Investment-Grade Corporate Bonds

Long-Duration Supply to Drive Curve Steepening Trends

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

A modest widening in spreads is likely during the first half of 2026.

Despite robust primary issuance in 2025, investment grade (IG) credit spreads ended the year nearly unchanged year over year, with all-in yields declining to 4.81 percent from 5.33 percent. Fundamentals are expected to remain supportive, although technicals may weaken as gross and net supply increase. Softer technicals, coupled with expectations for lower rates and spreads near generational lows, suggest a modest widening in spreads is likely during the first half of 2026, underscoring the importance of strategic positioning in IG portfolios.

Sector Commentary

- Gross IG issuance for 2026 is projected to be $1.7–2.0 trillion, driven by hyperscaler AI financing and merger and acquisition (M&A) activity.
- Expectations for 2026 hyperscaler capital expenditures surged last year, rising from $315 billion to approximately $535 billion, with the related IG issuance estimated at $250–300 billion and an additional $100 billion tied to AI-adjacent financing.
- M&A supply is expected to surpass 2015's record $230 billion, supported by a backlog of $125 billion. Net issuance is anticipated to rise year over year, with long-duration supply increasing as AI financing and M&A funding shift toward longer maturities.
- While IG spreads may widen, elevated derivatives and options volumes should temper volatility, as the realized-to-implied volatility ratio remains subdued at approximately 0.6, mitigating large gaps in the market. These dynamics underscore a complex yet resilient outlook for 2026 corporate bond spreads.

Investment Themes

- Despite record issuance anticipated in 2026, financial sector supply—including banks, insurance, and real estate investment trusts (REITs)—is projected to remain stable versus 2025, with strong fundamentals supporting financials over nonfinancials.
- Preferred and hybrid securities in financials, as well as select industrial and utility credits, offer attractive carry and potential total return opportunities if yields rise modestly.
- Elevated issuance volumes and larger tranche sizes are likely to drive new issue concessions higher, enhancing relative value. After flattening in 2025, we expect heavy longer-dated supply will steepen the credit curve in 2026.
- Sector dispersion will persist, with underperforming areas such as technology, media, and telecommunications, utilities, and business development companies presenting idiosyncratic opportunities, emphasizing the importance of selective credit analysis.

By Justin Takata

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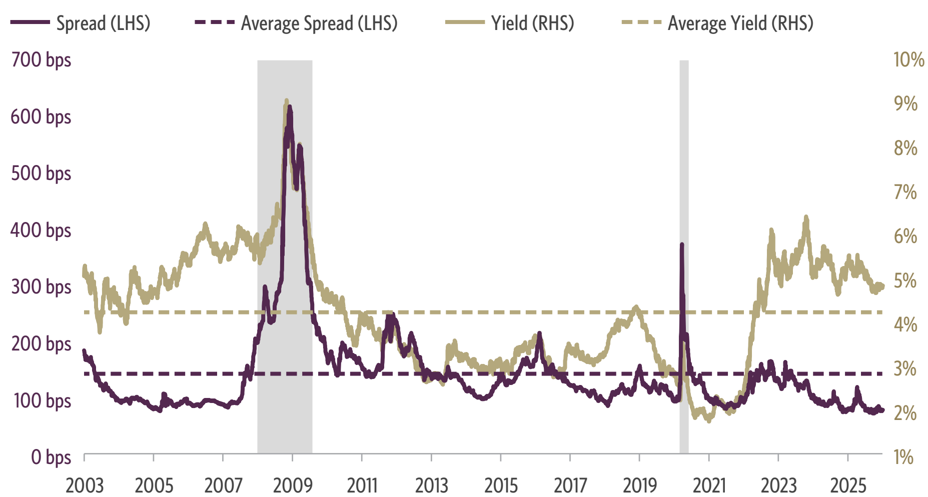
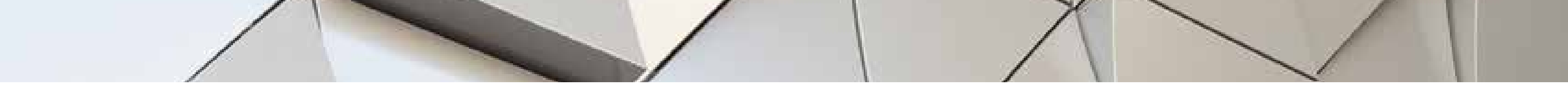
We Expect Spreads to Widen Modestly in the First Half

Bloomberg IG Spread/Yield Snapshot (Long-Term View)



Source: Guggenheim Investments, Bloomberg. Data as of 12.31.2025. Gray areas represent recession periods.



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