INVESTMENT-GRADE CORPORATE BONDS

Tight Spreads Face Pressure from Record Issuance

This report is excerpted from the Third Quarter 2026 Fixed-Income Sector Views.

We favor utility hybrids with coupon floors and bank preferreds, but remain wary of tech.

Investment-grade credit enters the third quarter with spreads near all-time tights and mounting pressure from a record pipeline of issuance tied to AI capex and M&A activity. We expect spreads to trade in a tight range with a bias toward modest widening, decompression between BBB and A/AA cohorts, and a steeper credit curve. We see relative value in utility hybrids with coupon floors and bank preferreds while remaining cautious on the technology, media, and telecommunications (TMT) sector, particularly technology.

Sector Commentary

- Investment-grade AI-related debt financing, at $257 billion year to date, remained topical throughout the second quarter. Of that total, and the more interesting trend, is the $60 billion in off-balance sheet transactions that have become popular for financing larger scale data center projects.
- Nuances in construction risk, tenant lease structure, and the tenant itself remain key drivers of relative valuations between opportunities.
- Investment-grade spreads are starting to feel the pressure of relentless supply. Issuance forecasts continue to trend higher and are now at $2 trillion gross and $412 billion net after maturities and coupon payments. If estimates hold true, net issuance would be nearly three times higher than 2025 and the most since 2020.
- Credit curves continued to flatten due to long duration liability demand, steeper yield curves, increased front-end issuance and lack of long duration non-hyperscaler supply.

Investment Themes

- The bias is toward credit curve steepening with increased AI capex financing and M&A supply tending to tilt toward longer duration and a flatter Treasury curve.
- Hybrid securities, particularly utility hybrids with coupon floors, continue to offer attractive, lower beta carry. As increased hybrid issuance cannibalizes preferred issuance, the resulting constrained preferred supply should support bank preferreds.
- With spreads at historical tights, corporate bond yields high, and dispersion unusually low, we expect investment-grade bond spreads to trade in a tight range with a bias towards widening over the quarter. Continued primary supply should drive decompression between BBB and A/AA cohorts, while keeping TMT sector spreads wide, particularly in technology. The energy sector's year-to-date outperformance is likely to reverse as the Strait of Hormuz reopens.

By Justin Takata

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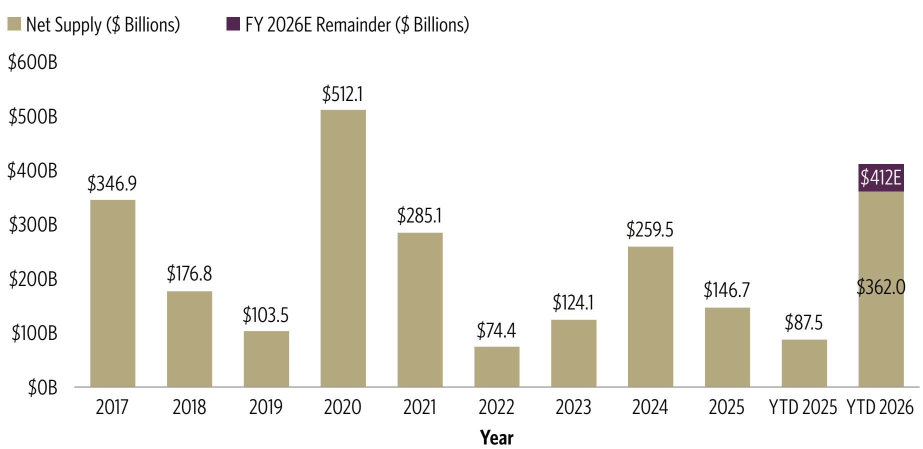
Net Supply Including Maturities and Coupons Is the Highest Since 2020



Source: Guggenheim Investments, J.P. Morgan. Data as of 6.30.2026.

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