Capital Markets Strategy

Essential inCights for the C-Suite

MUFG

Dispersion

The Outlook for Global Credit in 2026

DEC 2025

"Look on every exit as being an entrance to somewhere else."

Tom Stoppard, acclaimed Czech playwright in
"Rosencrantz and Guildenstern are Dead" (1937 – 2025)

"The past is never dead. It's not even the past."

William Faulkner, Nobel Prize winning American author,
in his novel "Requiem for a Nun" (1897 – 1962)

Global Corporate & Investment Bank
Capital Markets Strategy Team

Tom Joyce

Managing Director
Capital Markets Strategist
New York, NY

Tom.Joyce@mufgsecurities.com
(212) 405-7472

Stephanie Kendal

Vice President
Capital Markets Strategist
New York, NY

Stephanie.Kendal@mufgsecurities.com
(212) 405-7443

Angela Sun

Associate
Capital Markets Strategist
New York, NY

Angela.Sun@mufgsecurities.com
(212) 405-6952

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AUTHORS

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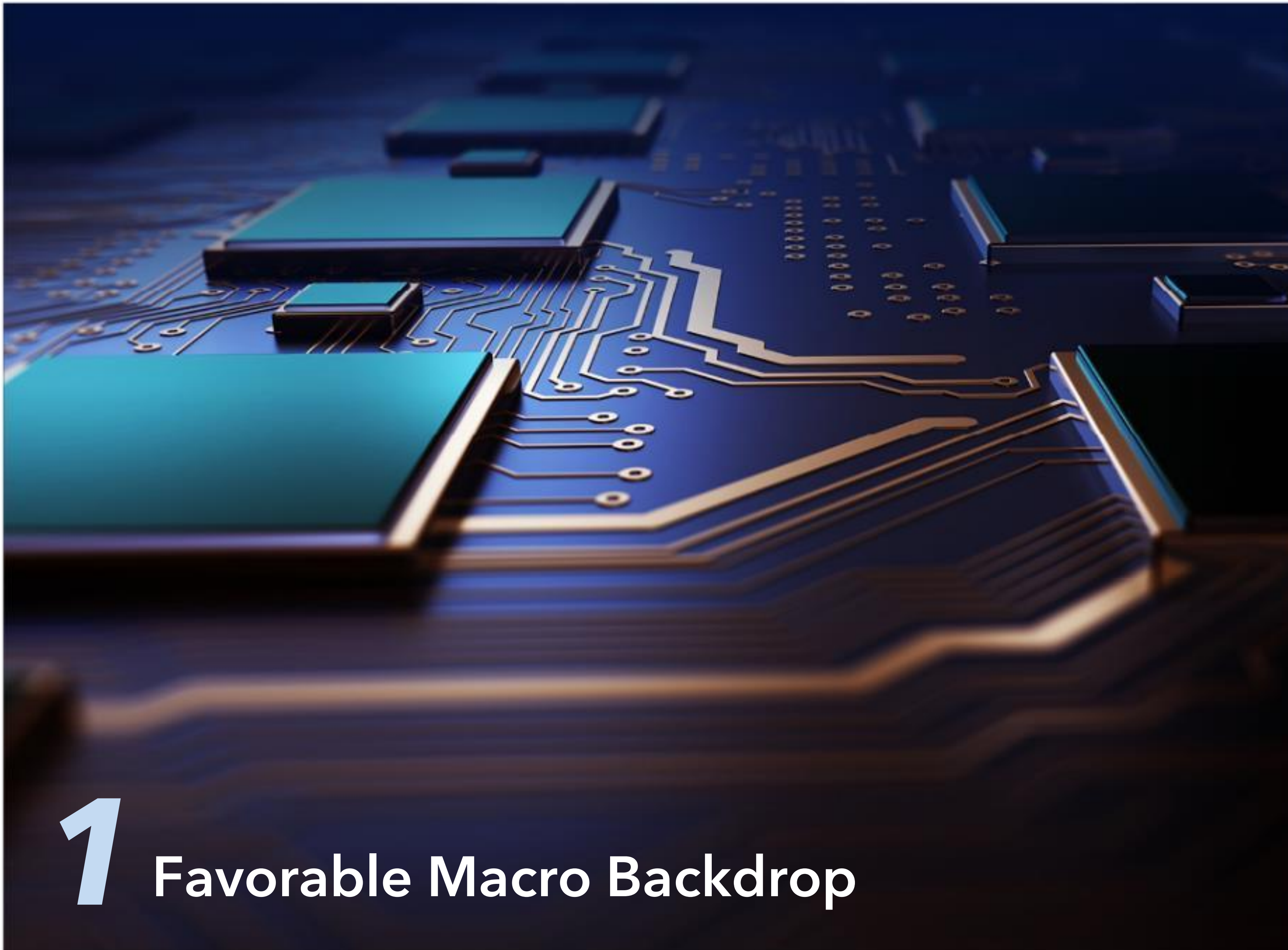


1 Favorable Macro Backdrop

Key Themes for Markets in 2026

2026 Global Market Themes

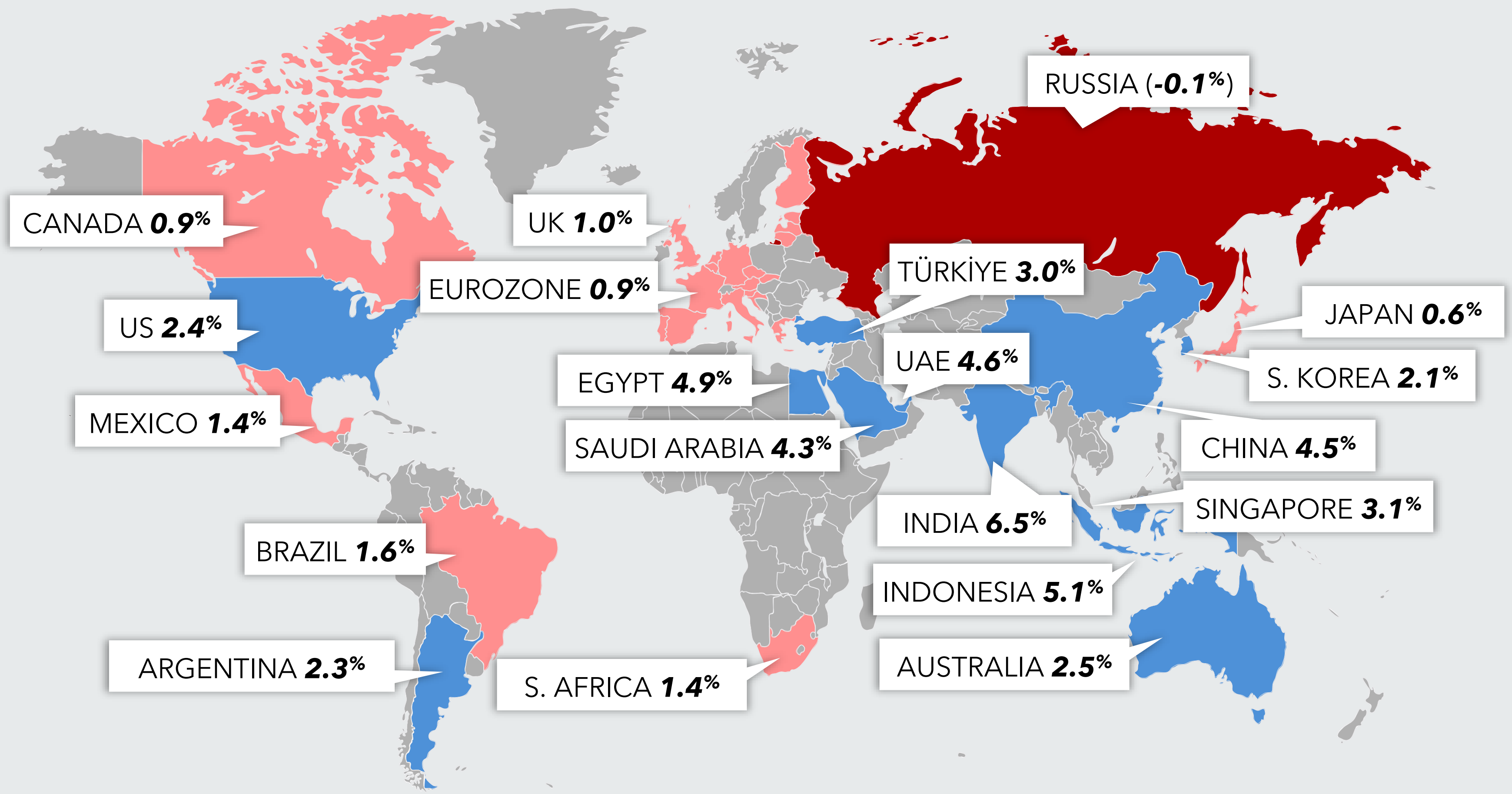
1. Subdued but steady, subtrend global growth
2. Weaker US consumer, softer labor markets, demand driven US disinflation
3. Accommodative, asynchronous global monetary policy (shallow Fed easing)
4. Sizable & front-loaded OBBBA stimulus
5. **Resilience & dispersion across global credit**
6. AI & technology capex supercycle (AI arms race; tech & resource nationalism)
7. Heightened corporate activity (M&A, buybacks, financing, capex, PE)
8. Greater global FX dispersion, slow motion de-dollarization
9. Lower oil prices; AI driven power demand
10. Geo-strategic fragmentation; fluid multi-polar rebalancing; global trade realignment

2026 Credit Market Themes

1. Lower US rates, bullish steepening of UST YC (impact of BOJ policy normalization)
2. Heavy gov't & corporate bond supply
3. Robust mega-deal M&A and AI expansion
4. Pre-funded HY & lev loan 2026-27 maturity walls
5. Strong yield-seeking technical demand
6. Robust corporate fundamentals (earnings, margins, FCF, liquidity)
7. Low leverage & coverage ratios aligned with historical averages
8. Declining HY & speculative grade default rates (lev loans & privates outpacing bonds)
9. Modest IG & HY credit spread widening (valuations, economy, policy risk)
10. Accelerating credit spread dispersion (across industries, ratings, capital structures, regions)

Subtrend Global Growth in 2026

2026 GDP growth, y/y



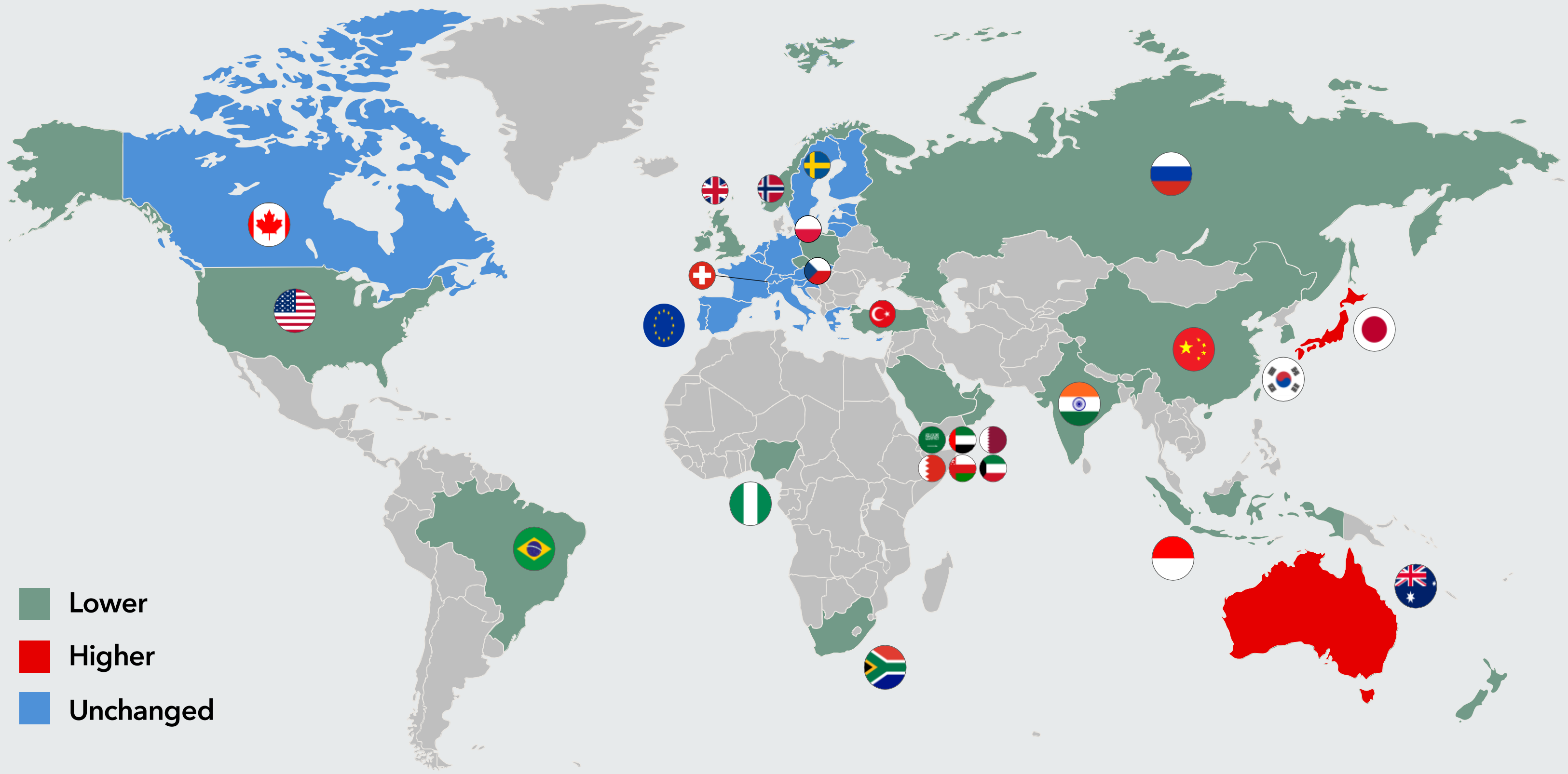
Source: (1) Oxford Economics. Data as of December 18, 2025.

< 0% 0% – 1.9% 2% +

Accommodative Monetary Policy Expected in 2026

While the bulk of monetary easing in the current cycle occurred in 2024-2025, global monetary policy should nonetheless be fairly accommodative in 2026 with several large central banks either easing further (i.e., Fed, BoE, Norges, PBOC) or keeping rates on hold (i.e., ECB, BoC, SNB, Riksbank). A small minority of central banks (i.e., BoJ, RBA) are expected to tighten policy in the year ahead.

Consensus expectations for YE 2026 central bank policy rates

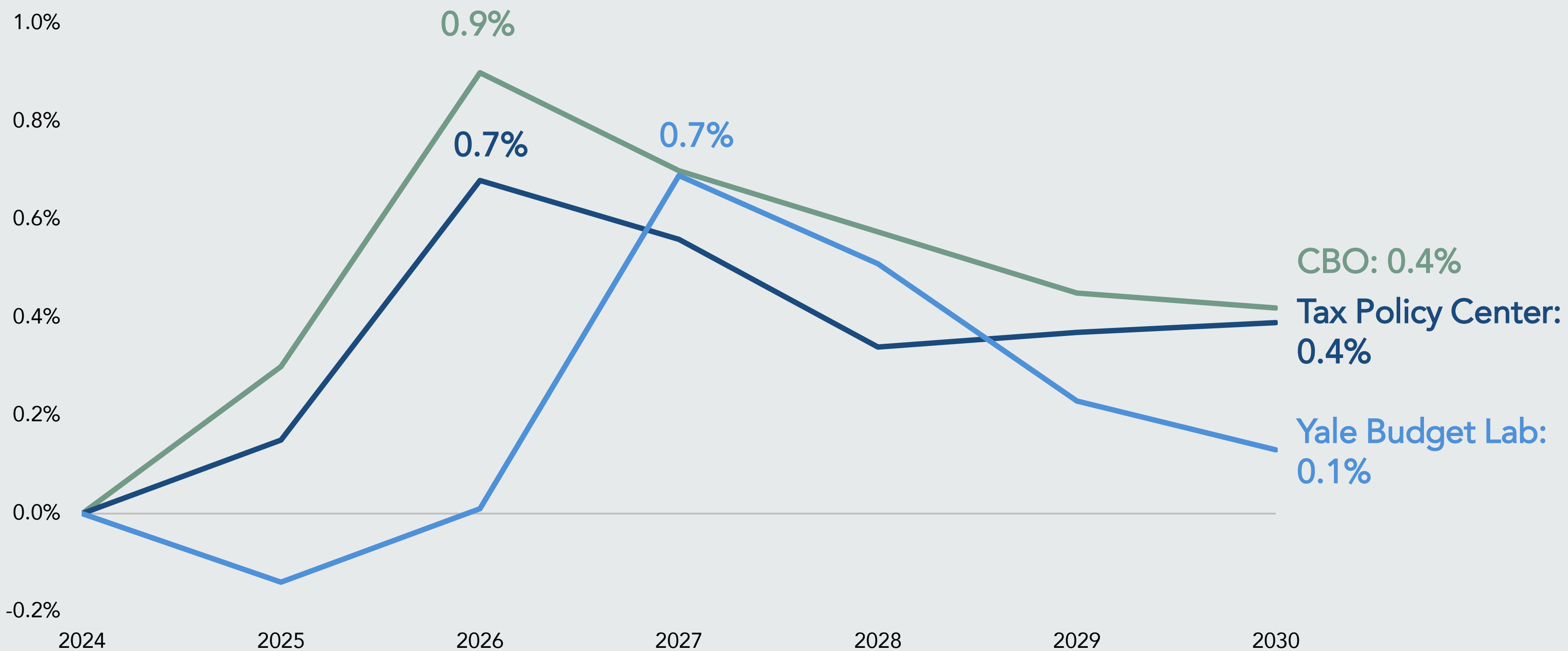


Source: (1) Data is based on Bloomberg Consensus forecasts. Data as of December 18, 2025.

Sizable & Front-Loaded OBBBA Stimulus in 2026

The OBBBA is expected to deliver a sizable and front-loaded boost to US growth in early 2026 by virtue of the formidable fiscal and tax stimulus included in the bill. For corporations, the OBBBA codified permanent corporate tax cuts and incentives that will facilitate long term strategic planning and increased domestic investment. For individuals, and with consideration to consumption driving nearly 70% of US GDP, US consumers will receive a substantive tax refund in early 2026 due to numerous new individual tax provisions, many of which were passed retroactive to January 2025.

Estimated GDP impact of OBBBA, % change from baseline

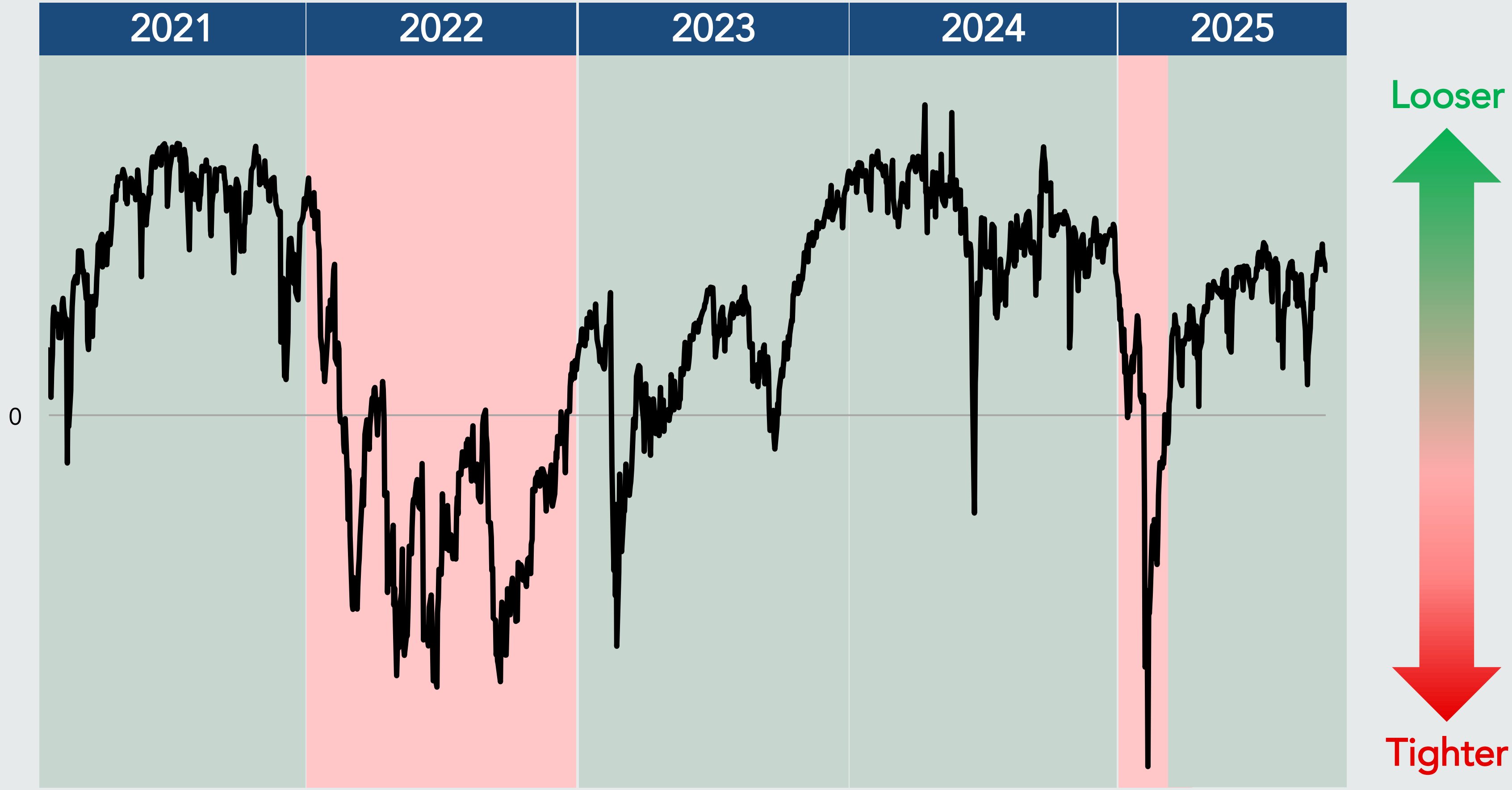


Source: (1) Committee for a Responsible Federal Budget. CBO. Tax Policy Center. Yale Budget Lab. CBO estimate is dynamic scoring based on House bill passed on May 22, 2025.

Easy Financial Market Conditions Going into 2026

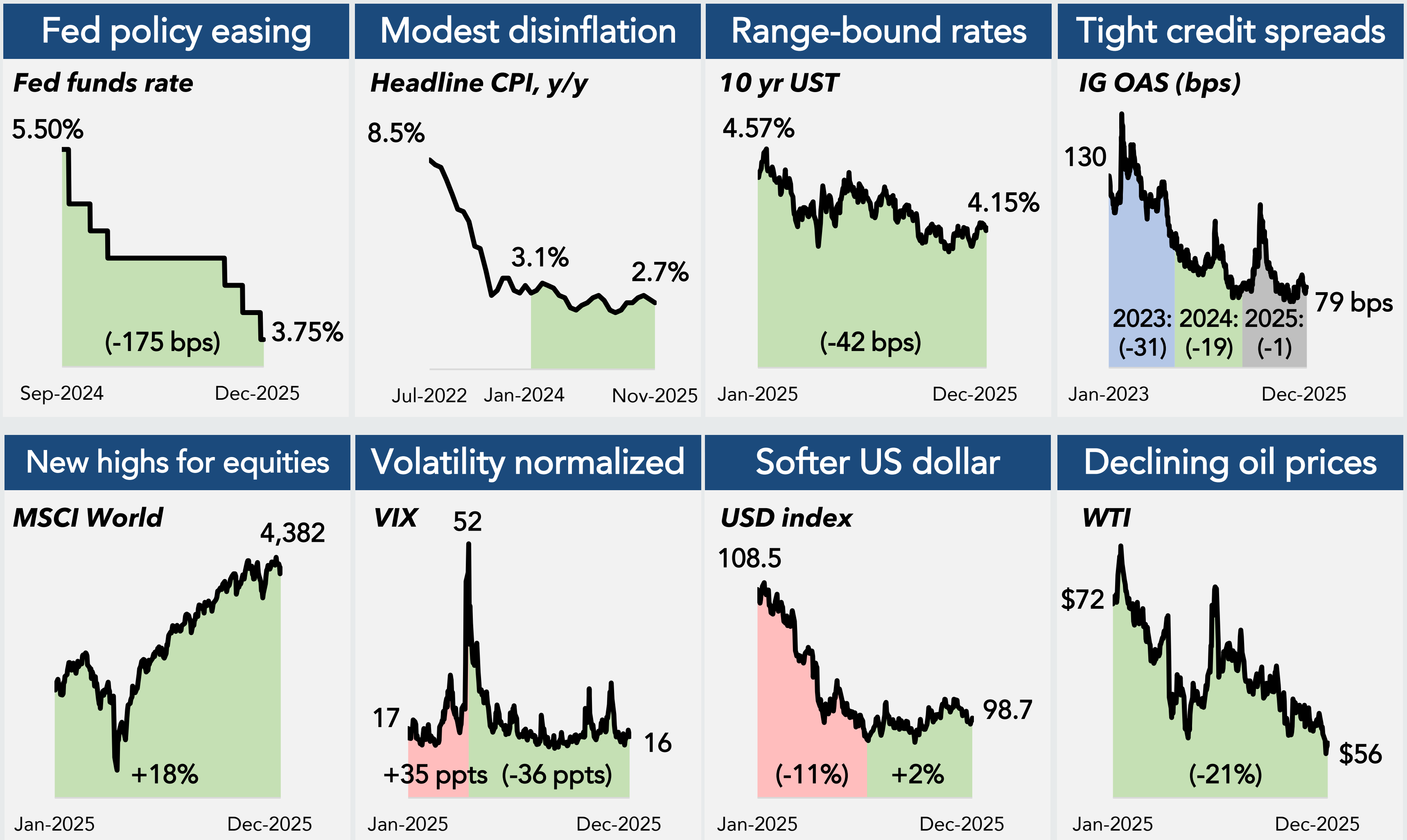
Key Drivers: Strong equities, tight credit spreads, range-bound rates, low oil prices, weaker US Dollar

US financial conditions index



Source: (1) Bloomberg. Data as of December 18, 2025. Financial conditions index is Bloomberg.

Key Drivers of Easy Financial Market Conditions



Source: (1-8) Bloomberg. Fed funds is upper bound. Data as of December 19, 2025.

Expect More Dispersion in Risk Assets in 2026

Annual relative total returns, USD markets

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Munis 3.6%	High Yield 17.5%	S&P 500 21.8%	Munis 1.1%	S&P 500 31.5%	S&P 500 18.4%	S&P 500 28.7%	Loans (-0.8%)	S&P 500 26.3%	S&P 500 25.0%	**S&P 500 15.2%**
Mortgages 1.5%	S&P 500 11.9%	EM Sov 10.0%	Mortgages 1.0%	High Yield 14.4%	High Grade 9.8%	Loans 5.4%	Munis (-9.0%)	Loans 13.7%	EM Sov 9.7%	**EM Sov 14.2%**
S&P 500 1.4%	Loans 10.3%	High Yield 7.5%	US Gov't 0.8%	High Grade 14.2%	US Gov't 8.2%	High Yield 5.4%	High Yield (-11.2%)	High Yield 13.4%	Loans 9.2%	**Mortgages 8.4%**
EM Sov 1.4%	EM Sov 10.1%	High Grade 6.5%	Loans 0.6%	EM Sov 13.0%	High Yield 6.2%	Munis 1.8%	Mortgages (-11.9%)	EM Sov 13.2%	High Yield 8.2%	**High Yield 8.0%**
US Gov't 0.8%	High Grade 6.0%	Munis 5.4%	High Grade (-2.2%)	Loans 8.7%	Munis 5.3%	High Grade (-1.0%)	US Gov't (-12.9%)	High Grade 8.4%	High Grade 2.8%	**High Grade 7.8%**
Loans 0.1%	Mortgages 1.7%	Loans 4.3%	High Yield (-2.3%)	Munis 7.7%	Mortgages 4.1%	Mortgages (-1.2%)	High Grade (-15.4%)	Munis 6.5%	Mortgages 1.4%	**US Gov't 6.4%**
High Grade (-0.6%)	US Gov't 1.1%	Mortgages 2.4%	S&P 500 (4.4%)	US Gov't 7.0%	EM Sov 3.9%	US Gov't (-2.4%)	S&P 500 (-18.1%)	Mortgages 5.0%	Munis 1.1%	**Loans 5.7%**
High Yield (-4.6%)	Munis 0.4%	US Gov't 2.4%	EM Sov (-5.2%)	Mortgages 6.5%	Loans 3.5%	EM Sov (-3.0%)	EM Sov (-18.3%)	US Gov't 3.9%	US Gov't 0.6%	**Munis 3.7%**

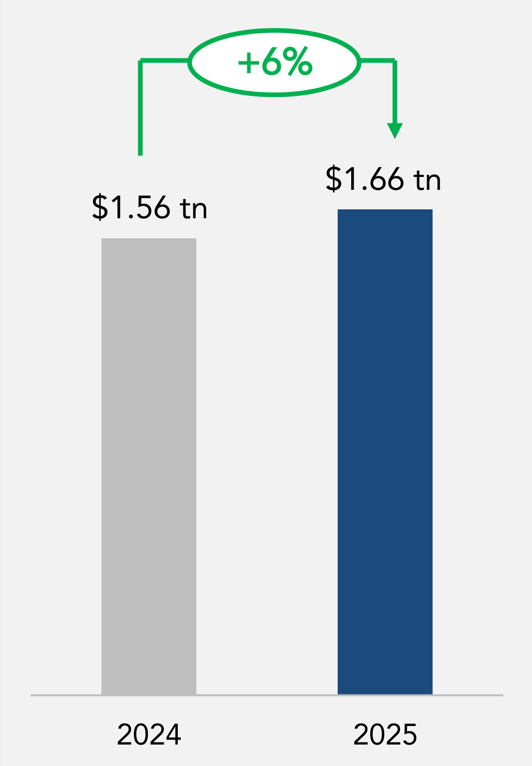
Source: (1) CreditSights. Bloomberg. Data as of December 18, 2025. BAML, S&P LSTA. Bloomberg EM Sov is USD EM Sovereign BBB & lower index.

2 Heighted Corporate Activity

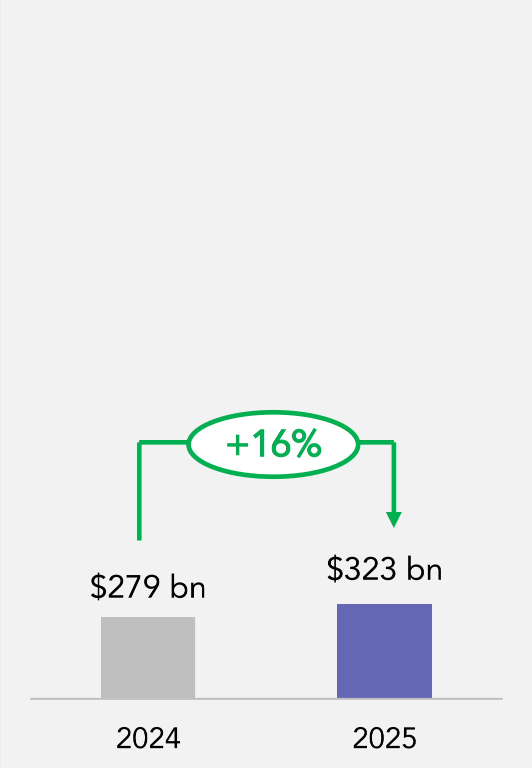
Robust Debt Financing Markets

Corporate treasurers have adeptly navigated geopolitical risk, trade wars and economic uncertainty in 2025, accelerating debt issuance to take advantage of strong investor demand and favorable financing costs. Just as large cap IG issuers have pre-funded maturities and strategic funding needs against a low visibility backdrop, high yield issuers have also moved quickly to take advantage of the return of risk appetite as the year progressed.

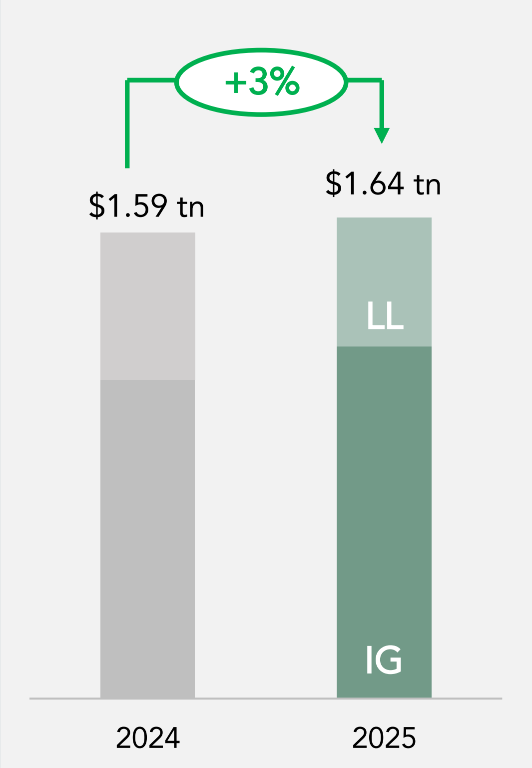
USD IG Issuance



USD HY Issuance



USD Loans

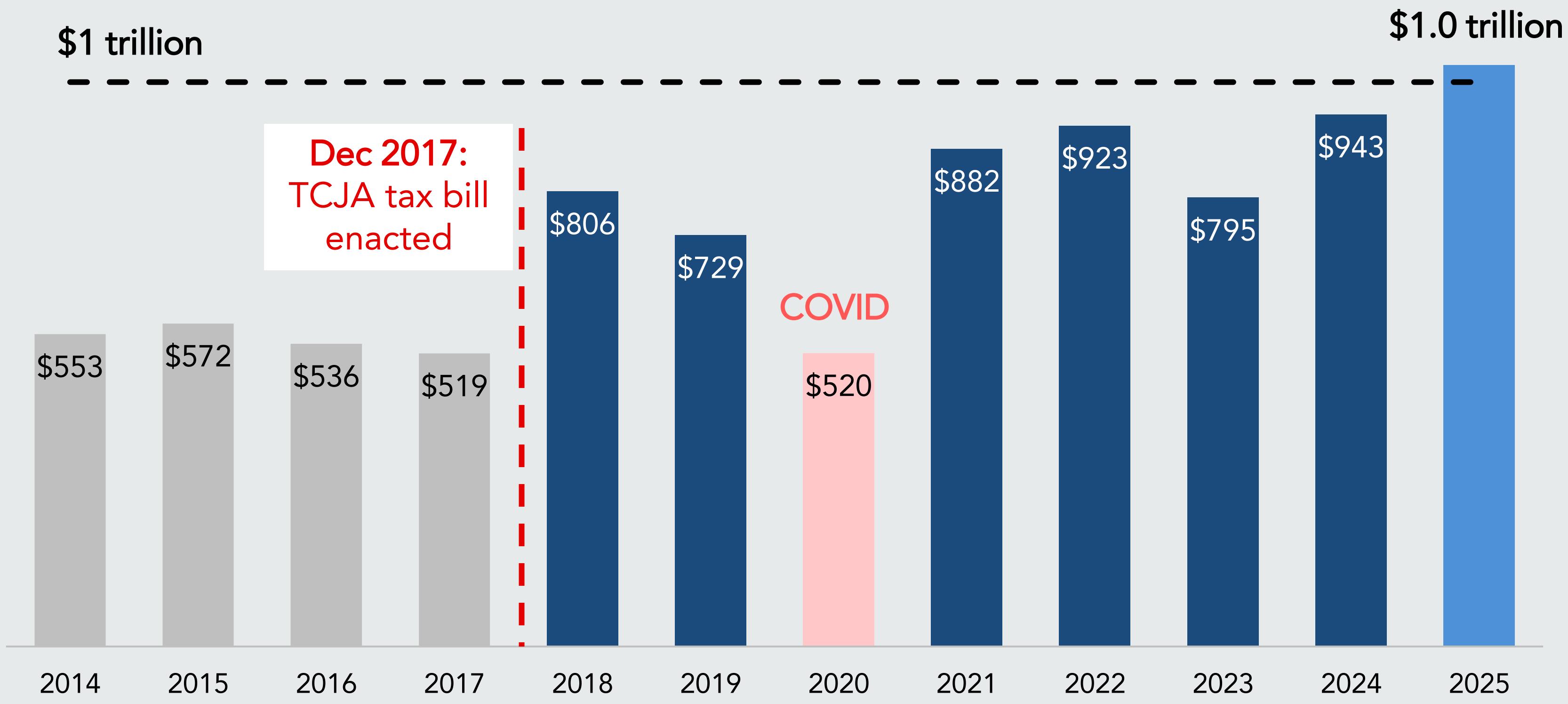


Source: (1-3) IG and HY bond data are CFR. Data as of December 18, 2025. IG loan is LSEG. Leveraged loan is LCD. Data as of December 11, 2025.

Record Stock Buybacks Just Above $1 Trillion

US stock buyback authorizations and executions set a new record in 2025, rising above $1 trillion for the first time, and driven by elevated earnings, profit margins and free cash flows. The strong pace of activity, which continued despite rising capex demands, has been both emblematic of corporate financial strength as well as a key technical driver of US equity market performance on the year. Similar to valuations, buyback volumes are fairly concentrated with the top 20 largest names (i.e., tech, big banks) accounting for approximately half of all repurchases.

S&P 500 buybacks, USD bn

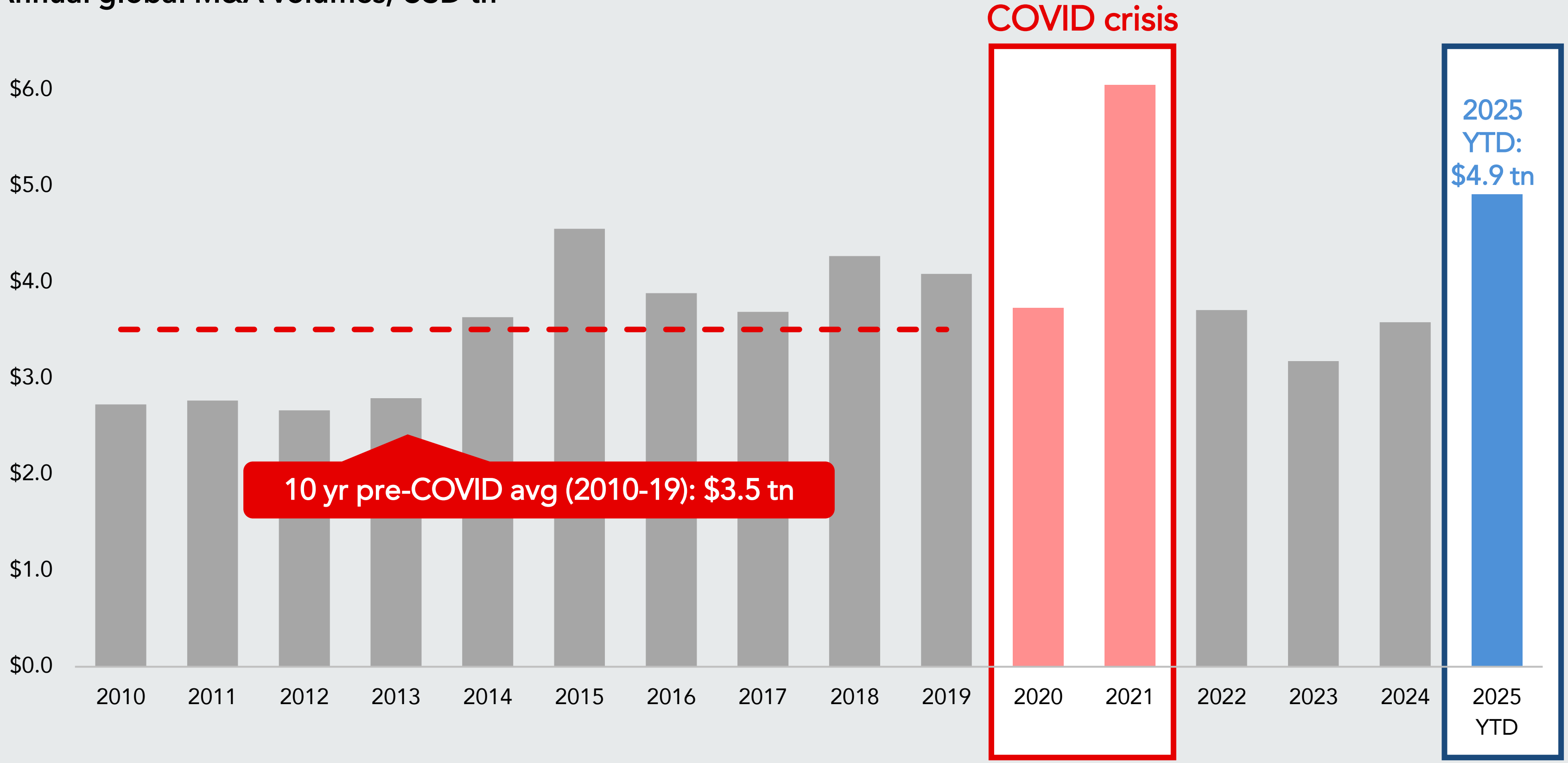


Source: (1) S&P Dow Jones Indices. 2025 data through Q4 2025. Full year 2025 based on year-end estimate.

2^{nd} Largest Global M&A Year on Record

At $5 trillion, 2025 is on pace to potentially rank 2nd all-time in global M&A volume (ahead of 2015 and 2007). Key drivers of increased 2025 deal activity include: global monetary easing cycle; strength of corporate balance sheets and profits; a rebound in private equity activity (~30% of total volume); deregulatory environment; and the impact of technology and innovation on corporate strategy.

Annual global M&A volumes, USD tn

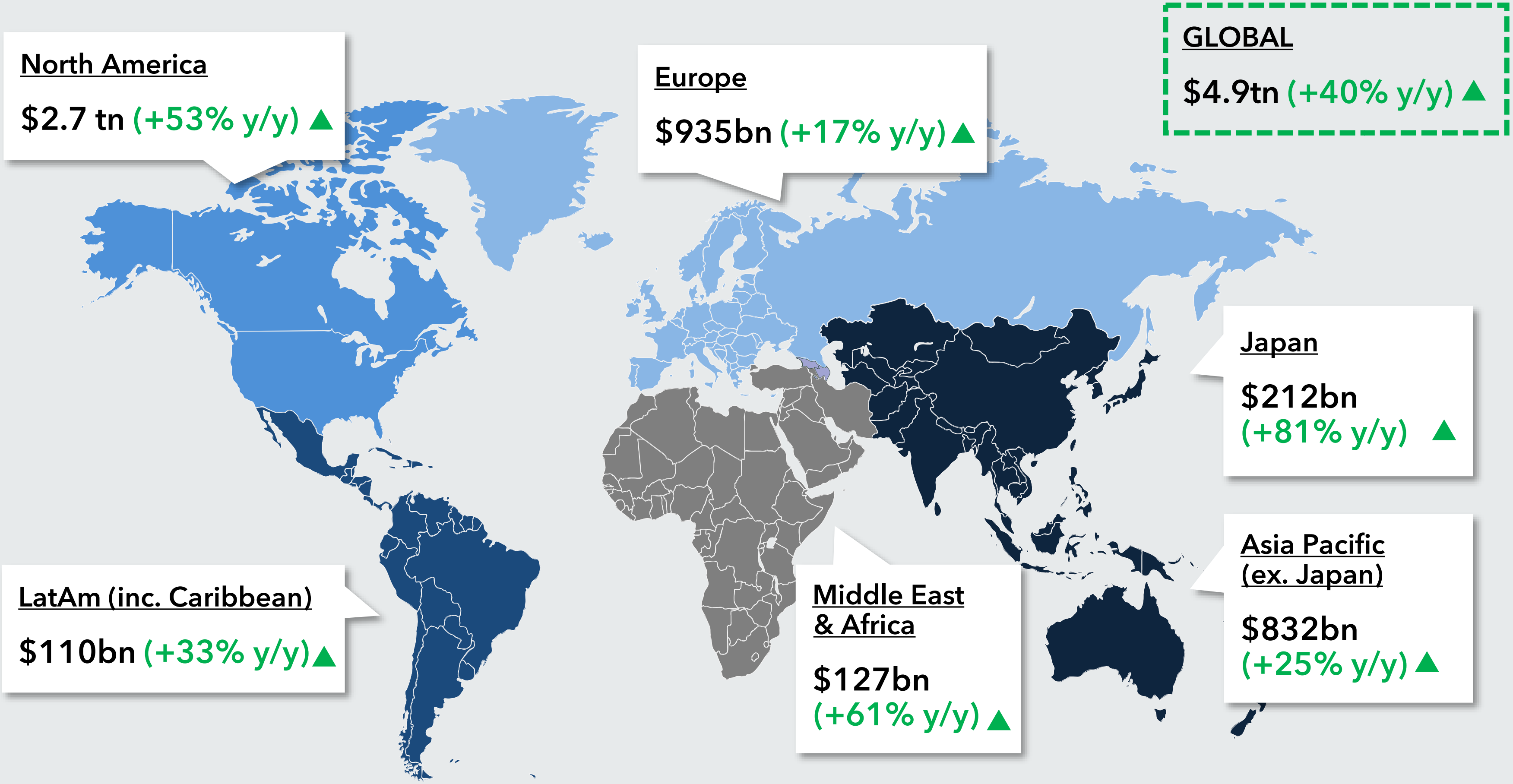


Source: (1) Dealogic. Cortex. Data through December 19, 2025, accessed on December 19, 2025.

M&A Volumes Up in All Regions Globally

Remarkably, global M&A deal volumes have risen sharply across all major regions globally in 2025.

M&A volumes in YTD 2025 vs. YTD 2024 and y/y increase (based on target region)

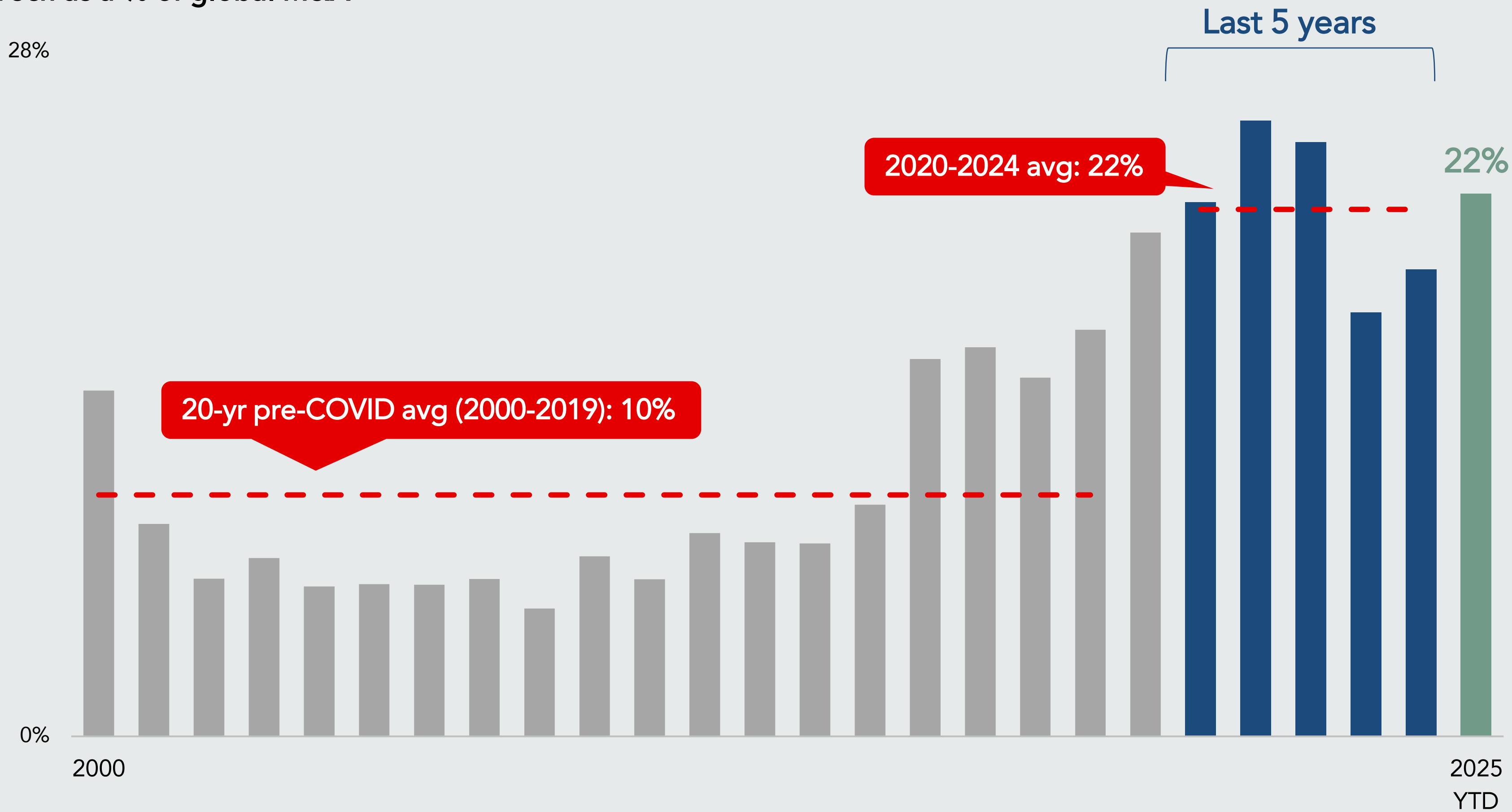


Source: (1) Dealogic. Cortex. Data through December 19, 2025, accessed on December 19, 2025. Region is by target.

Technology as Pervasive M&A Driver

Technology continues to reshape the M&A landscape, accounting for 22% of global M&A volumes in 2025 YTD. The need for more AI data centers is fueling demand for electricity, driving activity in the utilities and energy space as well.

Tech as a % of global M&A

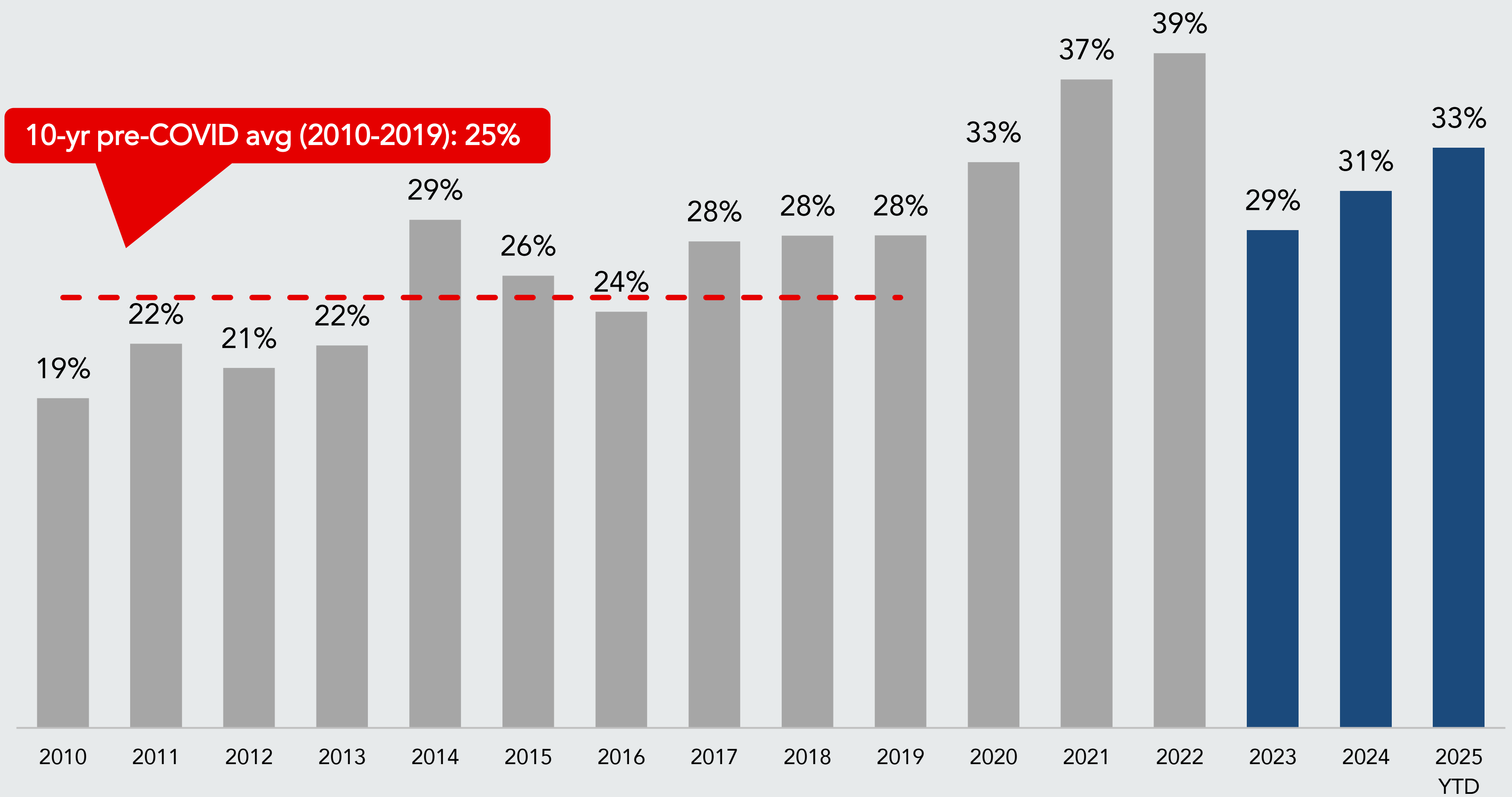


Source: (1) Cortex. Dealogic. Data is through December 19, 2025. Data accessed December 19, 2025. Includes rank eligible, M&A deals. Technology is computers and electronics as target sector.

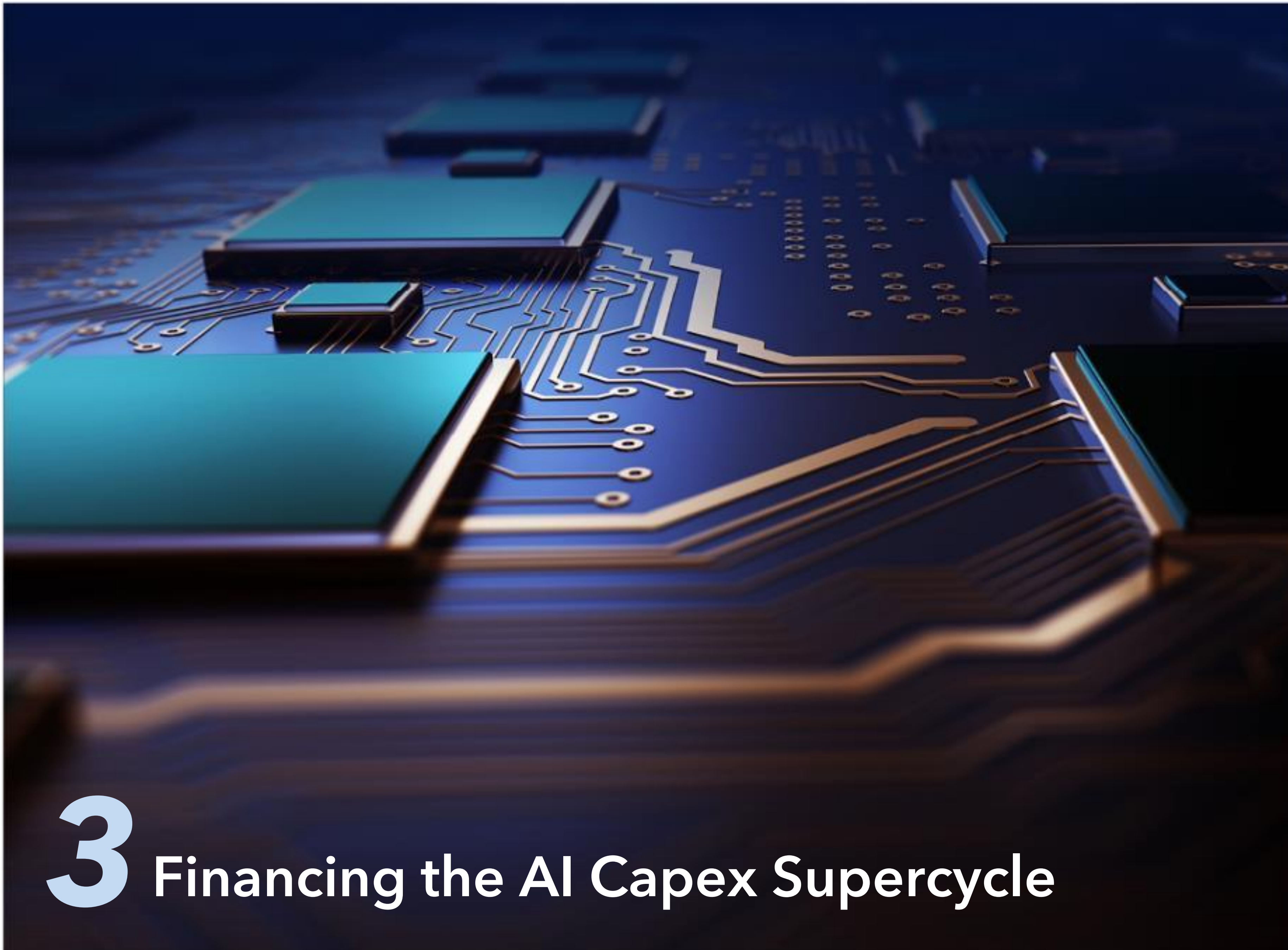
Private Equity Recovery Continues

Financial sponsors made additional progress on a multi-year recovery, accounting for over 30% of global M&A deal volumes in 2025, a notable increase from pre-COVID averages.

Sponsor-backed share of global M&A volumes



Source: (1) Cortex. Dealogic. Data through December 19, 2025. Data accessed December 19, 2025. Includes rank eligible, M&A deals.

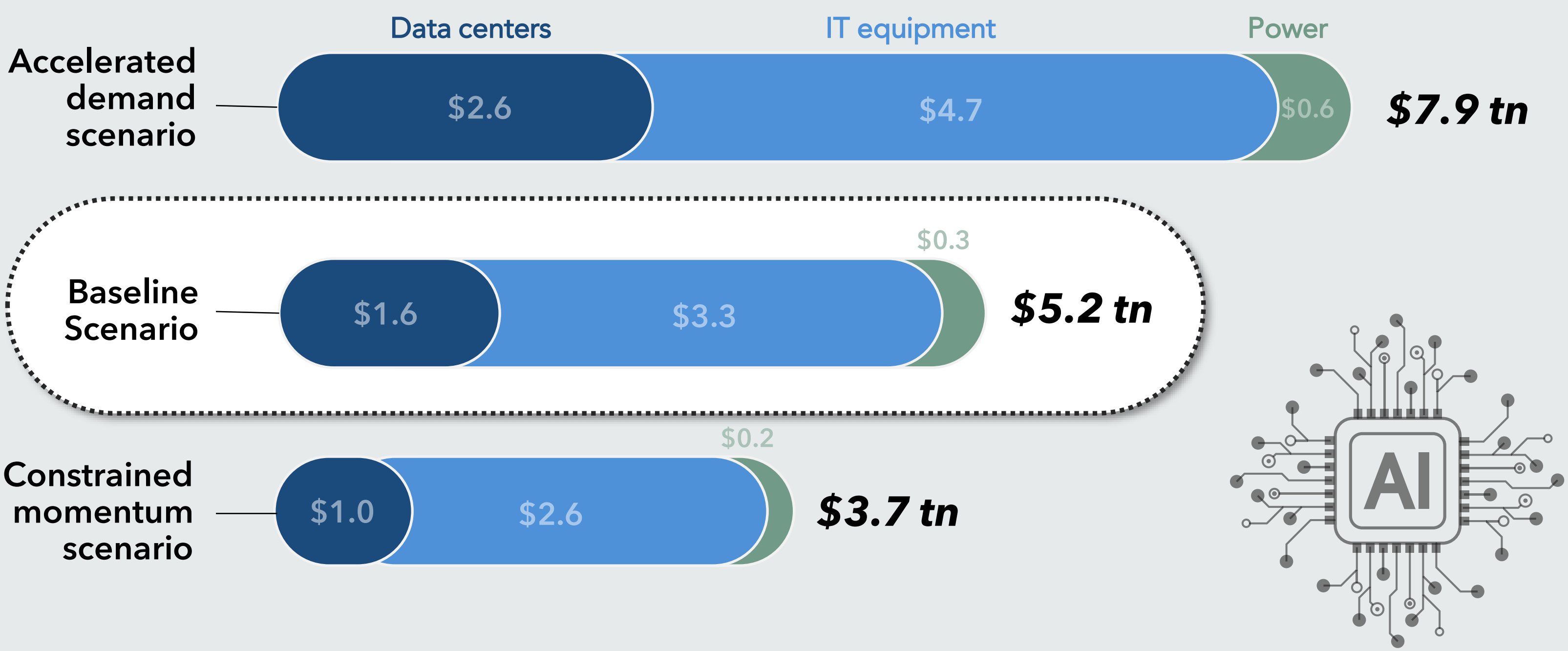


3 Financing the AI Capex Supercycle

AI Driven Capex To Reach $5 Tn by 2030

In its baseline scenario, McKinsey estimates that companies will need to invest over $5 trillion into data centers by 2030 to meet worldwide demand for AI alone.

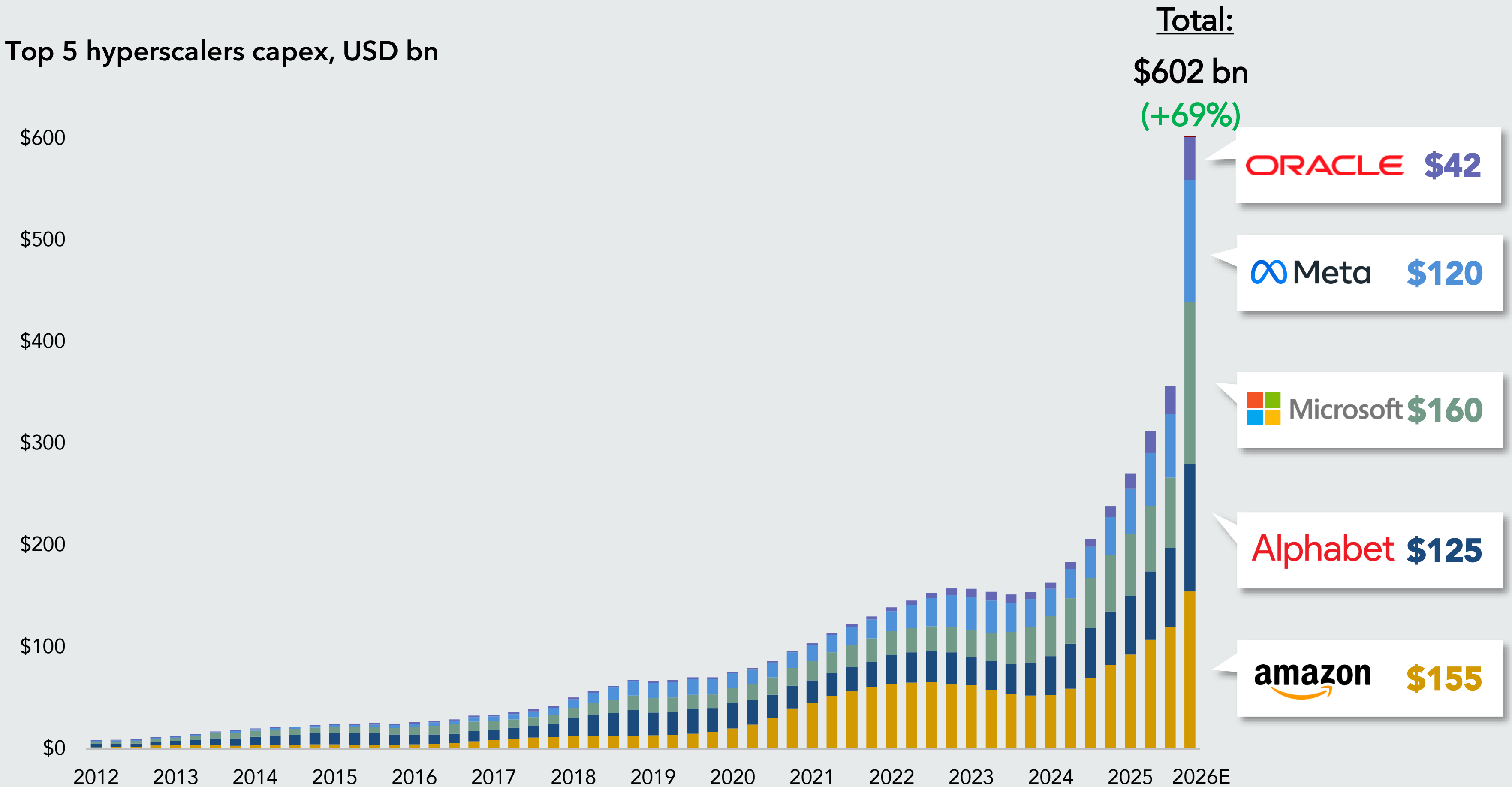
Global data center total capex driven by AI, USD tn



Source: (1) McKinsey, "The cost of compute – a $7 trillion dollar race to scale data centers." McKinsey Data Center Capex TAM model. McKinsey Data Center Demand Model. Data center infrastructure excludes IT services and software (e.g. operating system, data center infrastructure management), since they require relatively low capex compared with other components. IT equipment includes server, storage, and network infrastructure, IT capex also accounts for replacing AI accelerators every 4 years. Power assumes $2.2 - $3.2 billion/gigawatt (including power generation and transmission cost) to account for a range of power generation scenarios (e.g. fully powered by gas, a combination of gas power and storage, and solar) and regional cost differences. Distribution cost is neglected, as most AI centers are expected to be >50 megawatt scale and connected to a transmission grid. Figures may not sum to totals, because of rounding.

Hyperscalers' Capex Above $600 Bn in 2026

Hyperscaler capex spending for the "big five" is now widely forecast to exceed $600 bn in 2026, nearly a 70% increase over 2025. Roughly 75%, or $450 bn, of that spend is directly tied to AI infrastructure (i.e., servers, GPUs, datacenters, equipment), rather than traditional cloud.

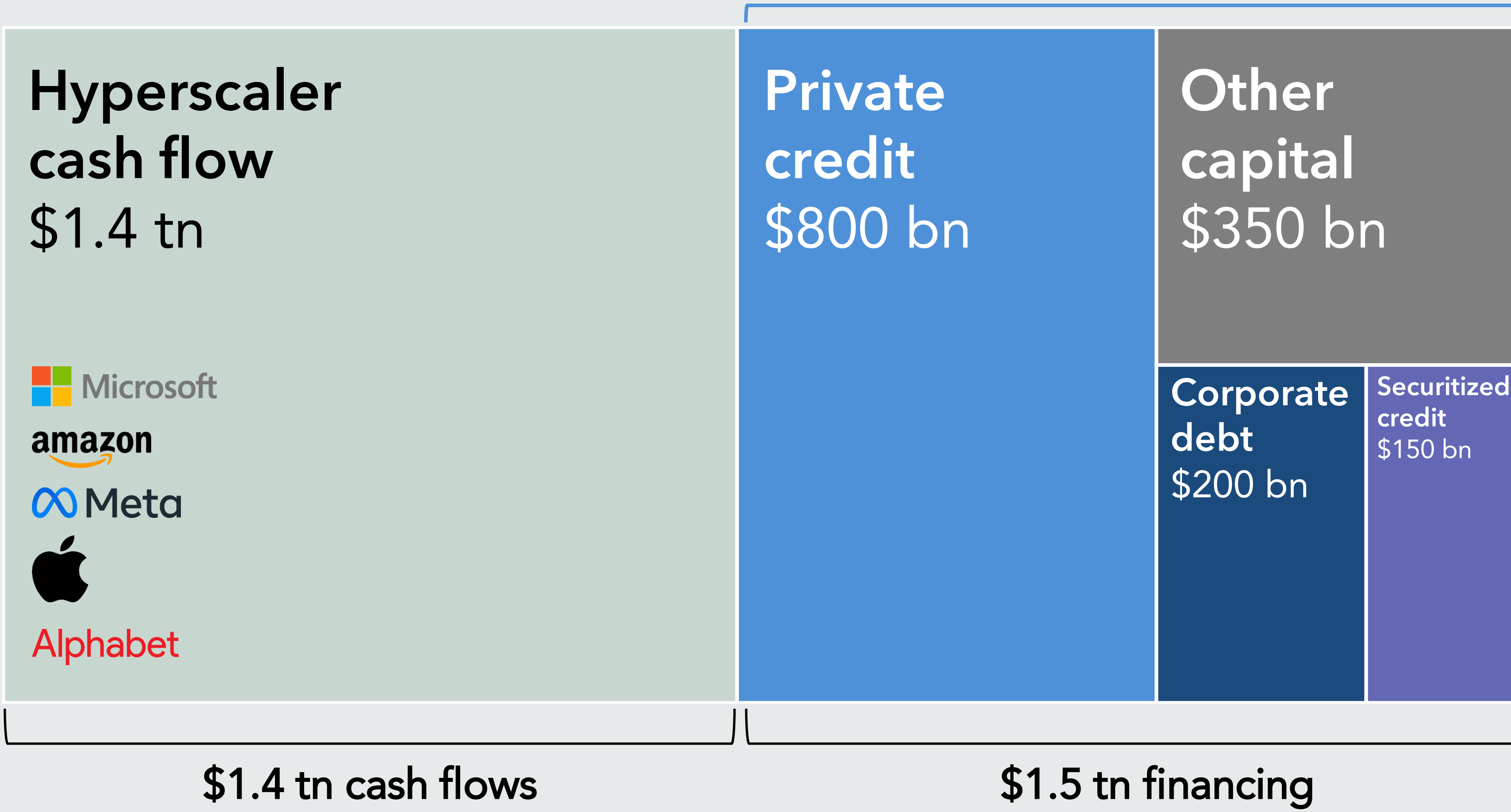


Source: (1) Bloomberg, "The AI Spending Boom Is Huge But Not Unprecedented". Data trailing 12 months, 2025 through Q3 2025. Oracle's quarters end a month earlier than the other companies. 2026E data is CreditSights annual estimate. Oracle estimate for FY 2026.

Hyperscalers Expected to Fund ~50% of Data Center Spend

Main financing for global data center spend (2025-2028), USD bn

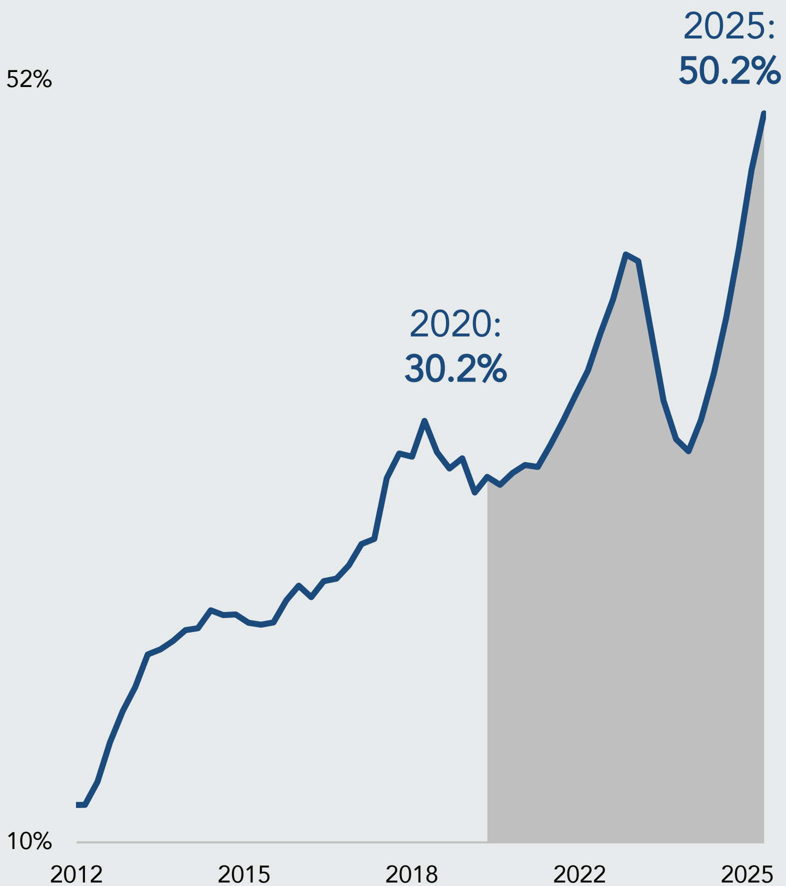
Business model transition:
From self-funded expansion to sustained reliance on capital markets



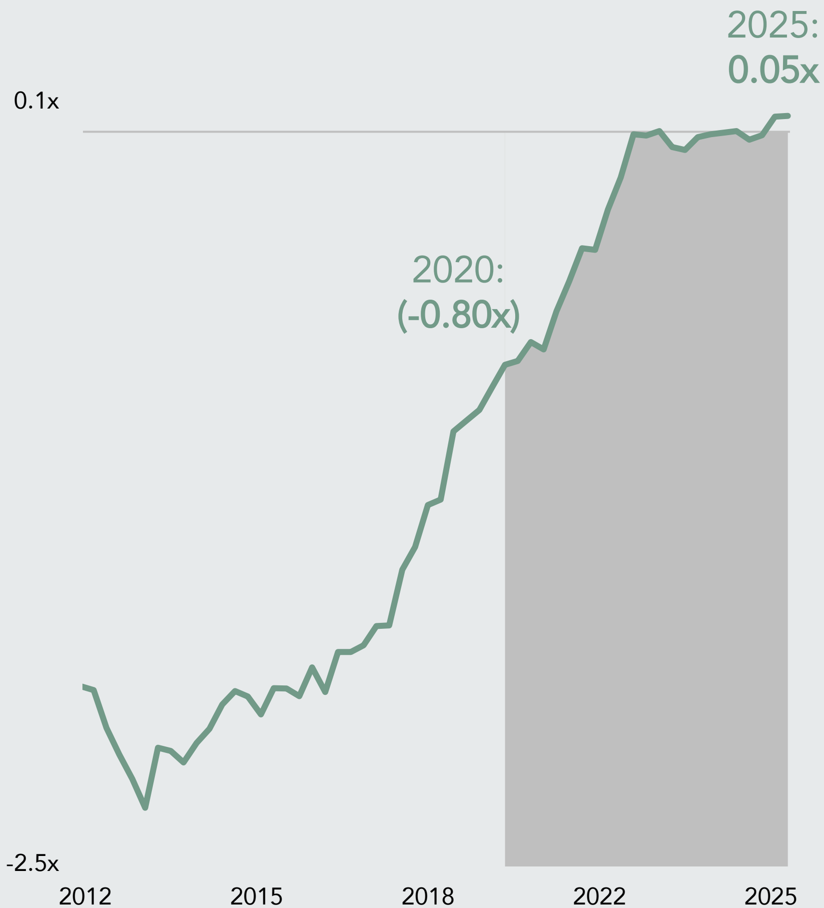
Source: (1) Financial Times, "'Absolutely immense': the companies on the hook for the $3tn AI building boom." Private credit is through asset-based finance and debt funding of JVs. Securitized credit includes asset-backed securities, commercial mortgage-backed securities. Other capital includes private equity, venture capital and sovereign wealth funds.

Hyperscalers' Capex & Leverage Metrics

Hyperscalers' capex share of operating cash flows



Hyperscalers' net debt to EBITDA

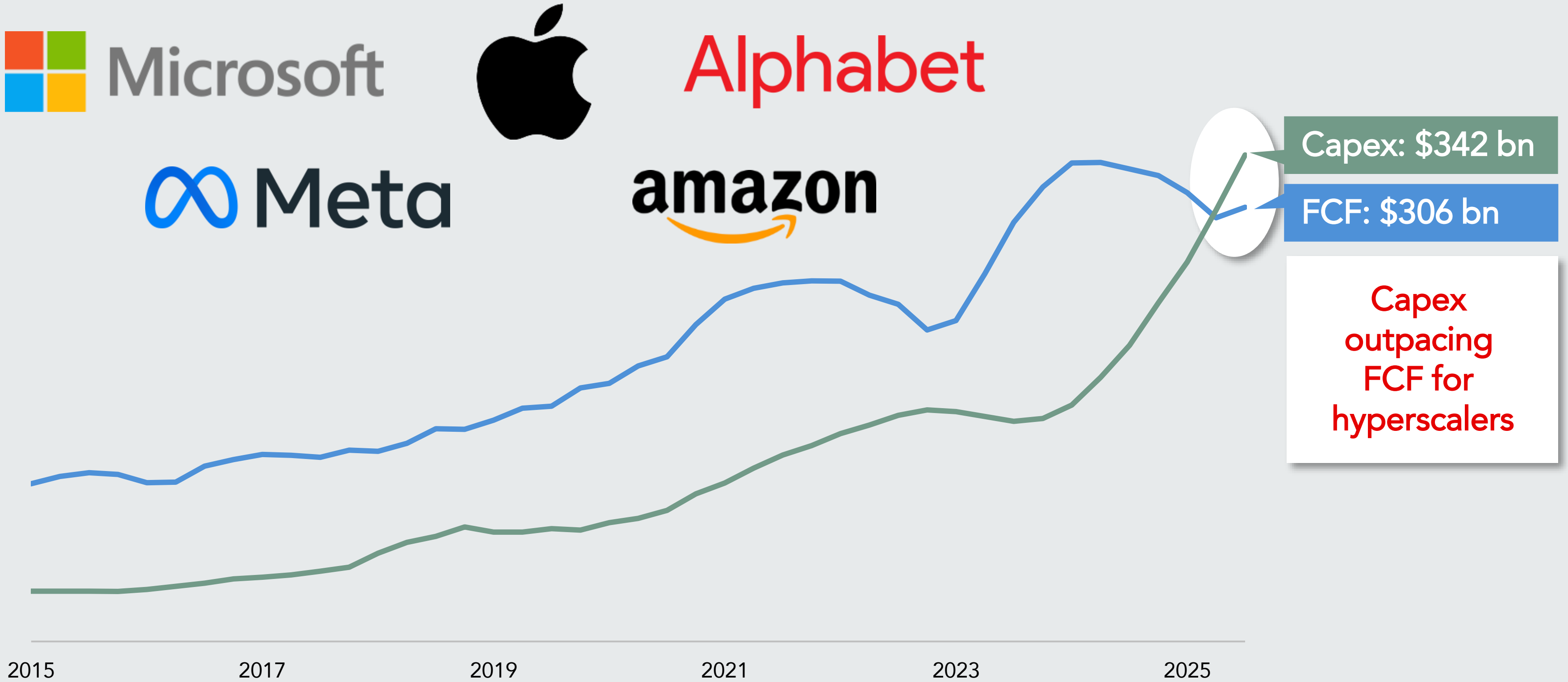


Source: (1-2) Oxford Economics. Bloomberg. Data as of November 25, 2025. Hyperscalers include Oracle, Amazon, Nvidia, Microsoft, Apple, Alphabet & Meta. Capex and operating cash flows are 12-month trailing.

AI Hyperscalers Turn to Debt Markets as Capex > FCF

Hyperscalers are increasingly leaning on debt markets to bridge the gap between rapidly rising AI capex budgets and internal free cash flow, transforming historically cash-funded business models into ones utilizing leverage, albeit with still very strong balance sheets. Aggregate capex for "the big five", after buybacks and dividends are included, are now above projected cash flows, thereby necessitating external funding needs.

Top 5 hyperscalers capex vs. free cash flows, USD bn



Source: (1) Bloomberg. Data as of November 24, 2025. Data is 12 months trailing. Top 5 hyperscalers includes Alphabet, Amazon, Apple, Meta and Microsoft.

AI Tech Sector Borrowing Surged in 2025

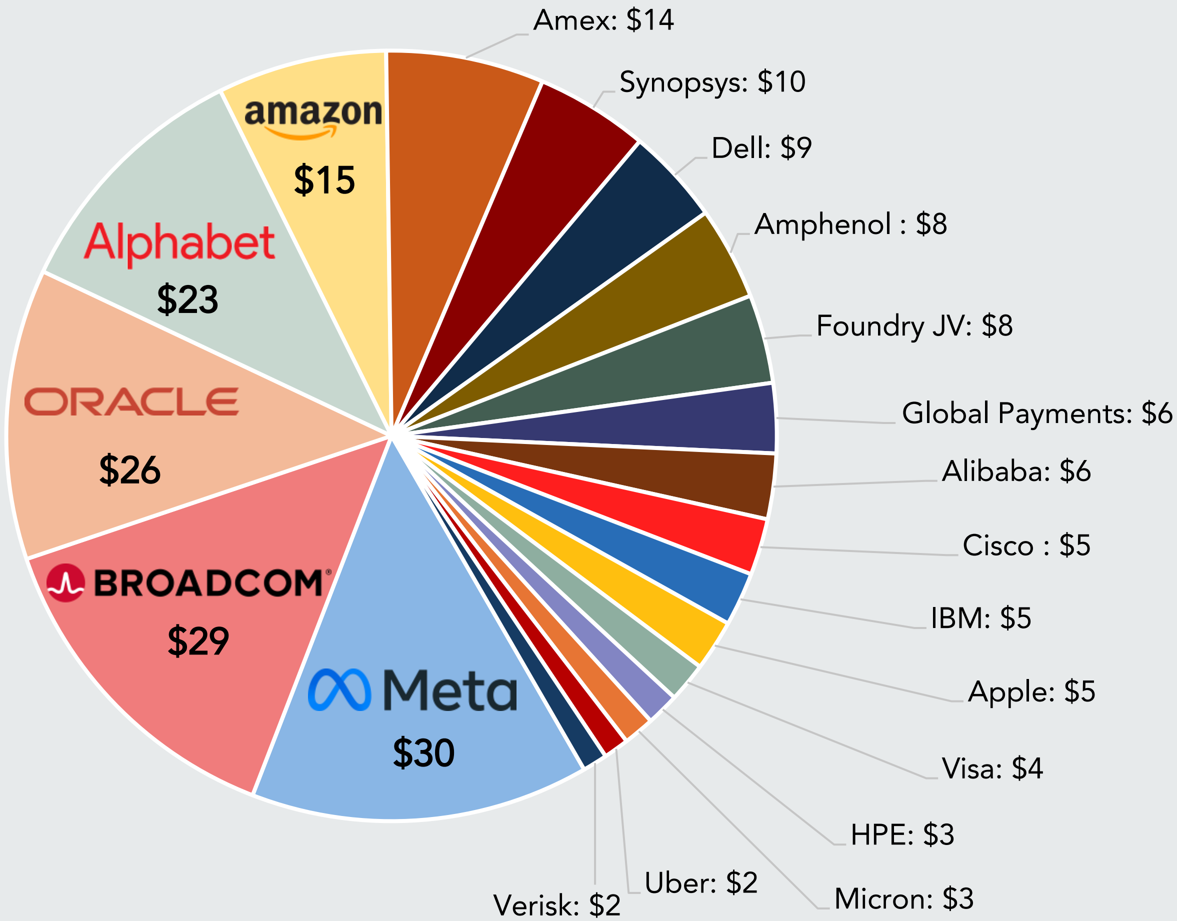
AI-focused hyperscaler and tech companies drove an extraordinary surge in investment grade (IG) borrowing in 2025, turning the sector into the most dominant new source of supply in global credit markets. This external funding marked a seismic business model transition from largely self-funded expansion to sustained reliance on bond markets and securitization structures.

USD IG borrowing by big tech AI companies, USD bn

Source: (1) Reuters. CFR. Bloomberg. Data as of December 18, 2025. 2015 – 2024 issuance is Reuters. 2025 IG supply is CFR and Bloomberg.

Over $200 Bn of Big Tech AI Bond Issuance in 2025

2025 US Big Tech AI bond issuance, USD bn



Source: (1) Bloomberg. CFR. Data as of December 17, 2025. Graph shows top 20 Big Tech AI bond issuers in 2025.

AI & Tech Drove Largest IG Financings in 2025

Meta priced a $30 billion USD IG financing in October, the largest of 2025, and among the largest corporate bond financings on record. Public tech IG issuance surpassed $200 bn in 2025, including six of the year's ten largest financings, with 45% of that total coming from hyperscaler financings in the last few months alone.

Top 10 largest IG deals in 2025 YTD

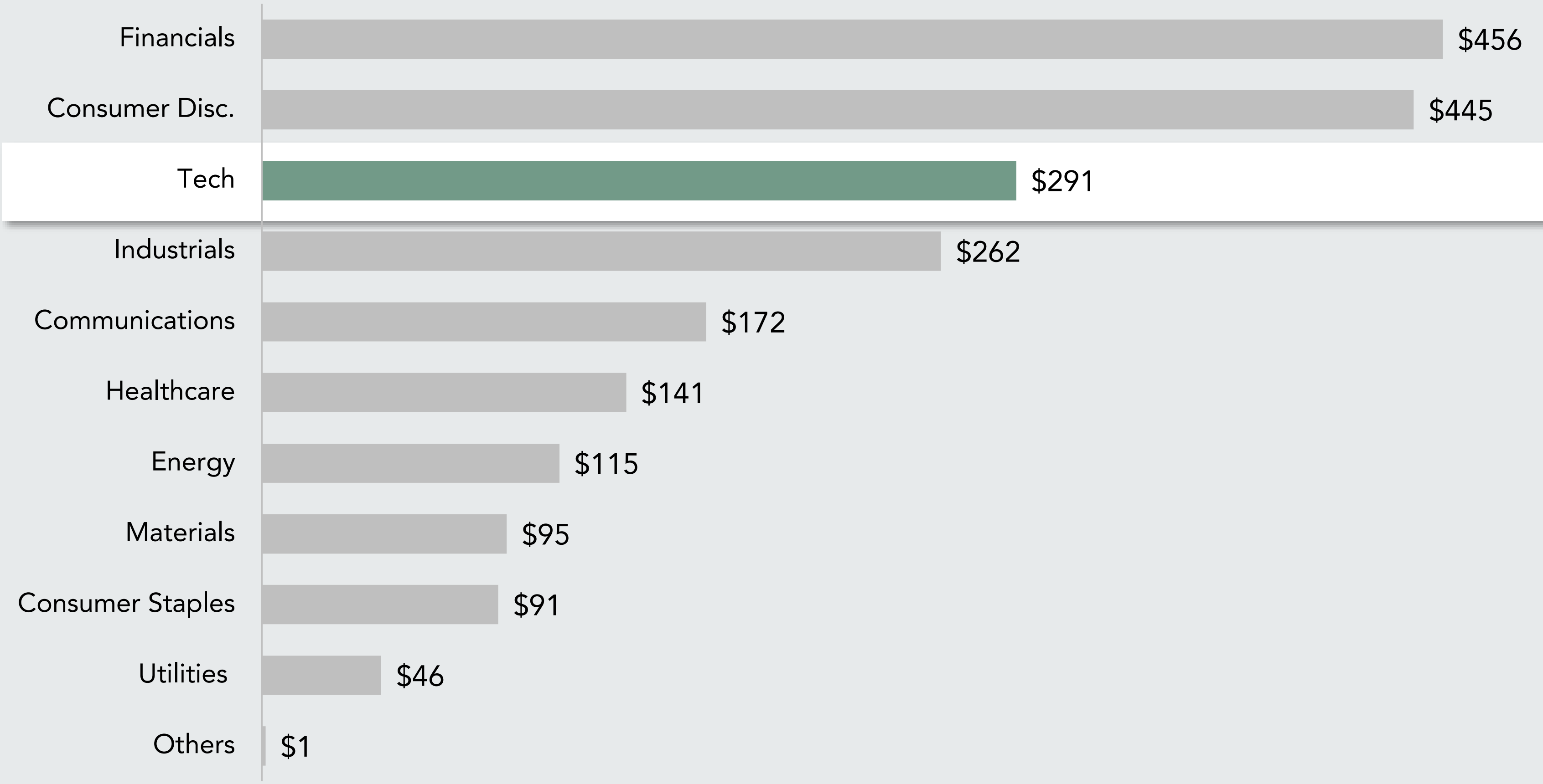
	Month	Issuer	Industry	Size *(USD bn)*
1.	Oct	Meta	Technology	$30.0 bn
2.	Mar	MARS	Consumer Staples	$26.0 bn
3.	Sep	ORACLE	Technology	$18.0 bn
4.	Nov	Alphabet	Technology	$17.5 bn
5.	Nov	amazon	Technology	$15.0 bn
6.	Jul	NTT FINANCE	Telecom / Tech	$11.3 bn
7.	Nov	verizon	Telecom	$11.0 bn
8.	Oct	Goldman Sachs	Financials	$10.0 bn
9.	Mar	synopsys	Technology	$10.0 bn
10.	Jan	BANK OF AMERICA	Financials	$10.0 bn

*Source: (1) CFR. Data as of December 12, 2025. *NTT Finance classified as both telecom and technology because bond deal was to refinance bridge loans for taking its data center unit private.*

Nearly $300 Bn of Tech Leveraged Loan Issuance in 2025

Tech and AI-adjacent borrowers are on pace for close to $300 bn of leveraged loan issuance in 2025, driven by data center, software and private equity tech deals tapping both syndicated and private credit channels.

2025 US tech leveraged loan issuance, USD bn

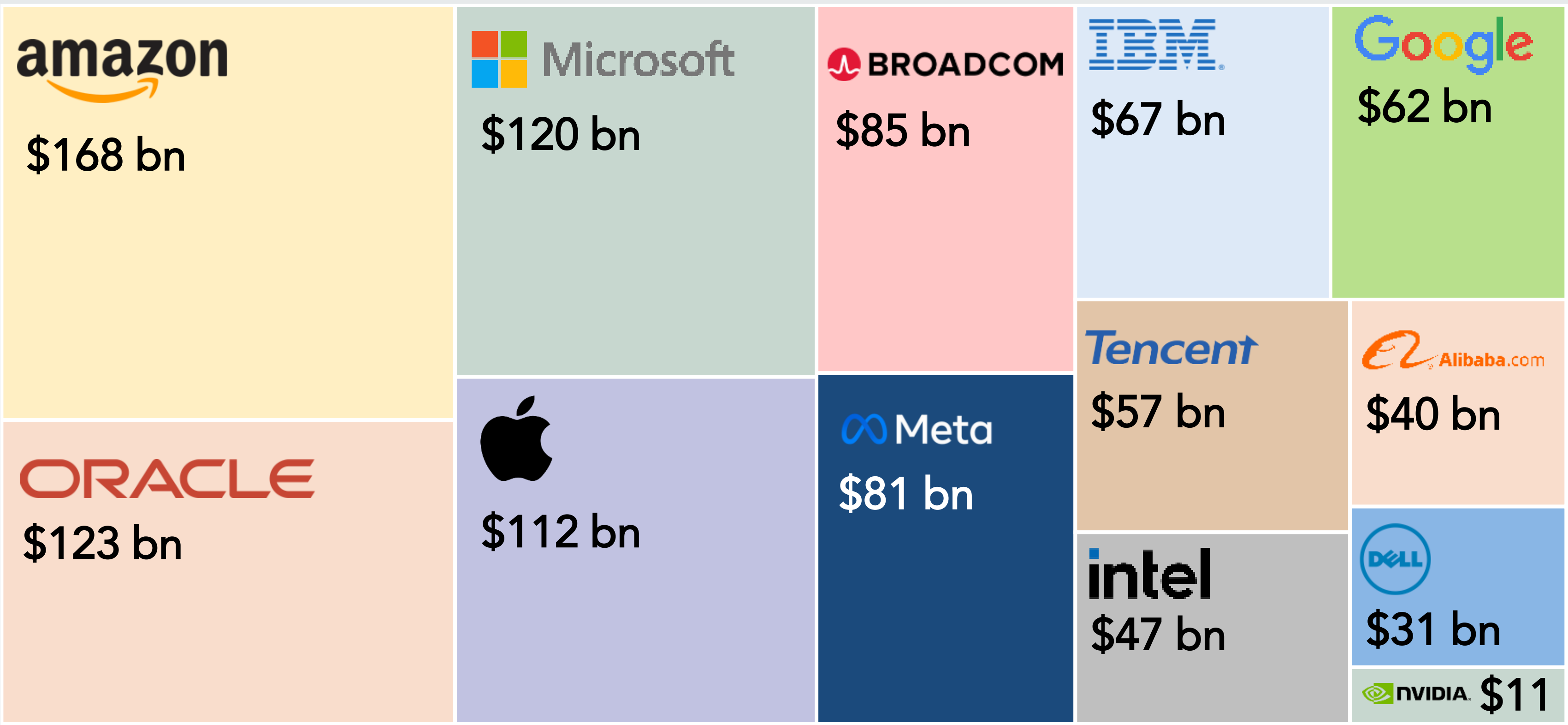


Source: (1) Bloomberg. Data as of December 17, 2025.

Total AI Big Tech Debt Above $1 Trillion

Across more than 1,300 tech sector firms, total interest-bearing debt outstanding today is estimated at approximately $1.35 trillion, more than $1 trillion of which resides with just over a dozen large cap, big tech AI-focused names.

Total AI big tech debt outstanding, USD bn

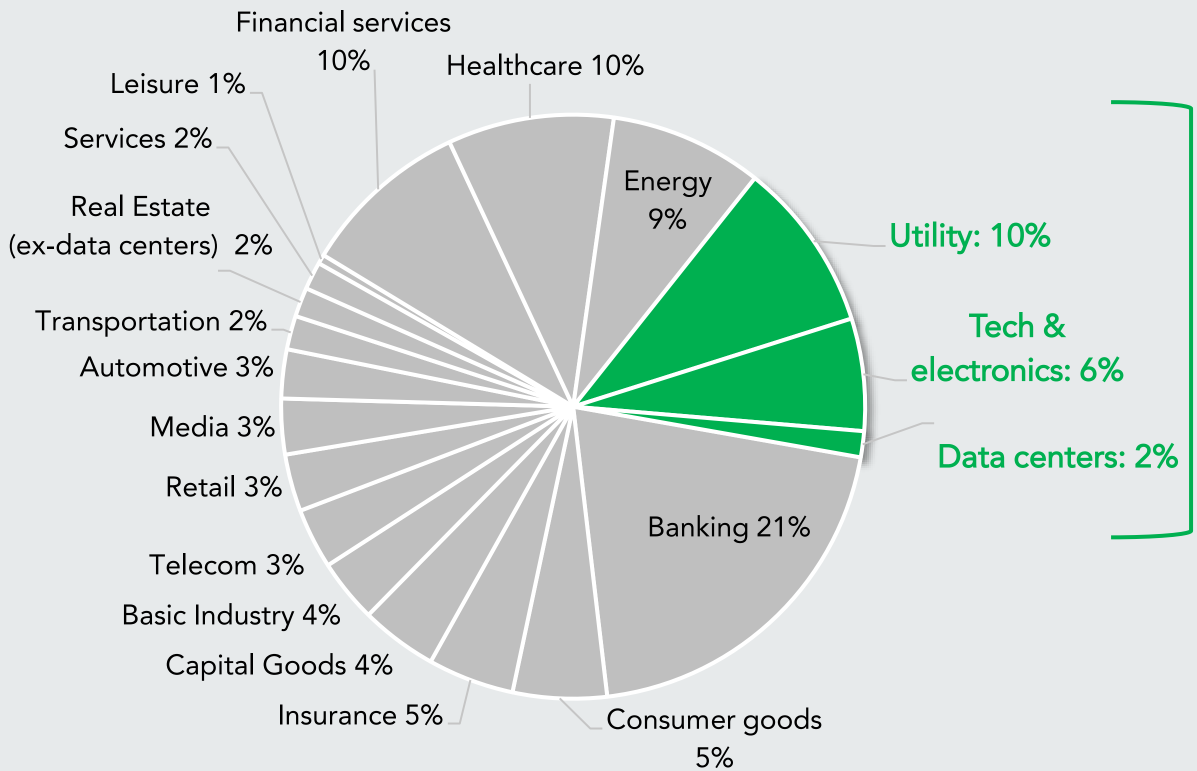


Source: (1) Bloomberg Intelligence. Oracle, Meta, Alphabet, Broadcom and Amazon adjusted for new issuance post end of quarter. Debt is total lease-adjusted debt pro-forma. As of Q3 2025.

AI-Related Sectors Comprise 18% of the IG Index

AI-related sectors (i.e., utilities, tech & electronics) now account for approximately 18% of the aggregate corporate bond index. Implications of this growth include the following: (1) more index concentration risk in a smaller group of names; (2) necessity of tech sector investor exposure to track and benchmark the index; (3) AI-related spread moves, ratings changes and issuance surge more directly impact the aggregate index; and (4) upward pressure on index duration given longer maturities of AI financings

IG corporate bond index, by sector

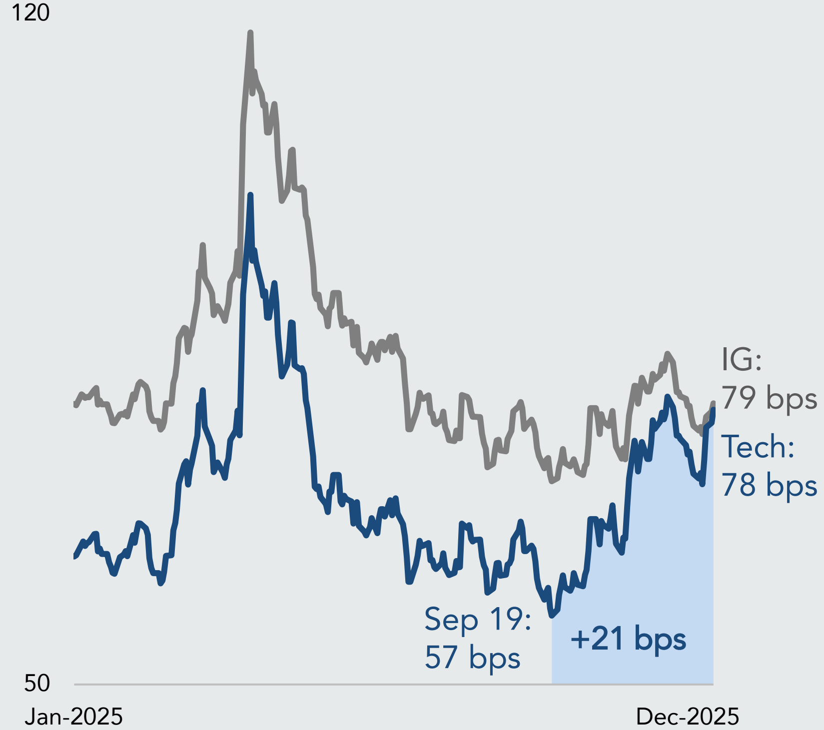


Source: (1) Bloomberg. Data as of December 16, 2025.

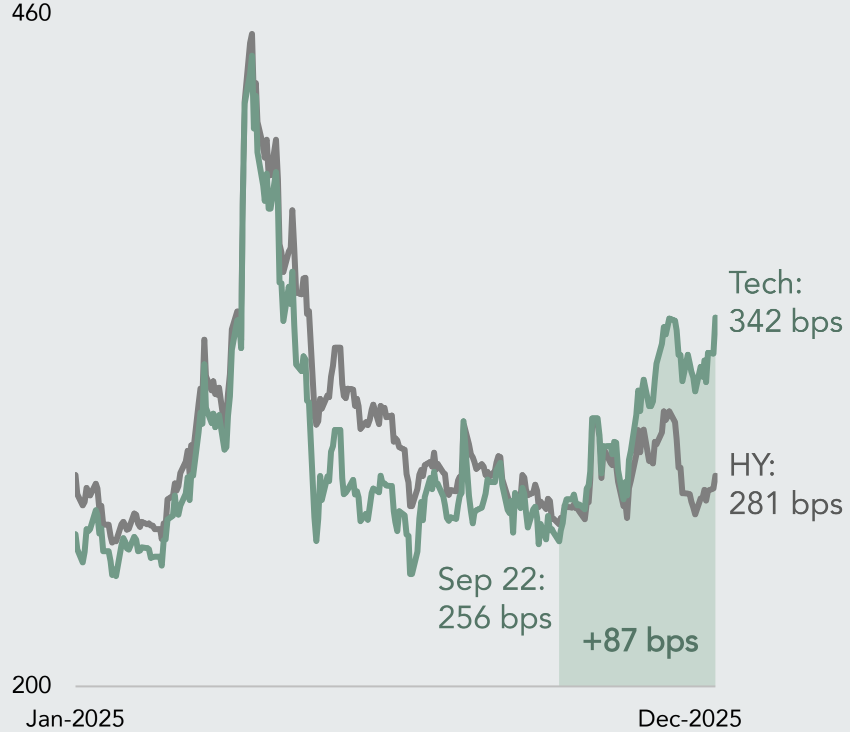
Tech Spreads Contained Despite Supply

Despite record supply to fund AI data center expansion, tech sector credit spreads have remained relatively contained. Nonetheless, tech spreads in 2025 moved from their historical position *inside* the index to trading marginally *wider*, particularly in the BBB tech cohort, as AI-driven issuance and leverage have surged.

IG index vs. IG tech spreads



HY index vs. HY tech spreads

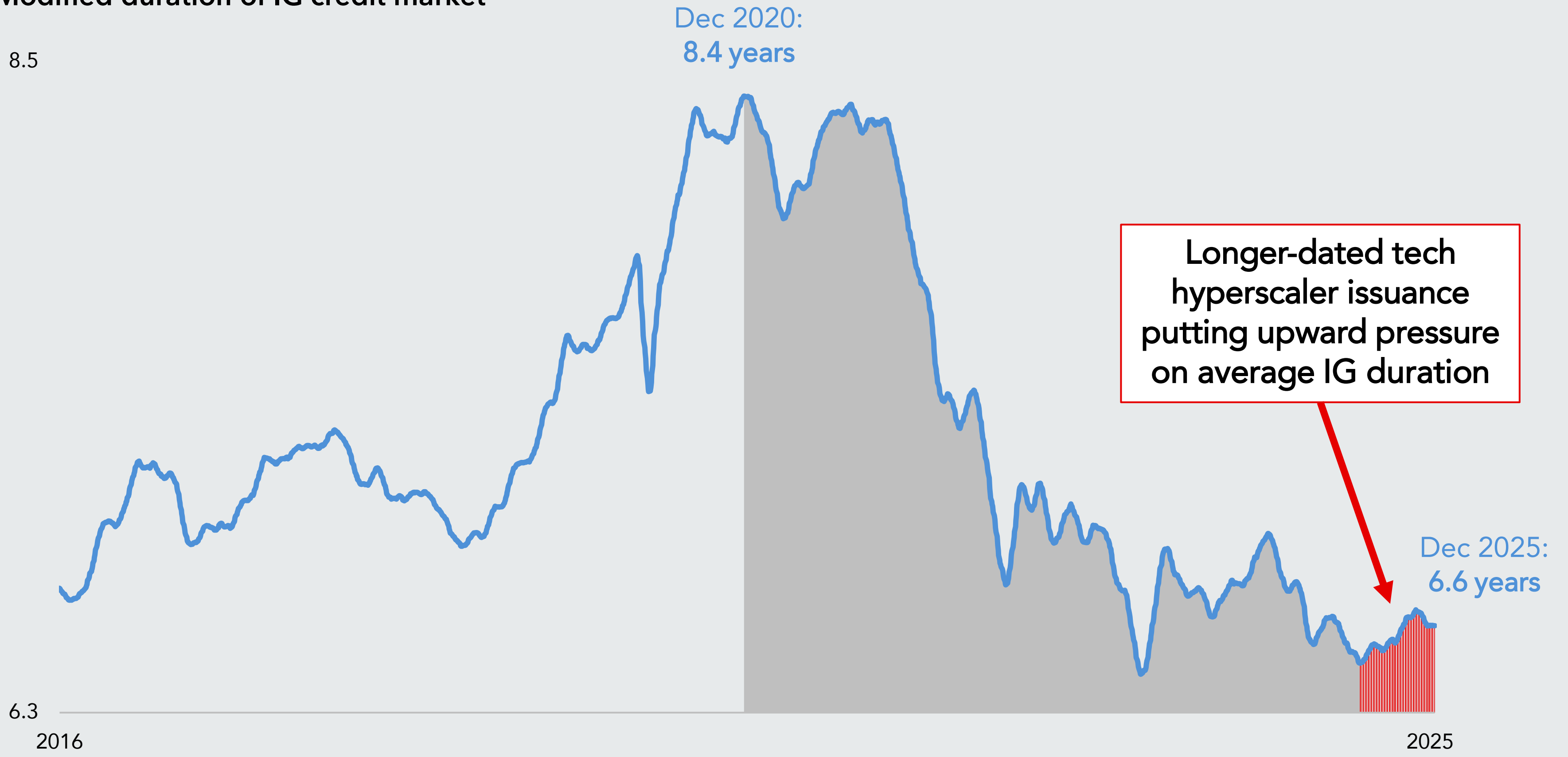


Source: (1-2) Bloomberg. Data as of December 17, 2025. Index OAS to Treasury.

Hyperscalers Nudging IG Avg Duration Slightly Higher

The recent wave of longer-dated hyperscaler debt issuance in the 2H of 2025 has nudged the average duration of the broad USD IG corporate market higher at the margin, but the impact thus far has been more incremental than transformational.

Modified duration of IG credit market

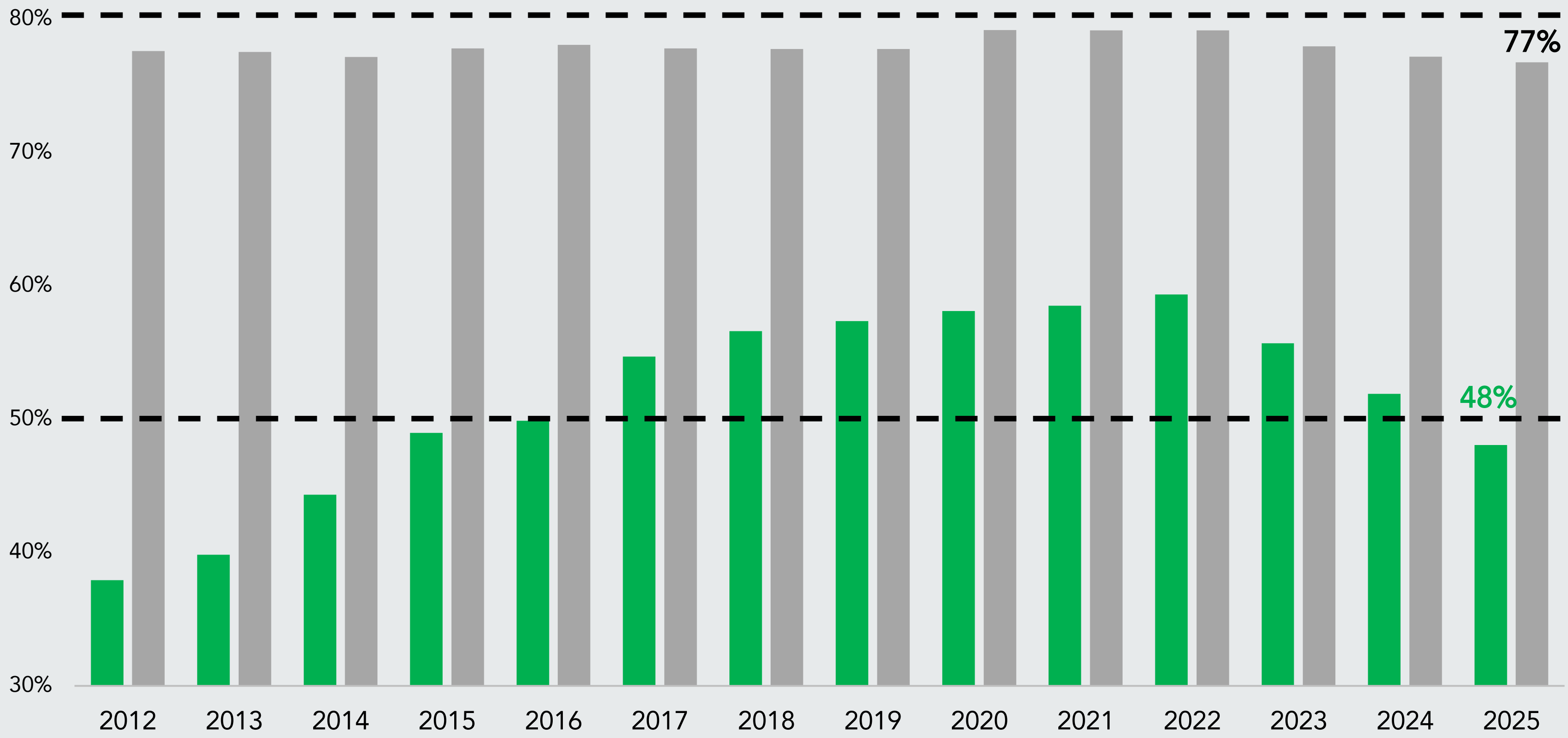


Source: (1) Oxford Economics. Bloomberg. Data as of December 18, 2025. Modified duration to maturity, 1 month rolling average.

AI Big Tech Leverage Metrics Still Strong

According to CreditSights, hyperscalers' ratio of liabilities-to-assets fell to 48% in Q3 2025, close to 2015 levels, down from a peak of 59% in late 2022. By comparison, the comparable leverage ratio for S&P 500 companies remained steady at just below 80% over the same period.

Hyperscalers vs. S&P 500, ratio of liabilities to assets



Source: (1) Oxford Economics. Bloomberg. Data as of November 25, 2025. Hyperscalers include Oracle, Amazon, Nvidia, Microsoft, Apple, Alphabet & Meta.

AI Big Tech Leverage Metrics Still Strong

Big tech leverage has risen substantively in 2025, but leverage metrics remain strong by both historical and cross-sector standards. To be sure, big tech AI balance sheets have commenced a transition from cash-rich, asset-light models to capex-heavy, externally funded models, though with still conservatively leveraged balance sheets. For investors, the greater risk is more the trajectory than current levels of debt.

CreditSights a FitchSolutions Company

CreditSights' largest IG and HY tech issuers 2026 leverage outlook

IG Issuer	Gross leverage 2025	Leverage direction FY 2026
Oracle	4.1x	Flat
Apple	0.7x	Flat
IBM	3.6x	Lower
Meta	0.7x	Higher
Amazon	1.0x	Flat
Alphabet	0.4x	Higher
Intel	3.2x	Lower
Microsoft	0.7x	Flat
Broadcom	1.6x	Lower
TSMC	0.4x	Lower

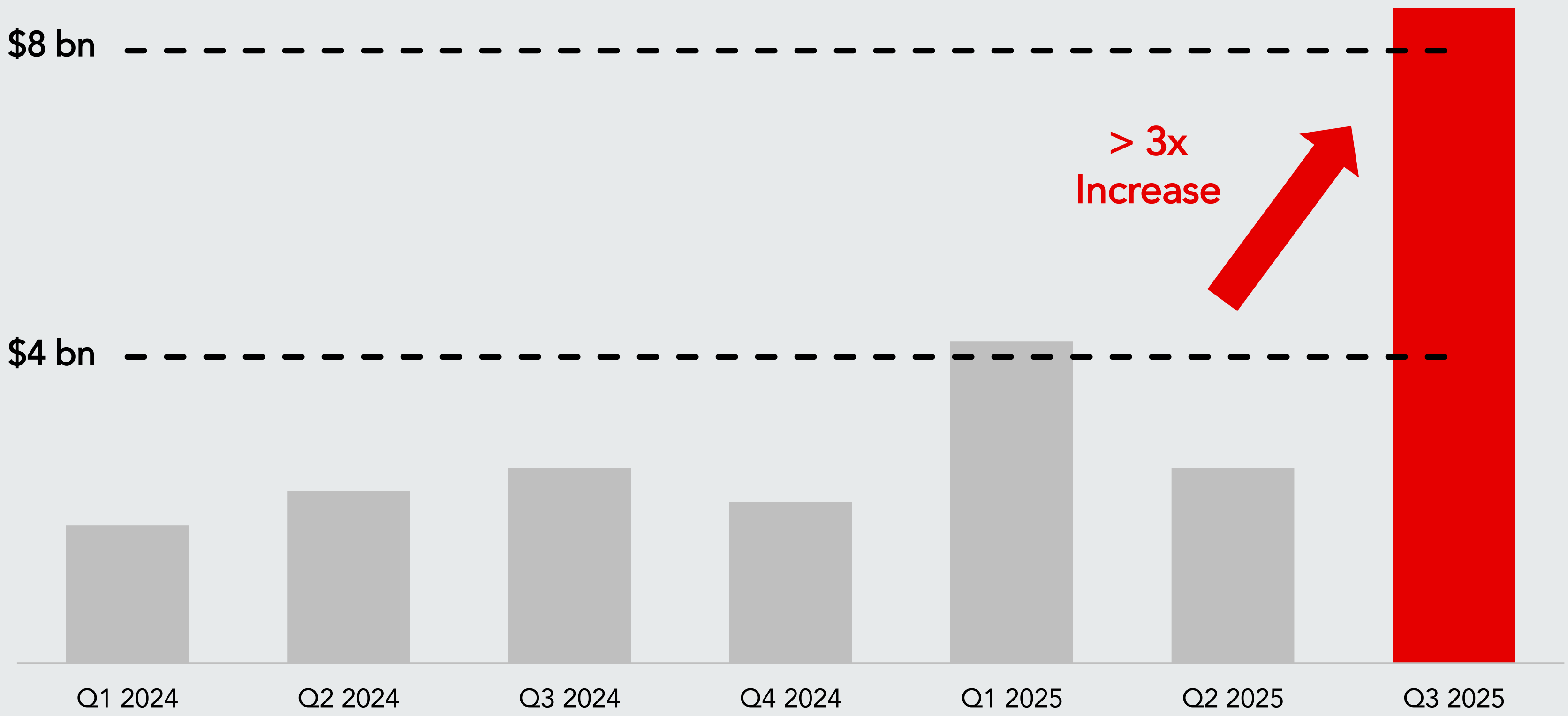
HY Issuer	Gross leverage 2025	Leverage direction FY 2026
Gen Digital	3.6x	Lower
CommScope	6.0x	Lower
Western Digital	1.5x	Lower
Seagate	1.8x	Lower
Xerox	6.2x	Flat
Sensata	3.9x	Lower
Rackspace	11.5x	Flat
NCR Voyix	2.7x	Lower
Twilio	1.1x	Lower

Source: (1-2) CreditSights, "2026 Sector Snapshot: US TMT." November 2025. Pro forma debt and lease-adjusted gross leverage for bond deals after quarter end: GOOGL (~$25bn cross-border), META ($30bn), AMZN ($15bn). Some names show lease adjusted gross leverage: ORCL, AAPL, GOOGL, MSFT, GEN, STX, WDC and TWLO. Xerox leverage metrics are pro forma for a full TTM of Lexmark. Seagate is pro forma for $500mn of paydown of convertible notes.

Surge in Single Name AI CDS Volumes

Investors have used a mix of **credit hedges** (i.e., CDS on both single name and index products), **equity hedges** (i.e., index and sector puts), **project-level hedges** (i.e., tighter covenants, higher coupons, structured products that pass some risk back to hyperscalers) and **macro hedges** (i.e., long-duration gov bonds, long vol trades, index or single name puts, long VIX, volatility swaps).

Net notional outstanding for US AI companies CDS, USD bn (Alphabet, Amazon, Broadcom, Meta, Microsoft, Oracle)



Source: (1) Depository Trust & Clearing Corporation. Data through Q3 2025. Average daily notional amount multiplied by number of trading days in a quarter.

Hedging AI's Rapid Debt-Financed Expansion

The massive scale of debt-financed AI capex and ROI uncertainty have received increased investor focus in recent months. For example, Oracle's 5-year CDS has more than tripled since September, while trading volumes have surged well above prior norms. Though Oracle's core business and profitability remain very strong, the market has become more concerned about the magnitude of the company's highly debt-funded, extremely capital-intensive AI buildout strategy with more concentrated customer risk (i.e., OpenAI), as compared to the other "big five" hyperscalers.

Oracle 5-yr CDS vs. IG index 5-yr CDS (2025), bps

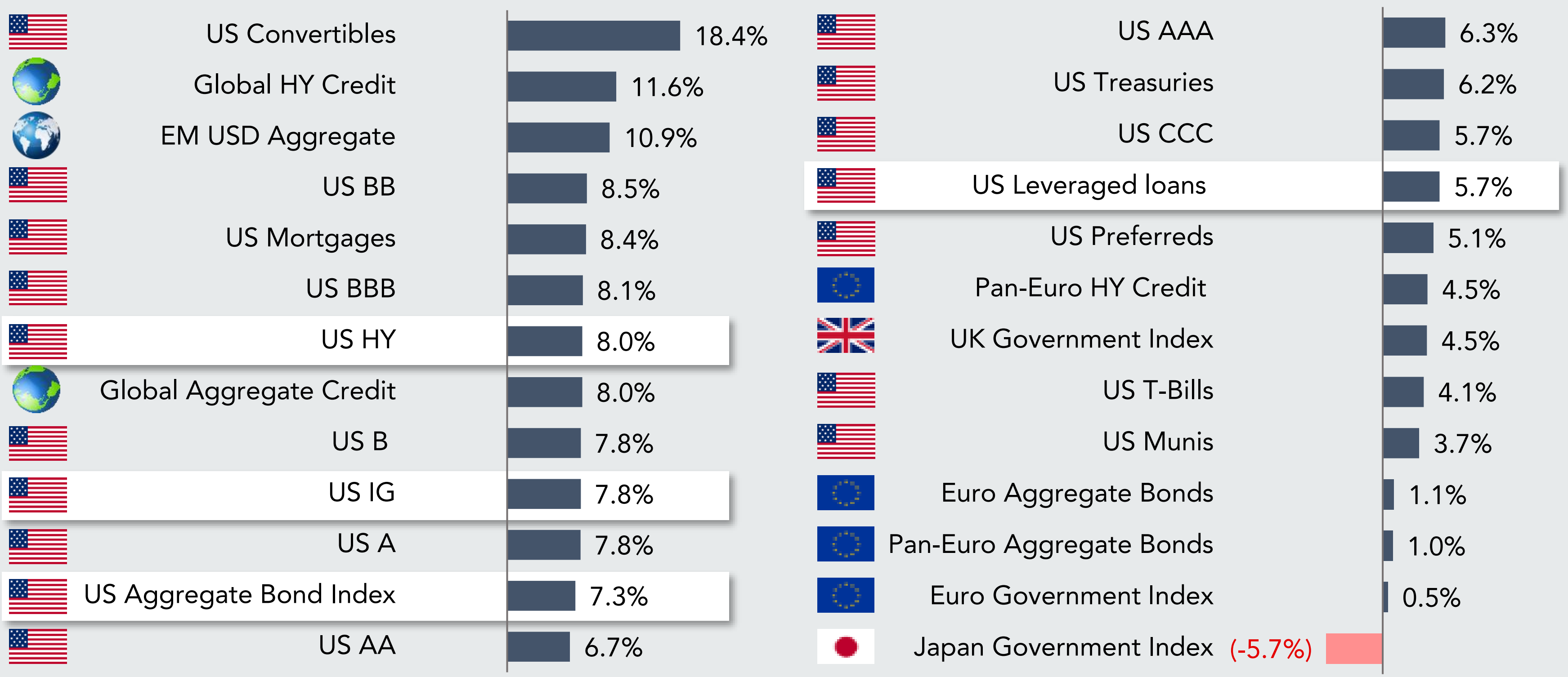
Source: (1-2) Bloomberg. Data as of December 18, 2025.

4 Yield-Seeking Technical Demand

Accelerating Dispersion in Bond Market Returns in 2025

Global bond returns in 2025 have been notably strong relative to the post-GFC period, though not as strong as the early 2000s or immediate post-COVID period. Looking at data going back 100 years to the 1920s, bond returns have frequently clustered in the low-to-mid single digit range, making the 2025 **mid-to-high single digit returns of 7.3% for the US Aggregate Bond Index** a clear step-up by historical standards.

Credit market total returns 2025 YTD

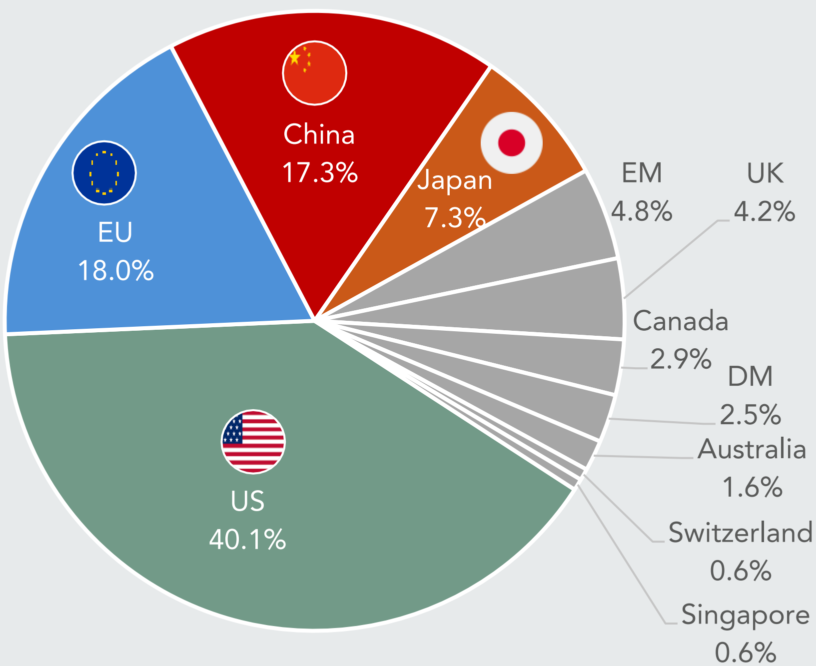


Source: (1-2) Bloomberg. Data as of December 19, 2025.

Large, Liquid Global Capital Markets

The US fixed income markets account for approximately 40% of the more than $145 trillion in debt securities outstanding globally, which is over 2x the next largest market, the EU. Bond markets in the US, EU, China and Japan represent over 80% of total global fixed income securities outstanding.

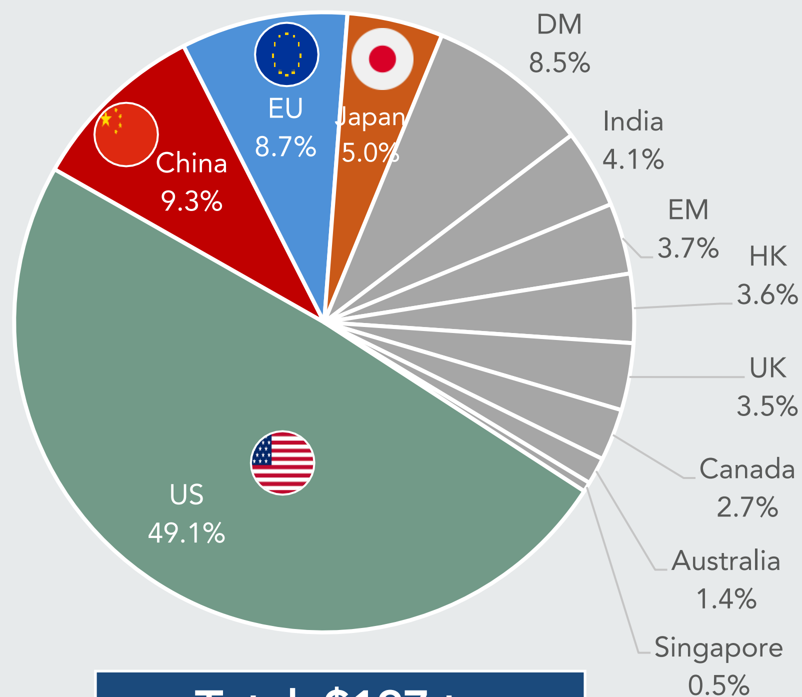
Global fixed income securities outstanding



Total: $145 tn

The US equity markets represent approximately 50% of the $127 trillion in total global equity market capitalization, which is 5x the next largest market, China. Equity markets in the US, China, EU and Japan represent over 65% of global equity market cap.

Global equity market cap



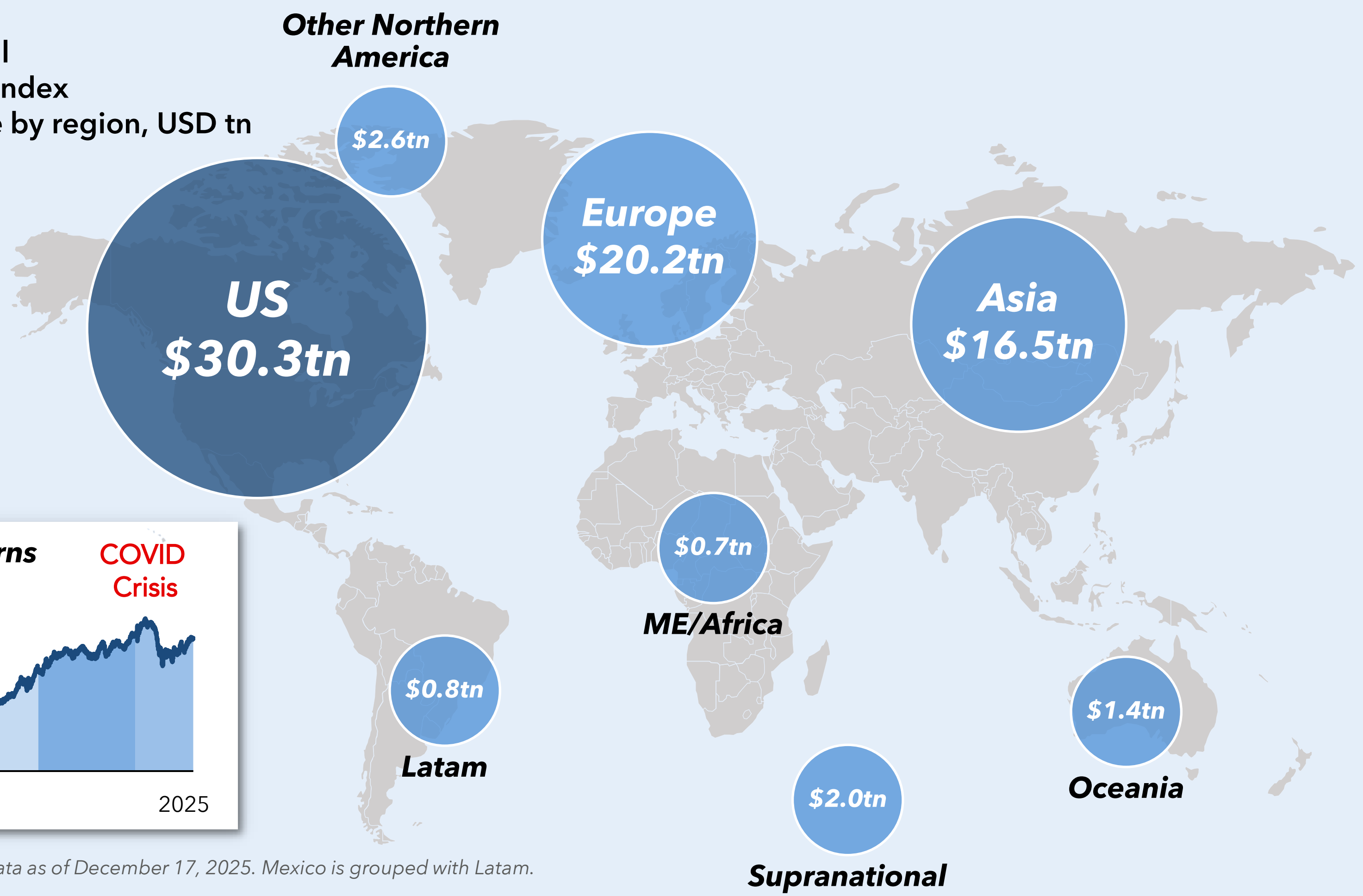
Total: $127 tn

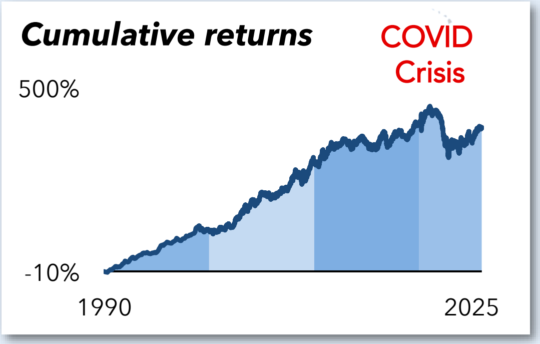
Source: (1-2) SIFMA Research (2025 Capital Markets Fact Book, July 2025). Data is full year 2024.

The Bloomberg Global Aggregate Bond Index

With a history dating back to 1990, few market indices better embody the depth, diversification and liquidity of today's global bond markets than the Bloomberg Global Aggregate Bond Index. Comprised of more than 30,000 securities from more than 3,100 issuers with a market cap above $70 trillion, the index provides a high quality, broadly diversified, multi-currency benchmark for performance.

Bloomberg Global Aggregate Bond Index total market value by region, USD tn



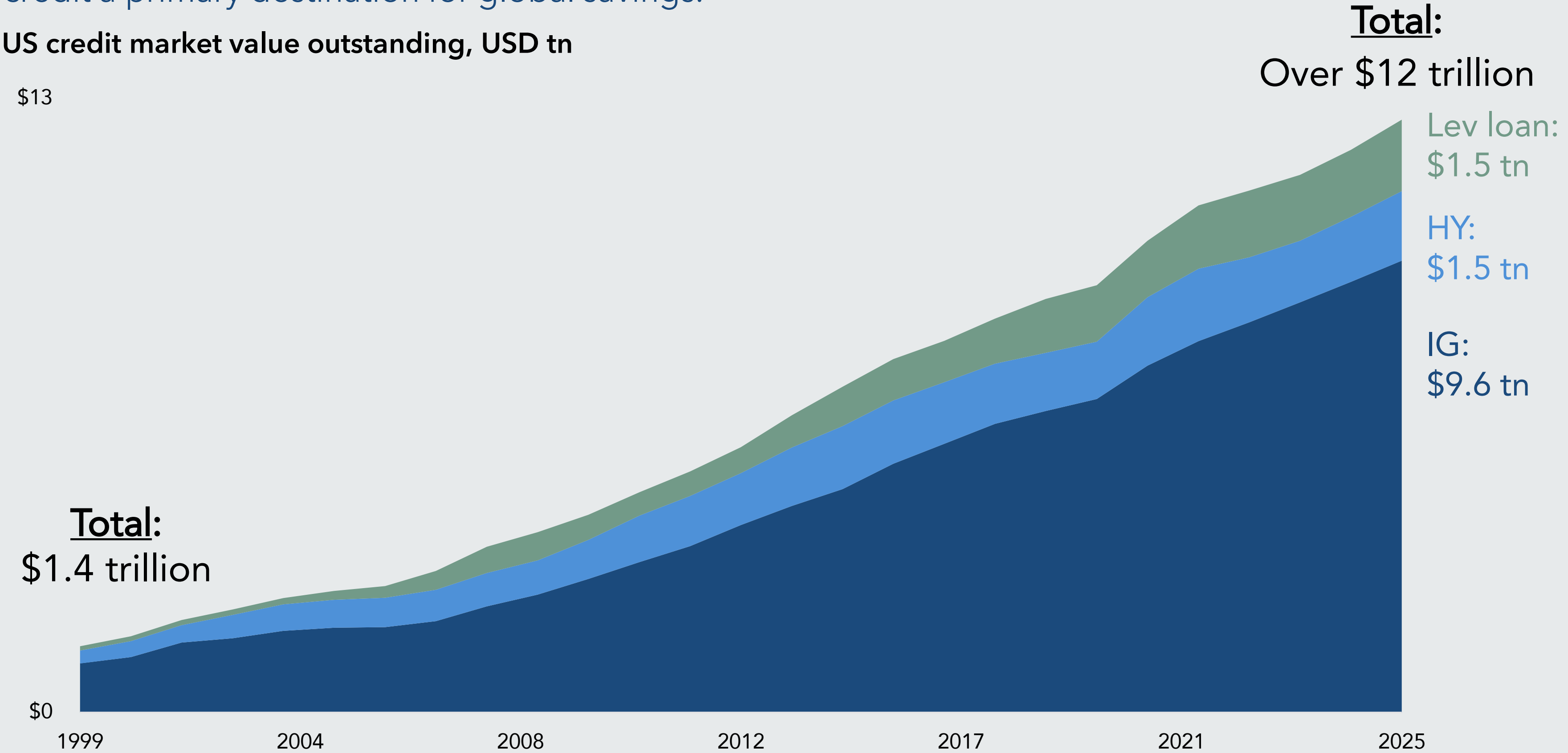


Source: (1-2) Bloomberg. Data as of December 17, 2025. Mexico is grouped with Latam.

Deepest, Most Liquid Corporate Funding Market

US Dollar corporate credit markets, the largest in the world, have more than doubled in size since the Global Financial Crisis. Over $12 trillion in size, the USD markets offer a deep ecosystem and investor base into which USD corporate supply can be absorbed relatively seamlessly. Bid-ask spreads and market depth benefit from electronic trading, dealer balance sheet capacity and a broad global investor base (asset managers, insurance, pension, central banks, SWFs), making USD corporate credit a primary destination for global savings.

US credit market value outstanding, USD tn

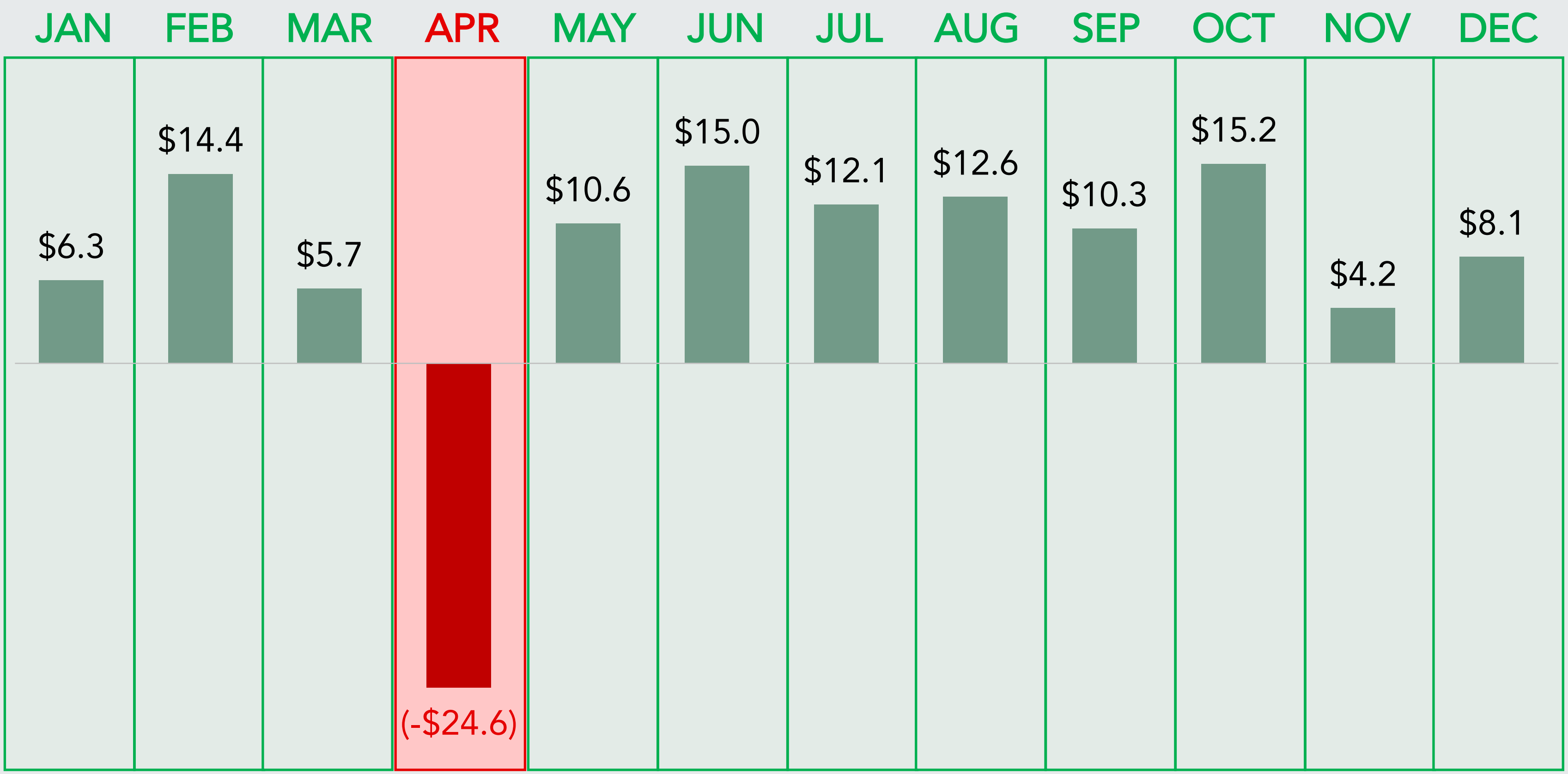


Source: (1) CreditSights. FactSet. ICE Data Indices. IG and HY data as of December 2025. Leveraged loan is Morningstar LSTA US LLI as of end of October 2025.

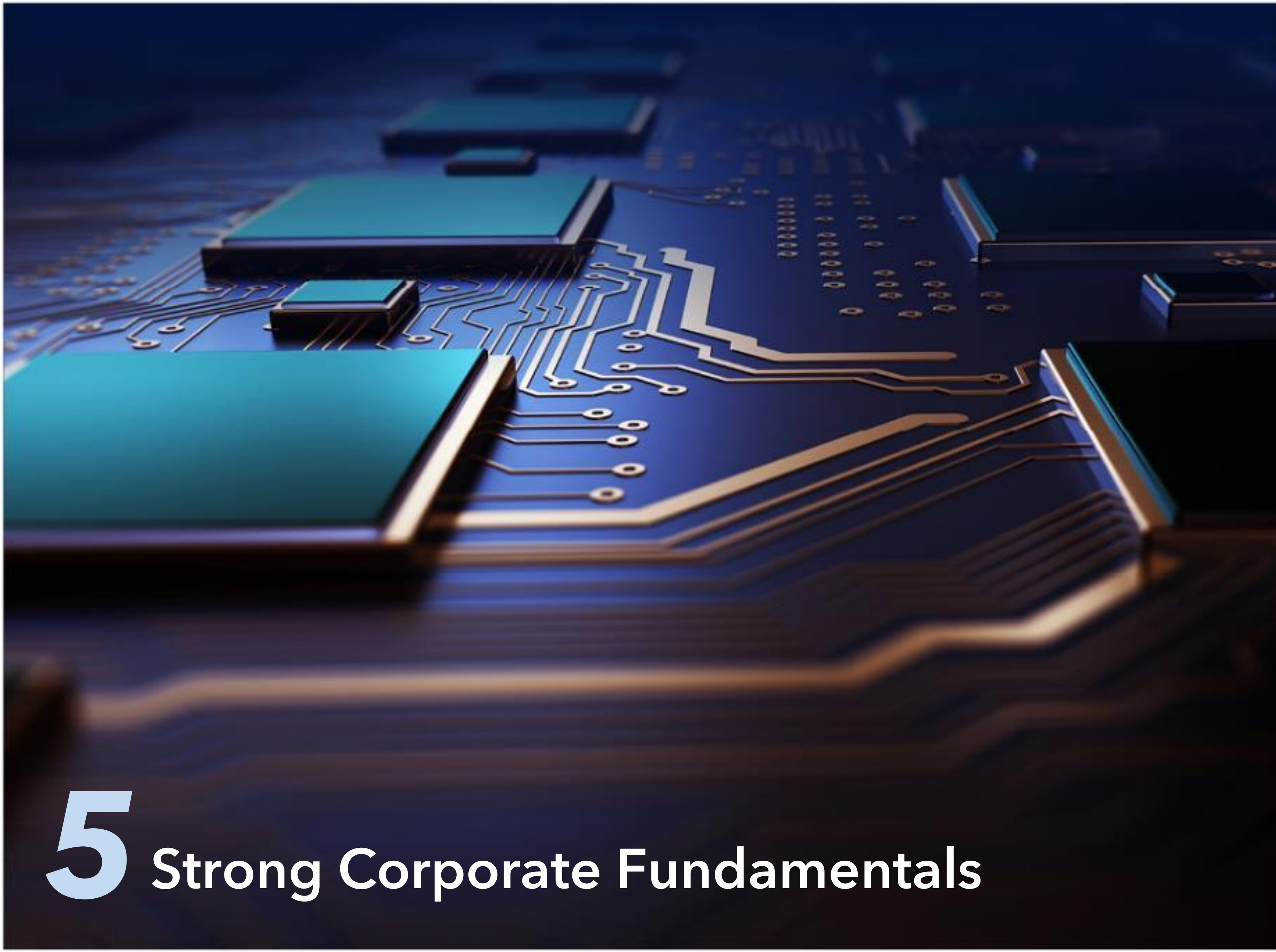
Resurgent USD Corporate Bond Flows

Demand for USD corporate credit has continued its strong pace since May as investors favor the additional yield of strong corporate balance sheets over increasingly levered sovereigns. Since the more acute period of risk-off sentiment in April, global investors have directed nearly $90 bn in aggregate into US dollar IG and HY funds.

US 2025 monthly IG & HY fund flows, USD bn



Source: (1) IFR. Data through the week ending December 18, 2025.

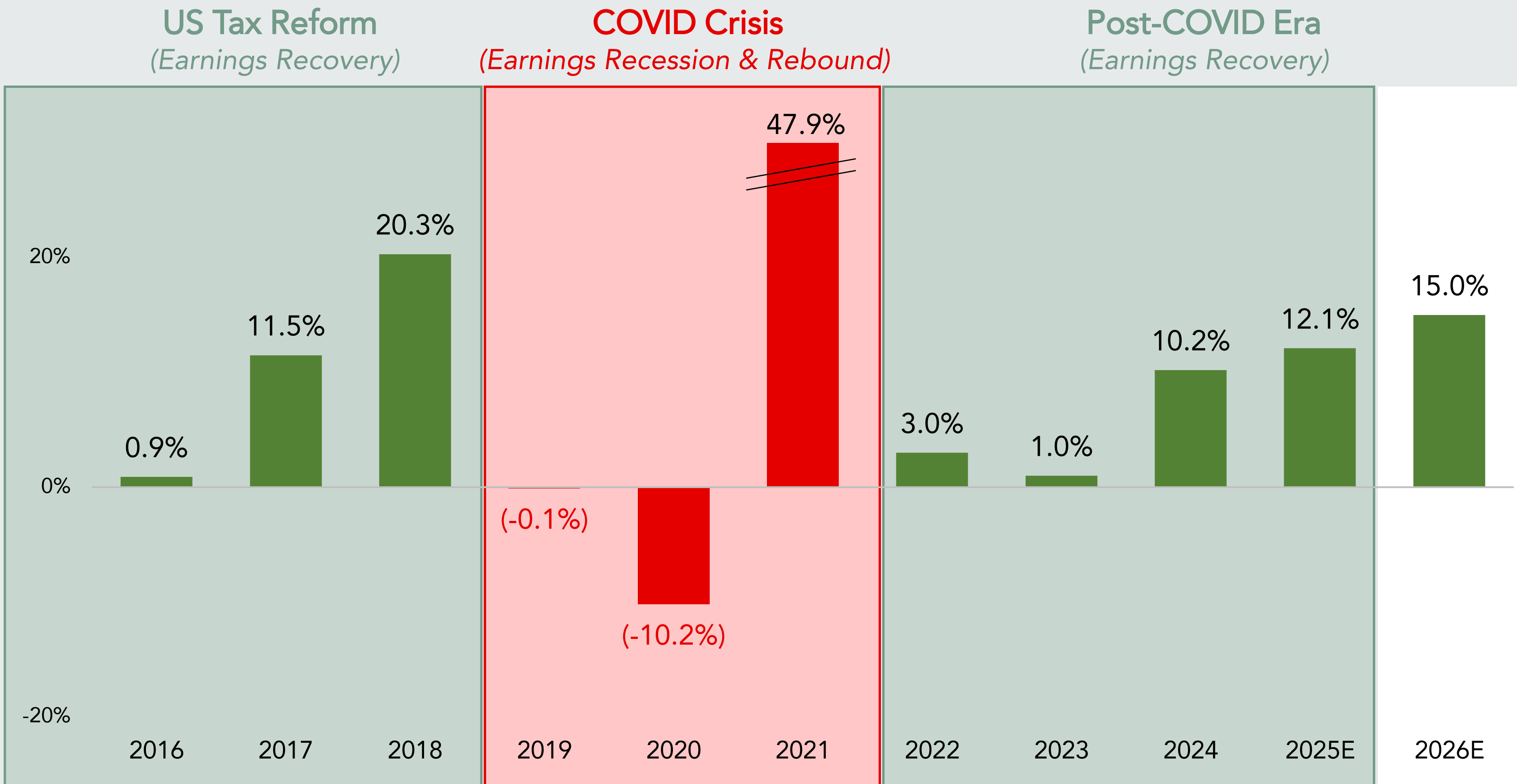


5 Strong Corporate Fundamentals

Corporate Earnings Expected to Accelerate in 2026

Defying elevated policy uncertainty and the largest trade war in a century, 83% and 76% of S&P 500 companies beat on earnings and revenue, respectively, in Q3 2025 – well above five- and ten-year averages.

S&P 500 annual earnings growth, y/y



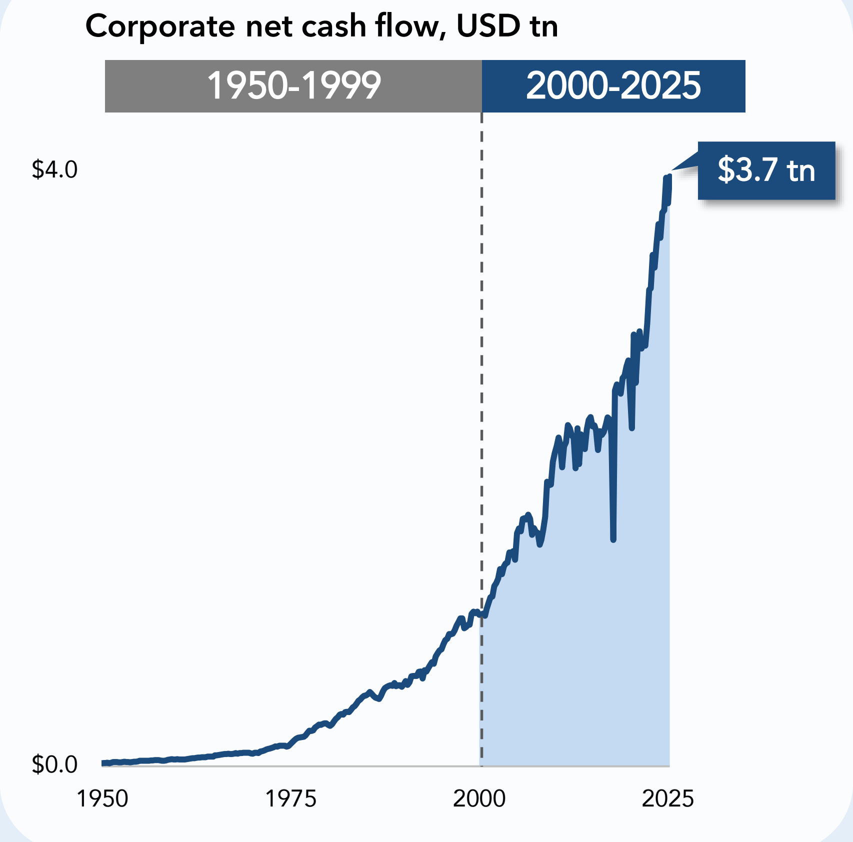
Source: (1) FactSet, Earnings Insight Report (December 19, 2025).

Key Drivers of Corporate Earnings in 2026

1	Soft landing accompanied by Fed policy easing
2	Fading, albeit, sticky inflation
3	AI-driven growth and productivity gains
4	Continued corporate margin expansion to new record highs
5	Improved performance from cyclicals and financials and other non-AI sectors
6	Sizable front-loaded OBBBA fiscal and tax stimulus in 2026

Record Corporate Margins & Cash Flow

Corporate margins and cash flow reached record highs in 2024-25 as companies adeptly managed both opportunity and uncertainty in the post-COVID landscape. **Corporate margins have risen to new highs above 12%**, well above their 7-9% historic average. **Corporate net cash flow also hit new records of nearly$4 trillion**, more than $1 trillion above the pre-COVID baseline, and signaling **significant capacity for investment, shareholder returns and resilience.**

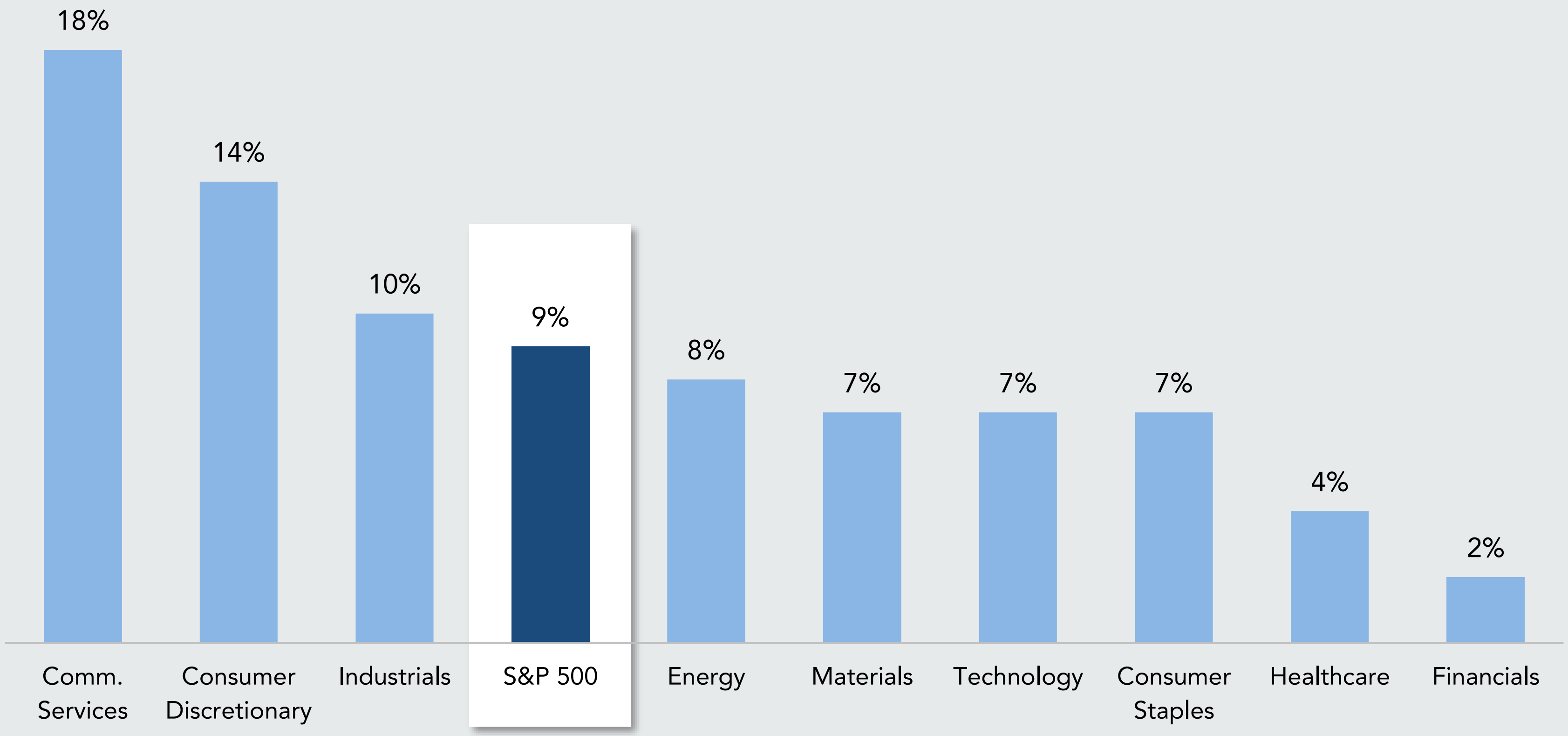


Source: (1-2) Federal Reserve Economic Data (FRED). Data through Q2 2025.

Boost to Corporate Free Cash Flow

The OBBBA includes a number of tax cuts and incentives intended to boost capex investment and lower the overall tax burden on US businesses. These benefits will disproportionately boost free cash flow (FCF) in larger firms, especially companies in capex and R&D intensive sectors such as communication services, consumer discretionary, industrials and energy.

OBBBA estimated boost to free cash flow, by S&P sector

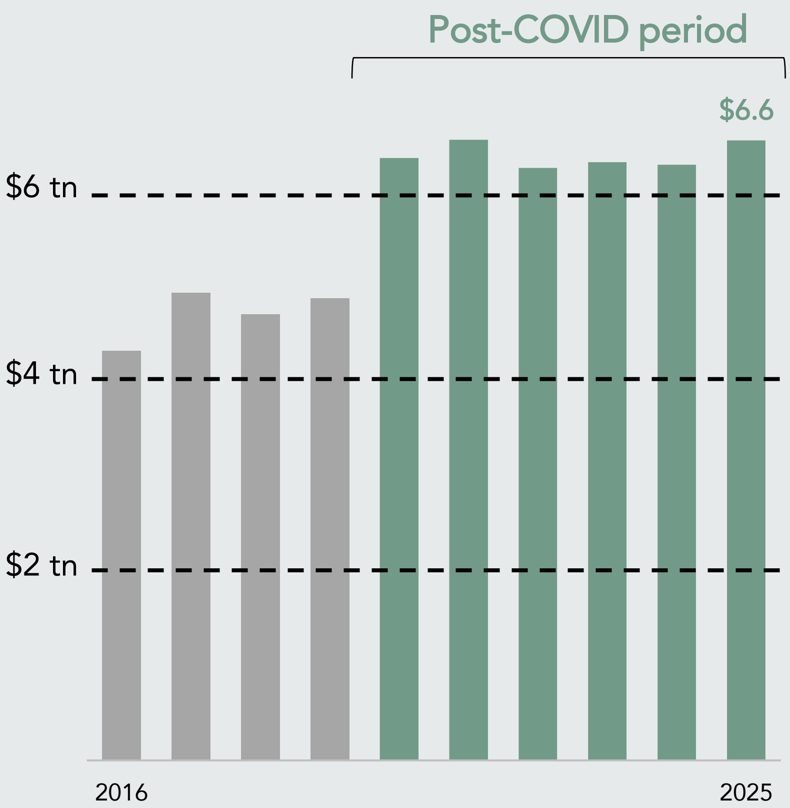


Source: (1) Principal Asset Management. Zion Research Group. Data as of July 17, 2025.

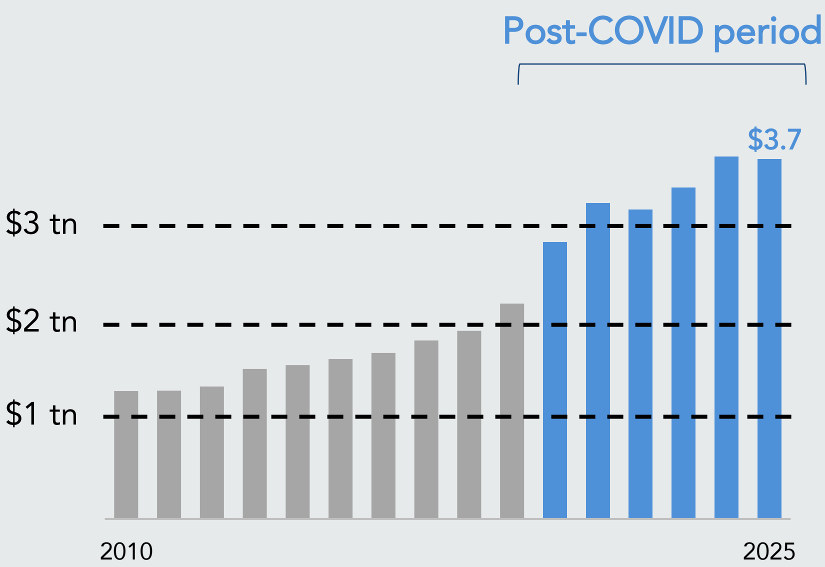
Fortified Cash-Rich Corporate Balance Sheets

Record profits and robust capital markets issuance allowed investment grade corporates to build record cash balances and reduce leverage. While leverage levels are starting to move higher, corporate cash balances remain elevated.

Global cash and short-term investments on companies' balance sheets, USD tn



US corporate cash balances, USD tn



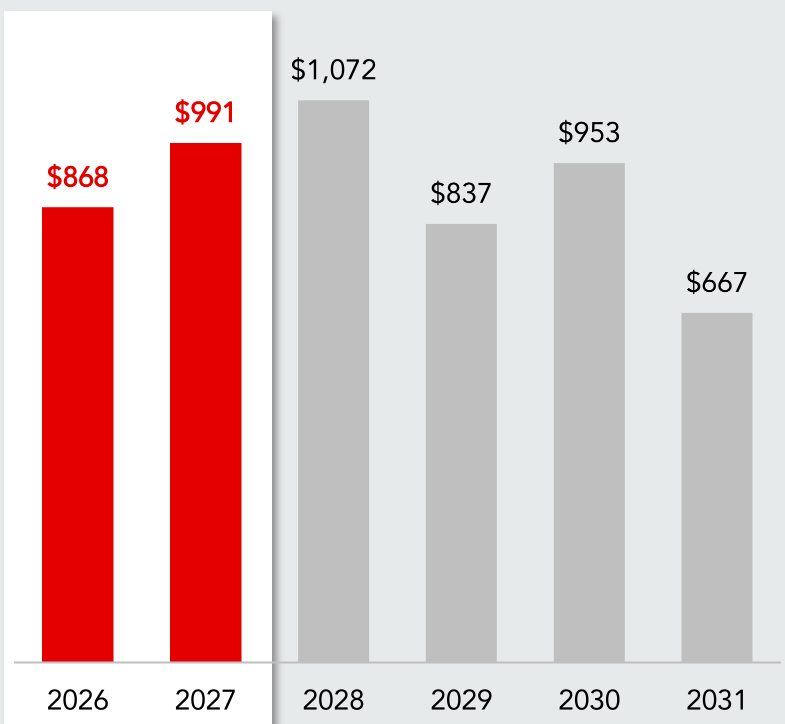
Source: (1) S&P Global Market Intelligence, S&P Global Ratings. Data through Q3 2025. Refers to nonfinancial corporates rated by S&P Global Ratings globally. (2) Federal Reserve. US corporate cash balance is nonfinancial corporate business foreign deposits, checkable deposits and currency, time and savings deposits, and money market funds. 2025 data through Q2.

HY & Lev Loan Maturity Walls Pushed Further Out

For investment grade, formidable but still manageable maturity walls will be the primary driver of issuance in 2026, followed by deal activity, capex, AI's rapid expansion, share buybacks and other financing needs. By comparison, the maturity walls in high yield and leveraged loan markets are largely pre-funded, which should facilitate declining default rates and a constructive fundamental backdrop for issuance.

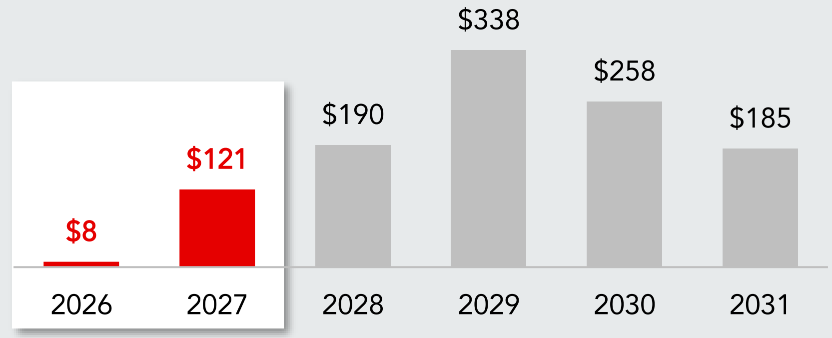
2026-31 IG maturity wall will drive issuance

IG maturity profile, USD bn

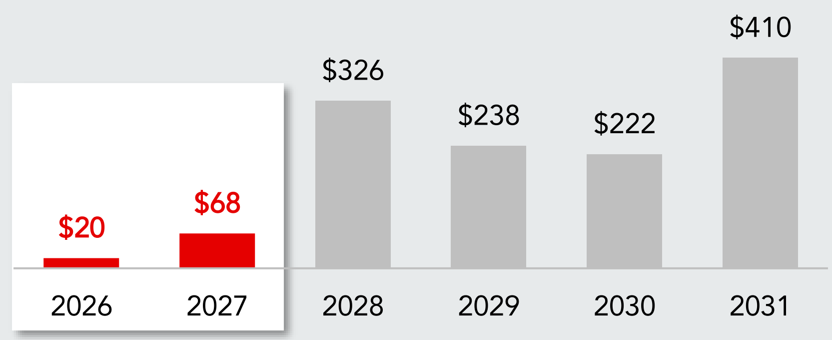


2026-31 HY & lev loan maturity walls largely pre-funded

HY maturity profile, USD bn



Leveraged loan maturity profile, USD bn

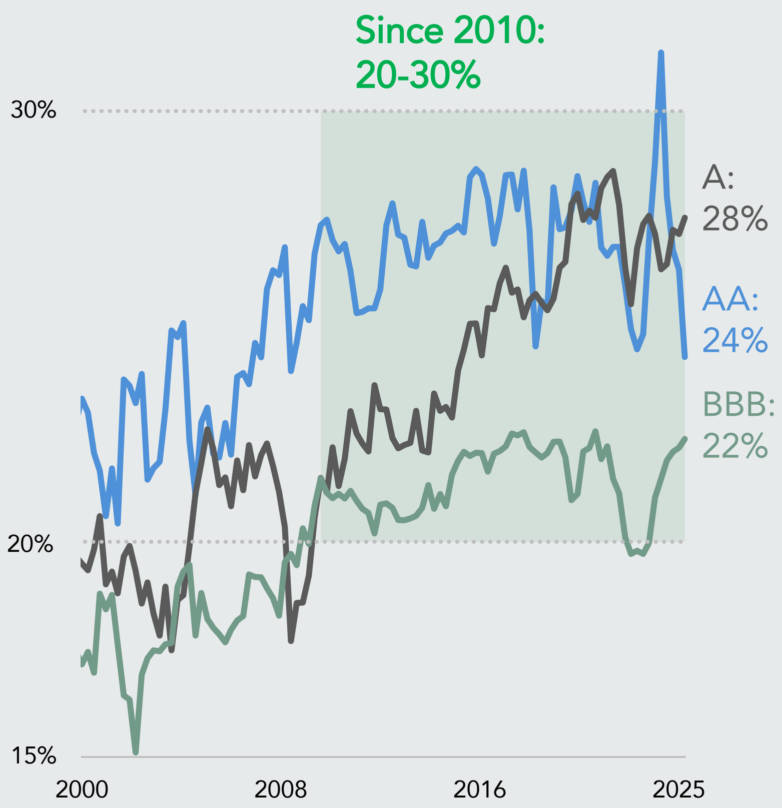


Source: (1) Bloomberg. Data as of December 2025. MUFG DCM. (2-3) CreditSights. Data as of December 2025.

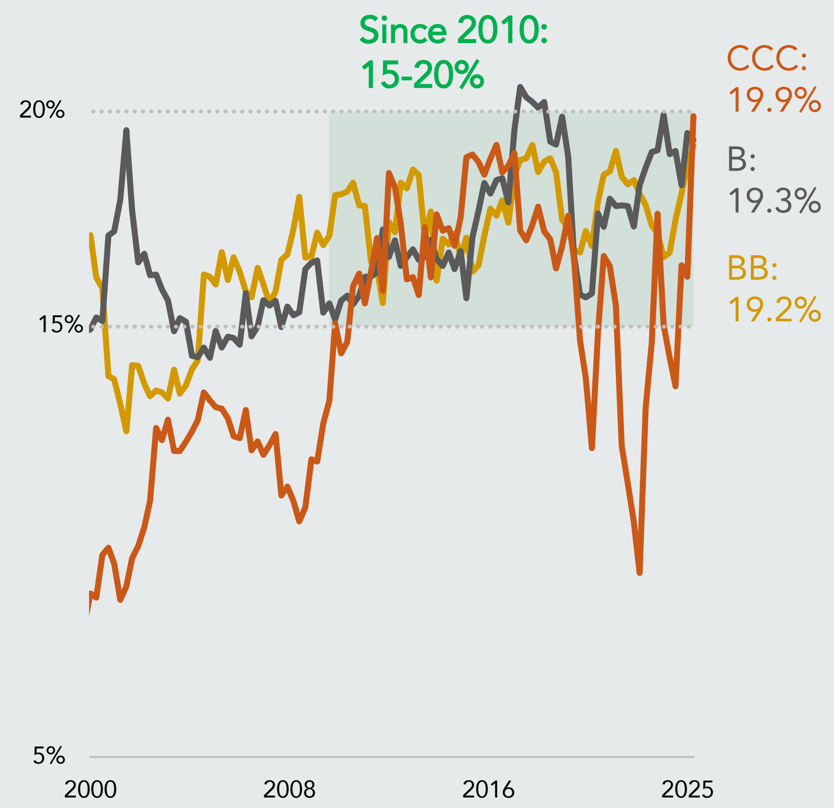
EBITDA Margins Strong, Despite Inflation

The combination of pro-growth economic policy, OBBBA tax cuts, Fed policy easing and steady disinflation bode well for corporate profits in 2026.

USD IG EBITDA margins, by rating



USD HY EBITDA margins, by rating

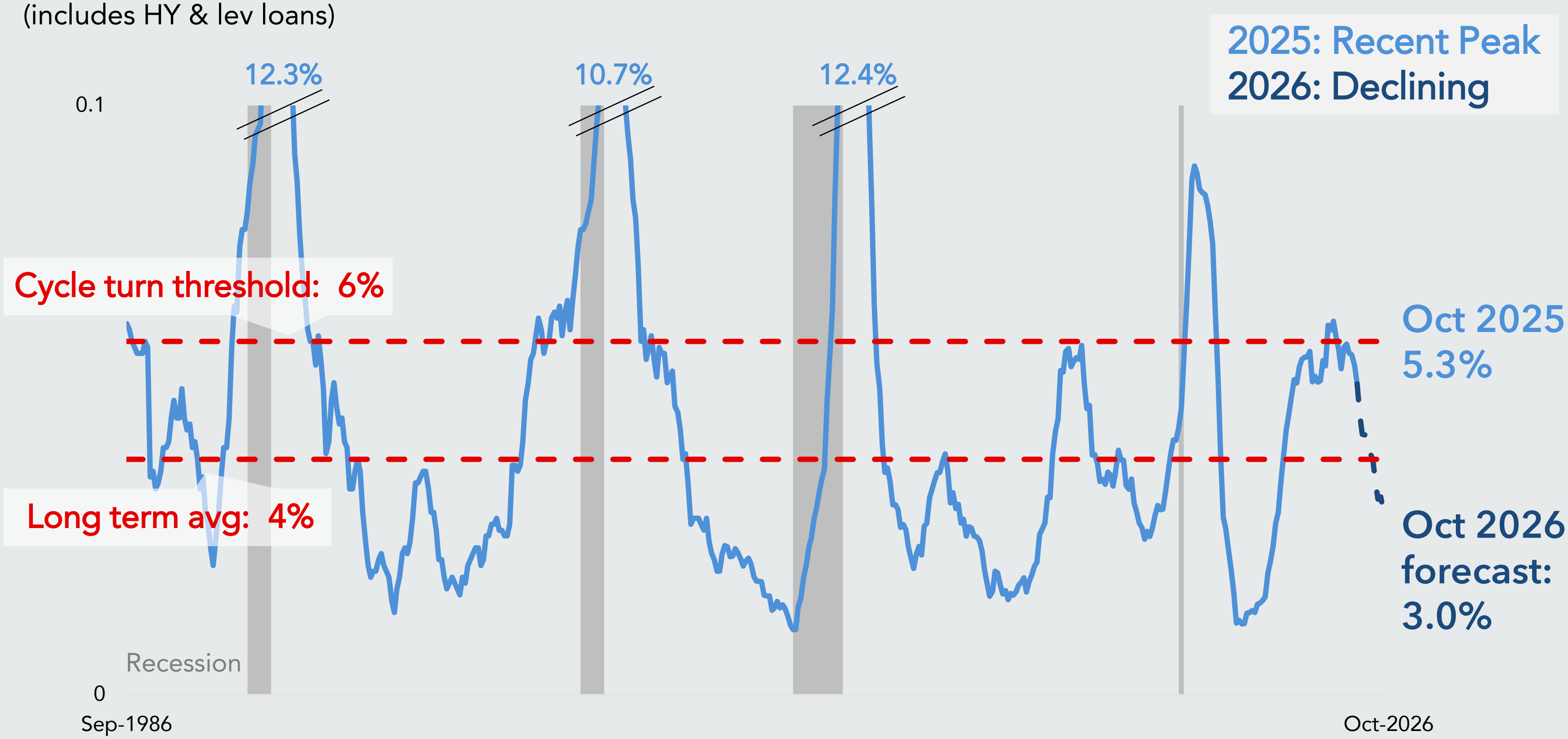


Source: (1-2) CreditSights, "US IG & Leveraged Finance 2026 Outlook: Low Visibility Operation". Data through Q2 2025.

Default Rates Expected to Edge Lower in 2026

Somewhat counterintuitively this late in the cycle, US speculative default rates (HY & lev loans) are expected to decline in 2026 on the back of stable growth, Fed policy easing, pre-funded maturity walls and robust issuance market conditions. Among speculative grade credits, loans and private market defaults are expected to modestly outpace HY. Regionally, US defaults are expected to be modestly higher than Europe.

US speculative grade default rate
(includes HY & lev loans)

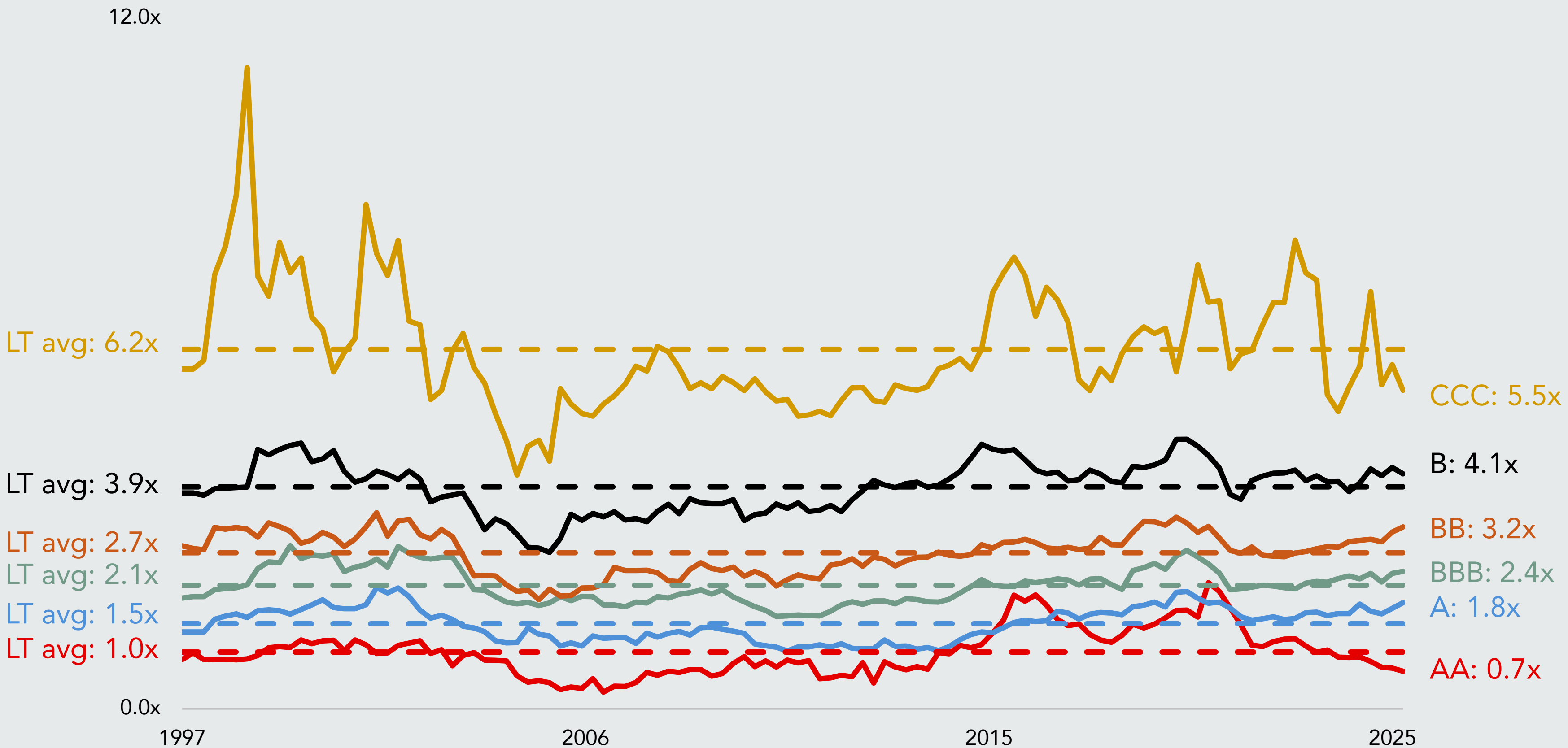


Source: (1) Moody's, "Default Trends – Global Oct 2025 Default Report." Default rate is trailing 12 months US speculative grade default rate. Forecast is US baseline.

Leverage Near Long Term Averages

Corporate balance sheets in the multi-trillion USD bond markets have remained strong by historic standards, with variance starting to emerge by sector. Look for leverage to remain relatively stable over the course of next year, albeit slightly above long-term historic averages for several ratings categories.

USD net leverage by rating

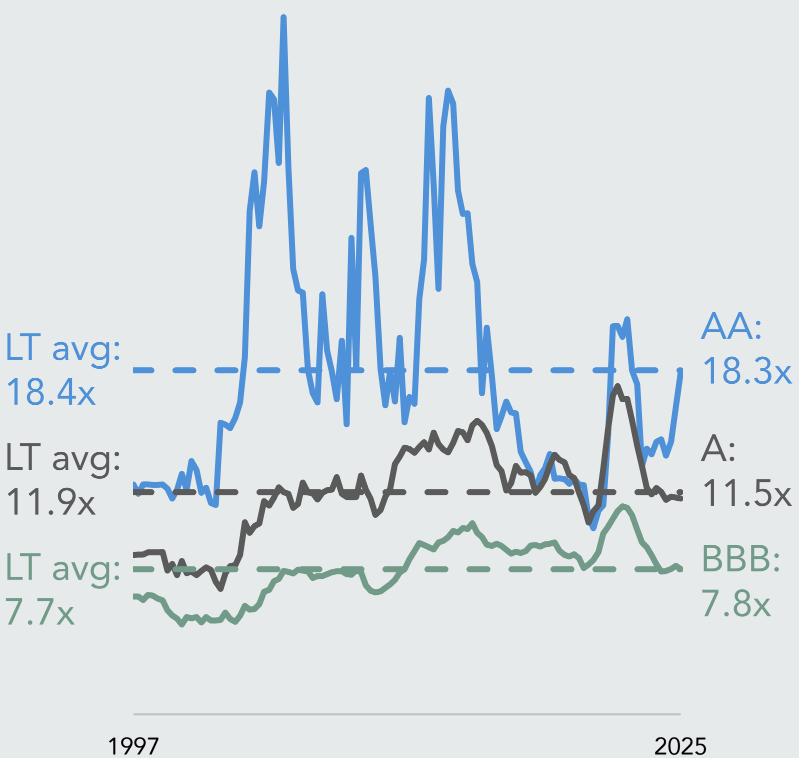


Source: (1) CreditSights, "US IG & Leveraged Finance 2026 Outlook: Low Visibility Operation". Data through Q2 2025.

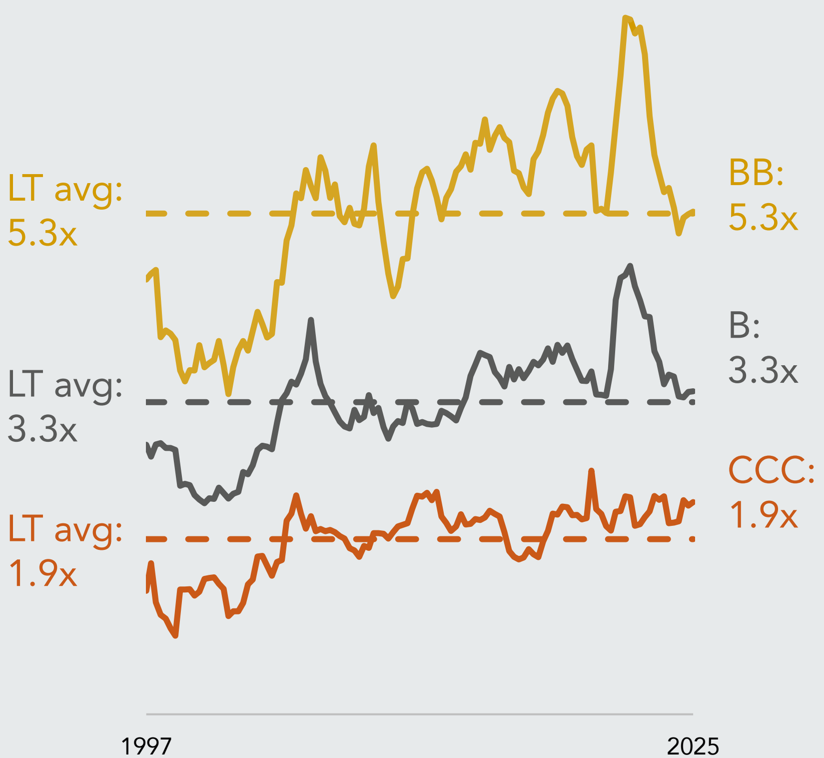
Interest Coverage Ratios Near Long Term Averages

Globalization, higher profit margins and low interest rates drove a 40-year cyclical uptrend in corporate interest coverage ratios. As rates rose during the global tightening cycle of 2022-2023, coverage ratios migrated closer to LT averages. Looking ahead, coverage ratios are expected to remain stable and strong in 2026.

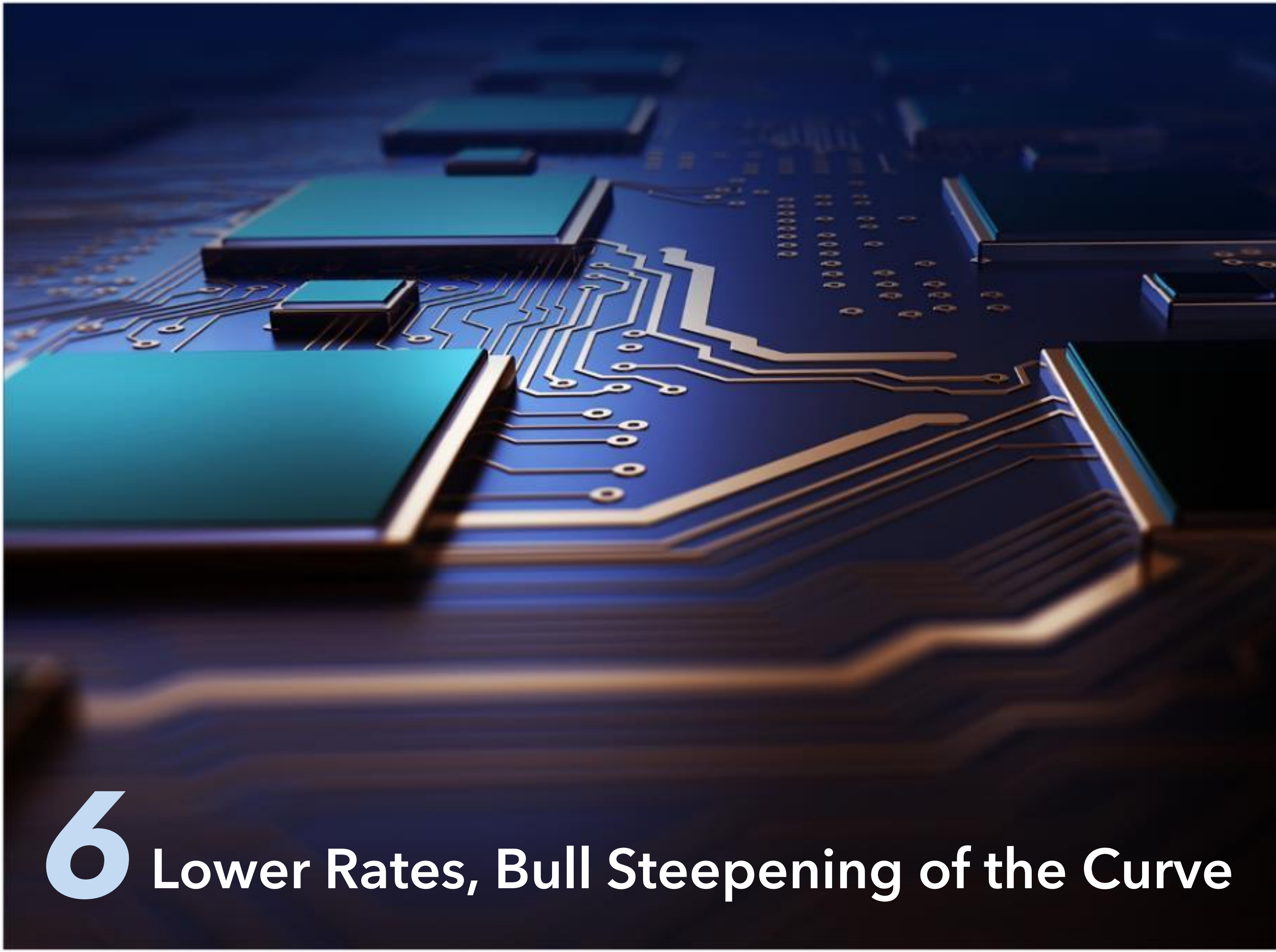
USD IG interest coverage ratio, by rating



USD HY interest coverage ratio, by rating



Source: (1-2) CreditSights, "US IG & Leveraged Finance 2026 Outlook: Low Visibility Operation". Data through Q2 2025.

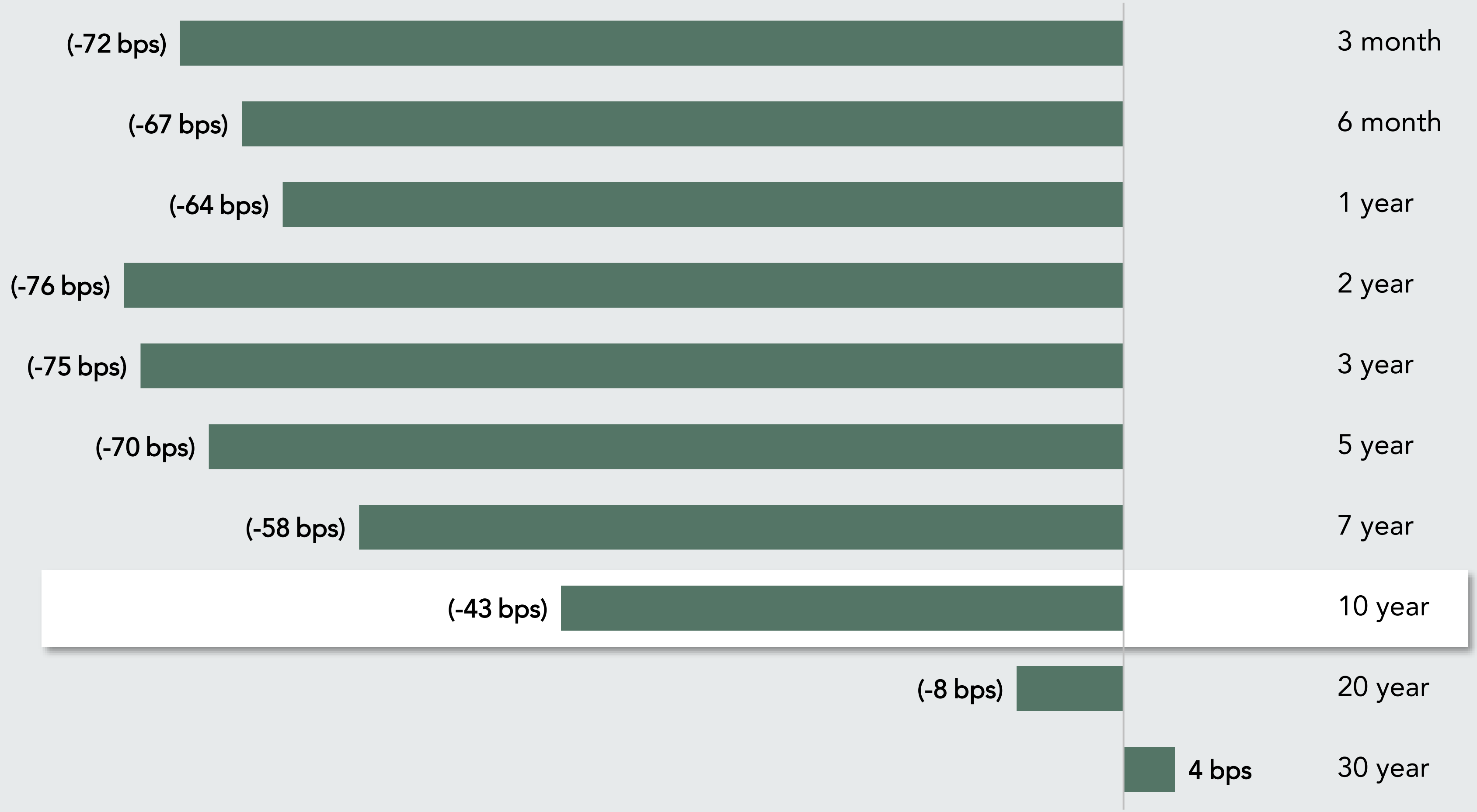


6 Lower Rates, Bull Steepening of the Curve

UST Yields Tighter Across the Curve in 2025

Fed policy easing, a decelerating US economy and softer labor markets drove UST rates lower across the curve in 2025. We expect the path lower to continue in 2026, albeit modestly lower.

Change in UST rates in 2025 YTD

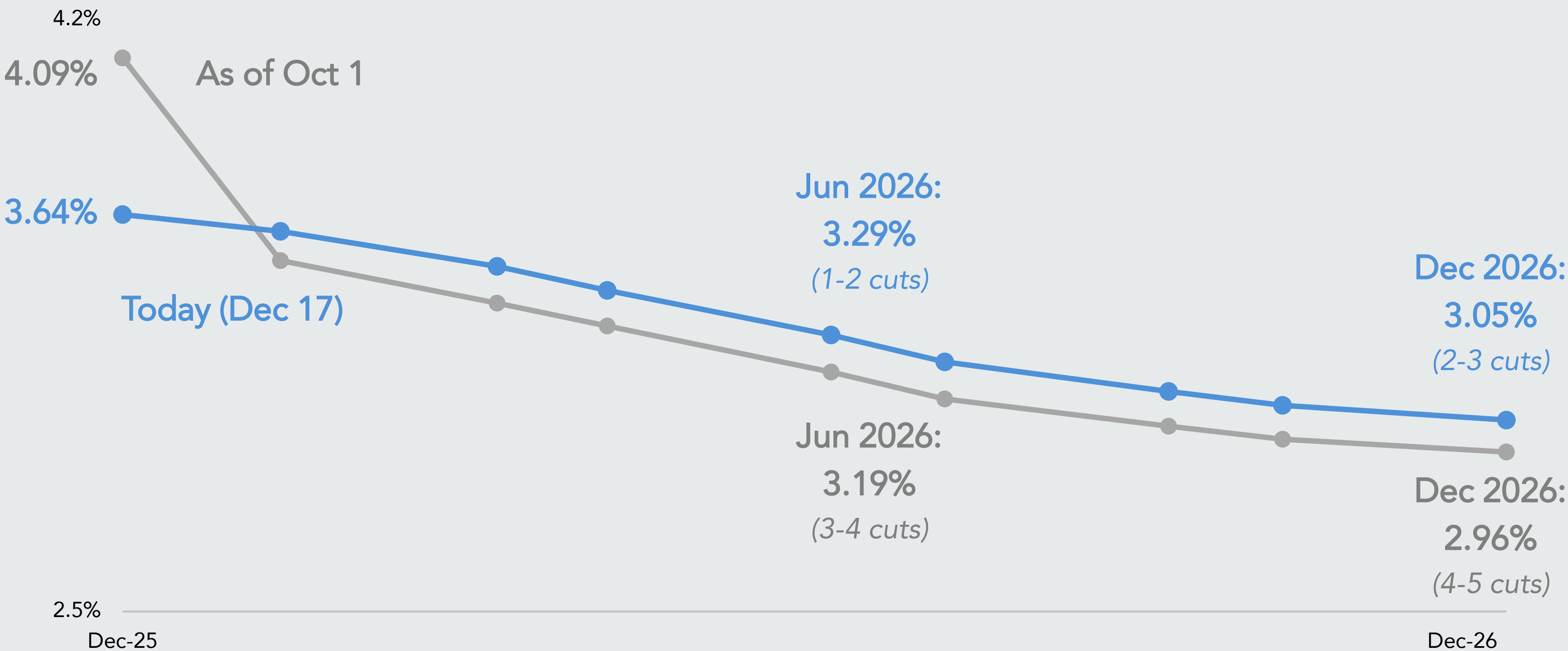


Source: (1) Bloomberg. Data as of December 19, 2025.

Shallow Fed Easing Toward 3% in 2026

Against the backdrop of a global monetary policy easing cycle that accelerated in 2024-25, the Fed's policy easing path in 2026 is expected to be shallow compared to historic cycles. With inflation still "sticky" above target, we expect a "divided" Fed to be cautious in balancing its dual mandate, maintaining an "easing bias" as labor markets weaken, but moving slowly so as not to reignite inflation. **Shallow Fed easing in 2026 likely translates to: (1) modestly lower rates; (2) modestly positive real rates; and (3) contained term premia.**

Marked implied Fed Funds rate (Oct 1 vs. today)

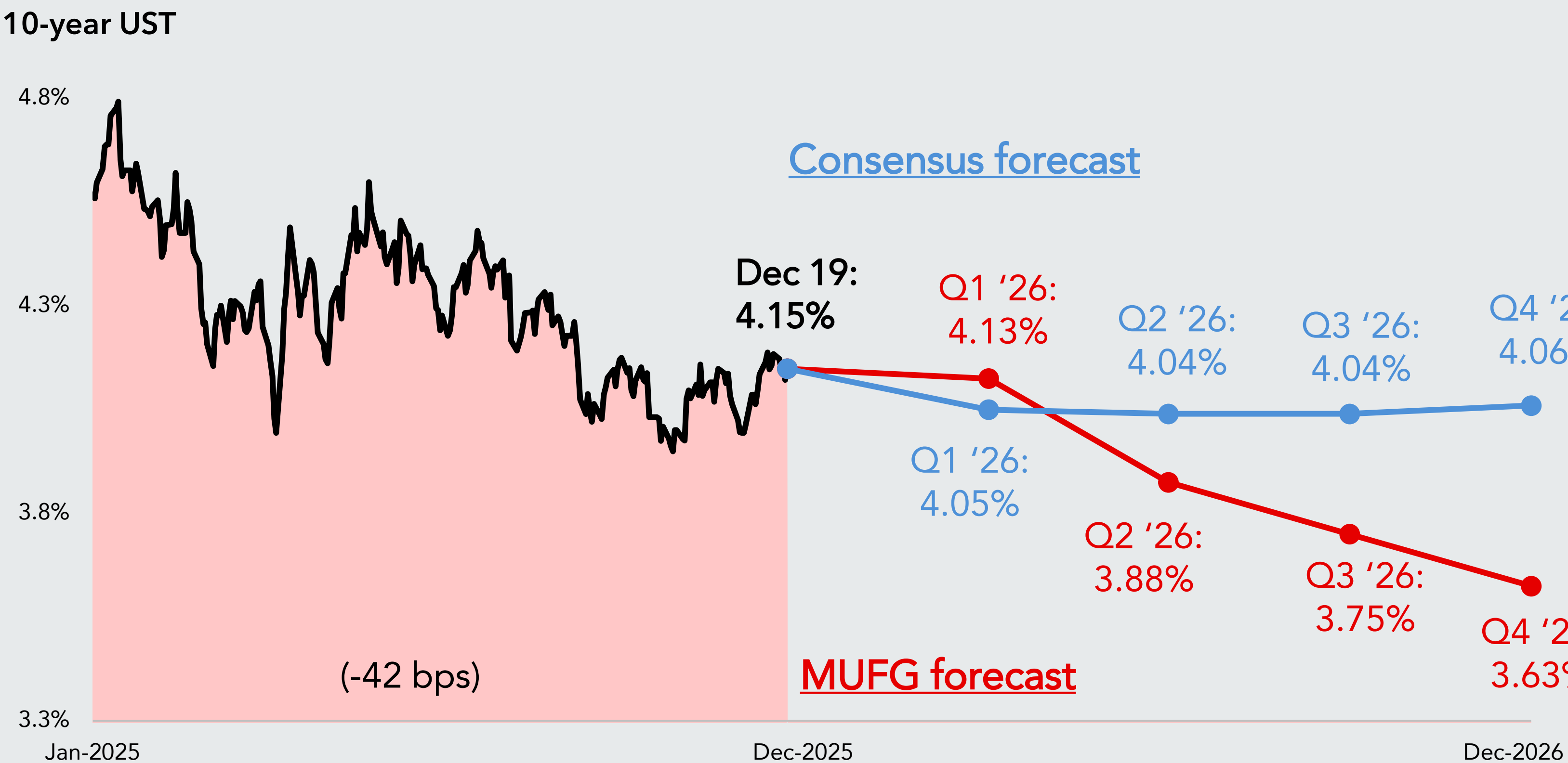


Source: (1) Bloomberg. Market implied Fed Funds spot rate is effective rate. Data as of December 19, 2025.

Lower US Rate Expectations in 2026

MUFG US rates strategist George Goncalves maintains a below consensus view on US rates in 2026 (vis-à-vis both markets and the Fed's dot plot), anchored in: **(1)** a more bearish view of a weakening US consumer and softer labor markets; **(2)** still restrictive Fed policy (vis-à-vis market pricing and Fed dot plot); **(3)** the end of QT; and **(4)** a renewed bull steepening of the curve.

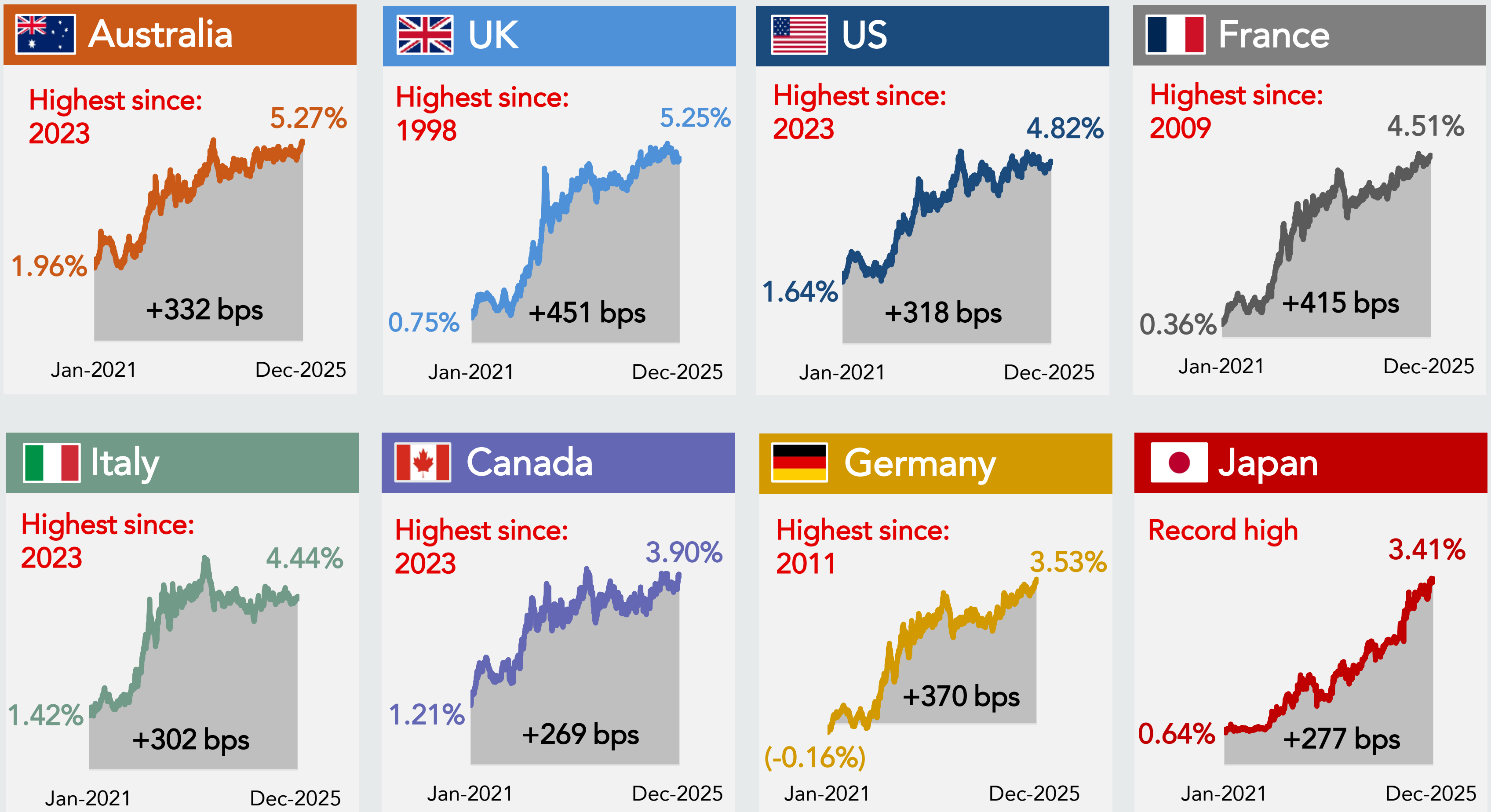
2025	2026E



Source: (1) Bloomberg. Data as of December 19, 2025. MUFG (George Goncalves).

Long End More Sensitive to Fiscal Expansion, Inflation Risk & Heavy Supply

30 yr government bond yields in the post-COVID era



Source: (1-8) Bloomberg. Data as of December 19, 2025.

Term Premia Reset Higher in 2025

Investors are demanding more compensation for higher policy risk in US government bond markets. The term premium in UST markets is the additional compensation that investors require to hold longer-dated bonds over shorter-term maturities. While numerous sources of macroeconomic volatility can be a factor, **the most direct drivers of rising term premia have historically been: (1) interest rate risk; (2) inflation risk; (3) liquidity risk; and (4) supply risk.**

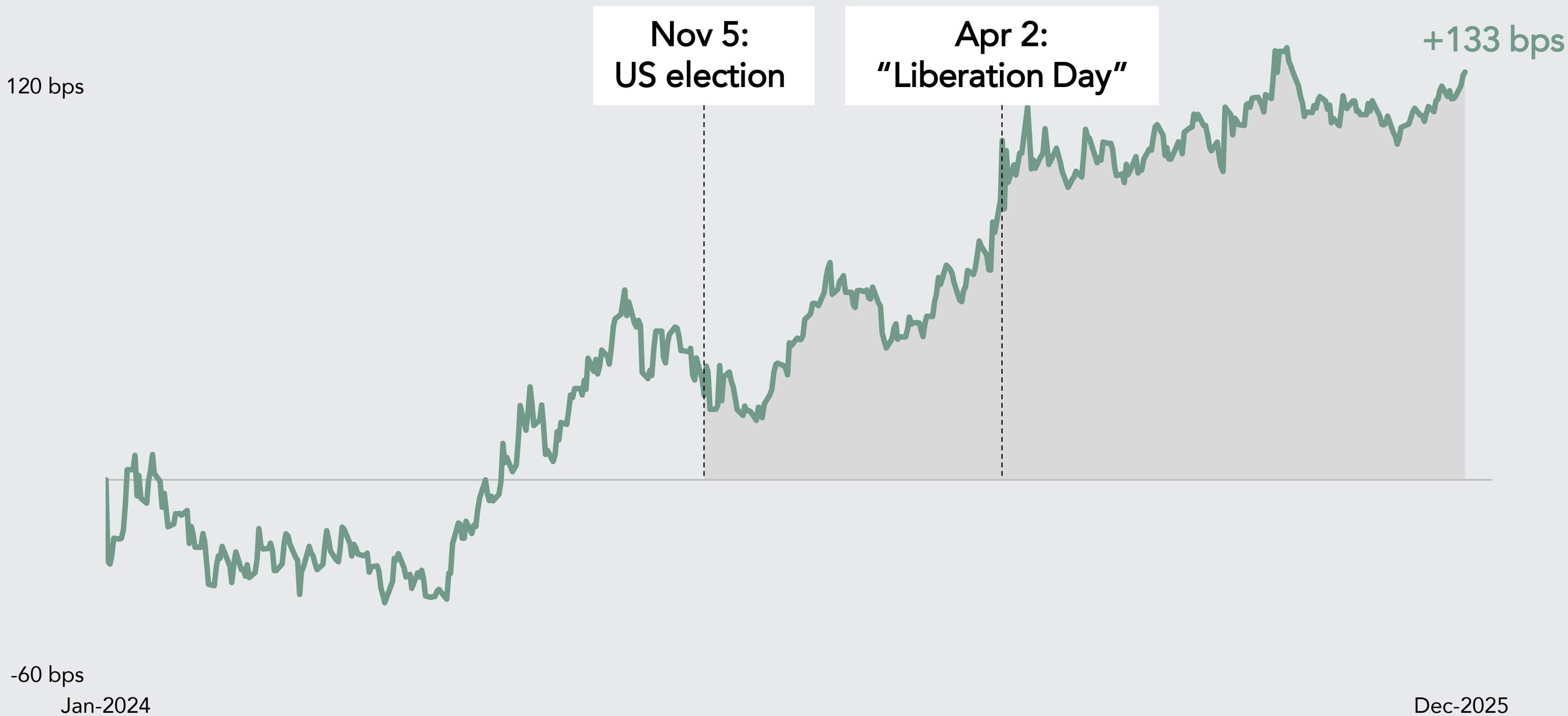
10-year term premium estimate

Source: (1-2) Bloomberg. Data as of December 19, 2025.

Renewed Bull Steepening of the Curve in 2026

Renewed bullish yield curve steepening remains a core theme for 2026, driven by a short-end drifting lower on Fed policy easing and a long-end held higher by (1) rising JGB yields; (2) "sticky" inflation concerns; and (3) another year of heavy UST supply tied to large fiscal deficits.

2s30s UST yield curve

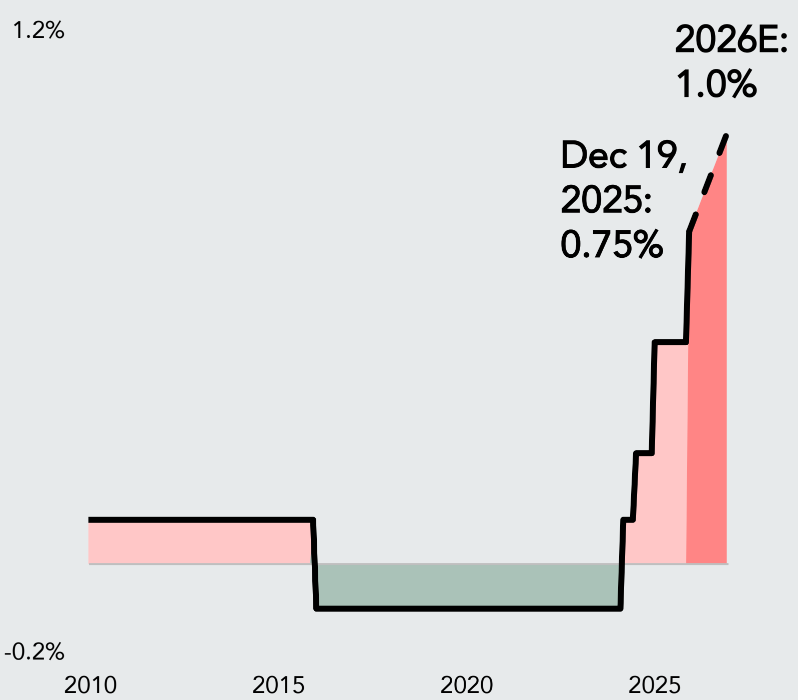


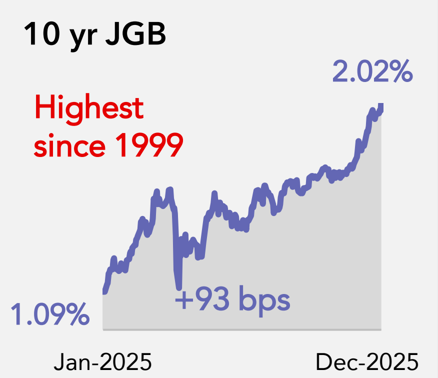
Source: (1) Bloomberg. Data as of December 19, 2025.

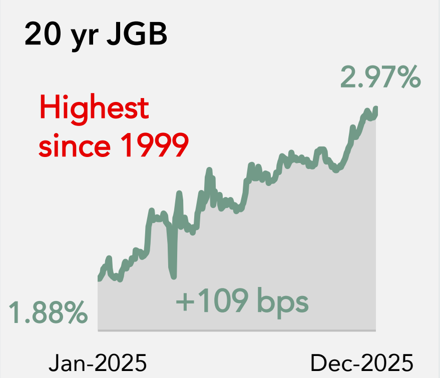
BOJ Policy Normalization Contributing to UST-Based YC Steepening

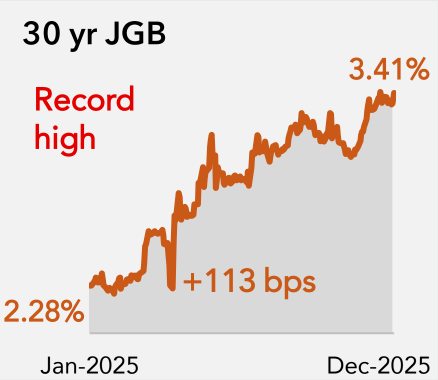
BoJ policy normalization is expected to continue in 2026, albeit more slowly than anticipated months ago, with benchmark policy rates expected at 1% by YE 2026. Higher JGB yields, in turn, encourage repatriation flows back to Japan, the largest overseas buyer base of USTs. Continued unwind of the yen carry trade and a structurally stronger JPY in 2026 will have the impact of raising global term premia and steepening global yield curves, including in the US Treasury market.

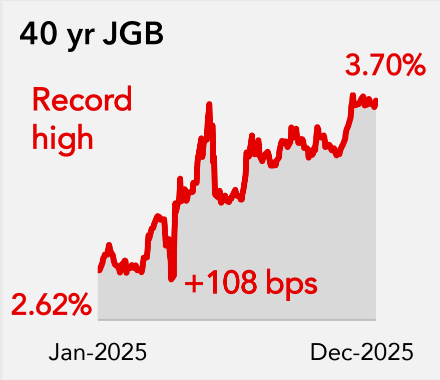
BoJ benchmark policy rate









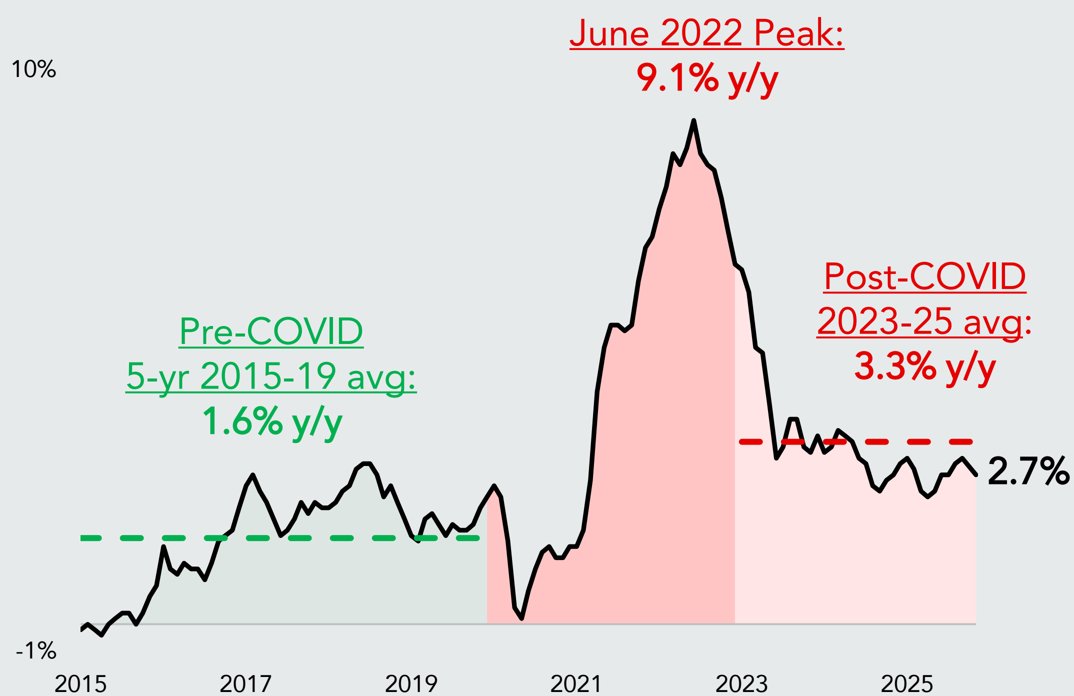


Source: (1-5) Bloomberg. Data as of December 19, 2025.

Inflation Contained, Though "Sticky," in 2025

The pass through from tariffs to US inflation was more muted than anticipated in 2025 due to inventory pre-ordering, absorption of costs by US importers and lower energy prices. Nonetheless, inflation remains a strong headwind for the US consumer, especially considering the repricing higher of the entire US economy in the post-COVID period. Recently, US inflation has been sticky near 3%, nearly double the pre-COVID average.

Headline CPI, y/y



Key drivers of contained inflation

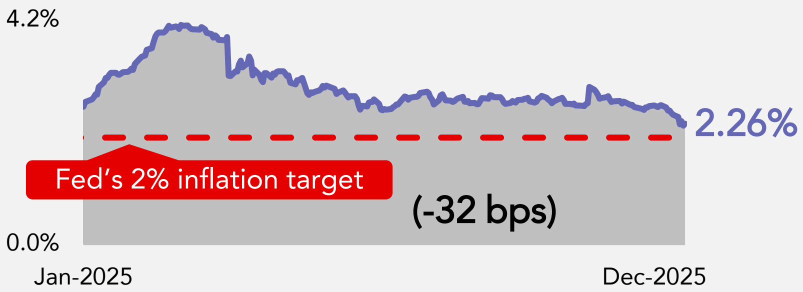
- Low energy prices
- US economy 80% services
- Inventory pre-ordering
- Delayed effective dates on tariffs
- Exemptions for ~ 1/3 of US imports
- Corporates delaying pass through (strong earnings, tax cuts)

Source: (1) Bloomberg. Data as of December 18, 2025.

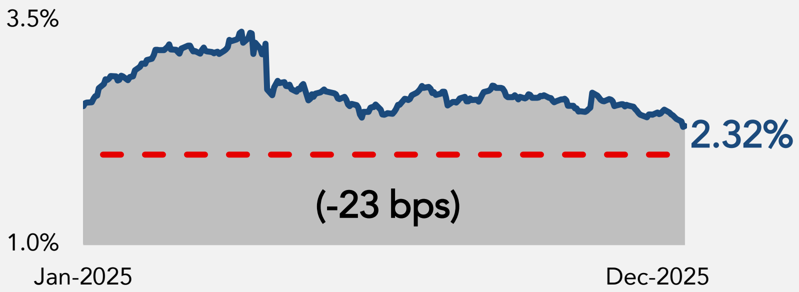
Demand Driven US Disinflation in 2026

US inflation-breakeven curves are signaling slow but continued progress on disinflation in 2026, closer to the Fed's 2% target. A flat to slightly downward-sloping term structure suggest that markets are pricing a sticky but contained US inflation trajectory in 2026, with modest demand-driven disinflation from softer labor markets. Medium to longer-term, markets are not pricing a high probability of un-anchoring to the upside (>3%) or Japan-style disinflation.

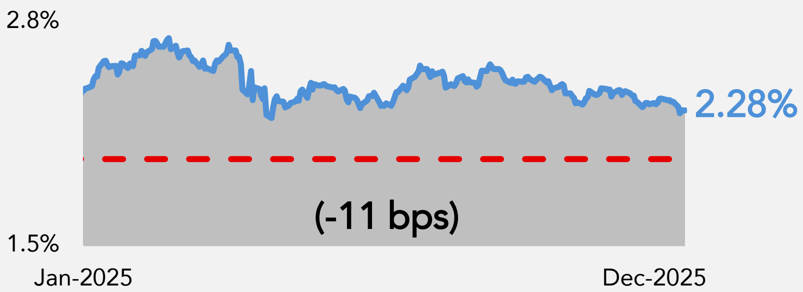
1 yr US breakeven inflation



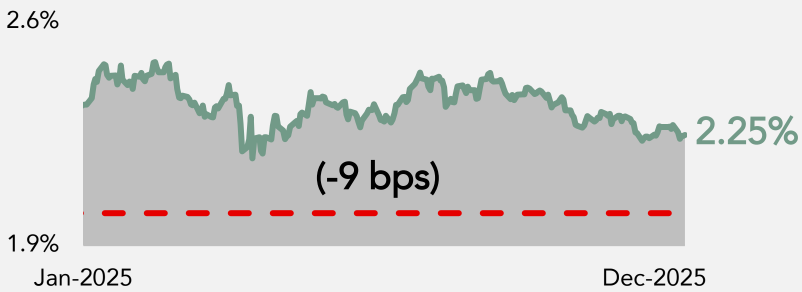
2 yr US breakeven inflation



5 yr US breakeven inflation



10 yr US breakeven inflation

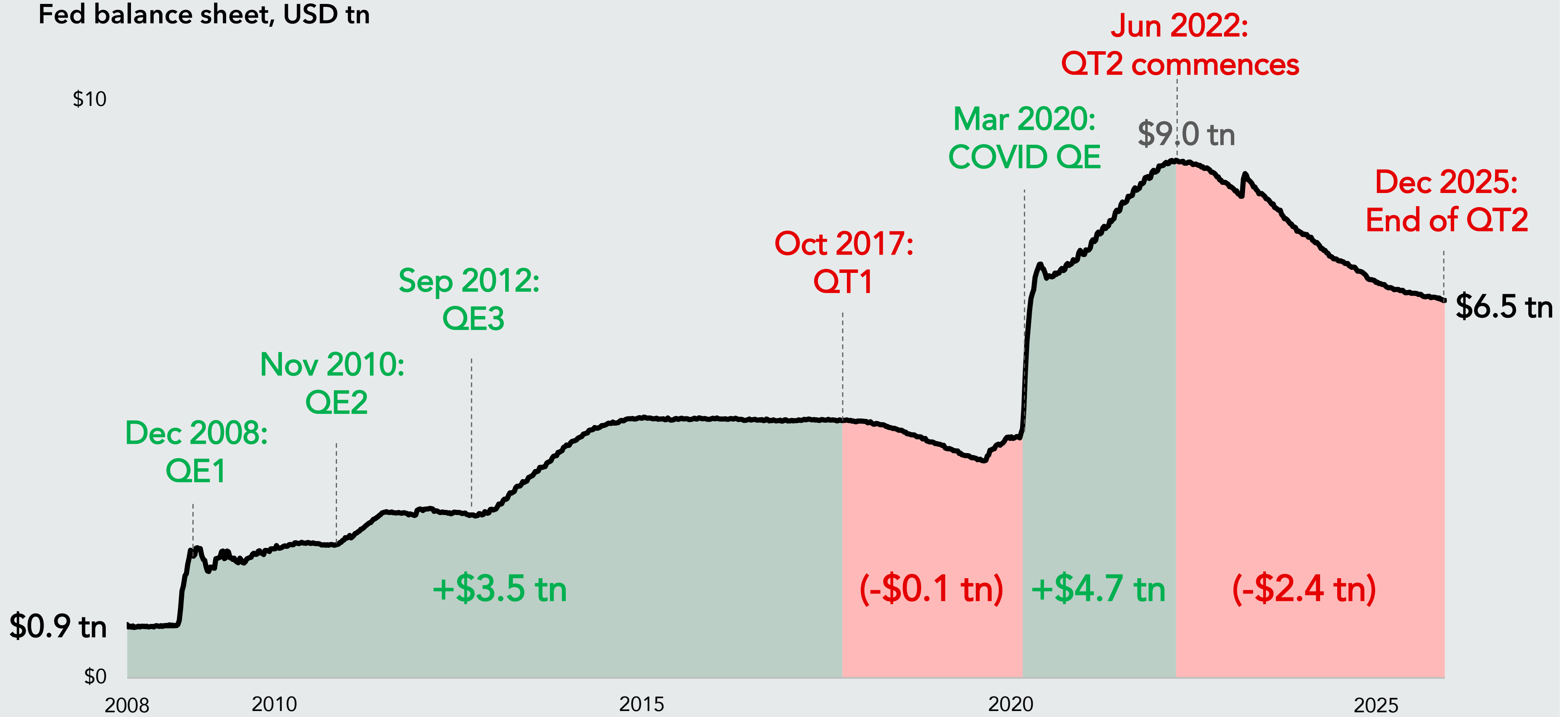


Source: (1-4) Bloomberg. Data as of December 19, 2025.

The End of Fed QT

Following peak US inflation of 9.1% in June 2022, the Fed commenced the removal of its crisis-era policy accommodation through both rate increases and a second round of quantitative tightening, or QT2, during which the size of the Fed's balance sheet declined nearly $2.5 trillion. **At its October 2025 meeting, the Fed announced the end of its more restrictive QT2 balance sheet runoff policy (i.e., policy tightening by way of reducing duration and liquidity support), effective December 1, 2025.**

Fed balance sheet, USD tn

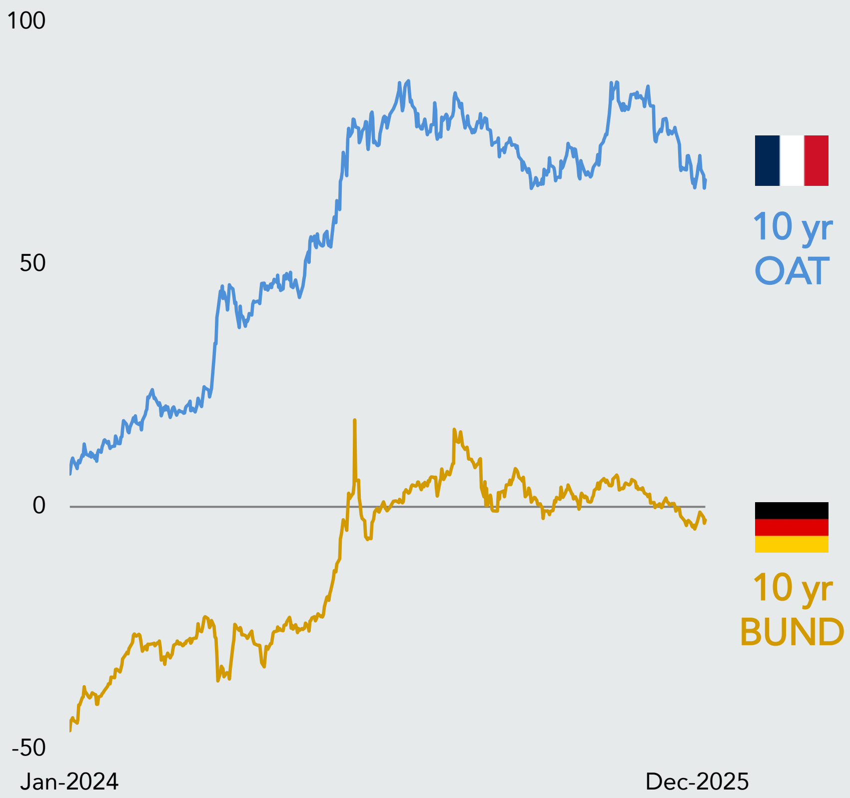


Source: (1) Bloomberg. Data as of December 17, 2025.

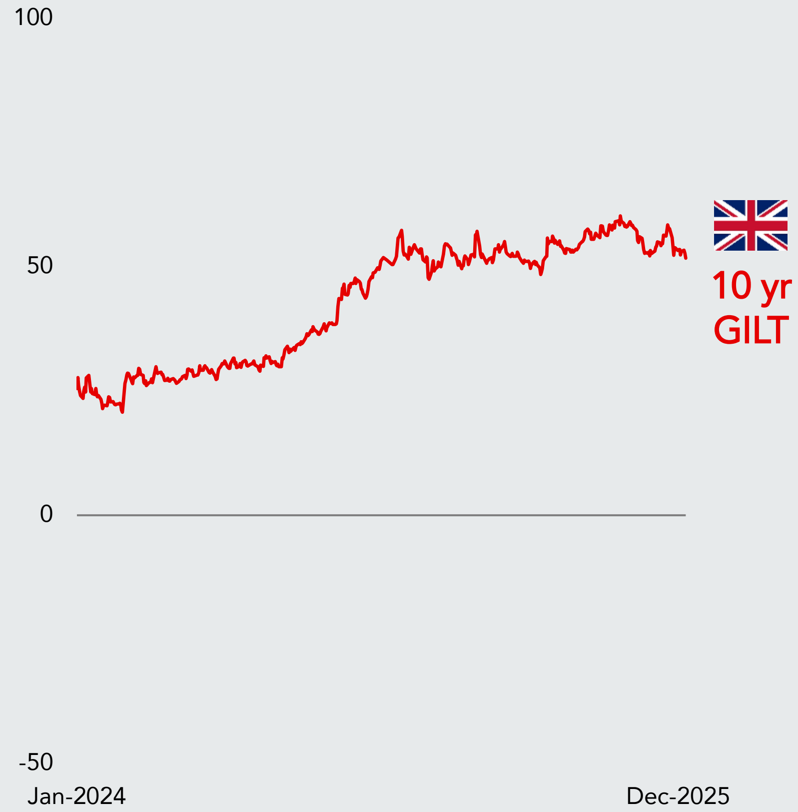
European Government Bonds Stabilize in 2025

While concern over government finances led to a sharp widening of European government bonds relative to swaps in 2024, 2025 has seen some stability return to swap spreads. However, government borrowing is likely to stay in focus in 2026, with heightened concern over national debt a source of pressure on corporate i-spreads.

10-year BUND & 10-year OAT vs. EUR swaps, bps



10-year GILT vs. GBP swaps, bps

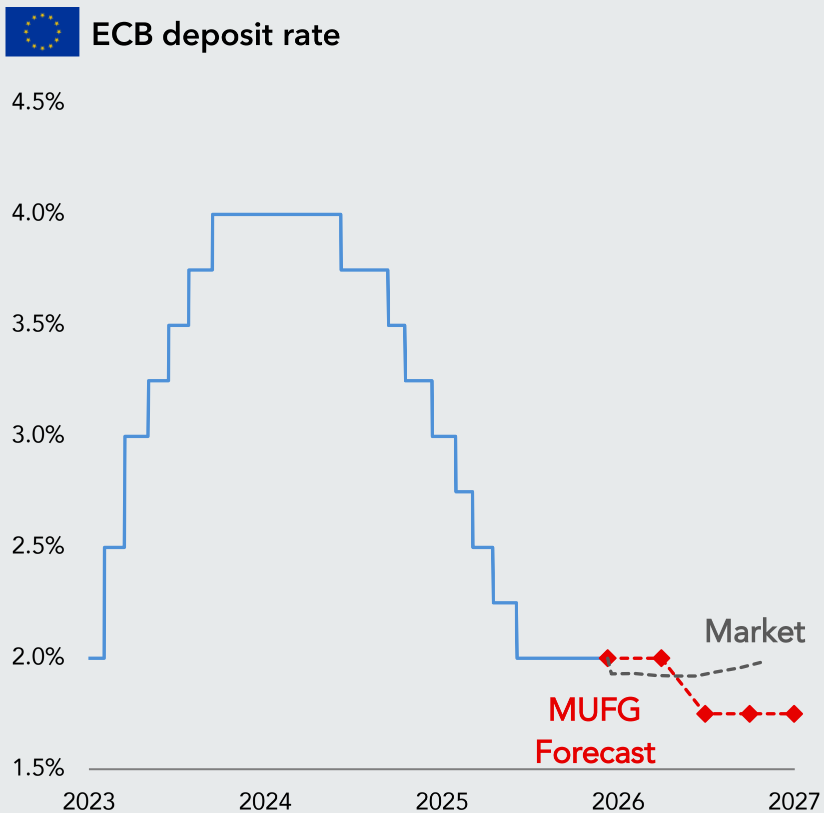


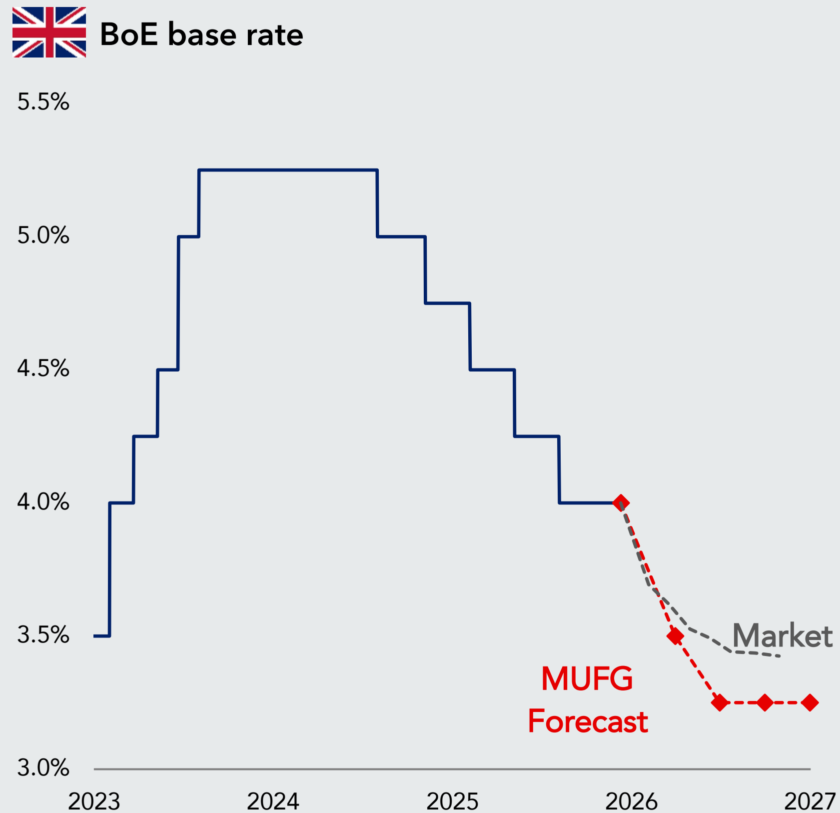
Source: MUFG. Bloomberg. Data as of December 10, 2025.

Short Term European Rates: History & Outlook

The ECB is likely to keep its policy rate in line with its neutral range, unless inflation undershoots persist. While one final cut remains possible mid-2026, the overall stance will be cautious as growth stabilises and inflation falls below target. Market expectations for a late-2026 hike are premature, though continued speculation could strengthen the euro and add disinflationary pressure.

The BoE is expected to maintain a measured pace of easing. Slowing wage growth and softer labour market conditions will support further cuts, while temporary fiscal measures help reduce headline inflation.

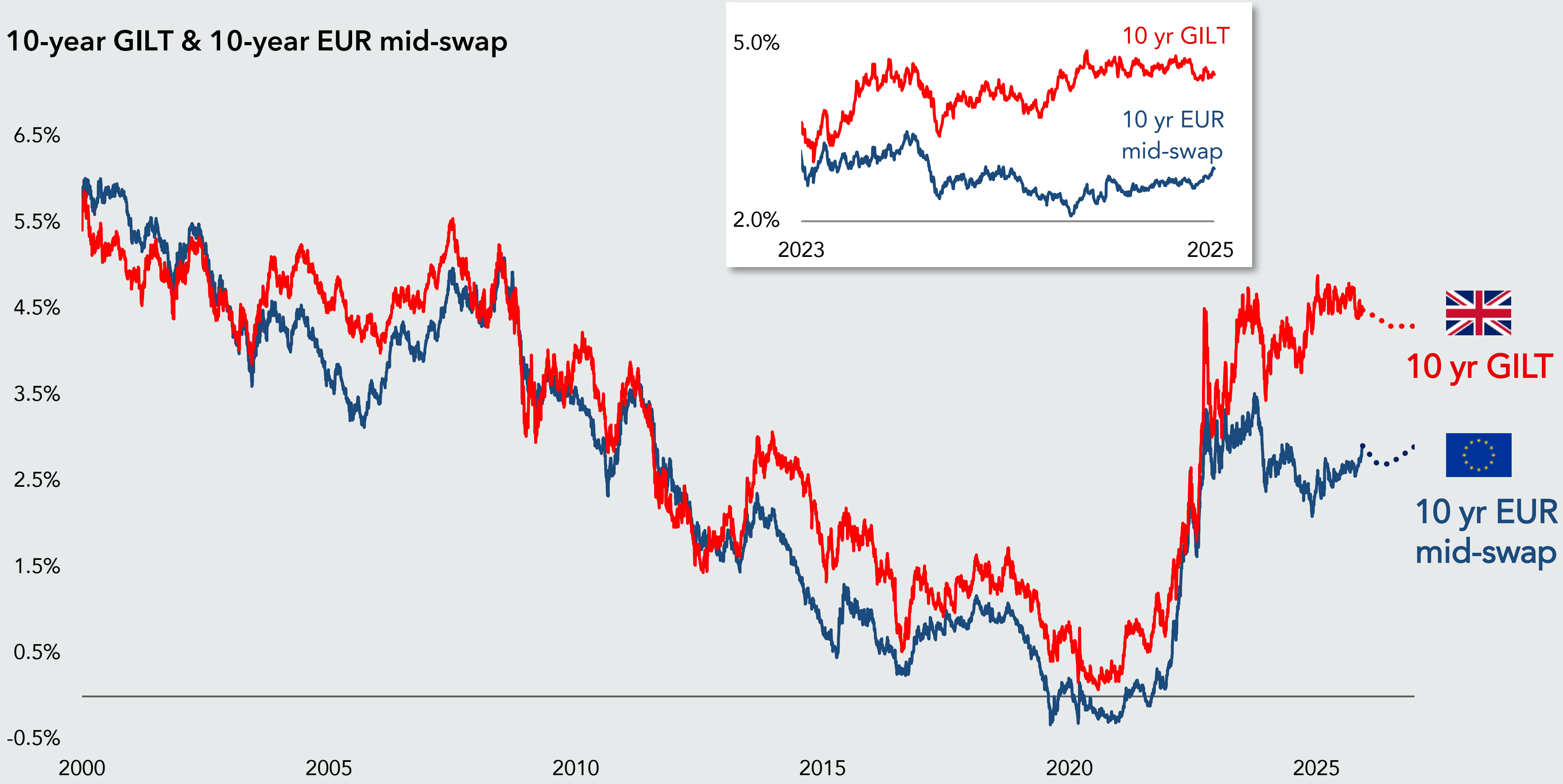




Source: MUFG. Bloomberg. Data as of December 10, 2025.

A Look at European Rates: History & Outlook

After the sharp rise in rates during 2022, UK and European rates diverged, with Gilts settling towards the upper end of a new range. Rising European yields in Q4 2025 have started to close the yield differential and we expect some continuation of this trend in 2026.



Source: MUFG. Bloomberg. Deposit rate/policy rate is MUFG forecast. Data as of December 10, 2025.

2025 Eurozone & UK Outlook

Global monetary policy is expected to remain broadly accommodative through 2026, with most major central banks nearing the end of their easing cycles. EUR mid-swaps in 2026 are expected to trade broadly sideways to slightly higher, reflecting stable policy rates and a gradual rebuilding of term premium along the curve. The main drivers will be inflation trends, fiscal stance and global growth expectations, with swap rates overall more sensitive to macro data and risk sentiment. In the UK, lingering fiscal and political risks may steepen the yield curve, keeping longer-term rates elevated relative to short-term policy rates.

2026 Eurozone forecasts

	2026
CPI Forecast	1.7%
Growth Forecast	1.3%

	Q1 26	Q2 26	Q3 26	Q4 26
Deposit Rate	2.00%	1.75%	1.75%	1.75%
2 Yr Swap	2.10%	2.00%	2.10%	2.20%
10 Yr Swap	2.70%	2.70%	2.80%	2.90%

2026 UK forecasts

	2026
CPI Forecast	2.3%
Growth Forecast	1.2%

	Q1 26	Q2 26	Q3 26	Q4 26
Base Rate	3.50%	3.25%	3.25%	3.25%
2 Yr Gilt	3.60%	3.50%	3.40%	3.40%
10Yr Gilt	4.40%	4.30%	4.30%	4.30%

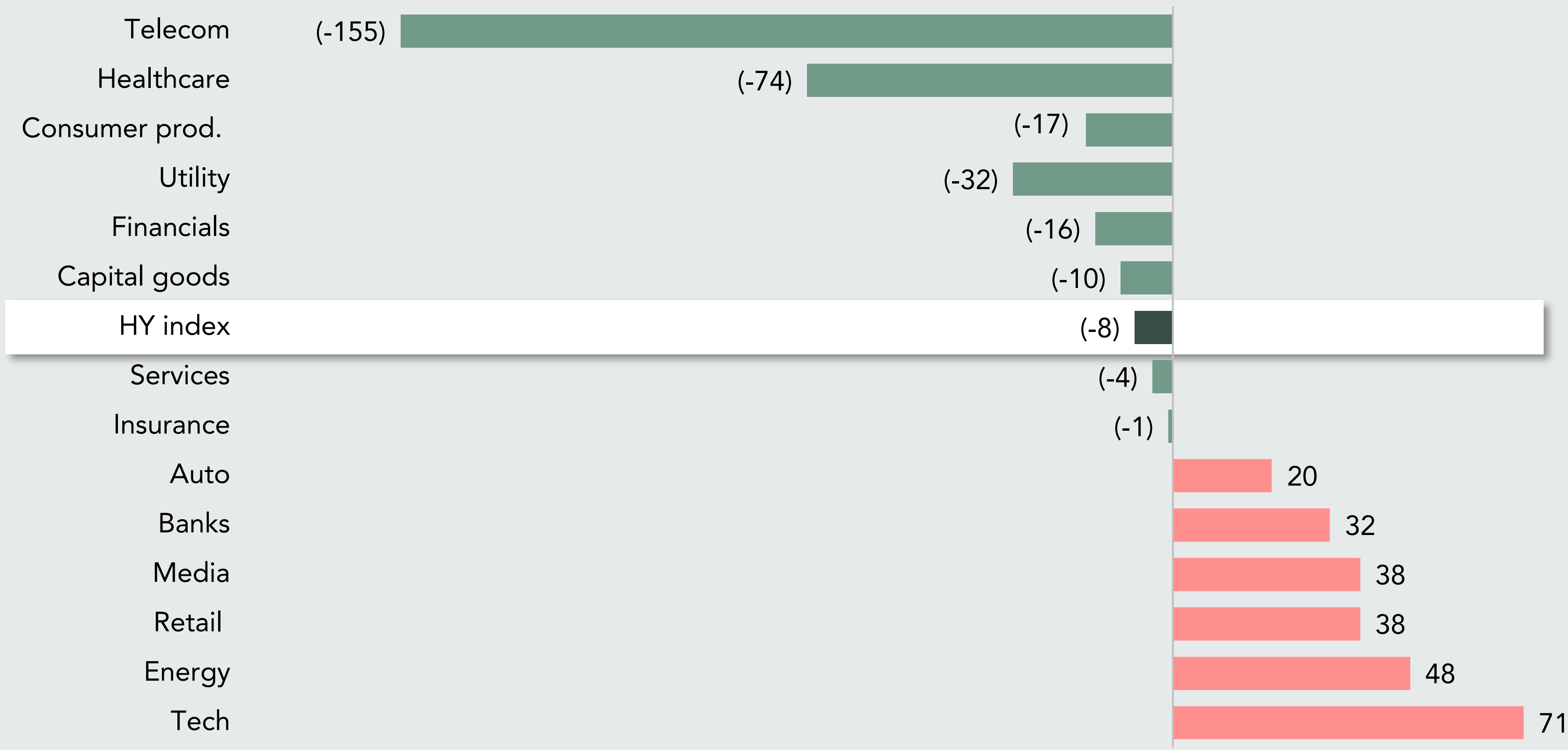
Source: MUFG. Bloomberg. MUFG forecasts.

7 Modest Credit Spread Widening & Dispersion

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

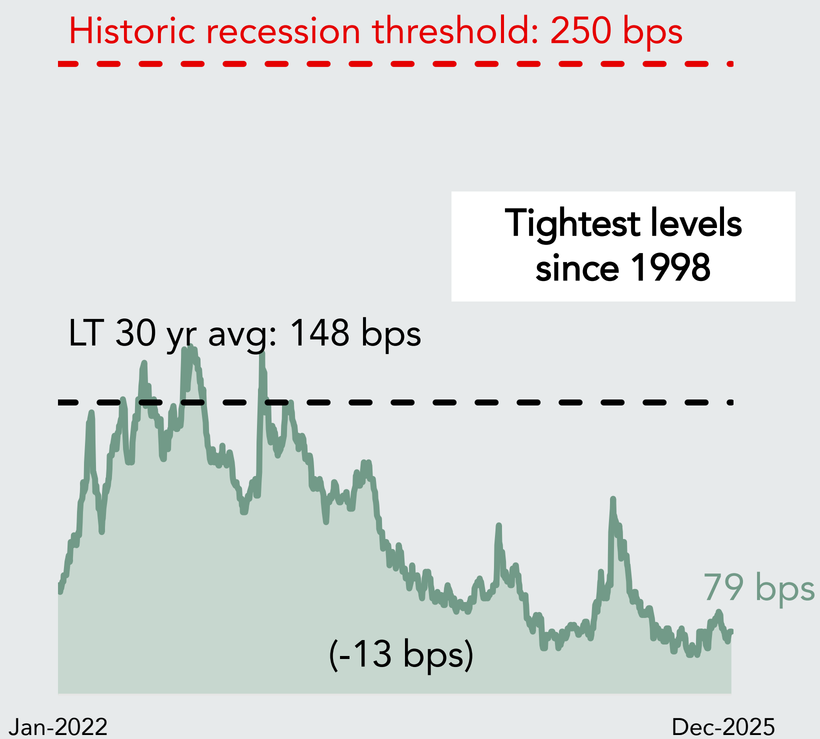


Source: (1) Bloomberg. Data as of December 18, 2025.

USD Index Below Historic Thresholds in 2025

Strong global demand overwhelmed manageable net supply in 2025, driving USD corporate credit spreads to multi-decade tights even as policy uncertainty and geopolitical risk remained high. Key drivers of global demand included: (1) favorable macro backdrop (resilient growth, policy easing, lower energy prices, softer dollar); (2) generational yield opportunity of 5-7%+; and (3) impressive corporate earnings, margins and FCF growth.

USD IG OAS



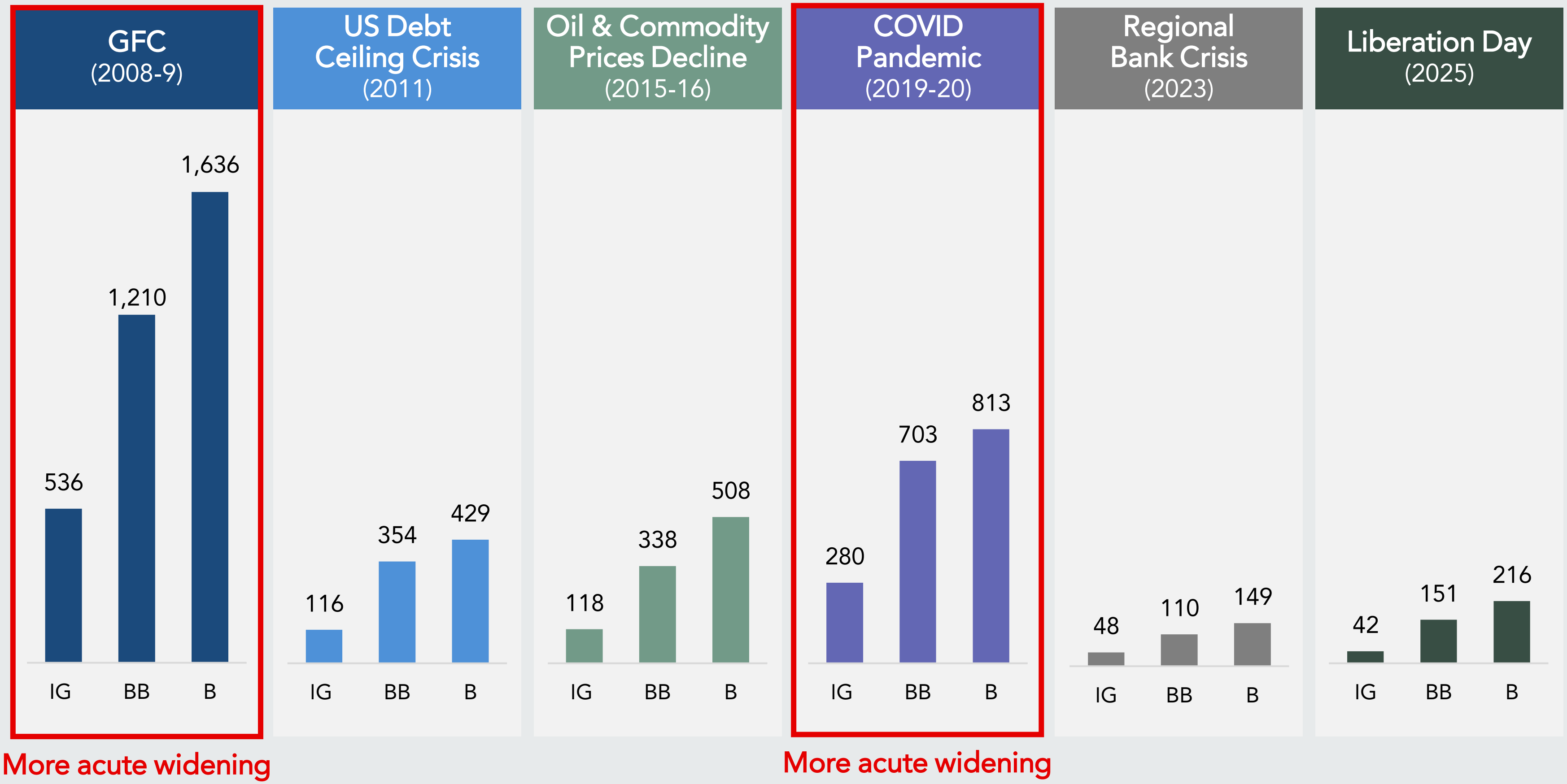
USD HY OAS

Source: (1-2) Bloomberg. Data as of December 18, 2025.30-year average is 1995-2024.

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



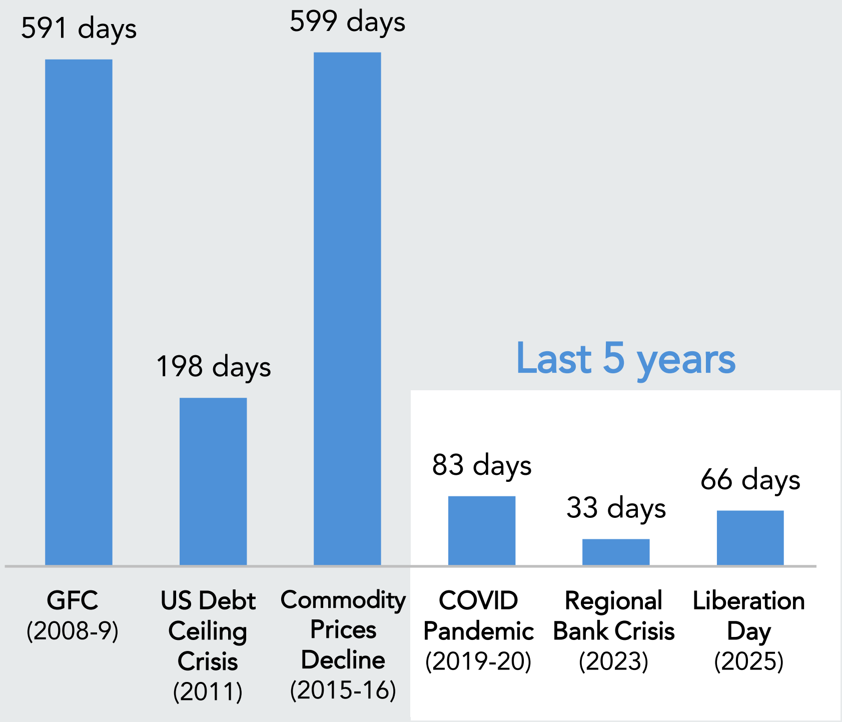
Source: (1-6) Bloomberg. Data as of December 19, 2025.

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.

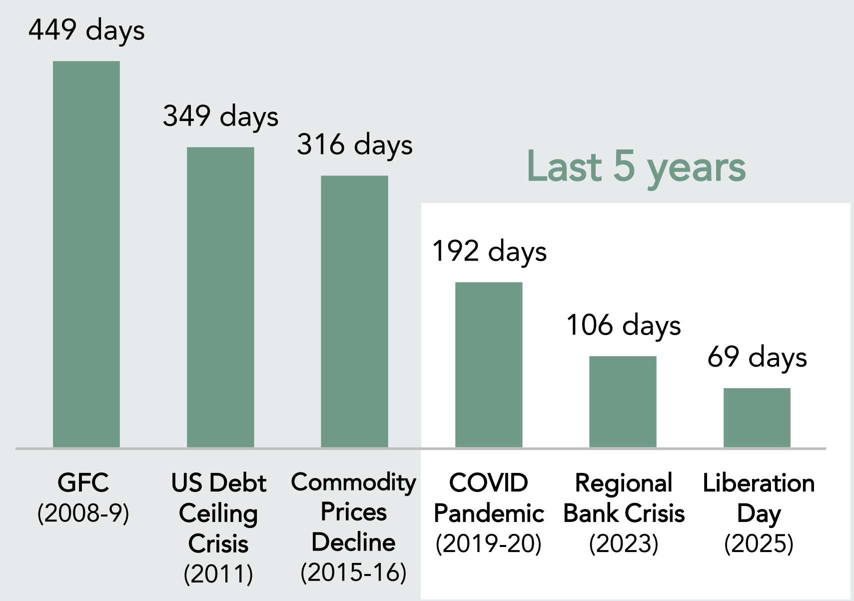
Event Shock

# of days from credit spread low to peak



Recovery

# of days from credit spread peak to 80% normalization



Source: (1-2) Bloomberg. Data as of December 19, 2025. Days is average days from low to peak. 80% normalization is 80% of change from low to peak.

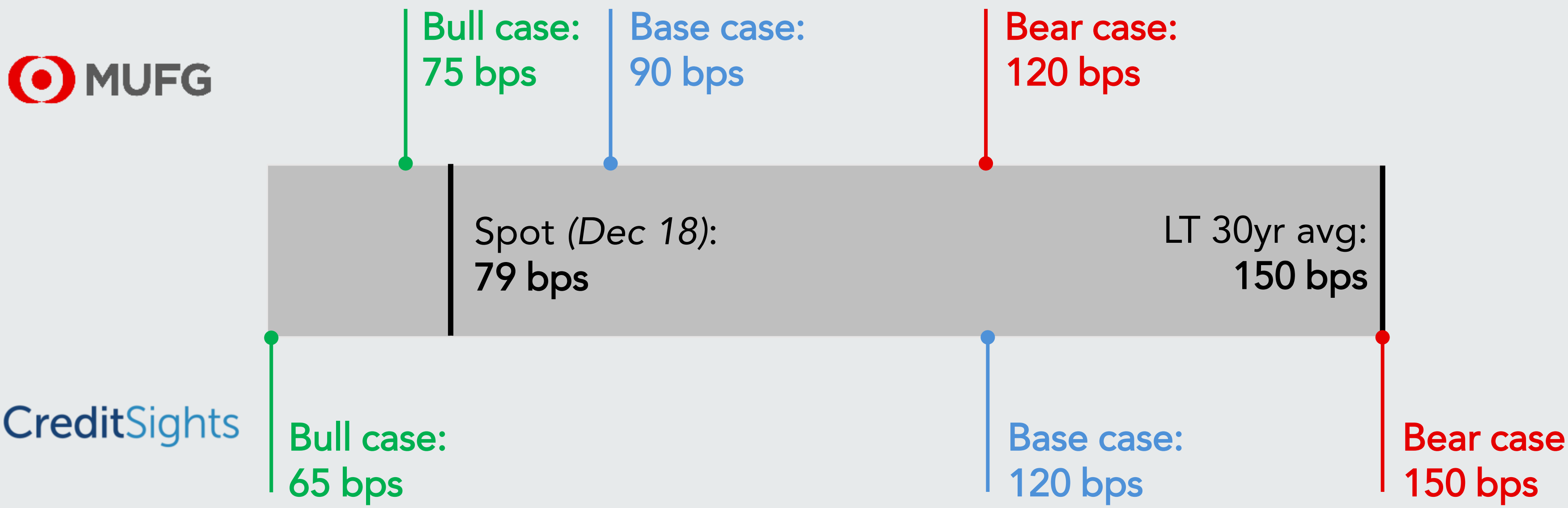
Key Drivers of Wider USD Credit Spreads in 2026

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

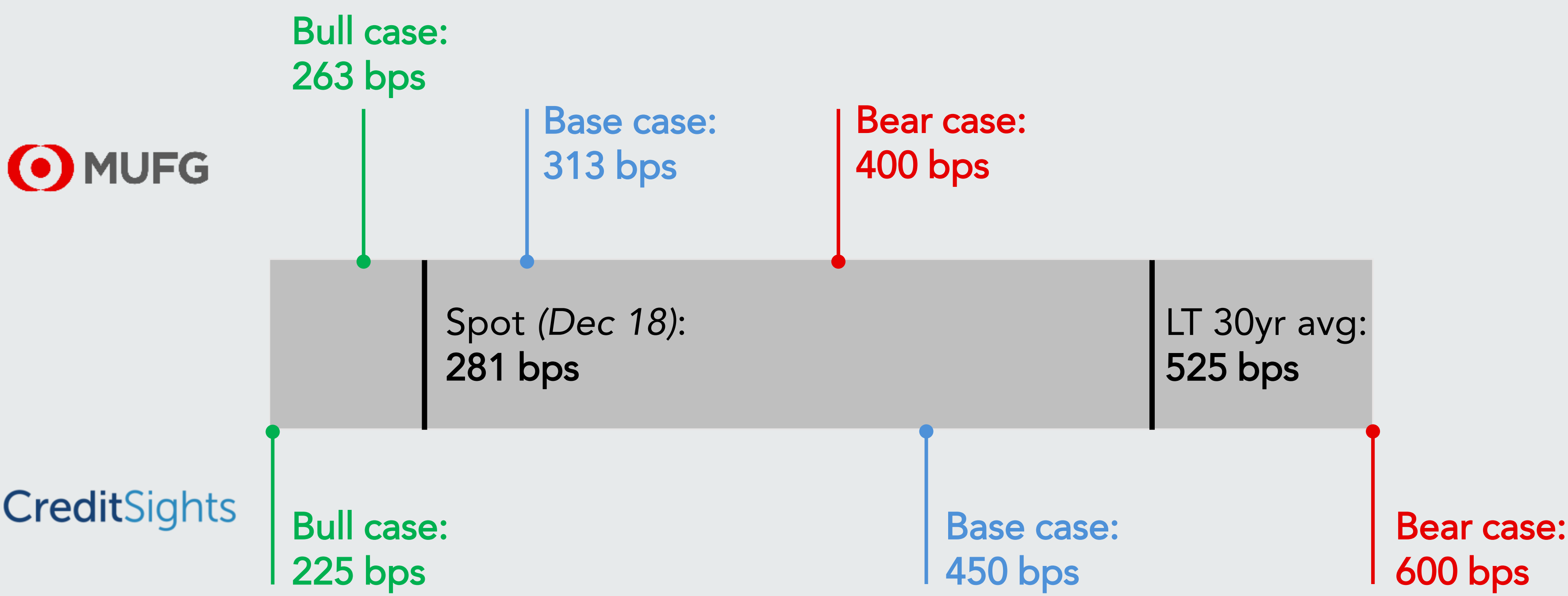


Source: (1) CreditSights, "US IG & Leveraged Finance 2026 Outlook: Everything Was Awesome". Bloomberg. Data as of December 18, 2025. MUFG (George Goncalves). 30-year avg is 1994-2023.

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

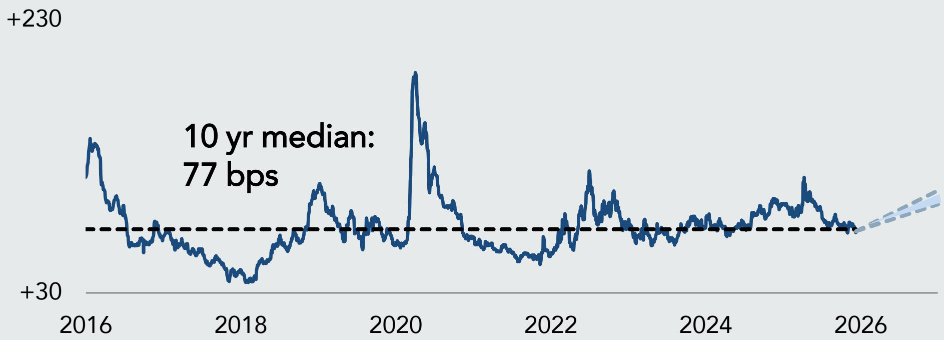


Source: (1) CreditSights, "US IG & Leveraged Finance 2026 Outlook: Everything Was Awesome". Bloomberg. Data as of December 18, 2025. MUFG (George Goncalves). 30-year avg is 1994-2023.

EUR & UK Spreads Vulnerable to Widening

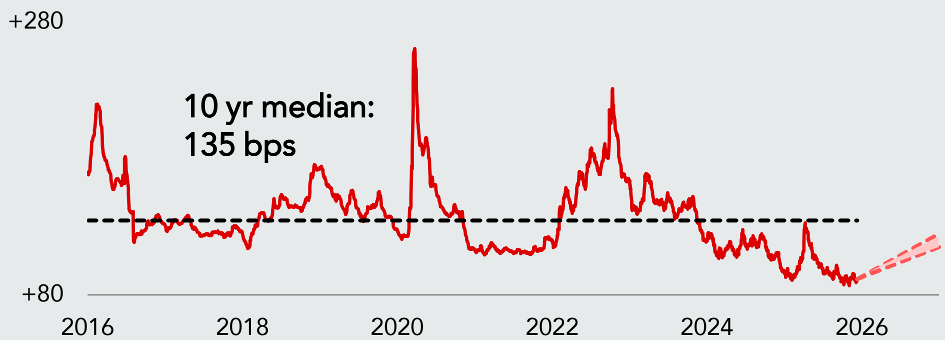
A limited trading range for term rates and a positive yield curve is expected to be supportive for credit generally. Expect upward pressure on spreads from an anticipated pickup in supply (higher redemptions, M&A, AI funding). GBP spreads, at historically tight levels, are particularly vulnerable to investor resistance. Additional downside risks remain from higher-than-expected US inflation and a retracement in the AI rally.

iBoxx € non-financials - swap spread, bps



	Min	Median	Max
10 Yr History	38	77	192
2025	74	88	115
YE 2026 MUFG Forecast	95-105		

iBoxx £ non-financials - UKT spread, bps



	Min	Median	Max
10 Yr History	87	135	261
2025	87	96	133
YE 2026 MUFG Forecast	115-125		

Source: MUFG. Bloomberg. S&P Markit.

8 USD IG Funding Markets

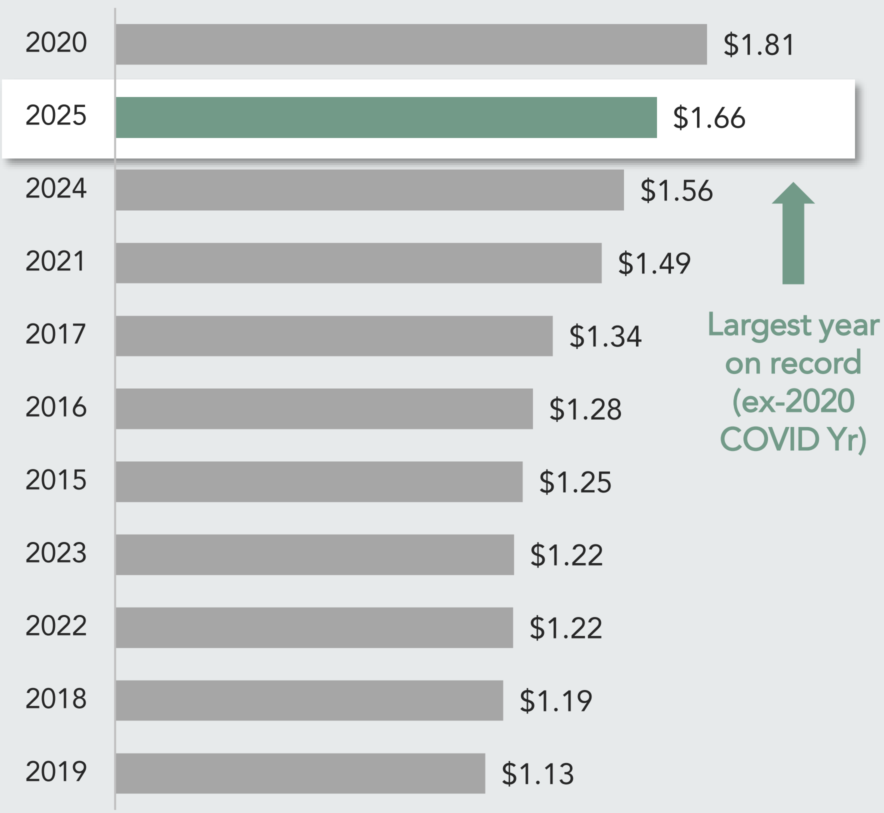
Key Drivers for 2026 USD IG Issuance Outlook

1. **Favorable macro backdrop** (growth, policy easing, spreads)
2. **Sizable 2026 maturity wall** (> $800 bn); pre-fund portion of 2027
3. **AI capex and R&D supercycle** (i.e., hyperscalers, data centers)
4. **Tangential AI buildout** (i.e., TMT, utilities)
5. **Resurgent global M&A mega-deal activity** (deregulation, innovation, intensified competition)
6. **Steady pace of stock buybacks** (>$1 trillion in 2025)
7. **Capital structure optimization** (liability mgmt, curve steepening, maturity walls)

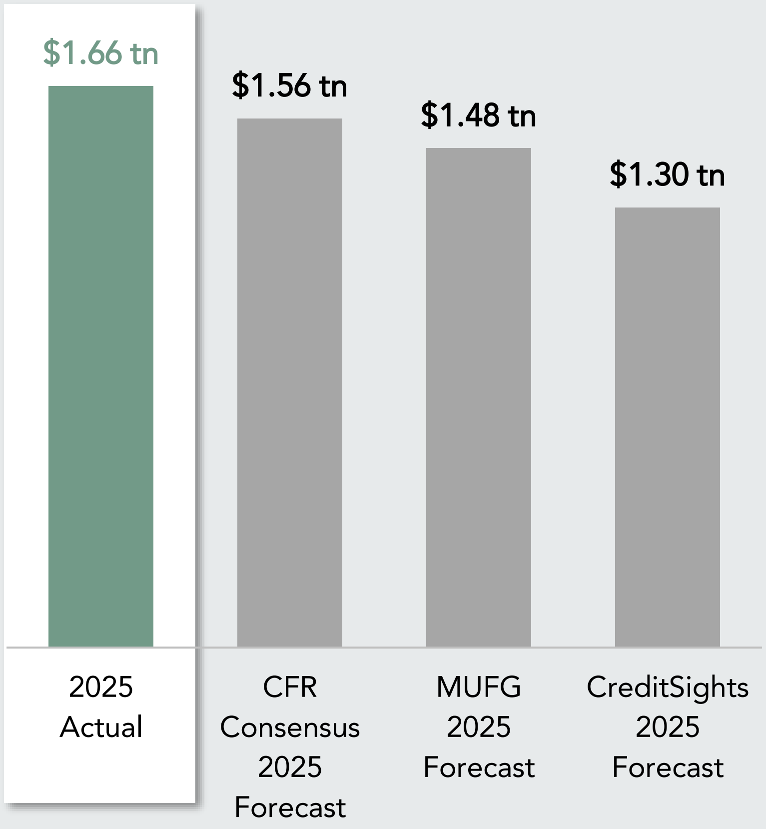
2025 IG Issuance Exceeded Ambitious Forecasts

USD IG bond issuance in 2025 surpassed $1.6 trillion, the largest year on record (ex-2020 COVID year), and higher than all consensus forecasts for the year.

Largest ever annual USD IG issuance, tn



2025 USD IG issuance forecasts



Source: (1-2) CFR. CFR forecast is consensus average. CreditSights. CS forecast is gross supply. Data as of December 19, 2025.

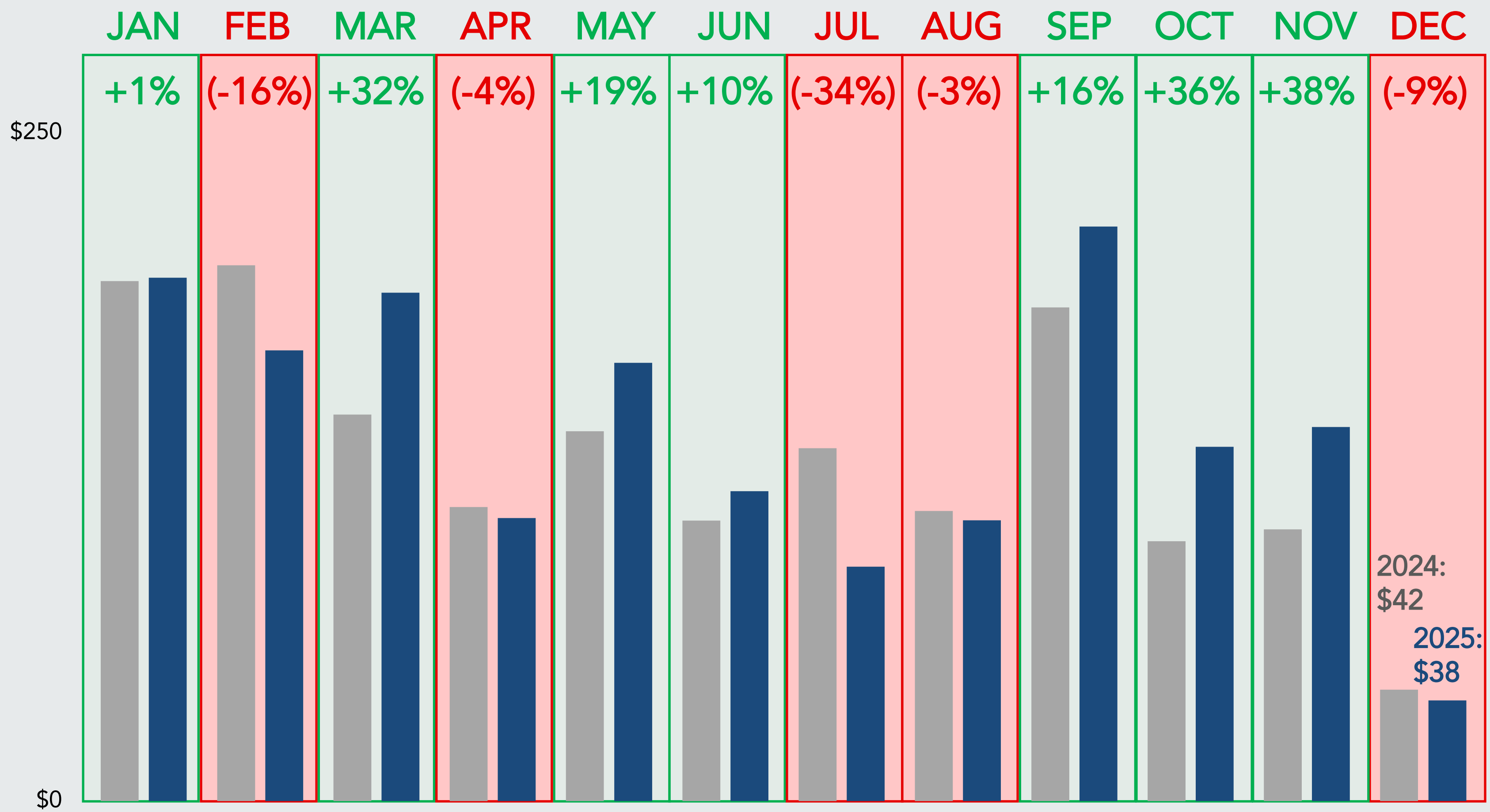
Notable 2025 USD IG Milestones

Largest ex-COVID issuance YTD (2025: $1.7 tn) *Ex-2020 COVID Yr	Fastest year to reach $1 tn (202 days) *Ex-2020 COVID Yr	Largest 1H on record (1H 2025: $941 bn) *Ex-2020 COVID Yr	Tightest IG spreads since 1988 (Sep 18: 72 bps)
Largest January on record (Jan 2025: $196 bn)	Largest Q1 on record (Q1 2025: $555 bn)	Top 5 Q2 on record (Q2 2025: $386 bn)	Top 5 largest month on record (Sep 2025: $215 bn)
Top 5 Q3 on record (Q3 2025: $408 bn)	Largest deal day on record (Sep 2: 29 deals) *Tied with 2024	Largest September on record (Sep 2025: $215 bn)	Largest month by deal count on record (Sep 2025: 152 deals) *Ex-2020 COVID Yr
Largest October on record (Oct 2025: $133 bn)	Largest November on record (Nov 2025: $140 bn)	Largest 2H on record (2H 2025: $718 bn)	Largest Q4 on record (Q4 2025: $310 bn)

Source: (1) CFR. Data as of December 19, 2025.

2025 USD IG Issuance Surpassed Historic 2024 Pace

2024 vs. 2025 USD IG issuance, bn

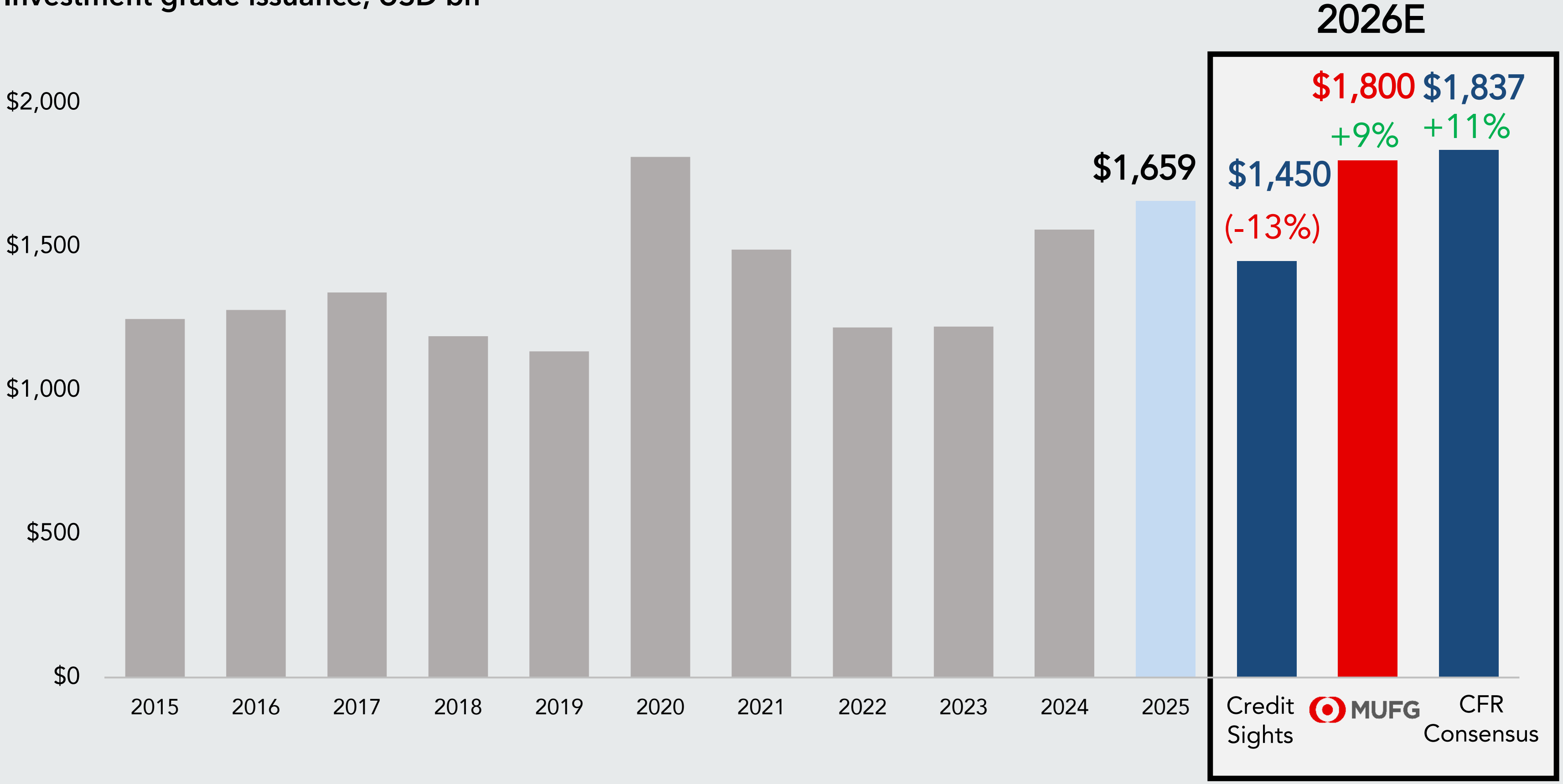


Source: (1) CFR. Data as of December 19, 2025.

2026 IG Issuance Should Increase Nearly 10%

MUFG maintains a very constructive view of USD IG financing markets in 2026, forecasting nearly a 10% increase in supply vis-à-vis record (ex-COVID) volumes in 2025. Similar to last year, a 2026 maturity wall > $800 bn and 2027 pre-funding will be the primary driver of issuance. As evident in Q4 2024, AI capex spend & mega-deal M&A financing are likely to be the largest incremental drivers of higher volumes in 2026.

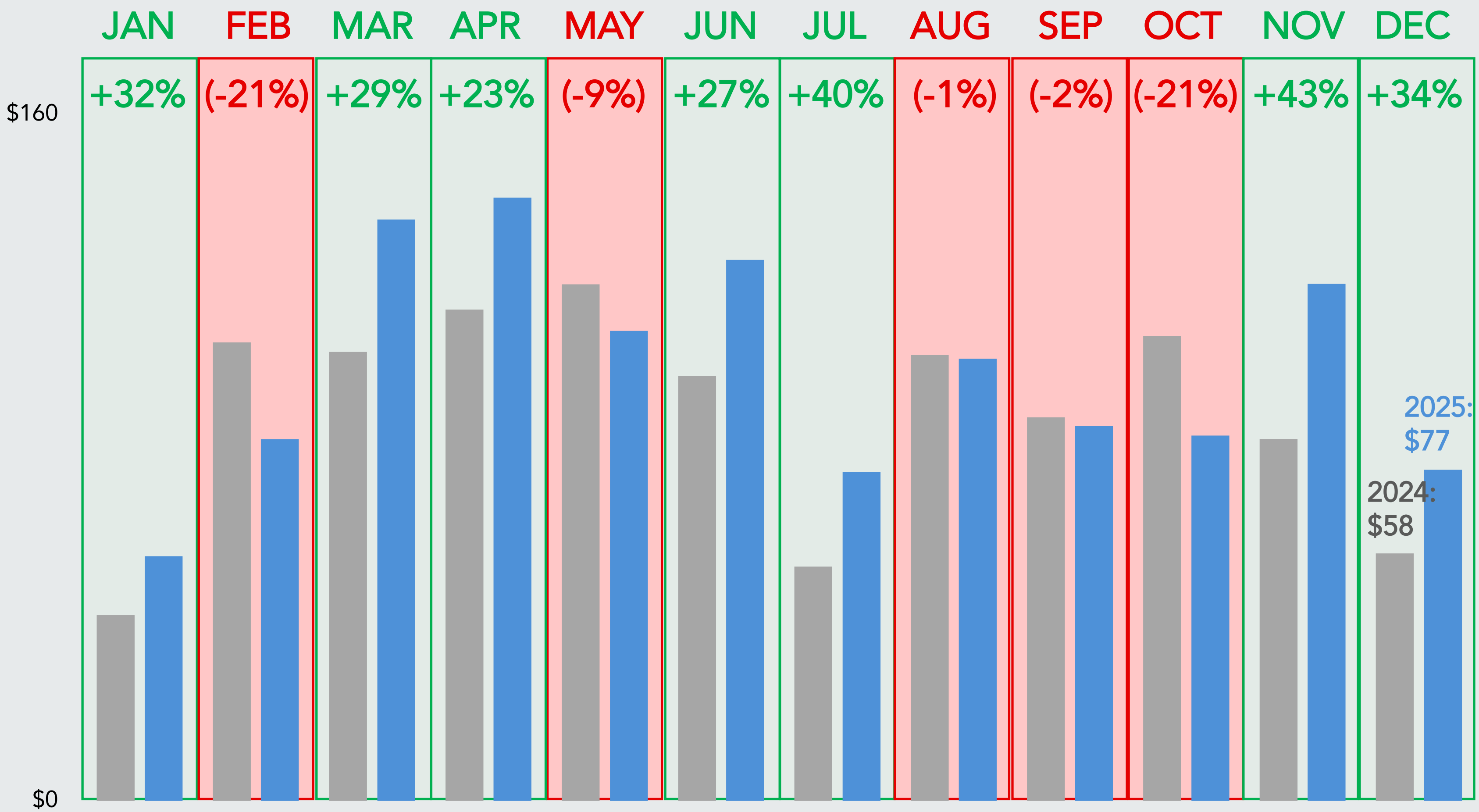
Investment grade issuance, USD bn



Source: (1) Bloomberg. Data as of December 19, 2025. MUFG. CreditSights. CFR is Wall Street consensus estimate as of Dec 19.

IG Loan Issuance Was Steady in 2025

2024 vs. 2025 USD IG loan issuance, bn

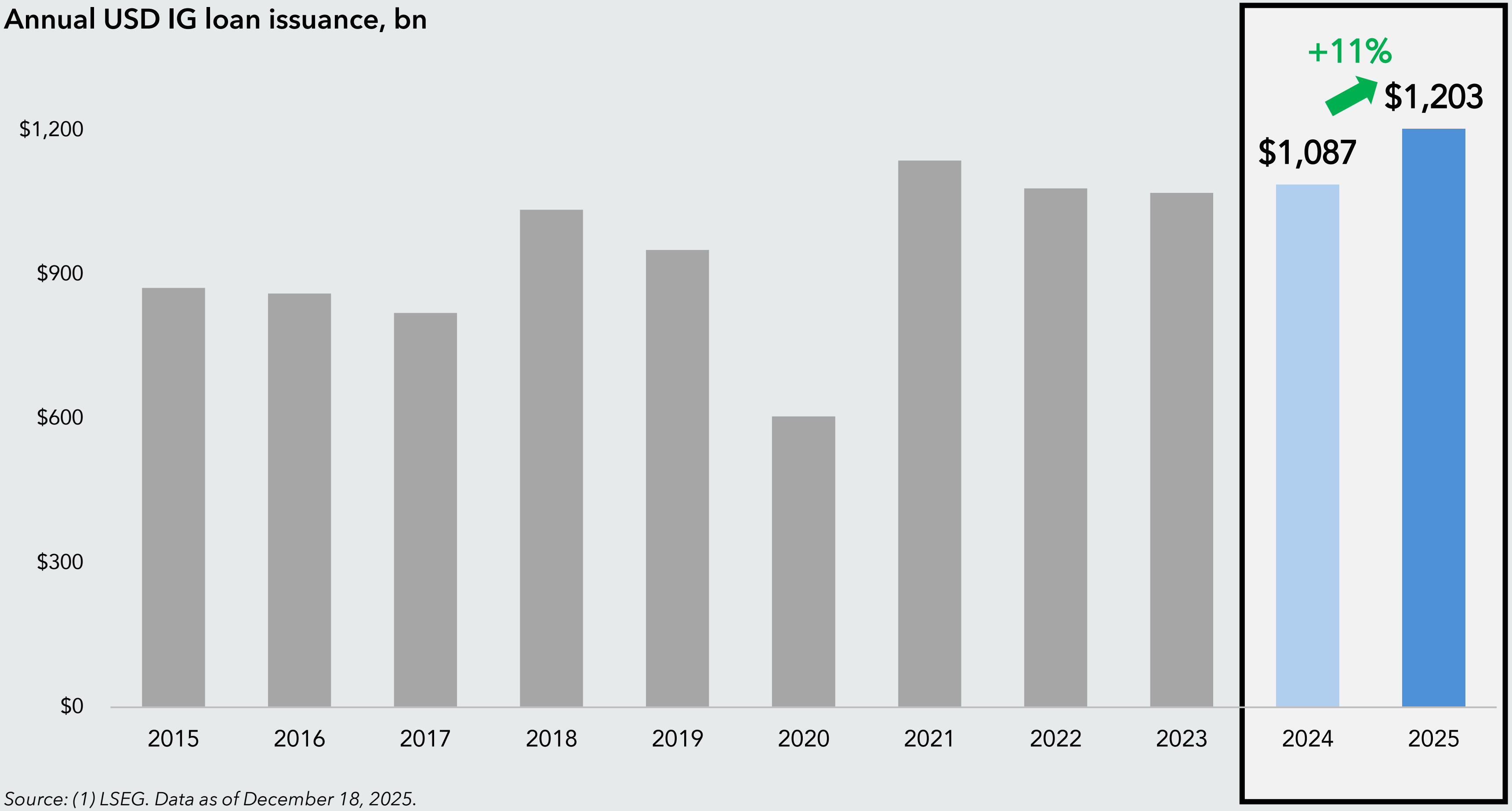


Source: (1) LSEG. Data as of December 18, 2025.

IG Loan Issuance Modestly Higher in 2026

USD investment grade loan issuance should be modestly higher in 2026, though with less year-over-year growth than expected in IG bond markets. Lower rates and curve steepening should support a steady pace of 2026 refinancing activity, with many 3-5 year loans coming due in the 2026-27 period. An elevated pace of mega-deal M&A activity and AI financings should also drive incremental volume in the form of revolvers and bridge/term loans.

Annual USD IG loan issuance, bn

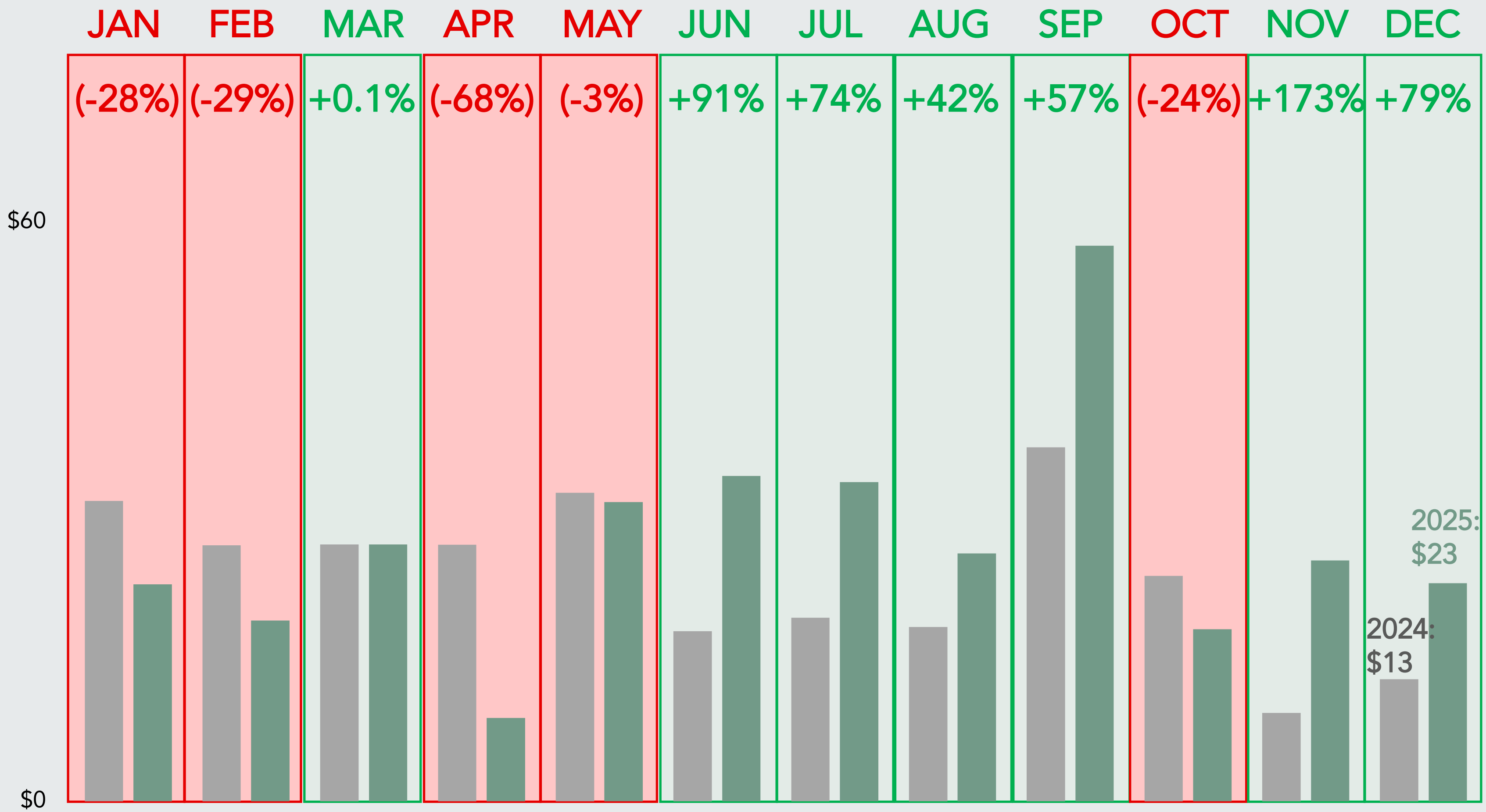


Source: (1) LSEG. Data as of December 18, 2025.

9 USD HY & Lev Loan Funding Markets

USD HY Issuance Roared Back in 2H 2025

2024 vs. 2025 USD HY issuance, bn



Source: (1) CFR. Data as of December 19, 2025.

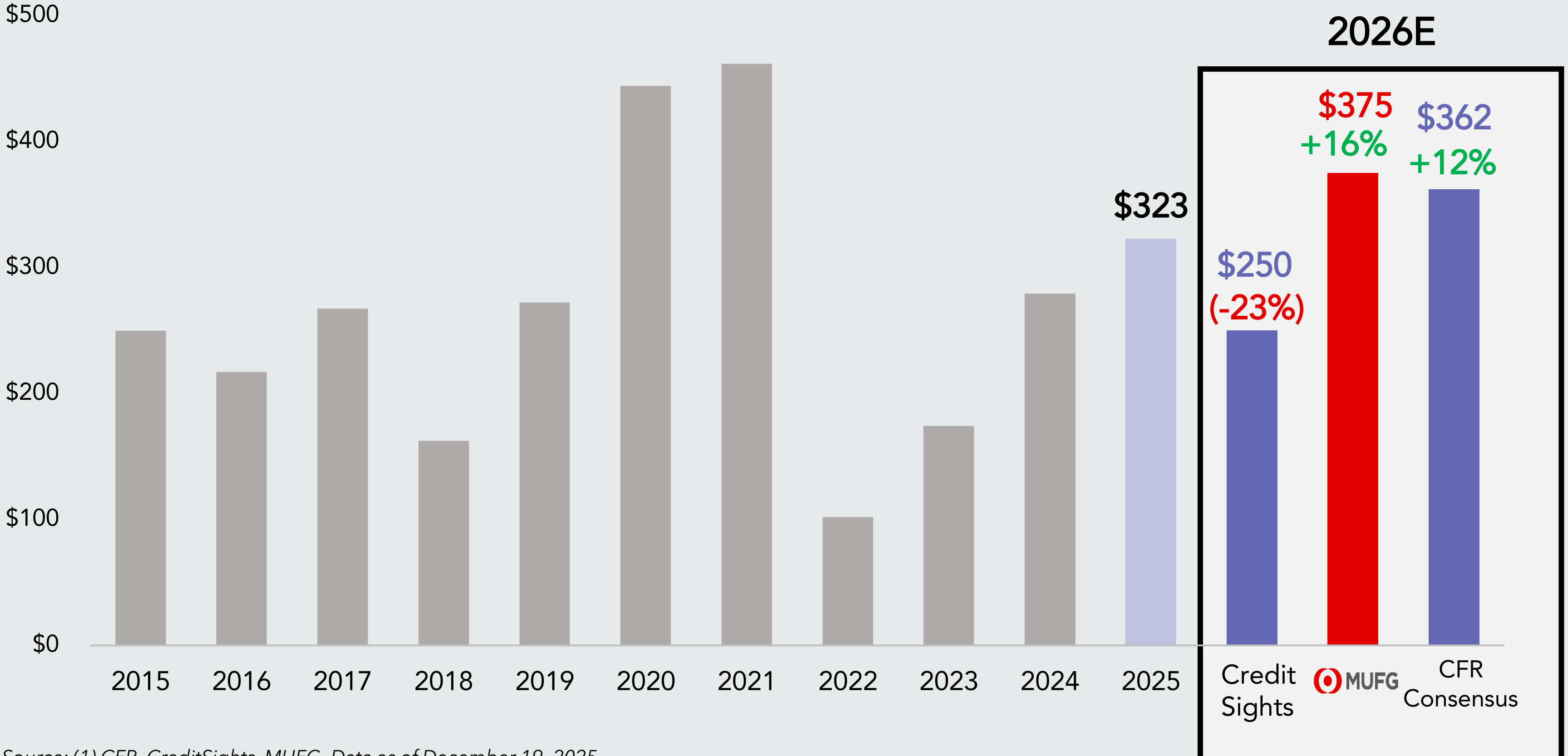
Key Drivers of 2026 HY & Lev Loan Issuance

1	**Benign late-cycle macro backdrop** (growth, policy easing, declining defaults)
2	**Pre-funding maturity wall** (maturities & callables from outsized 2020-22 issuance)
3	**Refinancings** (lower rates creating incentives to term out debt)
4	**Reacceleration in PE / LBO recovery** (risk-on markets; dry powder; tech, healthcare, services)
5	**AI Capex and R&D supercycle** (i.e., hyperscalers, data centers)
6	**Tangential AI buildout** (i.e., TMT, utilities)
7	**Resurgent global M&A mega deal activity** (deregulation, innovation, intensified competition)
8	**Strong CLO & institutional demand** (estimates > $150 bn)
9	**Competition with private credit** (increases structure, pricing & covenant flexibility; larger deal sizes)

2026 HY Issuance Should Increase 15% - 20%

Pre-funding maturities and callables from outsized 2020-22 issuance will be a key driver of 2026 USD high yield and leveraged loan issuance. Against an expected favorable macro backdrop in 2026, most notably lower rates and continued risk-on sentiment, incremental drivers of issuance should come from a range of powerful structural forces emanating from private markets (equity & credit), technology (AI), CLOs and strategic activity (M&A).

High yield issuance, USD bn

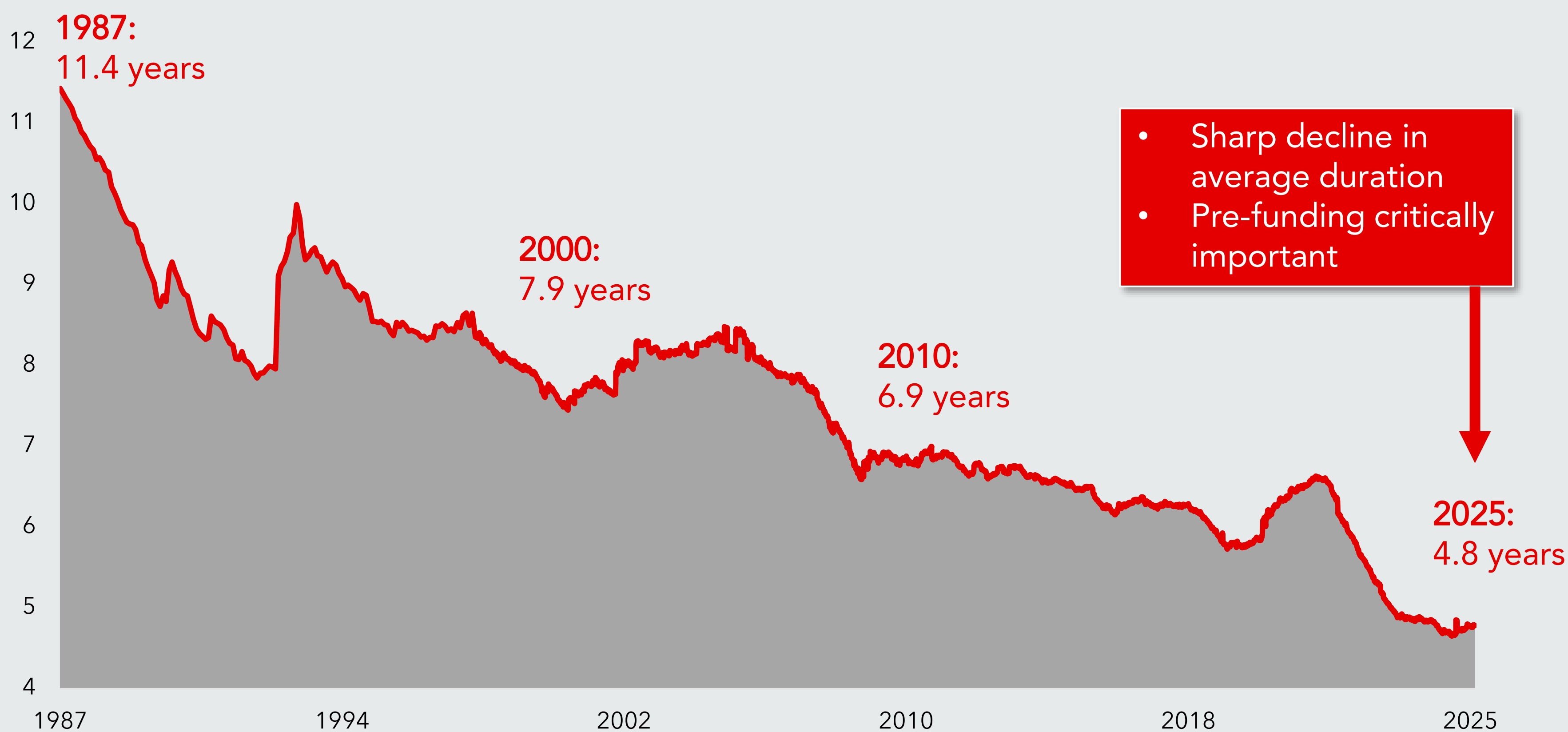


Source: (1) CFR. CreditSights. MUFG. Data as of December 19, 2025.

High Yield Life to Maturity at Multi-Decade Low

Over the last two years, the average duration on high yield bonds has dropped precipitously. Today, the "life to maturity" for the USD high yield index is at multi-decade lows of 4.8 years. Pre-funding maturities and callables from outsized 2020-22 issuance will be a key driver of 2026 HY and leveraged loan issuance.

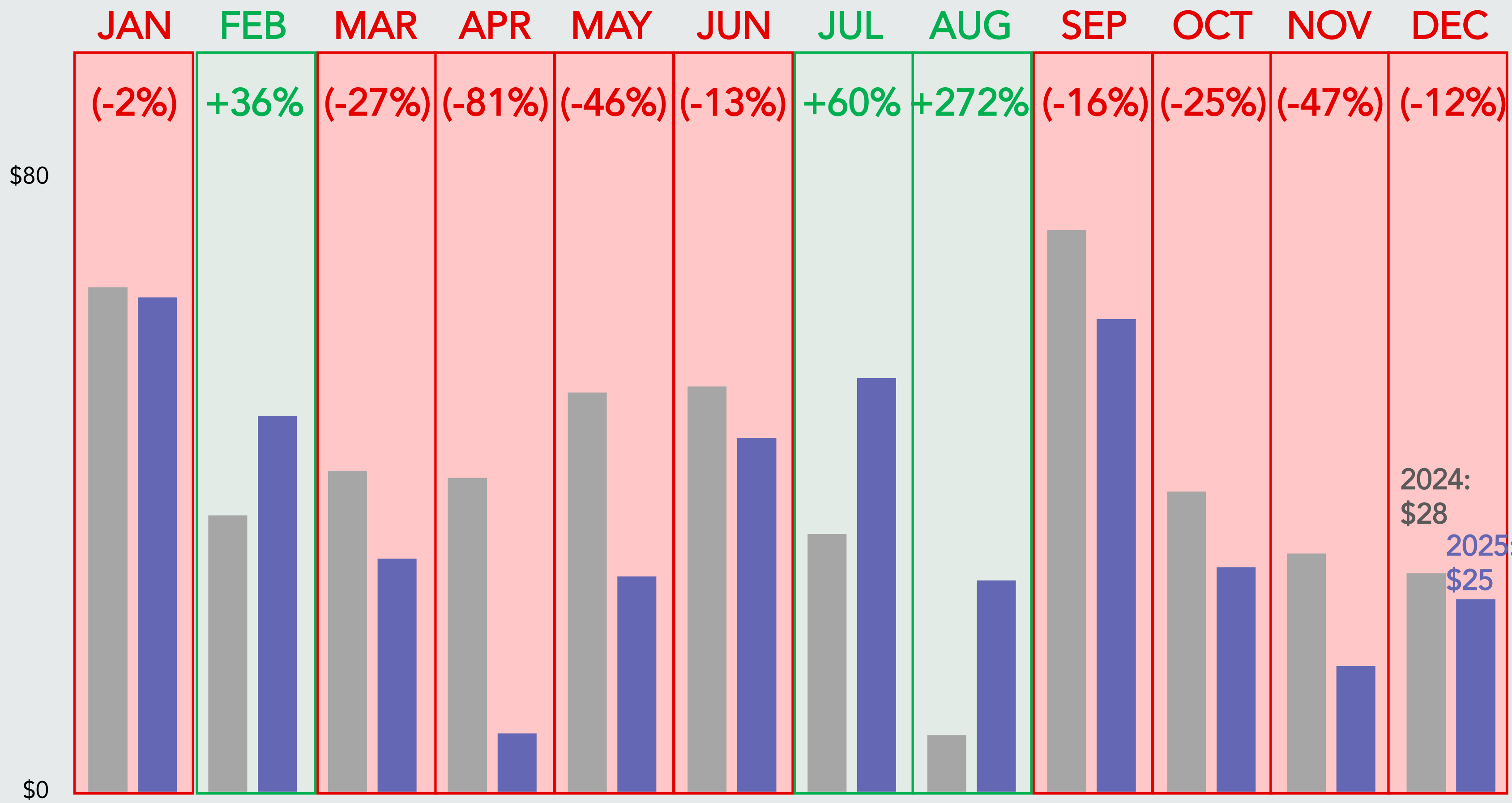
High yield index life to maturity, years



Source: (1) Bloomberg. Data as of December 17, 2025.

Lev Loan Issuance Slowed in 2025

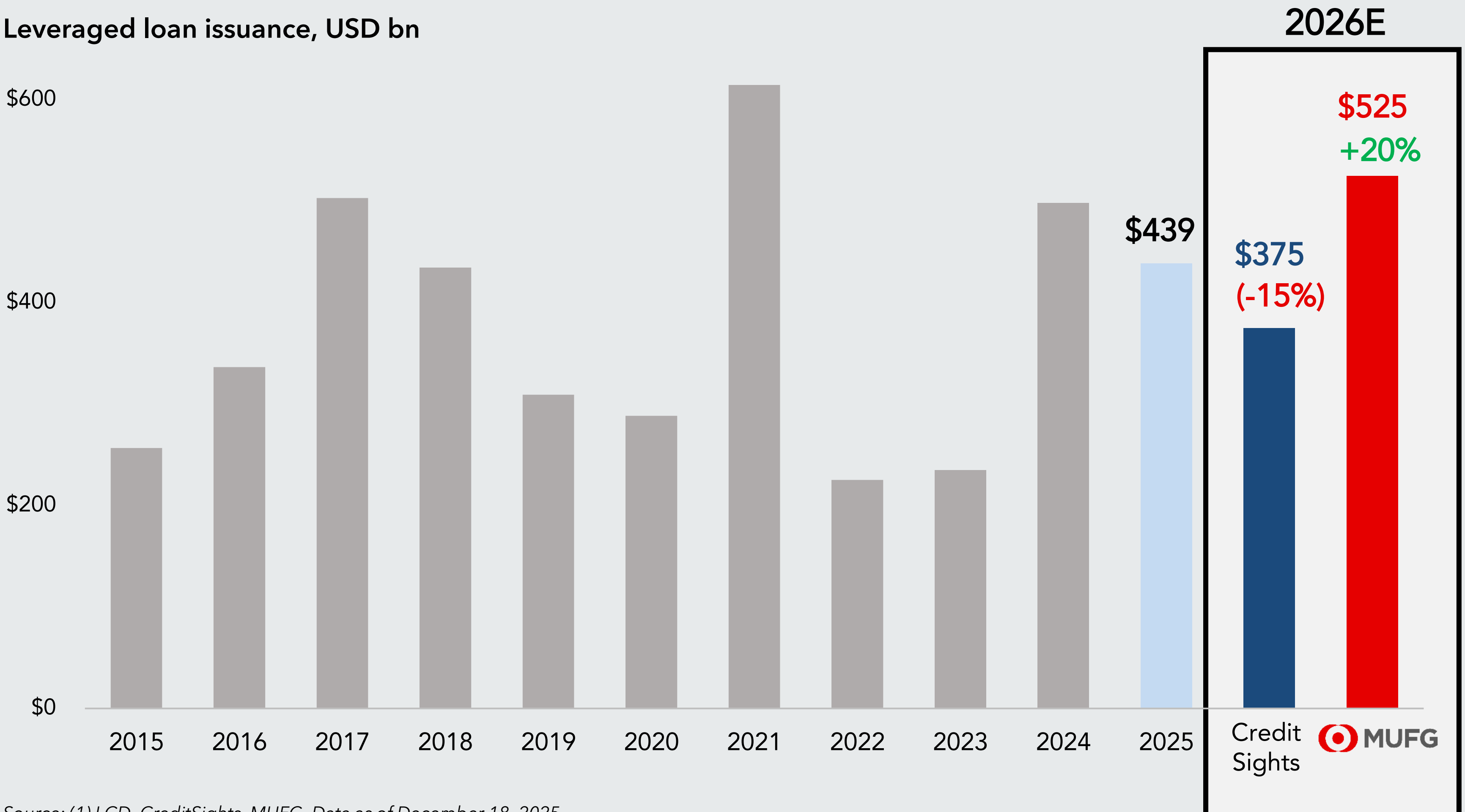
2024 vs. 2025 USD leveraged loan issuance, bn



Source: (1) LCD. Data through December 18, 2025.

Lev Loan Issuance Should Increase Sharply in 2026

MUFG expects leveraged loan issuance to increase in 2026 as major LBOs will drive significant supply backed by record dry powder. Increased M&A activity, lower rates, strong CLO issuance and refinancings will drive loan issuance higher next year.



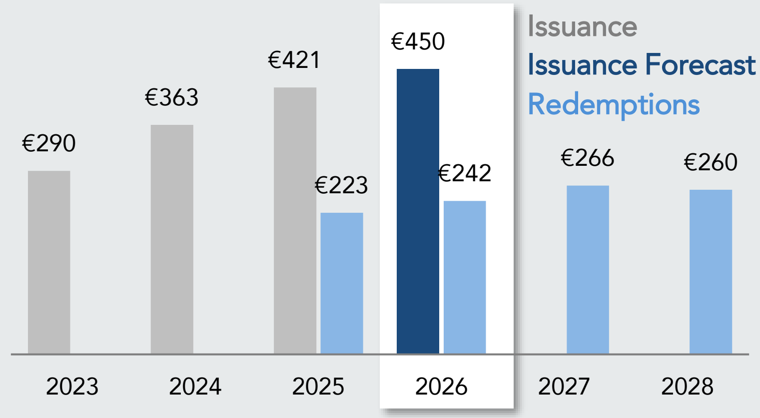
Source: (1) LCD. CreditSights. MUFG. Data as of December 18, 2025.

10 EUR & GBP Funding Markets

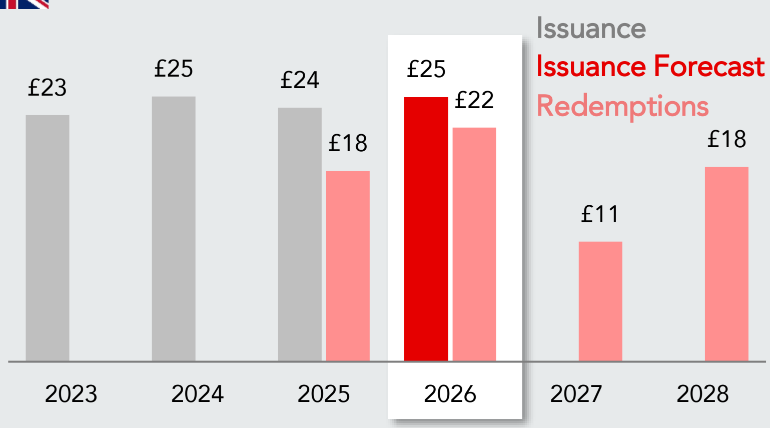
2026 EUR & GBP IG Corporate Issuance Outlook

Higher volumes in 2026

EUR bn



GBP bn



2026 Considerations

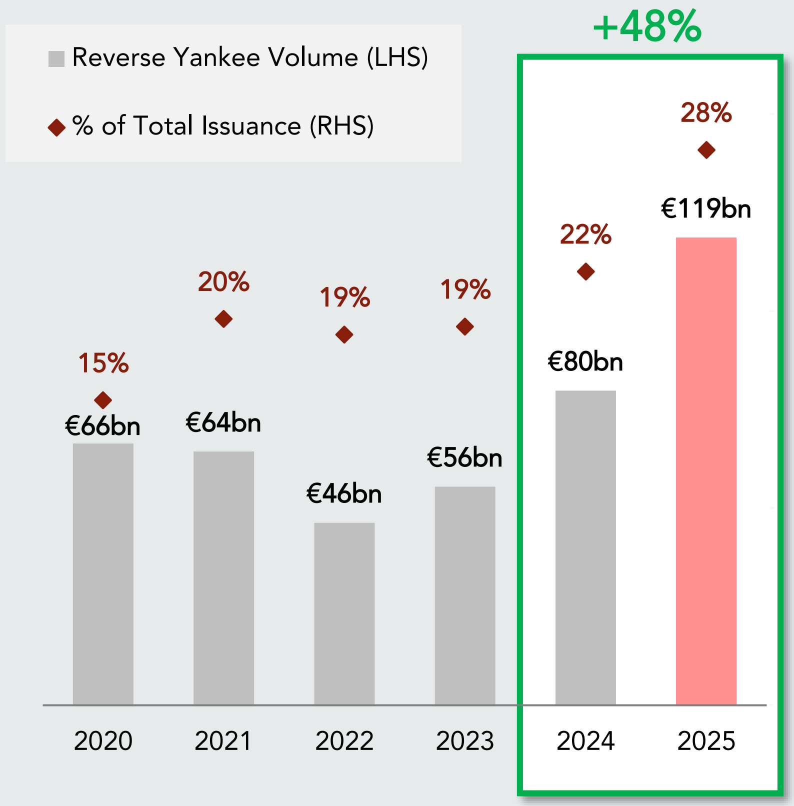
- Rise in EUR maturities in 2026 and 2027
- Expected pick-up in M&A activity and AI-related funding to contribute to larger funding needs
- EUR and USD yield differential to continue to incentivize Reverse Yankee transactions
- Increasing Capex needs for Utilities on the back of changing energy landscape and infrastructure renewal
- GBP volume expected to be broadly stable despite pick up in 2026 redemptions as UK borrowers continue to seek alternative markets for diversification and competitive funding

Source: MUFG. Bloomberg. Dealogic.

Increased Reverse Yankee Supply

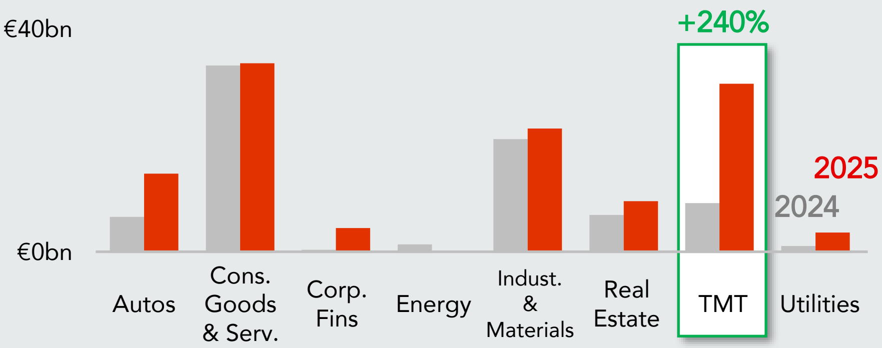
2025 has seen an increase to Reverse Yankee supply. This has been driven by several factors including the absolute coupon levels available in EUR, relative cost swapped back to USD, but also the increased funding need related to AI / tech capex. MUFG expects these dynamics to persist in 2026 with absolute coupon levels and increased AI capex continuing to drive US borrowers to the EUR market in addition to core funding in USD.

Annual reverse Yankee volume, EUR bn

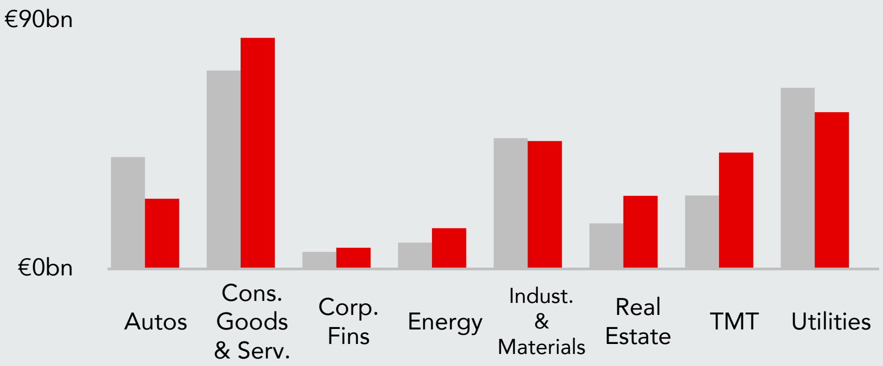


Industry split

Reverse Yankee



Rest of the world



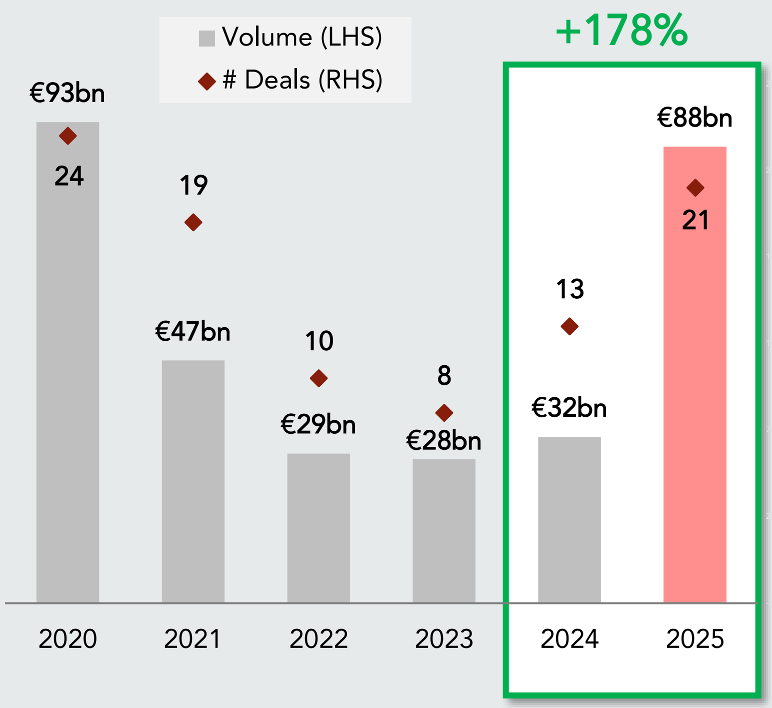
Source: (1) MUFG. Bloomberg.

EUR IG Deal Sizes in 2025

2025 was marked by a notable increase in jumbo transactions as well as elevated volumes of 500m WNG and sub-BMK deals. Borrowers remain sensitive to all-in cost, as many low-coupon bonds were issued in a different yield environment, leading to smaller transaction sizes. At the same time, an uptick in M&A activity and large funding exercises by US borrowers have driven demand for larger-sized deals. These underlying thematics (M&A, AI funding, All-in-yields vs. Redemption yields), are expected to persist, with the barbell trend in deal sizes likely to continue.

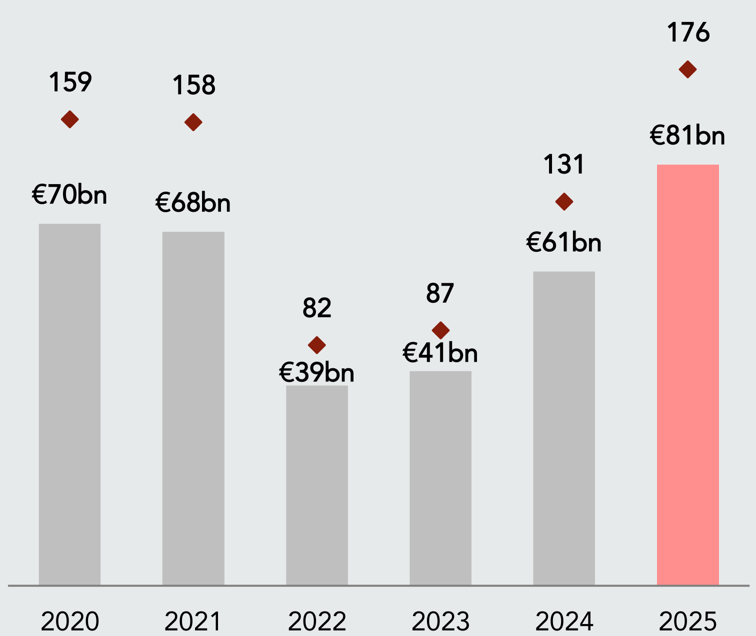
Second largest year on record

Deals > EUR 3 bn



Largest year for small sized deals

Deals ≤ EUR 500 mn



Source: (1-2) MUFG. Bloomberg.

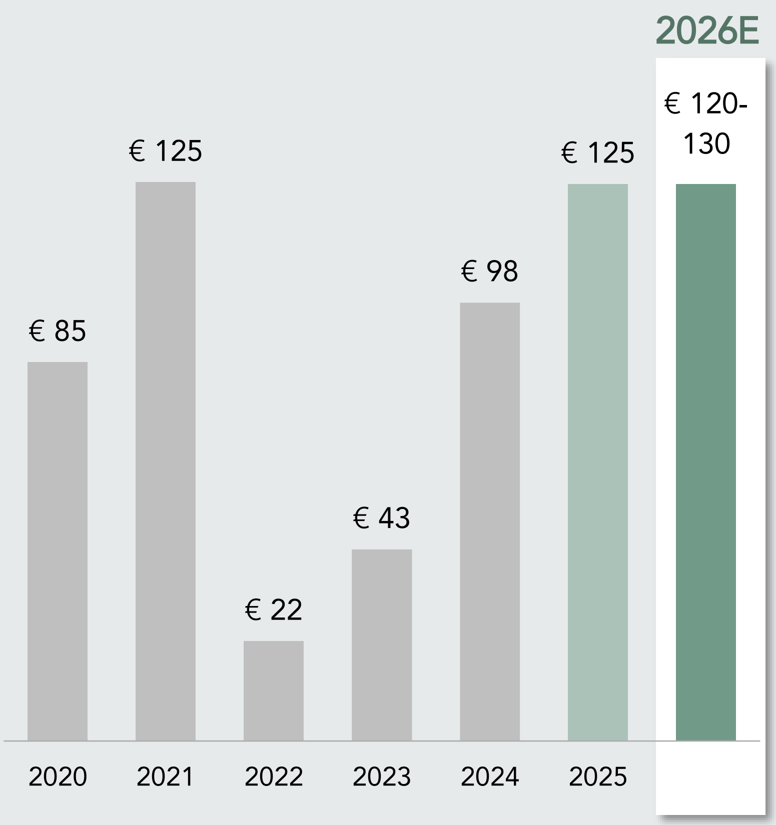
2026 Outlook: Key Drivers for European LL & HY

Issuance Considerations	
1	**Macro Outlook** Steady outlook provides attractive backdrop for leveraged loans and high yield bonds as investors search for yield
2	**M&A / LBOs** Increased activity to drive surge in net supply, particularly on leveraged loan side
3	**Refinancings** Expect a healthy level of refinancings despite lack of material maturity wall until 2028
4	**Supply / Demand** Strong underlying technicals and continued supply/demand tensions to provide a supportive backdrop for new money issuance
5	**Credit Quality** Expect investors to continue favoring high quality credits
6	**Spreads** Spreads at historical lows to incentivize repricings and refinancings, like-for-like or across markets (instruments/currencies)

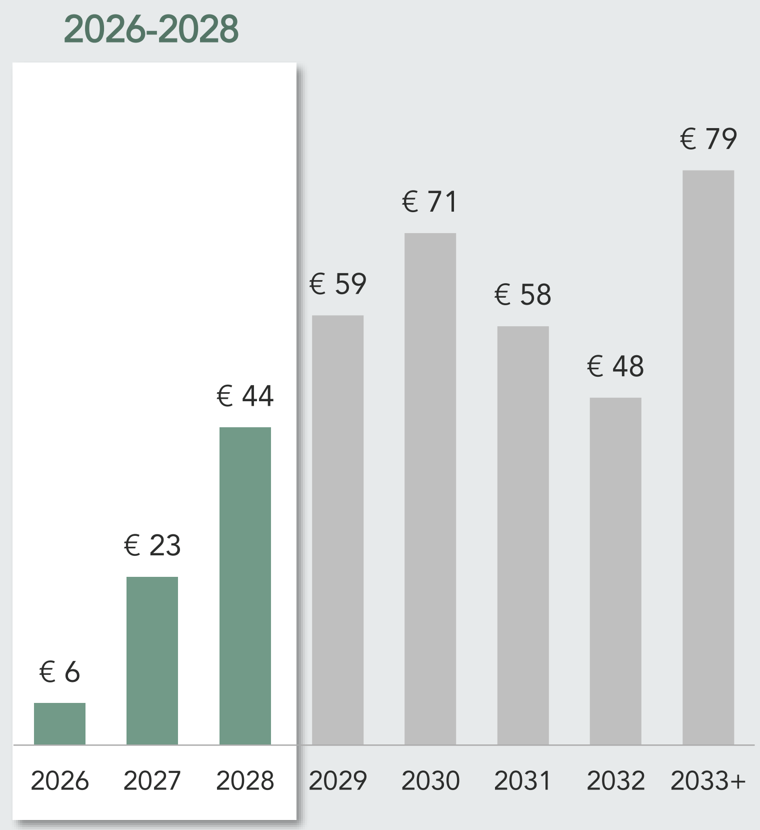
2026 Outlook: European High Yield

The high yield market issuance surprised to the upside as 2025 comes to a close, with supply surpassing market expectations. **Stable interest rates, continuing inflows into the asset class, healthy returns and hopes for more M&A will support a 2026 volume in line with 2025**

European high yield issuance, EUR bn



European high yield maturity wall, EUR bn

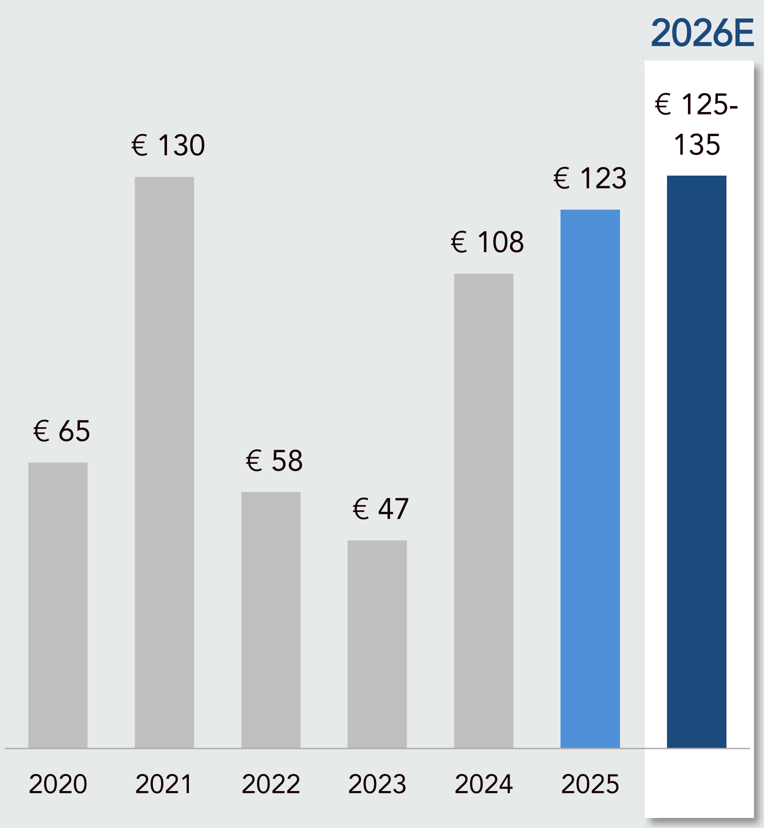


Source: (1-2) Pitchbook/LCD. MUFG as of December 2025. Note: HY volume includes all bonds issued in the European market.

2026 Outlook: European Leveraged Loans

The leveraged loan market activity continued to be dominated by refinancings and extensions as well as a record repricing wave throughout 2025 despite tariffs market dislocation. **Looking to 2026, we expect the increase in volumes to be driven primarily by better M&A activity, as well as unitranche-to-TLB refinancings and dividends**

European leveraged loan issuance, EUR bn



European leveraged loan maturity wall, EUR bn

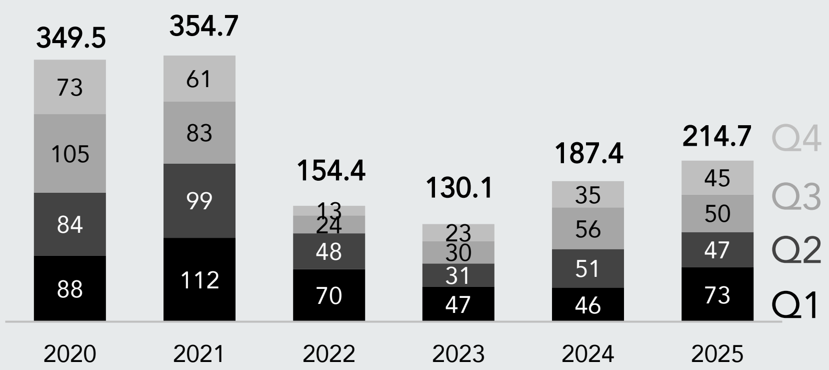
Source: (1-2) Pitchbook/LCD. MUFG as of December 2025. Note: New Money Volume for LL, excludes repricing and cashless amendment volume, only refers to EUR-denominated transactions of European issuers

11 Asia-Pacific Funding Markets

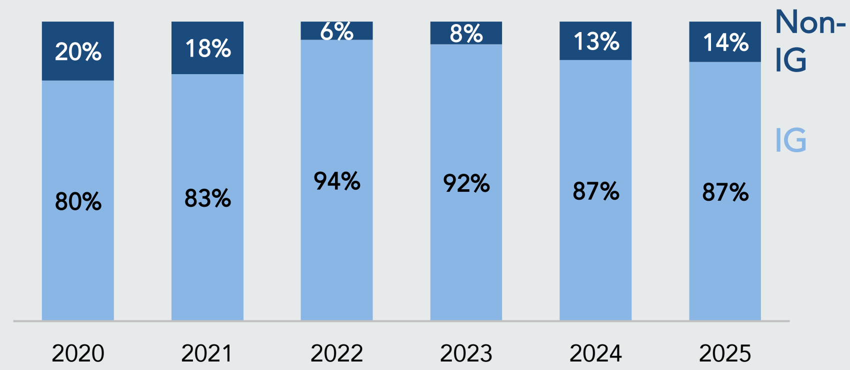
Asia ex-Japan International G3 Bond Issuances

In 2025, the region recorded its strongest issuance volume since 2021, signaling a notable recovery in market activity. Non-IG issuance showed steady upward momentum while issuers continue to target shorter tenors and steady growth of corporate issuance, striking an equal balance between corporate and FIG for the year.

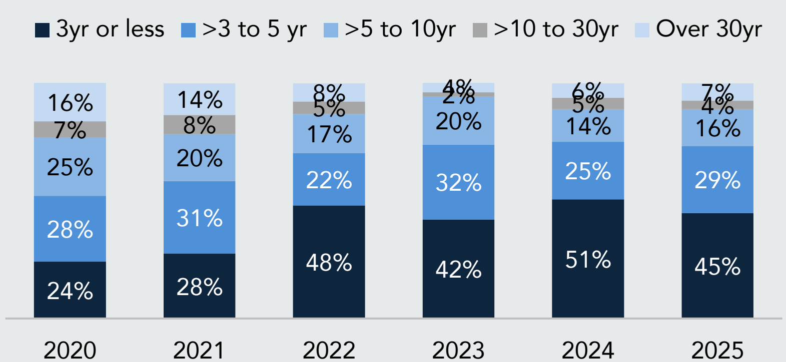
AeJ international G3 bond issuances by quarter (USD, bn)



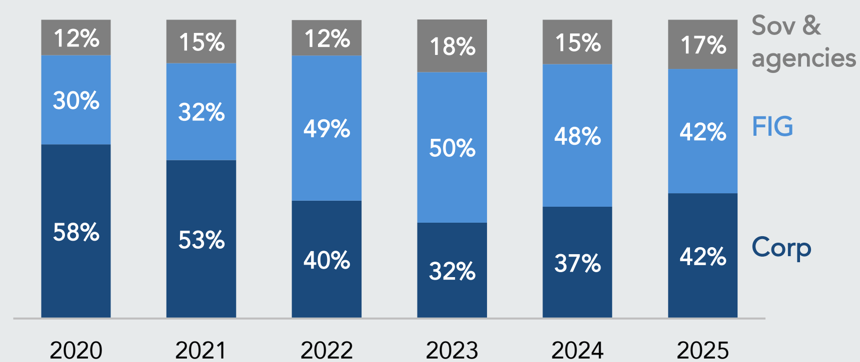
Breakdown by IG vs. non-IG



Breakdown by tenor



Breakdown by sector

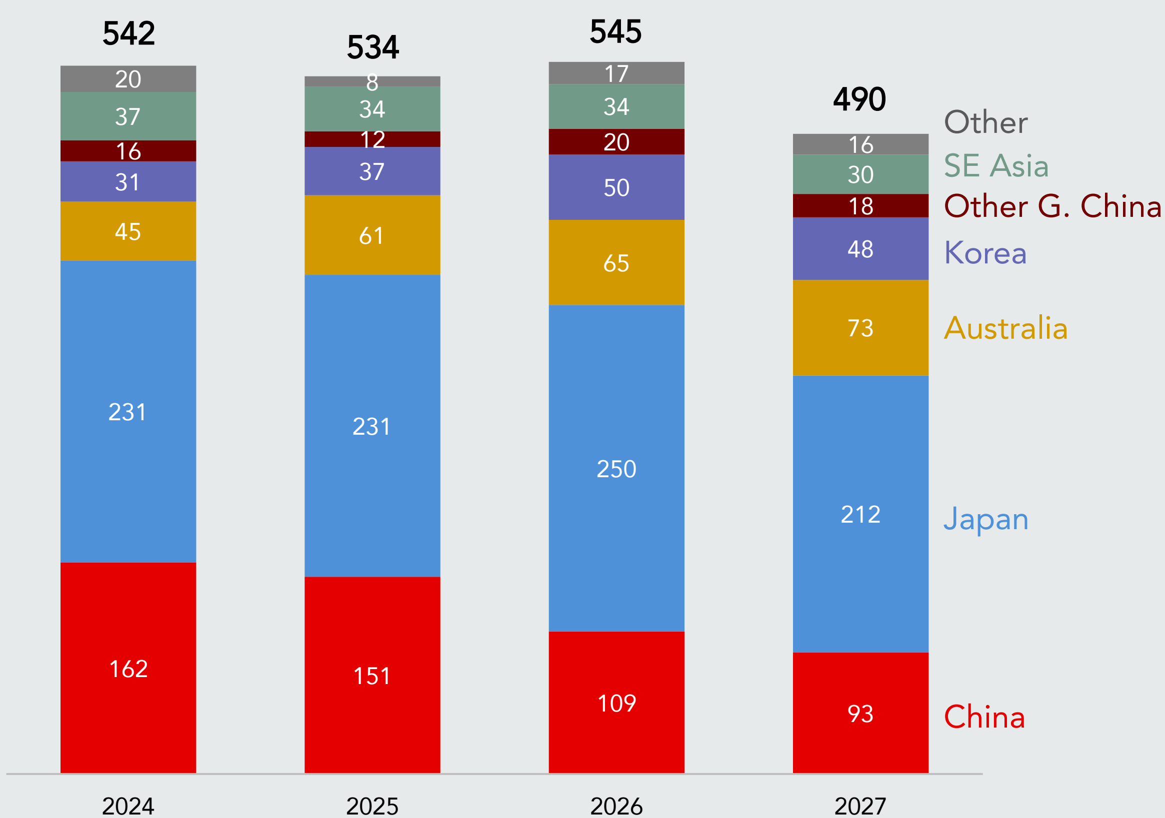


Source: Dealogic Analytics, Bloomberg, as of 12 December 2025. Note: Excludes short-term, money market, ABS, MBS and domestic market issuances.

Upcoming Significant APAC Bond Redemptions in 2026

APAC issuers will face higher refinancing pressures in 2026 from increasing bond redemptions, especially in higher-rated countries like Korea, Japan, Australia and Singapore.

APAC yearly redemption by region, USD bn



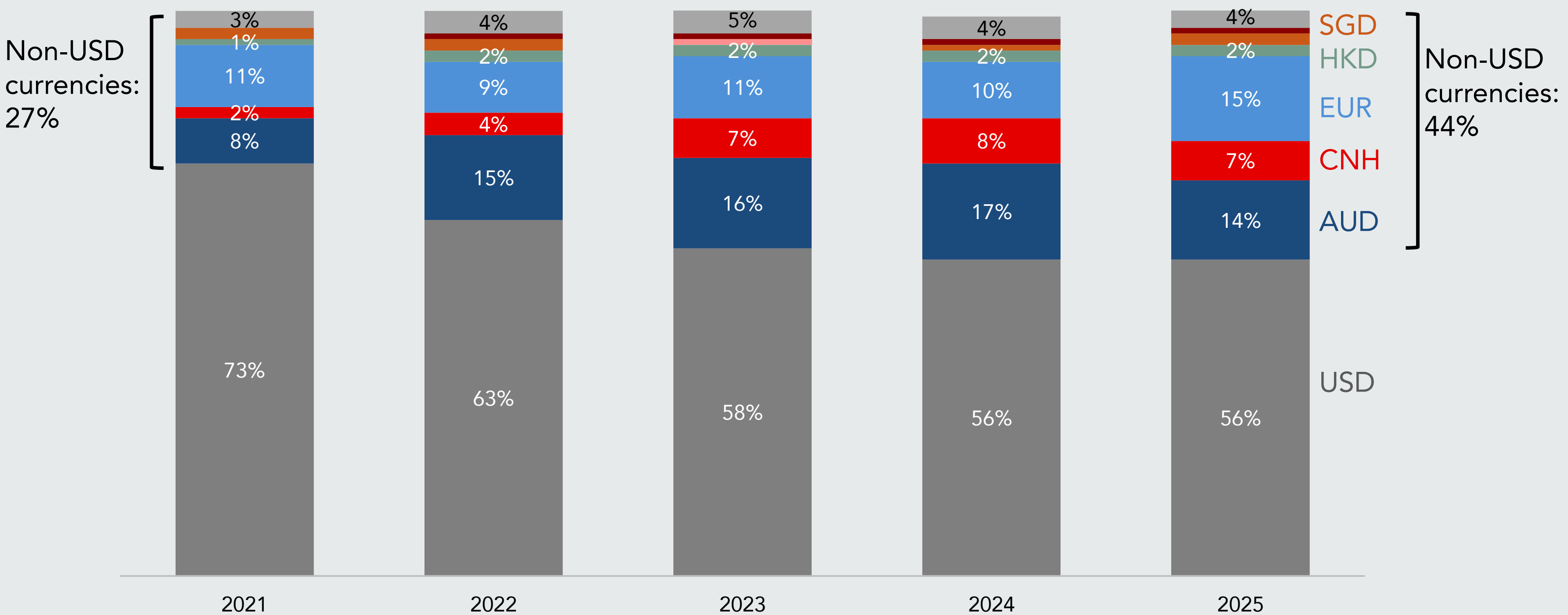
Region	2026 vs. 2025	2027 vs. 2026
China	(-28%)	(-15%)
Other G. China	+67%	(-10%)
Japan	+8%	(-15%)
Australia	+7%	+12%
Korea	+35%	(-4%)
SE Asia	0%	(-12%)
Singapore	*+3%*	*(-18%)*
Malaysia	*+47%*	*(-48%)*
Philippines	*(-27%)*	*+10%*
India/Others	+113%	(-6%)
Total	+2%	(-10%)

Source: Dealogic Analytics, as of 12 December 2025 Note: Excludes short-term, money market, ABS, MBS and all domestic market issuances.

Non-USD Currencies Surge in APAC Underscoring De-Dollarization Trend

Non-USD currencies (including AUD, CNH, EUR, HKD) in APAC international bond issuances have grown for the past 5 years, increasing significantly from 27% in 2020 to 44% in both 2024 & 2025. AUD, CNH and EUR, in particular, grew the most due to competitive cost advantage compared to USD and abundant liquidity from non-USD investors.

APAC international bond issuances by currency

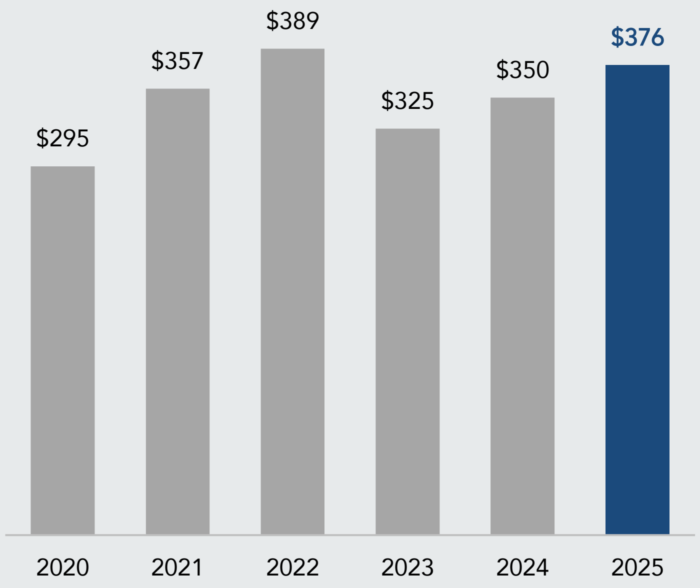


Source: Dealogic Analytics, as of 12 December 2025 Note: Excludes short-term, money market, ABS, MBS and all domestic market issuances.

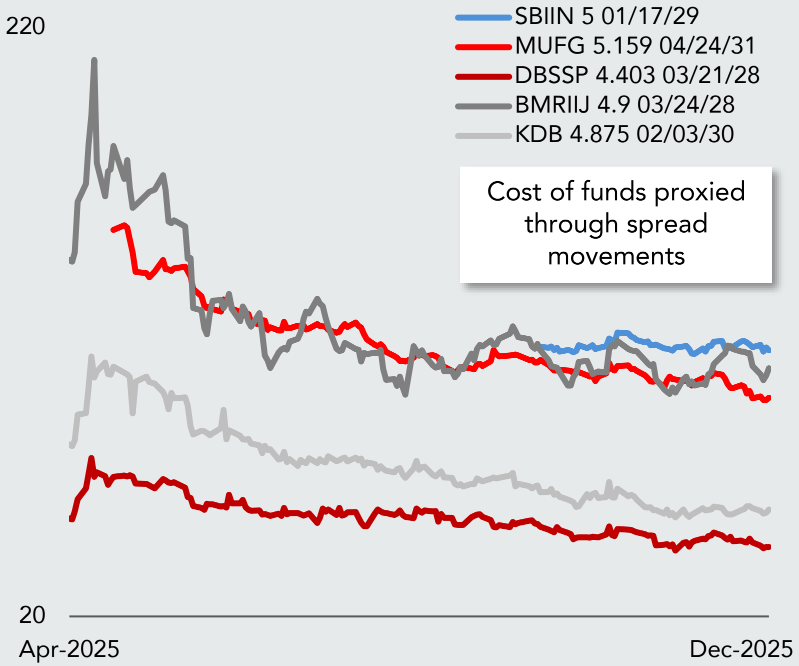
APAC Markets as an Increasingly Attractive Source of Funding

APAC loan volumes have demonstrated strong resilience in 2025, nearing the highs of 2022 and underscore the region's market depth and robustness. The APAC loan market is highly diverse, each with its own unique nuances. This diversity drives an equally varied investor base and liquidity pool, enabling jumbo transactions across countries and currencies. Across the region, APAC banks are broadly benefiting from lower funding costs as credit spreads continue to tighten. APAC loan market to remain robust and an attractive source of financing heading into 2026.

APAC (ex-Japan) loan market volume (USD, bn)



APAC major bank 3-5Y spreads in 2025

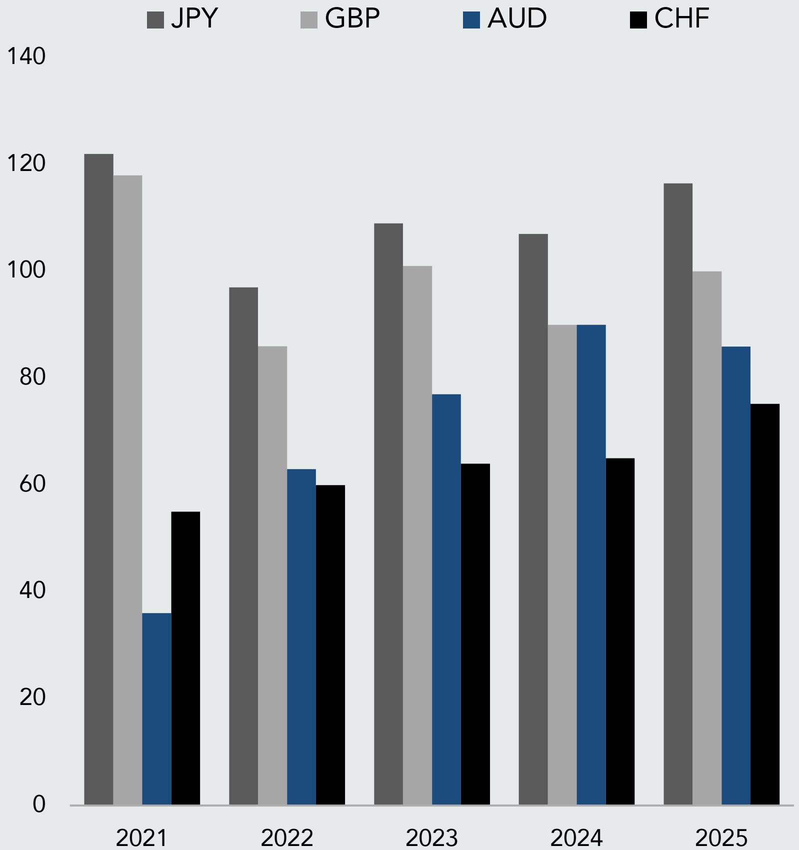


Source: 2025 number is Pro-forma based on the historical loan volumes for the last two weeks of December. Loan Connector, Bloomberg as of 12 December 2025

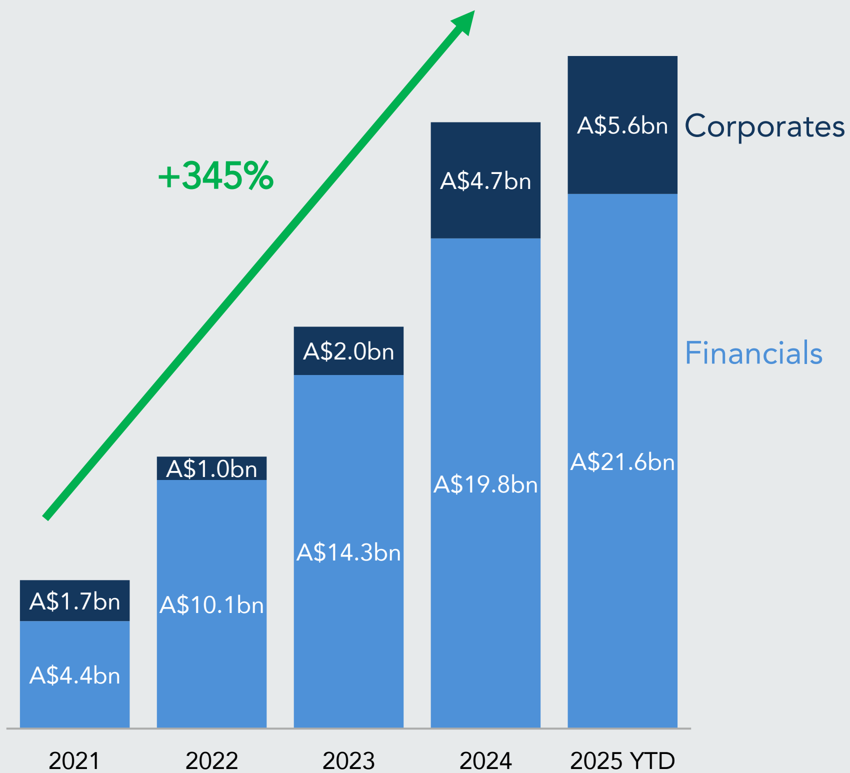
Growing Relevance of the A$ Market

The A$ market is increasingly favored by local and global issuers for its funding diversification & exceptional liquidity. Kangaroo issuers have experienced another record year, with the A$ market becoming a "core" funding source for global issuers.

APAC local and global issuance, USD bn



Offshore A$ issuance market (ex-SSA), A$ bn

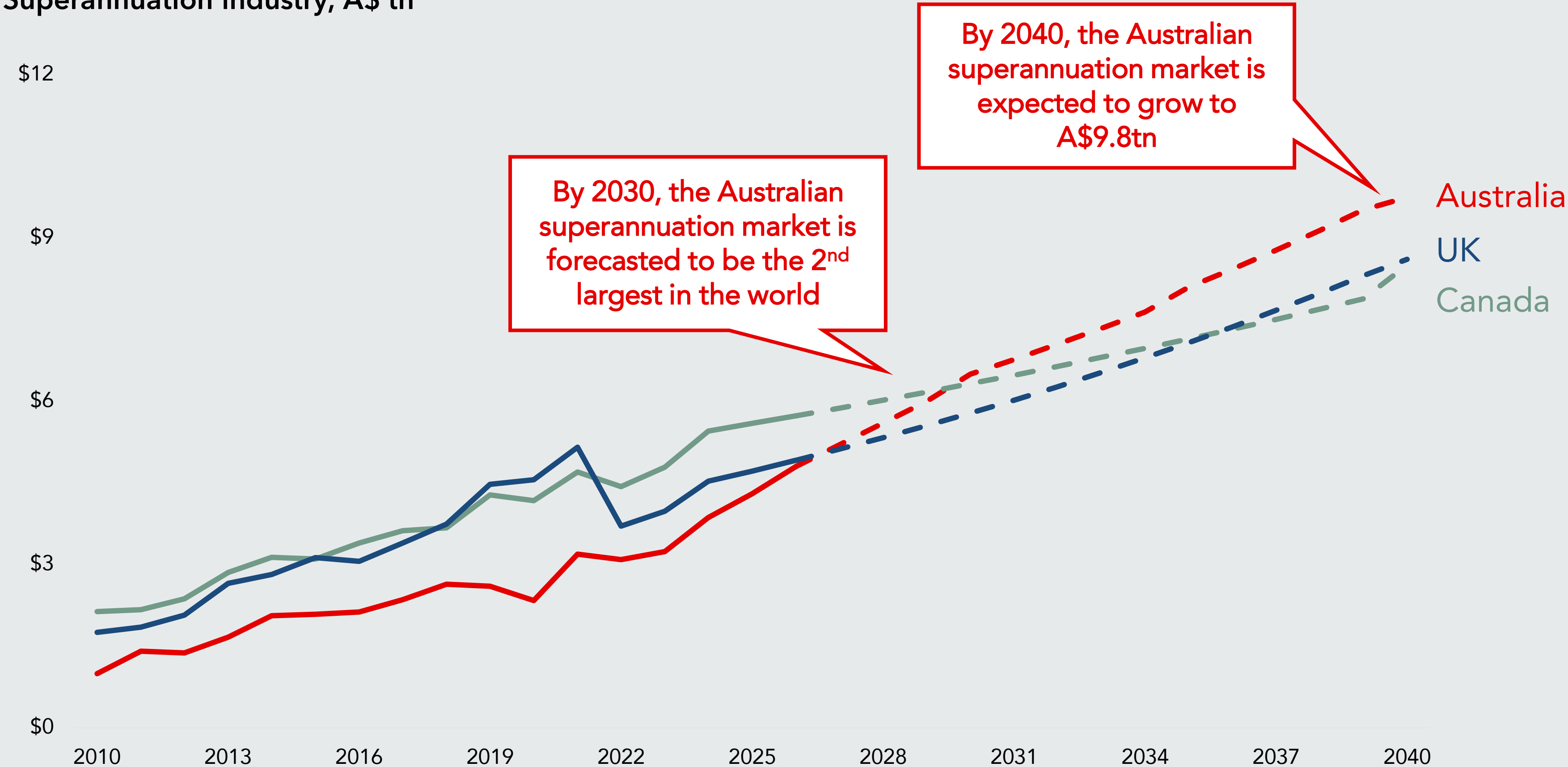


Source: MUFG. IGM.

Increasing Pool of Australian Liquidity

The Australian superannuation industry is set to grow materially in the coming years, driven by favorable demographics and an increase in mandatory employer contribution to 12%. Assuming fixed income allocations remain stable, **we expect inflows of A$1.8trn into domestic and international fixed income by 2040.**

Superannuation industry, A$ tn

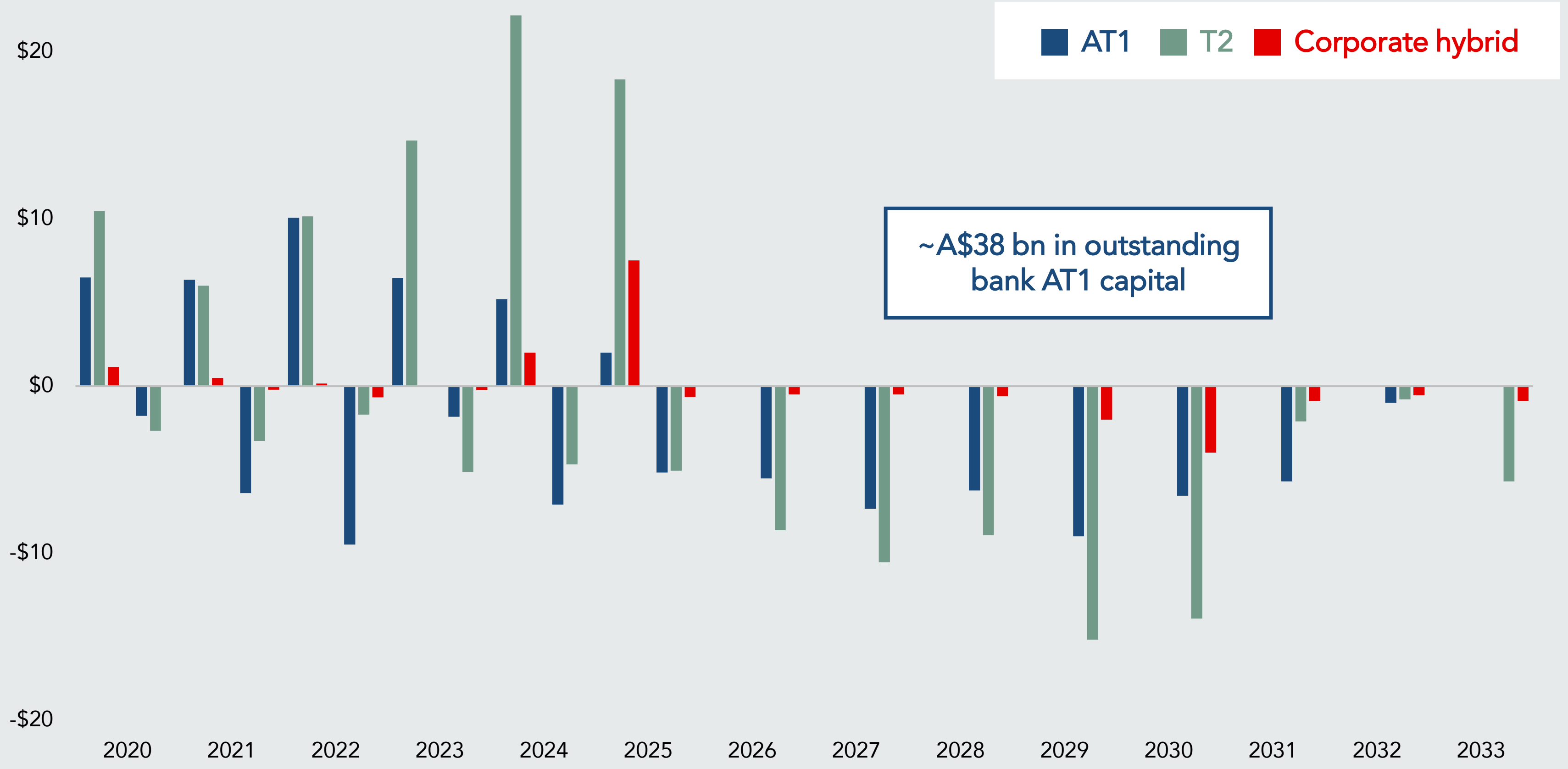


Source: MUFG, IGM, Super Members Council, APRA, Deloitte, OECD

The Evolution of Australia's Subordinated Debt Market

Growing demand for subordinated debt product and enhanced capital requirements has seen elevated A$ T2 issuance in recent years. APRA announced in 2024 that all bank AT1 capital was to be phased out and replaced with more "reliable" forms of capital (such as T2). **This has left a significant vacuum in the A$ subordinated market, with ~A$38bn of AT1 paper set to roll off in the next 7 years.**

Issuance and redemptions in A$ subordinated debt product, A$ bn



Source: MUFG, KangaNews, Bloomberg. Data as of December 9, 2025.

12 Equity Issuance Markets

Key Drivers of 2026 Equity Issuance

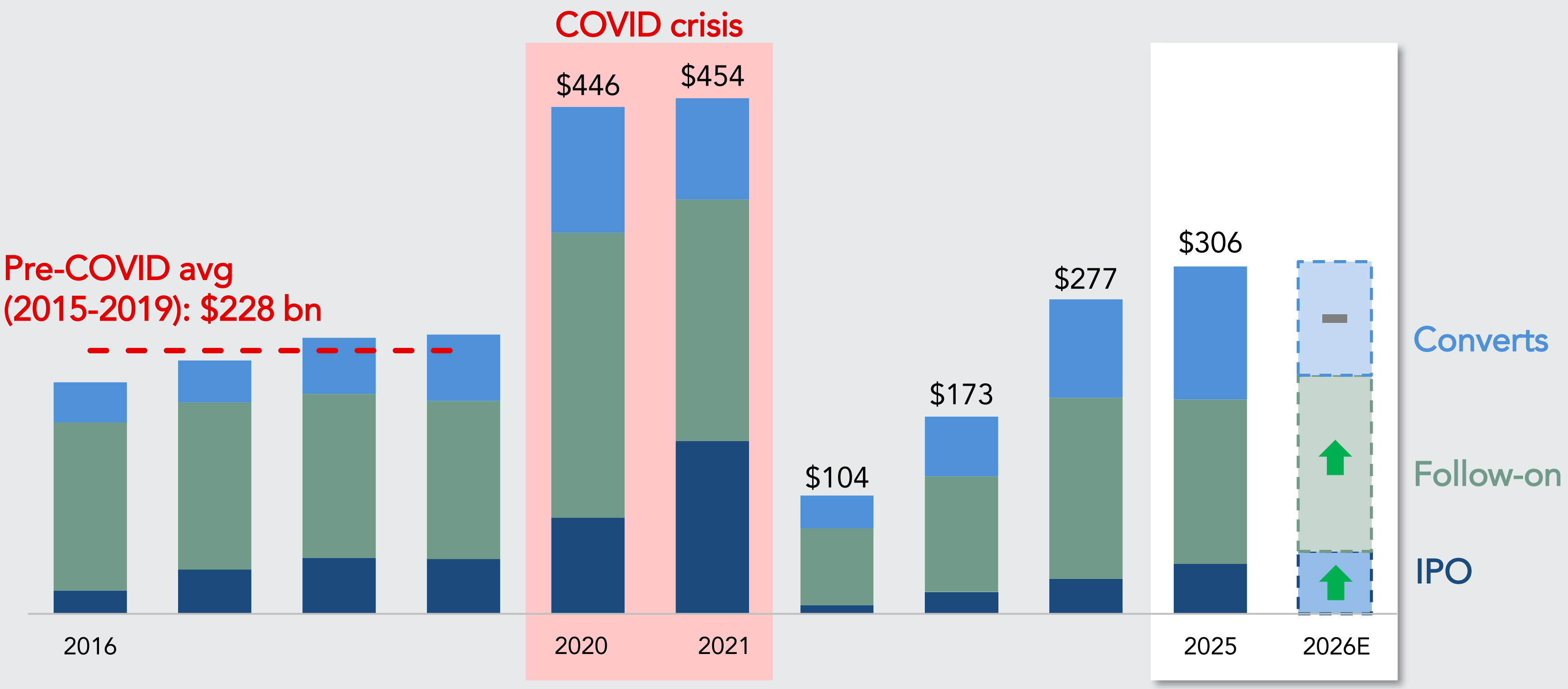
Looking ahead, we expect equity issuance volumes to grow in 2026, led by heightened IPO and follow-on activity, with robust convertible volumes above historical averages.

1. **Stabilized Tariff Policies**
2. **Fed Policy Easing**
3. **Robust and Growing IPO Backlog**
4. **Sponsor Monetizations**
5. **M&A Activity**
6. **Continued AI-Secular Expansion**
7. **Acceleration in Technology-Driven Capital Expenditures**

Recovery and Risk-On Sentiment Driving Equity Issuance

Equity issuance accelerated in 2025, surpassing 2024 levels, led by sectors with strong structural tailwinds such as AI, defense & space-tech, and biotechnology as investors embraced a risk-on environment post Liberation Day. In new issue markets, convertible volumes set a new all-time high, exceeding COVID-era record levels as issuers addressed near-term maturity walls and zero-coupon converts gained traction in the technology sector. Follow-ons led overall ECM new issuance volumes, with sponsors tapping public markets for exits and corporates raising capital at elevated valuations.

Annual US equity market issuance volumes, USD bn



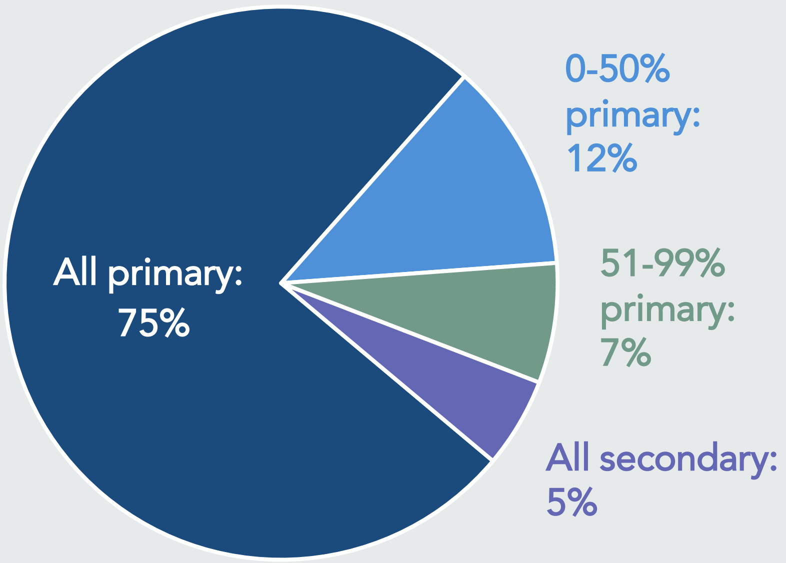
Source: (1) MUFG ECM. Dealogic. Bloomberg. Data as of December 15, 2025.

Monetization Activity To Continue Growing as Investors Seek Liquidity

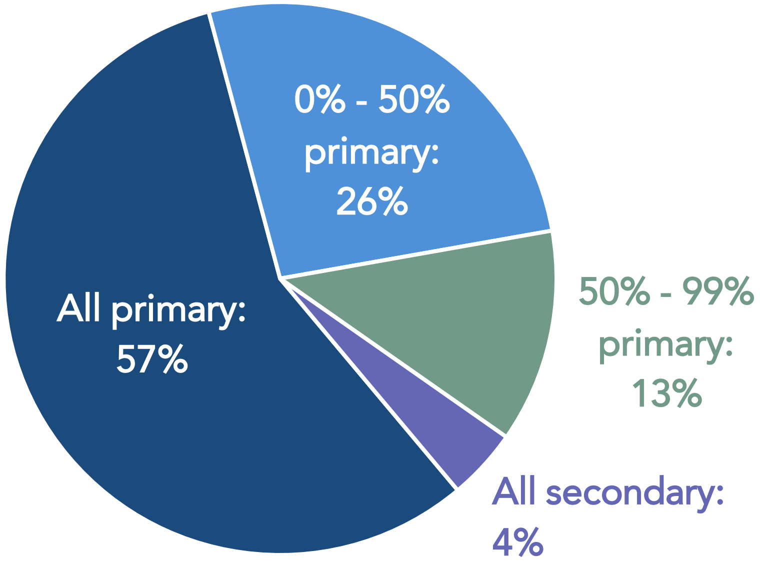
Sponsor monetization activity is also expected to grow as investors continue looking for greater liquidity via public equity markets.

US equity market monetization activity breakdown, % of total

2022 -2024



2025

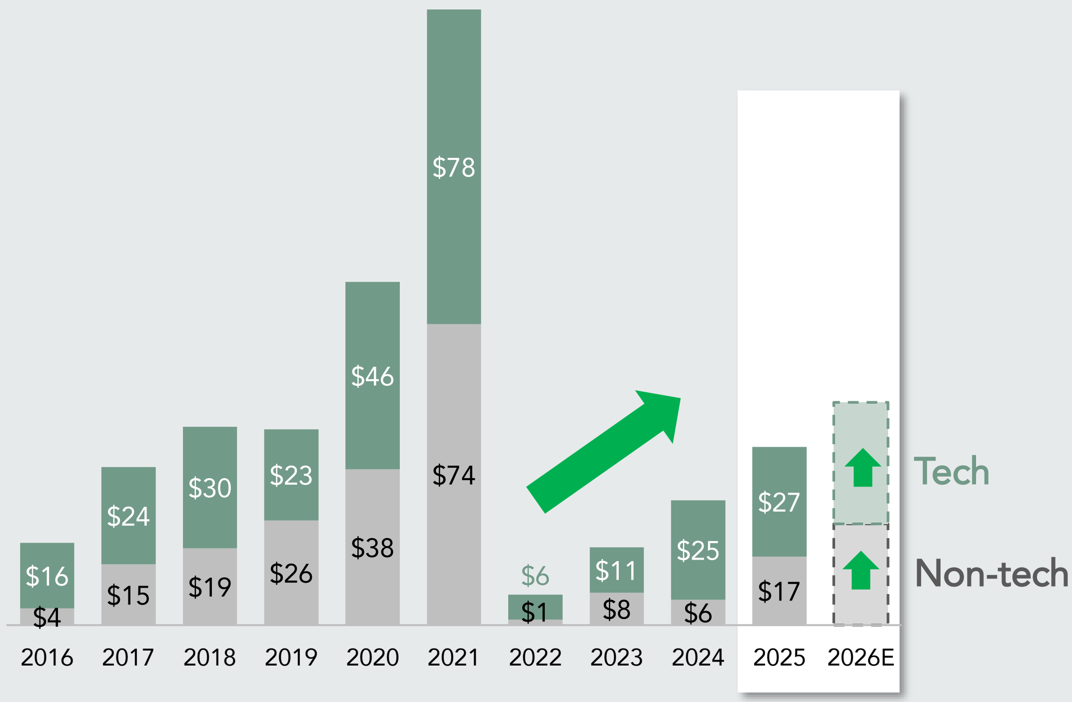


Source: (1-2) MUFG ECM. Dealogic. Data as of December 15, 2025.

IPO Market to Continue Recovery in 2026

IPO issuance recovered to pre-COVID average levels in 2025 with investors favoring a mix of large-scale, stable companies and high-growth candidates with clear paths to profitability. The outlook for 2026 IPO activity is optimistic, with pockets of market volatility and the lengthy government shutdown in 2025 leading to a growing backlog of marquee IPO hopefuls looking to a more constructive market backdrop in the coming year. Also look for technology to lead IPO resurgence with an expected flurry of AI-related issuance next year.

US ECM tech vs. non-tech issuance, USD bn



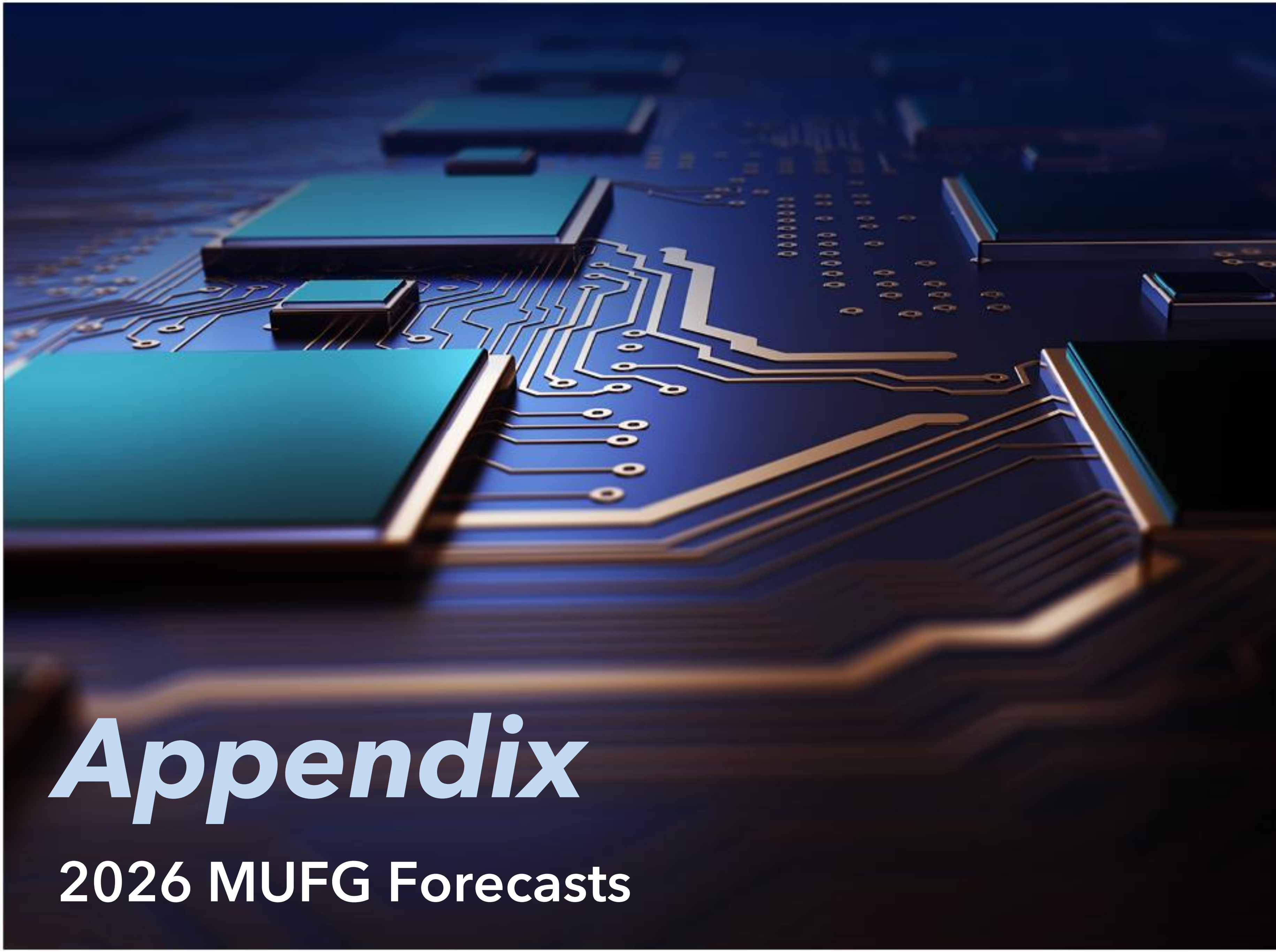
Growing backlog of 2026 IPO candidates

ANTHROPIC, BitGo, databricks, klook, OpenAI, PayPay, SPACEX, YORK SPACE SYSTEMS

Tech companies

UNIVERSAL MUSIC GROUP, Fannie Mae, lendbuzz, FreddieMac

Source: (1-2) MUFG ECM. Dealogic. Data as of December 15, 2025.


Appendix
2026 MUFG Forecasts

2026 Global Economic Forecasts

GDP growth forecasts, y/y

Region	2025E	2026E
North America		
US	2.0%	**2.5%**
Mexico	0.4%	**1.4%**
Canada	1.7%	**0.9%**
Eurozone	1.4%	**0.9%**
Spain	2.9%	**2.4%**
Finland	0.1%	**0.9%**
Germany	0.2%	**0.7%**
France	0.9%	**0.8%**
Italy	0.6%	**0.6%**
Netherlands	1.6%	**0.5%**
Ireland	13.3%	(-0.6%)
Other Europe		
Poland	3.5%	**3.8%**
Türkiye	3.8%	**3.0%**
Sweden	1.9%	**2.4%**
Czech Republic	2.5%	**2.2%**
Norway	1.5%	**2.2%**
UK	1.4%	**1.0%**
Switzerland	1.2%	**0.9%**
Denmark	2.2%	**0.6%**
Russia	0.5%	(-0.1%)

Region	2025E	2026E
APAC	4.3%	**3.9%**
India	7.7%	**6.5%**
Indonesia	5.0%	**5.1%**
China	4.8%	**4.5%**
Singapore	4.4%	**3.1%**
Australia	1.9%	**2.5%**
South Korea	1.1%	**2.1%**
New Zealand	0.7%	**1.8%**
Japan	1.3%	**0.7%**
LatAm	2.3%	**1.9%**
Colombia	2.7%	**3.0%**
Argentina	4.2%	**2.3%**
Chile	2.5%	**2.2%**
Brazil	2.6%	**1.6%**
MENA	3.4%	**3.7%**
Qatar	2.6%	**6.4%**
Egypt	5.1%	**4.9%**
UAE	4.8%	**4.6%**
Saudi Arabia	4.6%	**4.3%**
Sub-Saharan Africa	3.9%	**3.9%**
Kuwait	2.0%	**3.4%**
Oman	2.1%	**2.3%**
South Africa	1.3%	**1.4%**

Source: (1) Oxford Economics. Data as of December 18, 2025.

2026 Global Currency Forecasts

Currency pair	Spot (Dec 19)	Q1 2026	Q2 2026	Q3 2026	Q4 2026
EUR / USD	**1.17**	1.18	1.20	1.22	1.24
GBP / USD	**1.34**	1.33	1.34	1.36	1.38
USD / JPY	**157**	150	148	146	144
USD / CNY	**7.04**	7.00	6.95	6.90	6.90
AUD / USD	**0.66**	0.67	0.68	0.69	0.69
NZD / USD	**0.58**	0.58	0.59	0.60	0.60
USD / CAD	**1.38**	1.39	1.38	1.37	1.35
USD / NOK	**10.13**	10.00	9.83	9.59	9.36
USD / SEK	**9.26**	9.24	9.00	8.77	8.63
USD / CHF	**0.79**	0.80	0.79	0.78	0.77
USD / MXN	**18.01**	18.35	18.25	18.20	18.15
USD / BRL	**5.53**	5.30	5.25	5.35	5.20
USD / CLP	**911**	930	925	920	915

Source: (1) MUFG Annual Foreign Exchange Outlook – December 2025. (Derek Halpenny). Bloomberg.

2026 MUFG Global Rates Forecasts

	Spot (Dec 19)	Q1 2026		Q2 2026		Q3 2026		Q4 2026	
		MUFG	Consensus	MUFG	Consensus	MUFG	Consensus	MUFG	Consensus
Fed Funds	3.75%	3.50%	3.63%	3.00%	3.43%	2.75%	3.29%	2.75%	3.25%
2 yr UST	3.48%	3.50%	3.44%	3.13%	3.38%	3.00%	3.34%	2.88%	3.33%
5 yr UST	3.69%	3.75%	3.63%	3.38%	3.60%	3.25%	3.62%	3.13%	3.64%
10 yr UST	4.15%	**4.13%**	**4.05%**	**3.88%**	**4.04%**	**3.75%**	**4.04%**	**3.63%**	**4.06%**
30 yr UST	4.83%	4.63%	4.62%	4.38%	4.62%	4.25%	4.59%	4.13%	4.60%

Source: (1) MUFG Global Macro Research (George Goncalves). Bloomberg. Data as of December 19, 2025. Fed funds is upper bound.

2026 Commodities Forecasts

	Spot (Dec 19)	Q1 2026	Q2 2026	Q3 2026	Q4 2026
WTI	**$57**	$58	$59	$59	$59
Brent	**$60**	$60	$61	$62	$62
US Nat Gas	**$4.01**	$4.15	$3.75	$3.91	$3.93
Euro Nat Gas	**€28**	€33	€30	€29	€30

Source: (1) Bloomberg. Data as of December 19, 2025. Forecasts are Bloomberg Consensus.

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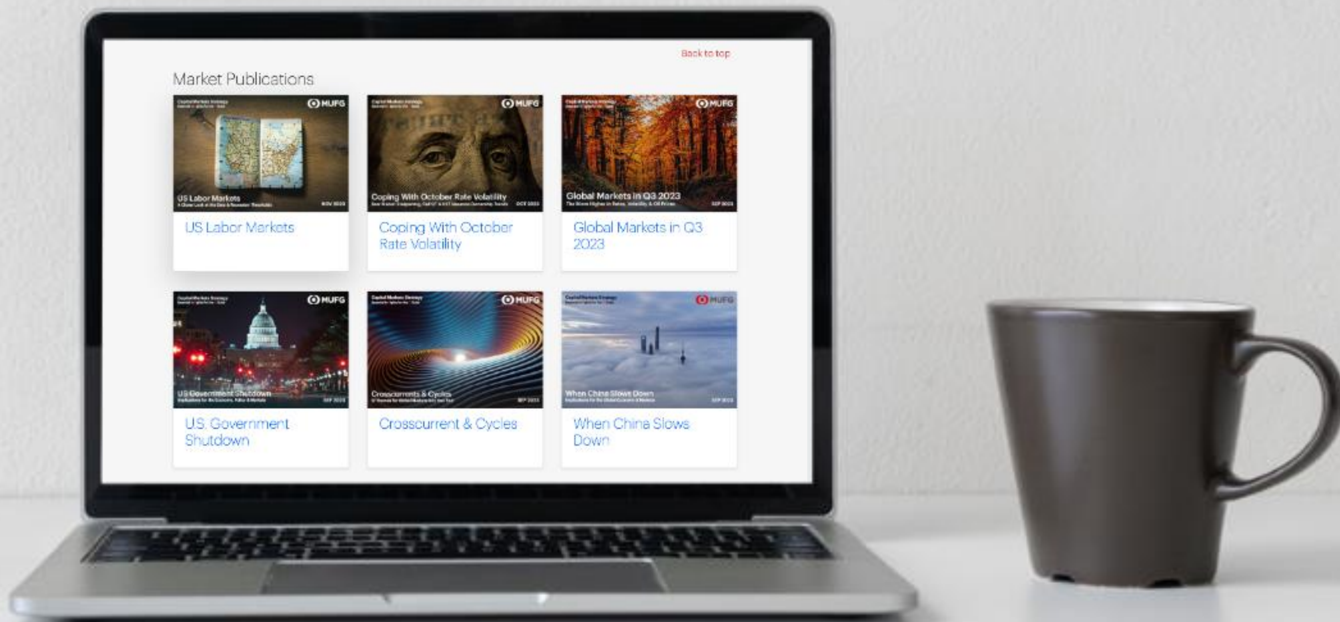


About the Authors

Tom Joyce

Managing Director
Capital Markets Strategist
New York, NY

Tom.Joyce@mufgsecurities.com
(212) 405-7472

Role

Tom Joyce is a Managing Director and Capital Markets Strategist within MUFG's global capital markets and investment banking business. Based in New York, Tom heads a team that creates customized analytical content for multi-national S&P 500 companies. His team provides in depth analysis on the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

Tom has over 30 years of Investment Banking experience in New York, London, Hong Kong, and San Francisco. Tom created and built the Capital Markets Strategy role, advising corporate C-Suite executives (Boards, CEOs, CFOs, and Treasurers) on the pervasive macro forces driving markets. Tom also presents at dozens of corporate events each year including Board meetings, CEO ExCo sessions, CFO and Treasury off-sites, corporate leadership events and conferences.

Education

Tom's educational background includes a year of study at Oxford University from 1991 - 1992, a Bachelor of Arts in Political Science from Holy Cross College in 1993, and a MBA from Kellogg Business School, Northwestern University in 2000.

Personal

Tom resides in New Canaan, CT with his wife and four sons, where he previously served on the Board of Trustees of the New Canaan Library. Tom also serves on the President's Council of Holy Cross College.

About the Authors

Stephanie Kendal

Vice President
Capital Markets Strategist
New York, NY

Stephanie.Kendal@mufgsecurities.com
(212) 405-7443

Role

Stephanie Kendal is a Vice President in MUFG's Capital Markets Strategy group within the global capital markets and investment banking business. The team provides market based content for corporate clients to assist in strategic decision making. Focus areas include the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

Stephanie has spent nearly eight years as a Capital Markets Strategist. She is an active member of the University of Michigan recruiting team and is focused on the diversity recruiting effort at MUFG. Stephanie is also a part of MUFG's DEI, Culture & Philanthropy (DCP) Council.

Education

Stephanie graduated with honors from the University of Michigan's Ross School of Business with a BBA .

Personal

Stephanie is involved in NYC's iMentor program, mentoring high school students with their journey to college graduation. She also volunteers at Experience Camps, a free summer camp program for grieving children, as the associate program director.

Angela Sun

Associate
Capital Markets Strategist
New York, NY

Angela.Sun@mufgsecurities.com
(212) 405-6952

Role

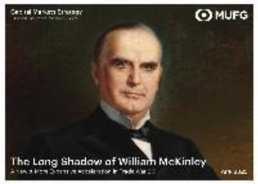
Angela Sun is an Associate in MUFG's Capital Markets Strategy group within the global capital markets and investment banking business. The team provides market based content for corporate clients to assist in strategic decision making. Focus areas include the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

Angela previously interned at MUFG working in Capital Markets within the Equity Capital Markets and Leveraged Finance divisions. She is also an active member of the Carnegie Mellon University recruiting team.

Education

Angela graduated with honors from Carnegie Mellon University's Tepper School of Business with a BS in Business Administration with an additional major in Statistics and a minor in Media Design. She was a member of Alpha Kappa Psi business fraternity and the Undergraduate Entrepreneurship Association.



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