is now slightly cheap versus Treasuries relative to longer-term averages. Ratios in the low-to-mid 90s could begin attracting crossover buyers.
- There is virtually no supply coming this week but there is ~$4B prepay on day-to-day status. Supply is expected to pick up by Dec. 1 but that coincides with a heavy Dec. 1 reinvestment date. Overall, year-to-date inflows remain strong at roughly $72 billion, which would rank as the third-highest annual total on record.

THE RETURNS TABLE AS OF NOVEMBER 20, 2026

				Yield / OAS change (bps)					Total return (%)				
	Duration	YTM	OAS	WTD	MTD	QTD	YTD	Prior year	WTD	MTD	QTD	YTD	Prior year
Sovereign rates													
U.S. 2-Year	1.82	4.65	---	-20	6	-24	117	112	0.55	0.15	1.08	1.34	1.83
U.S. 5-Year	4.34	4.74	---	-22	2	-35	102	110	1.27	0.16	2.16	-0.77	-0.68
U.S. 10-Year	7.78	4.95	---	-19	2	-34	78	86	1.88	0.16	3.45	-1.88	-2.14
U.S. 10-Year Breakeven	--	2.16	---	-9	-18	-21	-8	-9	---	---	---	---	---
U.S. 10-Year TIPS	4.23	2.78	---	-11	19	-14	88	96	1.40	-1.07	2.35	-1.68	-1.62
U.S. 20-Year	12.14	5.38	---	-14	4	-30	58	69	2.04	-0.34	4.40	-2.85	-3.76
U.S. 30-Year	14.87	5.33	---	-14	2	-30	49	61	2.62	-0.03	5.42	-2.76	-4.27
U.S. SOFR	---	---	---	2	-3	2	5	1	0.08	0.23	0.55	3.38	3.83
UK 10-Year	7.49	5.24	---	-10	-5	-19	76	65	0.72	0.59	1.76	-0.32	0.89
Germany 10-Year	8.20	3.30	---	-7	-2	-28	45	59	0.59	0.29	2.36	-0.48	-1.31
Switzerland 10-Year	8.32	0.51	---	-3	6	-6	23	36	0.31	-0.41	0.37	-1.49	-2.62
Japan 10-Year	7.67	2.79	---	-8	2	-26	73	97	0.59	0.29	2.25	-2.38	-3.97
Australia 10-Year	7.91	4.95	---	-17	-17	-40	21	48	1.33	1.57	3.29	3.14	1.48
Canada 10-Year	7.96	3.71	---	-15	-9	-28	28	49	1.07	0.84	2.50	1.25	0.32
Major fixed income multi-sector indices		**YTW**											
Global Aggregate Unhedged	6.18	4.26	37	2	0	4	9	6	0.54	-0.58	0.82	-1.87	-0.82
Global Aggregate Hedged	6.18	4.26	37	2	0	4	9	6	0.72	0.26	1.99	0.54	0.74
U.S. Aggregate	5.89	5.28	34	2	2	3	7	3	1.18	0.06	2.50	-0.49	-0.06
Euro-Aggregate (Unhedged)	6.11	3.87	67	4	-3	10	25	20	0.29	0.40	1.36	-1.19	-1.40
Japanese Aggregate	7.75	2.57	1	0	0	0	0	0	0.45	-0.03	1.75	-2.95	-3.96
Major fixed income credit indices		**YTW**											
Mortgage-Backed (Agency)	5.69	5.56	34	-2	0	-9	12	2	1.41	0.11	3.19	-0.23	0.59
Global IG Corporate Bonds	5.77	5.40	100	9	4	15	20	15	0.45	-0.58	0.70	-2.53	-1.41
U.S. IG Corporate Bonds	6.60	5.87	96	10	6	16	18	12	0.84	-0.12	2.04	-1.14	-0.53
European IG Corporate	4.50	4.20	105	7	1	14	27	22	0.09	0.18	0.94	-0.27	-0.29
U.S. High Yield Bonds	3.52	8.62	367	51	27	56	101	65	-0.86	-0.72	-0.43	-0.32	1.09
European High Yield Bonds	3.27	7.33	385	29	0	64	104	83	-0.74	0.18	-0.87	-0.57	0.27
U.S. Leveraged Loans	0.3	9.82	500	7	-10	18	45	37	-0.09	0.49	0.24	3.66	4.52
European Leveraged Loans	0.3	8.83	519	11	-5	47	45	37	-0.19	0.45	-0.59	2.23	2.73
EM Hard Currency Sovereigns	5.97	7.37	233	-14	-18	-3	-10	3	-1.25	-1.61	-0.28	-0.48	0.30
EM Corporates	3.95	7.11	223	-2	-2	0	2	4	-0.35	-0.50	0.01	0.35	1.04
EM Currencies	---	5.94	---	0	0	0	0	0	-0.68	-0.94	-1.50	1.72	3.38
EM Local Rates	5.19	6.53	7	0	0	0	1	1	-0.09	0.39	0.70	1.65	2.46
CMBS	3.57	5.44	72	1	-3	5	-3	-4	1.03	0.36	1.86	0.78	1.26
ABS	3.06	5.22	52	3	0	11	-1	-4	0.66	0.17	1.29	1.56	2.15
CLOs	3.89	5.63	126	0	0	0	-5	-6	0.09	0.29	0.69	4.31	4.90
Municipal Bonds	7.03	4.29	---	6	7	-49	69	69	-0.27	-0.14	3.71	-0.62	-0.37

		Total return (%)						Change (%)					
	Level	WTD	MTD	QTD	YTD	Prior year		Spot	WTD	MTD	QTD	YTD	Prior year
Equity / volatility indices							**FX / commodities**						
S&P 500 Index	6,910	-8.6	-8.8	-9.5	2.0	6.9	EUR / USD	1.1	-0.5	-1.7	-3.2	-6.6	-4.9
DAX	24,803	-7.3	-3.9	-1.6	1.3	6.5	USD / JPY	158.6	-0.7	0.6	0.7	1.2	0.7
Stoxx 600	626	-5.8	-3.2	-1.2	8.9	14.5	GBP / USD	1.3	-1.0	-2.3	-1.4	-2.9	0.1
Nikkei 225	56,437	-7.7	-10.8	-15.5	13.9	15.2	EUR / CHF	0.9	-0.4	0.1	-2.7	-1.0	-0.8
Shanghai Composite	3,534	-2.7	-1.8	-7.7	-9.0	-7.9	USD / CHF	0.8	0.1	1.8	0.5	6.0	4.2
MSCI ACWI Index	1,022	-8.1	-8.3	-9.8	2.3	7.3	USD (DXY)	103.8	0.4	1.9	2.3	5.6	3.6
FTSE 100	10,346	-5.0	-3.3	-2.1	7.3	12.0	Oil	84.0	-5.2	-19.3	-7.1	46.3	42.0
MOVE Index	106	7.6	6.1	-3.7	66.2	36.6	Gold	3538.5	-8.9	-8.7	-14.9	-18.1	-13.2
VIX Index	36	86.0	84.8	119.6	140.1	35.8							

Past performance is not a guarantee or a reliable indicator of future results. Sources: Bloomberg except EMD (J.P. Morgan), HY (ICE BofAML), Bank Loans (S&P), and CLOs (Palmer Square). European returns are unhedged in euros unless otherwise indicated. An investment cannot be made directly in an index.

NOTICE: IMPORTANT INFORMATION

Source(s) of data (unless otherwise noted): PGIM as of November 23, 2026.

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