Capital Markets Strategy
Essential inCights for the C-Suite

MUFG

Chart of the Day

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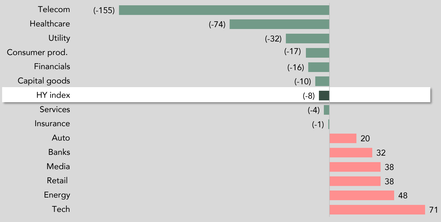
Corporate Spread Dispersion Accelerated in 2025

Even as index-level US Dollar corporate spreads rallied to multi-decade tights in 2025, USD spread dispersion by industry began to accelerate. As global policy confrontation became a primary catalyst for markets, increased volatility and spread dispersion took hold across industries, capital structures and regions. In fact, a much larger share of bonds traded far from the index in 2025 than in 2021. Intra-sector dispersion within industries also increased with trade war and tariff policy exposure YTD.

Change in HY spreads by sector in 2025 YTD, bps



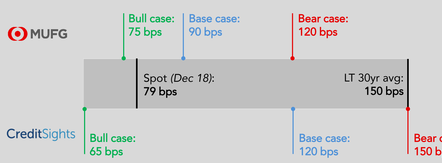
Key Drivers of Wider USD Credit Spreads in 2026

1. **Starting point:** tightness of current valuations ("as good as it gets")
2. **Demand recalibration:** investor yield demands as UST rates decline
3. **Economic cycle:** Weaker US consumer, softer labor markets
4. **Credit cycle:** More late-cycle dispersion and tail risk; downgrades outpacing rising stars
5. **Tech-sector tail risk:** Potential repricing contagion from tech-AI supply and potential "underperformance"
6. **Risk premia:** Fed independence, trade policy, geopolitics, inflation & fiscal concerns
7. **Supply:** Rising corporate bond supply; rotation to competing asset classes

Modest Widening in USD IG Spreads in 2026

While MUFG's base case scenario for USD IG and HY spreads point to modest widening in 2026, our outlook for corporate credit spreads remains very constructive by the standards of USD credit markets historically.

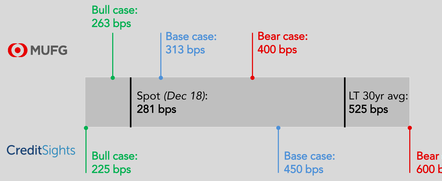
2026 investment grade credit spreads forecast



Modest Widening in USD HY Spreads in 2026

While MUFG's base case scenario for USD IG and HY spreads point to modest widening in 2026, our outlook for corporate credit spreads remains very constructive by the standards of USD credit markets historically.

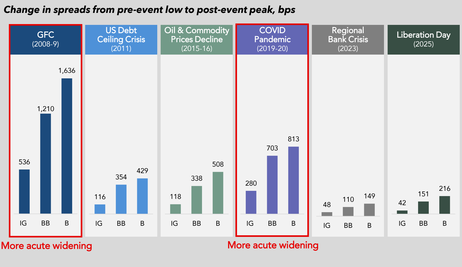
2026 high yield credit spreads forecast



Impact of Macro Shocks on Credit Spreads Varies Significantly

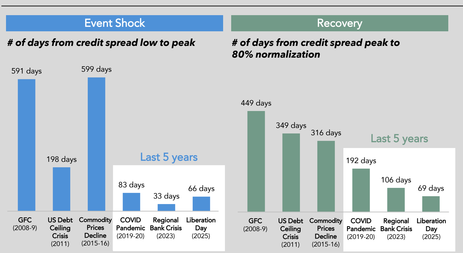
Not all macro risk is created equal. As issuers navigate a low visibility, high volatility macro backdrop that defines today's global markets, it is worth noting how well credit markets have absorbed many extraordinary exogenous shocks in recent years, and how quickly they have recovered.

Change in spreads from pre-event low to post-event peak, bps



Resilient Credit Markets Can Recover Quickly

With the benefit of the Fed's crisis-era toolkit when needed (i.e., COVID crisis), it is notable how quickly the depth and liquidity of USD credit markets have recovered during times of extraordinary macro stress over the last five years in particular.



Source: Bloomberg. Data as of December 19, 2025. CreditSights, "US IG & Leveraged Finance 2026 Outlook: Everything Was Awesome" MUFG (George Goncalves). 30-year avg is 1994-2023. Event shock days is average days from low to peak. 80% normalization is 80% of change from low to peak.

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"Macro stability isn't everything, but without it, you have nothing."