

Credit Market Themes in 5 Charts

Q4 2025



1.

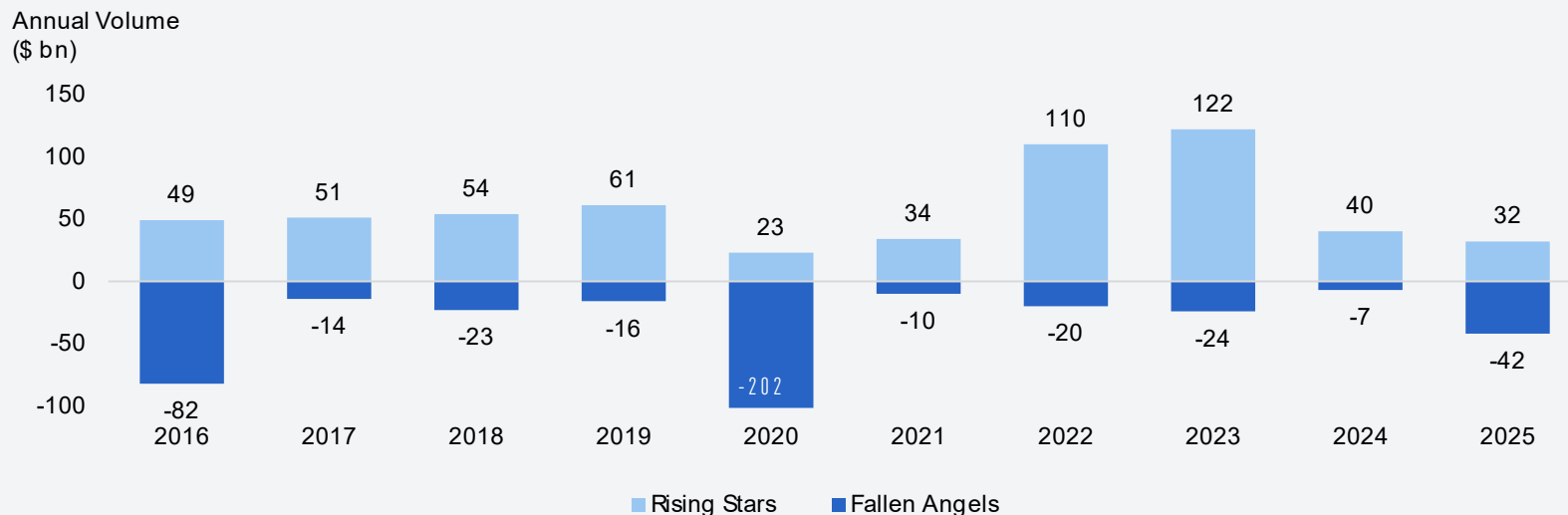
2025 Saw More Fallen Angels Than Rising Stars, the First Time Since 2020

Despite tight valuations across the broader market, signs of stress have begun to emerge in select areas. 2025 saw an increase in credit downgrades, with fallen angels exceeding rising stars for the first time since 2020. This marks a sharp reversal from 2024, which was the lowest volume of fallen angels since 1997.

Although macroeconomic softness and sector-specific challenges have contributed, the uptick in downgrades was largely driven by a handful of idiosyncratic issuers. Examples include Warner Bros. Discovery, where weaker-than-expected earnings and a slower de-leveraging trajectory pressured credit metrics, and Whirlpool, which faced margin compression and increasing operating leverage.

Looking ahead, we expect market outcomes to become increasingly two-directional. This environment should create opportunities to actively express negative views, particularly through short positions and CDS in issuers facing deteriorating fundamentals or secular decline.

Volume of Fallen Angels Outpaced Rising Stars for the First Time in 5 Years



Source: Bloomberg, Barclays. Data as of October 24, 2025.

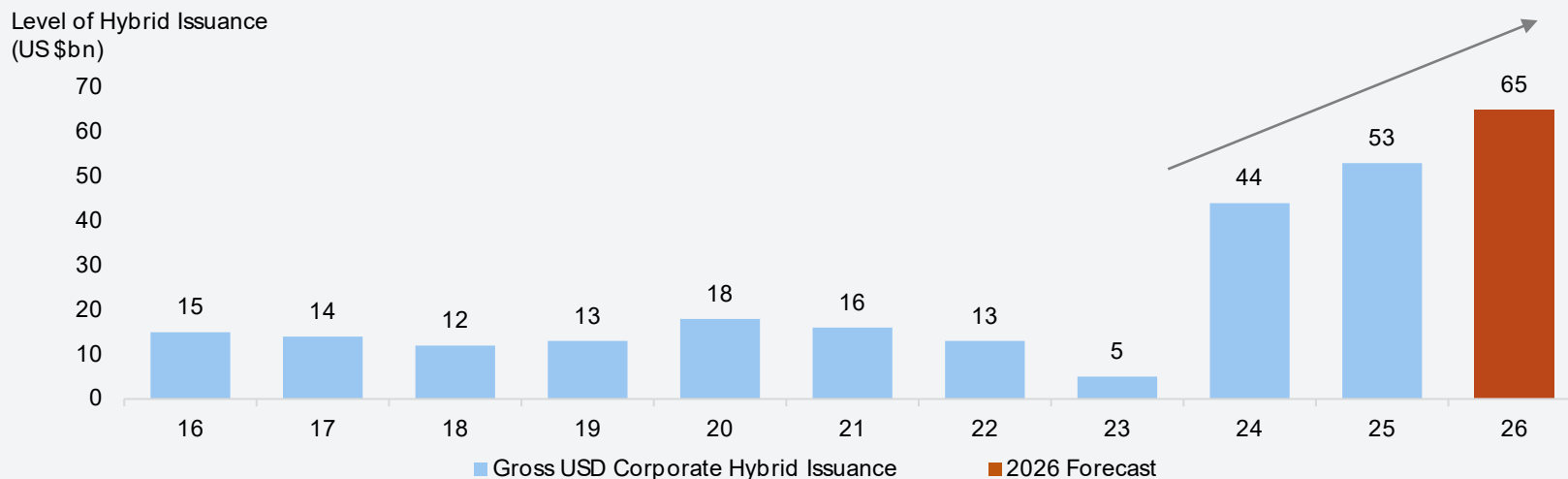
2.

Corporate Hybrid Issuance Hit Another Record High In 2025

Since February 2024, when Moody's revised its rating methodology to grant greater equity credit to corporate hybrid securities, corporations have increasingly viewed hybrids as an efficient way to finance capex and M&A needs while maintaining credit metrics. In 2025, US corporate hybrid issuance hit another record year, ~20% higher than 2024. Approximately 20 new issuers accessed the market in 2025, accounting for the bulk of the supply increase. Rogers Communication, for example, issued \$2.1 billion USD worth of hybrids in February 2025 to repay its debt and fund strategic acquisitions.

We believe this momentum will continue in 2026, with corporate hybrids taking up a larger share of both the investment-grade and high yield bond markets. We will selectively participate in hybrid deals where structure and carry are attractive.

US Corporate Hybrid Issuance Skyrocketed in 2024 and 2025, and is Expected to Remain Strong in 2026



Source: Barclays. Data as of December 3, 2025.

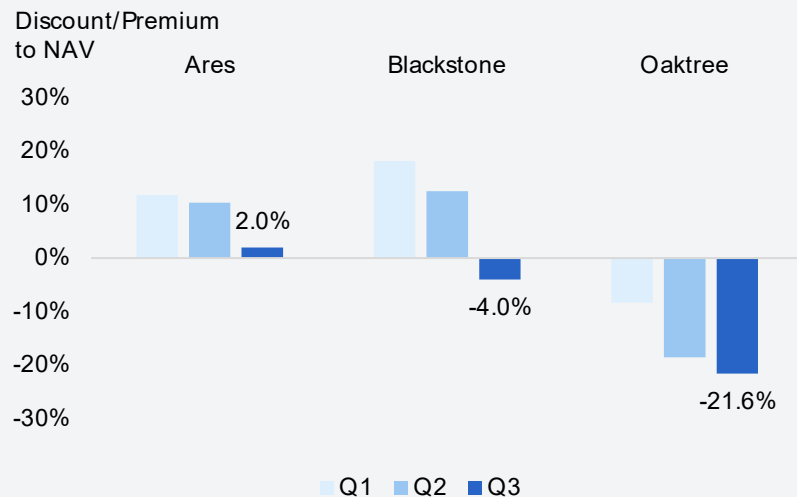
3.

Signs of Stress Emerge in Private Debt Markets

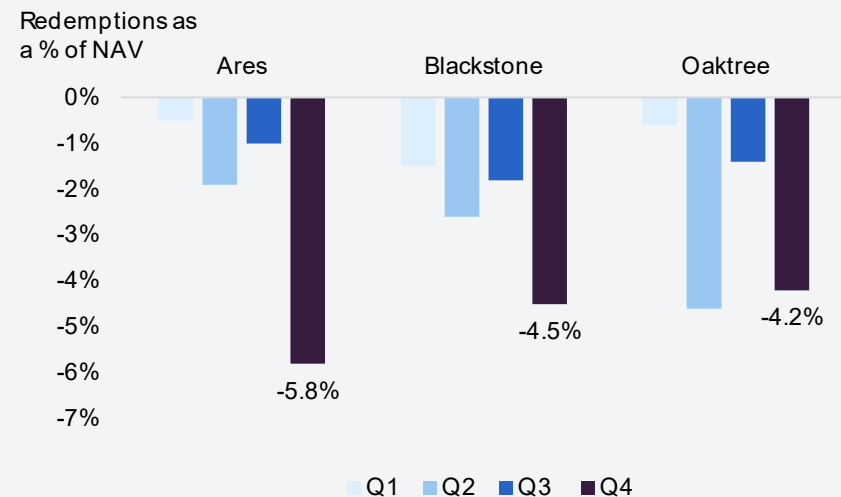
Unlike public markets, private credit saw reduced investor appetite in 2025 as events such as Liberation Day and the First Brands and Tricolor defaults raised concerns across the asset class. Business development companies (BDCs) – the public proxy for private debt – experienced spread widening of more than 30 basis points, with several large issuers beginning to see elevated redemption activity.

Although we do not view liquidity as a near-term risk for most private credit issuers, we remain cautious of the asset class overall. Wider spreads increase funding costs for BDCs, and the predominant floating-rate structure introduces additional downside risk if US rates decline further in 2026. If sentiment remains weak, these pressures could persist, particularly in lower-quality segments of private credit.

BDCs are Priced at Larger Discounts to NAV Than the Start of 2025



Redemptions from BDCs Increased Throughout 2025



Source: Bloomberg, Barclays. Data as of December 31, 2025. NAV data for Q4 2025 has not been released at the time of this report.

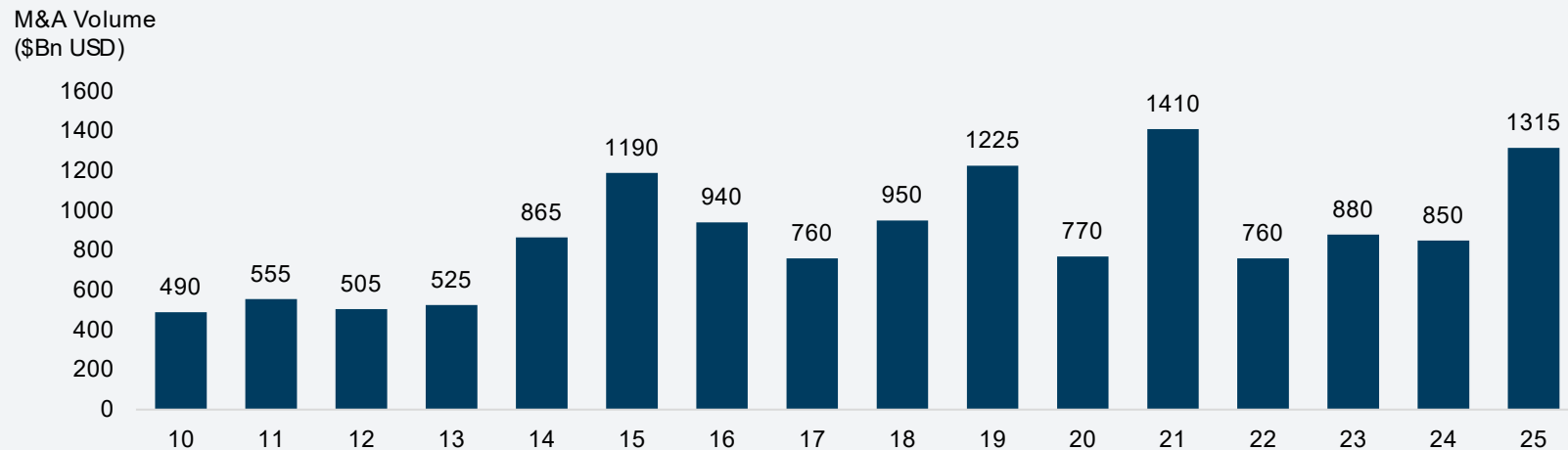
4.

Elevated M&A Activity Supports a Credit Picker's Market in 2026

M&A activity closed 2025 at a historic pace, with announced US deal value reaching \$1.3 trillion – up 55% year-over-year. M&A often serves as a meaningful catalyst for bond price volatility, as target companies can experience significant spread changes from deal announcement all the way to completion. For example, in September 2025, Electronic Arts agreed to be taken private by Saudi Arabia's Public Investment Fund, pushing its 6-year bond price to rise from \$88 to \$95 within a week.

At the same time, M&A activity can also increase dispersion in credit fundamentals as some acquirers enhance earnings and scale while others stretch balance sheets and face downgrade risk. We believe this strong pipeline of acquisition-driven issuance should keep 2026 a credit picker's market, offering attractive opportunities in catalyst-driven, idiosyncratic situations.

US Strategic M&A Volume Surged in 2025



Source: Goldman Sachs, Bloomberg. Data as of December 5, 2025. Strategic M&A defined as acquisitions or mergers undertaken primarily to advance a company's long-term competitive strategy – such as expanding capabilities, entering new markets, gaining scale, or reshaping the business mix – rather than for near-term financial optimization.

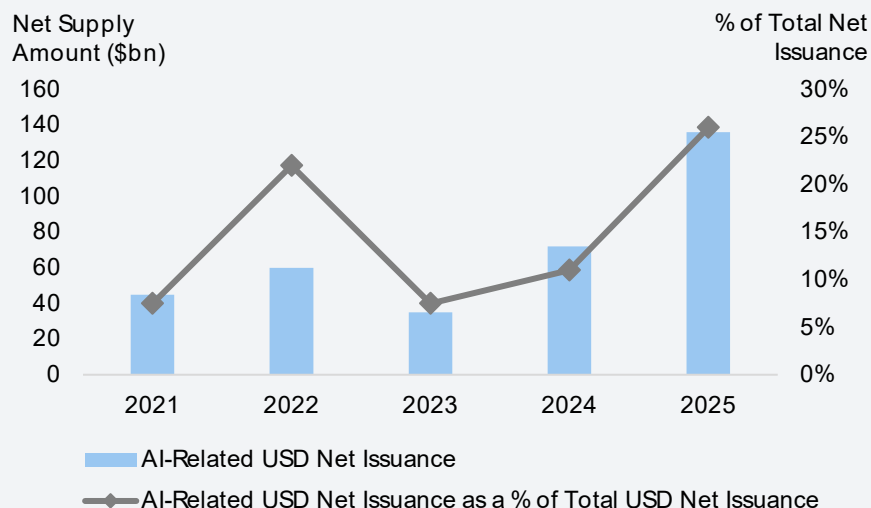
5.

AI Issuance Led News Headlines, but Credit Spread Performance Varied

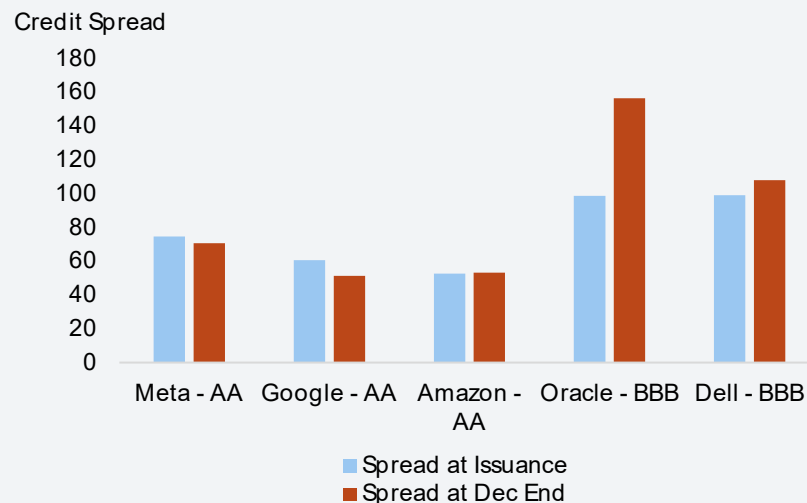
As the AI-frenzy continued through to the end of 2025, hyperscaler buildouts continue to be increasingly financed through the bond market. AI-related USD net issuance in 2025 represented ~26% of total USD net supply, making it the highest share on record. Meanwhile, performance across AI-linked bonds has been dispersed, reflecting the growing differences in fundamentals and long-term outlooks of one issuer versus another.

We are approaching these new issues selectively on a deal-by-deal basis. It remains to be seen how much of the funding is issued in the private vs. public credit markets.

**AI-related Bond Issuance in 2025
Represents the Highest Share of All USD Net Issuance**



**Spread Performance of 10-year AI-related Bonds
Vary Across Issuers**



Source: Goldman Sachs, Bloomberg. Data for Net Issuance as of December 6, 2025, Data for BDC redemption as of December 31, 2025. Bond included: META 4.875 11/15/2035, GOOGL 4.7 11/15/2035, AMZN 4.65 11/20/3035, ORCL 5.95 09/26/2035, DELL 5.1 02/15/2036.

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