

# High Yield & Loan Strategy

## Year Ahead 2026 – A 3D World: Duration, Defense, Dispersion

### A credit picker's year

In 2026, we like defensive, low-duration portfolios that minimize exposure to AI disruption. HY presents an optimal duration and quality balance, while Loans/PC lose out due to lower carry and unfavorable sector mix. IG is defensive but sensitive to rates vol. High dispersion across sectors, ratings and issuers makes it a credit-picker's year, where identifying rates and AI winners becomes a prerequisite to credit outperformance.

### The good, the bad, and the AI

Investors need to consider competing economic drivers next year. The good: fiscal expansion, lower rates, corporate fundamentals, AI-led productivity gains. The bad: labor market slowdown, increasing inequality, AI-led obsolescence. Given its uneven consequences, AI is poised to become the primary swing factor for LevFin credit. Factoring in various growth/rate trajectories, the range of economic outcomes is wide.

### US Credit: Yielding to High Yield

HY is poised to outperform across public and private credit with 5.8% returns, followed by PC at 5.4%, and Loans and IG each at 4.9%. This assumes an economy growing at 2.4% on the back of fiscal and monetary easing, while investors reprice risk marginally wider from cyclical tightens, leading to mild decompression and net Fallen Angels.

### US HY: Refies meet reality

We expect HY fair value to rise 25bps to 350bps, marginally higher defaults, and persistent downgrade pressure. Supply to increase due to a refi wave, while demand eases, weakening technicals. HY Bs present upside, while CCCs could stagnate.

### US Loans: Boring beta, risky alpha

Loans face a double blow – lower carry and higher spreads – which could push fair value +30bps to 460bps. Defaults and downgrades to improve, with issuance lower despite an M&A jump. Easing demand could weaken technicals. Loans may underperform HY even in an economic upside scenario, given pressure on front-end rates. BBs screen cheap, and CCC loans (YTM 20%) present an alpha opportunity benefitting from lower rates.

### US IG: Hinged on rates

IG returns < HY due to a lack of 10yr tailwinds. While we expect IG spreads to also widen in '26, underperformance is largely rates-driven, and 10yr <4% could put IG back on top. Notably, IG has the narrowest return range across our economic scenarios.

### Private Credit: From carry to caution

Returns to fall meaningfully from YTD levels (9%) due to carry and capital losses. With scrutiny around asset health, and nonexistent incremental returns over BSL, PC's diversification appeal will be challenged, with near-term allocation consequences.

### Relative Value: High quality non-cyclicals

We like HY Utilities, Metals, Telcos but think Chems, Packaging, Software and Services pose risk. We see HY > Loans, Secured > Unsecured, USD > EUR, PE > PC in '26.

**BofA Securities does and seeks to do business with issuers covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.**

**Refer to important disclosures on page 48 to 50.**

12893119

Timestamp: 24 November 2025 04:30PM EST

24 November 2025

High Yield & Loan Strategy  
United States

**Neha Khoda**  
Credit Strategist  
BofAS  
+1 646 855 9656  
[neha.khoda@bofa.com](mailto:neha.khoda@bofa.com)

**Elizabeth M. Han**  
Credit Strategist  
BofAS  
+1 646 855 6599  
[elizabeth.han@bofa.com](mailto:elizabeth.han@bofa.com)

**Dong Ba**  
Credit Strategist  
BofAS  
+1 646 855 7118  
[dong.ba@bofa.com](mailto:dong.ba@bofa.com)

**Yvonne (Xuanyi) Tong**  
Credit Strategist  
BofAS  
+1 646 855 7701  
[xuanyi.tong@bofa.com](mailto:xuanyi.tong@bofa.com)

**Adam Vogel**  
Credit Strategist  
BofAS  
+1 646 855 6902  
[adam.vogel@bofa.com](mailto:adam.vogel@bofa.com)

Glossary page 44

# Contents

<b>Macro: constructive + an AI swing factor</b>	<b>3</b>
AI and the Economy: Navigating a K-Shaped Future	3
Markets and Corporates: Positioning for Asymmetry	5
<b>USD Credit: HY set to outperform</b>	<b>6</b>
HY: Defensive and Poised to Outperform	7
Loans: lower carry with pockets of alpha	7
IG: When the 10yr Matters	8
Private Credit: the weakest link	8
Three scenarios for 2026: From Easing to Triage	8
<b>USD HY</b>	<b>10</b>
Fundamentals	10
Defaults and Downgrades	11
Demand and Supply	13
Spreads and Returns	15
<b>USD Loans</b>	<b>17</b>
Fundamentals	17
Defaults and Downgrades	18
Demand and Supply	19
Spreads and Returns	22
<b>Private Credit</b>	<b>24</b>
Defaults and Non-accruals	24
Supply and Demand	25
Spreads and Returns	26
Market Innovation	28
<b>Relative Value</b>	<b>30</b>
HY vs Loans	30
Capital Structure RV	31
Ratings RV	32
HY vs IG	35
Sector RV	35
Private Credit vs BSL	39
Bank Loans vs BSL	40
USD vs EUR	41
<b>Key Risks Shaping 2026</b>	<b>43</b>
<b>Glossary</b>	<b>46</b>



## Macro: constructive + an AI swing factor

Economic conditions should remain broadly constructive in 2026 due to simultaneous fiscal and monetary policy easing. However, AI is a swing factor - boosting GDP while risking job and business obsolescence. Here, the sequencing of impact matters, and will influence how the current K-shaped economy evolves. Our base case calls for solid growth, lower rates, and a steeper yield curve.

Given AI's uneven impact across markets, LevFin credit could diverge from large-cap equities. As such, we think that a resurgence of credit risk appetite simply due to fiscal and rate tailwinds, is not a foregone conclusion for next year. Attention needs to be paid to how AI-capex is being financed, and how people and businesses respond to AI-adoption.

### AI and the Economy: Navigating a K-Shaped Future

In 2026, investors need to consider myriad - some opposing - economic drivers. Factors calling for continued economic strength are fiscal easing, lower rates, fading tariff impact, strong consumer spending, stable credit markets, and AI-impact (GDP boost from business investment and productivity gains). Meanwhile, negative factors include labor market softening, a return of inflation and deficit concerns (if IEEPA tariffs get overturned), further narrowing of performance leadership in a K-shaped economy, and AI-impact again (business and job obsolescence).

AI-led transformation aside, economic conditions should remain constructive next year. But AI is the primary swing factor given its two-way impact, and has potentially divergent near-term implications for LevFin credit vs the rest of the economy.

#### Fiscal expansion + lower rates = compression

Coming into 2025 we were wary of the incoming administration's policy sequencing - it mattered whether we got deregulation ahead of tariffs or not. Turns out Hyde showed up first, leaving room for Trump's growth positive agenda to finally arrive in 2026 ahead of midterm elections. OBBBA and TCJA are poised to boost growth amid broader financial deregulation and easing tariff uncertainty. On top, we are likely to see a Fed biased towards cuts, creating a powerful combination of stable growth and lower rates-perfect conditions for risk taking and compression. The labor market seems to be at an inflection point, but could turn around on the back of fiscal and monetary easing. In the past HY has rallied 40bps on average in such periods ('19, '21, '24).

#### AI- boom or bust?

That said, rarely in modern history have we seen technological innovation with potentially sweeping economic impact progressing at warp speed, thanks to the dynamic, adaptive, and complex problem-solving abilities ushered in by the AI revolution. The extent of potential implications is not fully understood yet but will be profound in both directions- constructive and disruptive.

Adding another layer of complexity, the timeline and sequencing of events matter. For eg, LevFin credit could diverge from large-cap equities, pricing in short-term disruptions while the latter rallies on long-term profitability prospects. There are AI overinvestment considerations as well. The need for new AI infrastructure is unambiguous, however timelines are not, and can vary depending on resource bottlenecks such as energy, GPUs, and more recently financing. Our thematic team estimates \$9-\$13trn in annual investments is needed by 2030 for this purpose. Could we be investing too much too fast?

**As such, we think that a resurgence of credit risk appetite simply because of monetary and fiscal tailwinds, is not a foregone conclusion for next year. Attention**



**needs to be paid to how AI-capex is being financed, how people and businesses respond to AI-adoption, and how the K-shaped economy evolves.**

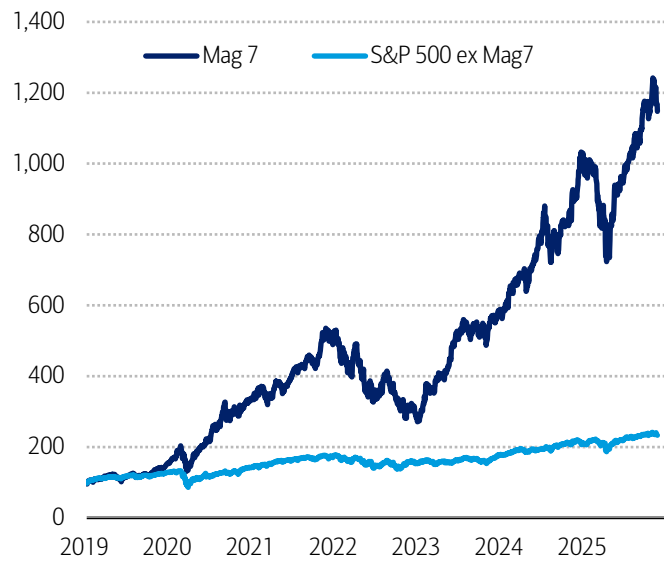
**K-Shaped Future: Prosperity and Pressure in 2026**

A K-shaped economy is developing for both corporates and consumers. 2025 GDP growth has been strong, but much of it is AI-related. Were it not for AI, investment would have contracted this year owing to the uncertainty shock from tariffs and high interest rates. Equities have rallied, but primarily as a function of Mag7 with the rest of the 493 stagnating YTD (Exhibit 1).

On the consumer front, Exhibit 2 from BofA Institute shows how wage growth has been diverging across the lower, middle-and higher-income brackets ([Consumer Checkpoint: Holiday prep or schlep?](#)). Similarly, per the Atlanta Fed, nominal wage growth has declined more significantly for the lowest wage quartile vs other quartiles. Consumption amongst the low-end consumer has slowed as well.

**Exhibit 1: Equities have rallied, but primarily as a function of Mag7**

Total return index (normalized), Mag 7 vs. S&P 493

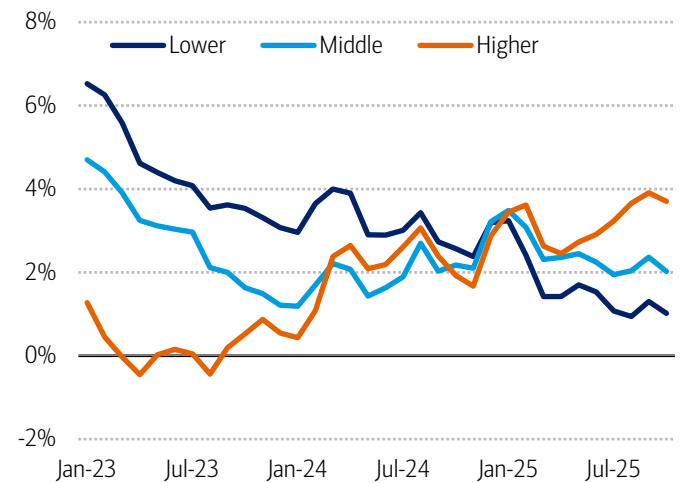


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 2: In October, higher-income household wage growth eased to 3.7% YoY, while for lower-income households it ticked down to 1%**

After-tax wage and salary growth by household income terciles, based on Bank of America aggregated consumer deposit data (3-month moving average, YoY%, SA)



Source: Bank of America internal data  
Bank of America Institute

BofA GLOBAL RESEARCH

This naturally raises the question of whether AI optimism will be enough to carry the entire economy next year, or whether the increasing gap between the haves and have-nots will create a drag. A handful of technological giants are locked in an AI arms race at the top of the corporate pyramid, and a lot is riding on the pace and efficiency of trickle-down economics from them. We should also be wary of repercussions should AI success not unfold as envisioned. We recently witnessed a prelude to the possible downside risks when AI-led releveraging and overinvestment risks led to a pullback.

**Will AI goldilocks last?**

We are currently in an AI goldilocks phase – enjoying the upside of potential “AI success”, without having to worry much about the accompanying downside it could bring.

**Risk#1:** The most notable downside risk is in the Consumer and Labor markets which are at a crossroads between two opposing forces- enhanced productivity lifting real wages vs exacerbating unemployment as seen more recently.

**Risk #2:** More applicable to LevFin credit in the intermediate term is AI-led disruption- as existing business models are reinvented or become obsolete.



Importantly, since AI impact is broad and divergent, sequencing of outcomes matters. Will productivity gains come first - lifting corporate margins and wages, and giving enough time for the unemployed to be reskilled and reabsorbed, and impacted businesses to reinvest and reinvent? Or will companies embark on mass layoffs first, collapsing consumer and business sentiment, eventually feeding into weak spending and business profitability? And how soon before the Fed goes from cutting for the right reasons (softening inflation) to cutting for the wrong ones (rising unemployment), or in current circumstances - for political reasons?

Clearly there are a lot of questions with evolving answers to consider. While a radical change is not imminent, it is prudent to factor in as we think about 2026, especially if investors front-run potential outcomes.

### **The rates dichotomy: from front-end gain to long-end strain**

A similar dichotomy exists in rates with the push-pull between inflation and macro concerns. Strong economic growth and potential tariff reversal will put pressure on inflation and US fiscal stability (belly and long-end), but Fed cuts and budding labor market concerns could counter that (front-end).

There are non-market factors to consider as well. Levers can be pulled to offset rising rates such as shortening treasury duration, and in a more draconian setting, yield-curve control, should the proverbial third mandate take hold in a politicized Fed.

### **House view: solid economy with steeper curves**

Our economic house view is that GDP growth will increase to 2.4% YoY in 2026 driven by fiscal (expansionary policies), rate (3 cuts starting 2Q'26), and AI-investment tailwinds, along with some one-time positive factors. Consumer spending should remain intact though unemployment and inflation could see small increases mid-year ([Global Economics: Year Ahead 2026](#)).

Our rates house view suggests that Fed cuts will lower front-end rates with 5yr declining to 3.5% in Q4'26, while solid growth and the potential return of inflation/Fed hikes could push the 10yr marginally higher towards 4.25%, steepening the curve. All told, the 10yr, a barometer of economic health could remain range bound between 4-4.25%, balancing this upward pressure with potential growth slowdown, and risks skewed towards lower rates ([Global Rates Year Ahead: 2026](#)).

### **Markets and Corporates: Positioning for Asymmetry**

Our base case for markets is that the gap between the winners and losers will widen, as AI impact crystallizes. High dispersion will result in a credit picker's environment.

We have seen the first signs of what AI-led disruption in corporates could look like. IG has reacted adversely to AI-capex financing with spreads +10 wider since late Sep (Oracle CDS +59bps). In Loans, certain subsectors have been hit hard driven by risk of obsolescence. HY has remained relatively sheltered due to its defensive sector mix away from software and services, in addition to being a generally higher quality index vs loans.

This isn't an overreaction in our opinion. IG issuers, having previously used equity and balance sheet cash, are now turning to credit to raise their next leg of financing, but investors have pushed back not knowing the timeline and levels of their ROI. This creates a source of incremental fundamental risk for IG issuers who will need to keep financing their AI capex to keep up, that too at increasingly higher debt costs. In a more extreme case, this could result in a large wave of Fallen Angels into HY over time.

AI-led disruption across LevFin can also be broad and deep, encompassing human resources, operations and entire business models. As seen in Exhibit 3 from our Thematic Investing team, no economic sector is immune, and massive retooling and reskilling of labor is needed over the coming years. In addition, businesses need to reinvent themselves to benefit from AI, or risk obscurity. Admittedly, this could be a long drawn-out process but the most AI-exposed sectors (Exhibit 4) could start to unravel as



soon as next year. For more details, see the report from our Thematic investing team here - [The ABCs of Transition Investing](#).

**Exhibit 3: Where is the AI threat to jobs?**

No sector immune

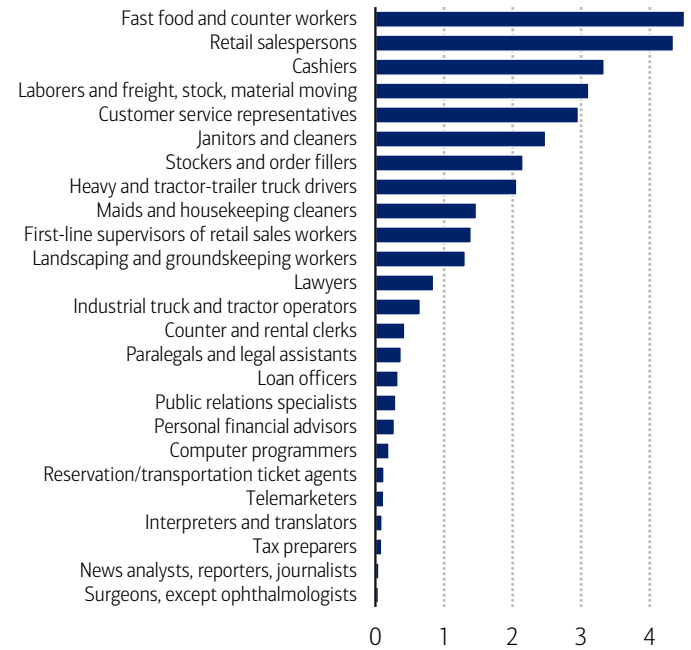
Sector	AI employment Risk
Agriculture	Precision farming, drone monitoring, AI-assisted planting, and harvest.
Financial Services	AI in routine tasks in accounting and contract review, in compliance, in fraud detection, in reporting.
Healthcare	AI diagnostics and admin automation.
Manufacturing	Automation of assembly, quality control, and logistics.
Retail	Chatbots and recommendation, automation of checkout, inventory, customer service.
Transport & Logistics	Autonomous vehicle and self-driving tech and optimisation systems.

Source: BofA Global Research

BofA GLOBAL RESEARCH

**Exhibit 4: Retail and logistic jobs most at risk from AI and automation**

US jobs considered as high risk for automation (number of jobs in million)



Source: US Bureau of Labor Statistics

BofA GLOBAL RESEARCH

## USD Credit: HY set to outperform

In 2026, we like defensive, low-duration portfolios that minimize exposure to AI disruption. High dispersion across sectors, ratings and issuers makes it a credit-picker’s year, where identifying rates and AI winners becomes a prerequisite to credit outperformance.

We expect investors to chase quality yield amid softening technicals. HY can outperform with 5.8% TR, followed by IG and Loans at 4.9%, while Private Credit sits in the middle at 5.4%. In a departure from norms, Loans could underperform HY even in an economic upside scenario. IG boasts the narrowest range of potential return outcomes, while the convergence of public and private credit returns may impact PC allocations.

Amid these macro uncertainties, credit markets have remained stable, notwithstanding the recent AI-capex-led widening which we consider temporary. A longer-term trajectory of credit growth shows why - post 2020 - our market has barely grown enough to risk potential deflation. Exhibit 5 shows credit creation measured by YoY growth in outstanding USD corporate bonds, Loans (public and private) and commercial paper. Credit creation post-Covid has been abysmal due to prohibitive debt costs. The ensuing negative net supply shock has kept technicals very strong since 2022. A small recovery was registered in 2024 which also came to a quick halt.

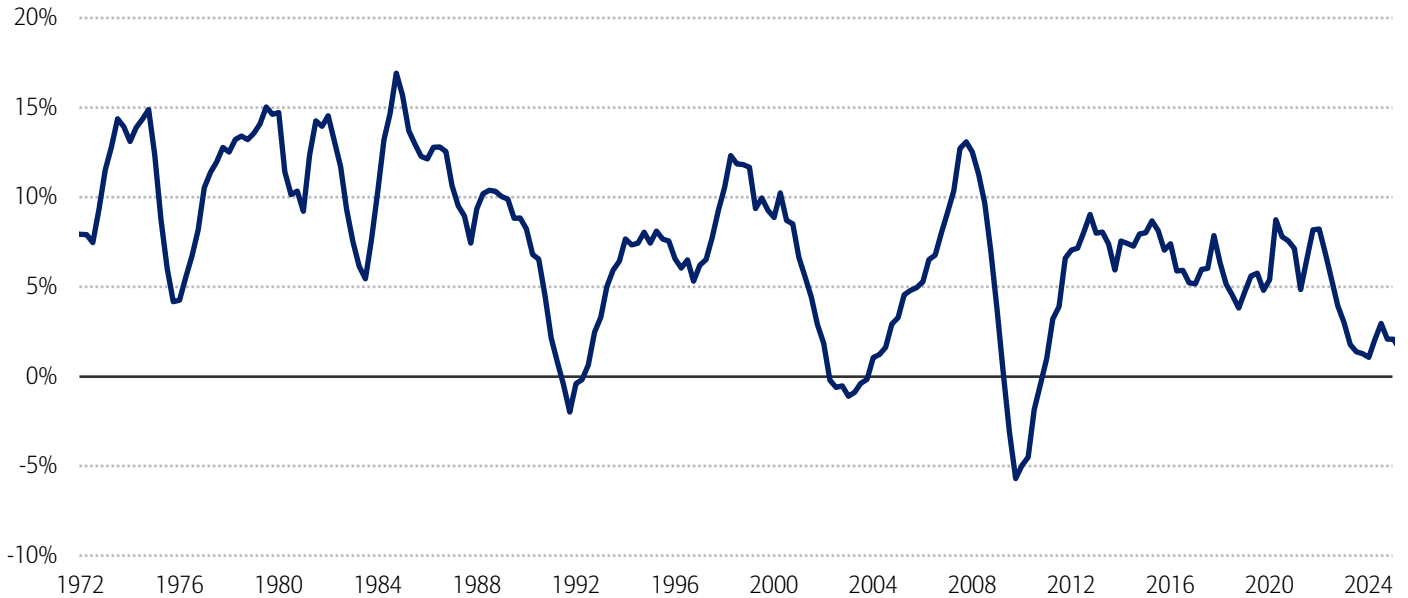
In addition, metrics we track suggest that credit investors have refrained from overreaching in 2025, including CCC positioning (light) and return performance (led by higher quality). YTD returns are led by the 10yr at 8.1%, followed by IG at 7.3%, HY at



6.9% and Loans at 5.0%. This is why, despite recent concerns, we never subscribed to the idea that credit markets might become a source of systemic risk.

#### Exhibit 5: US credit creation has slowed down post COVID, averaging 4% per year due to prohibitive debt costs

Credit creation is measured as YoY growth in bonds, loans and CP (public and private)



Source: BofA Global Research, ICE Data Indices, LLC

BofA GLOBAL RESEARCH

In 2026, we expect increasing supply, lower demand, wider spreads, and credit technicals to soften as investors to continue to chase quality yield in a high dispersion environment. Given that rate tailwinds are likely limited to the front-end, higher duration might underperform, impacting IG returns. Additionally, fundamental deterioration amongst IG issuers could lead to net Fallen Angel activity within credit. Loans are likely to enter the year as the least favorite contender, hit on both ends: lower carry and widening discount margins. PC faces quality challenges with highest credit-wide defaults. This leaves HY as the best balance between quality and duration, and we expect the asset class to outperform across credit next year with 5.8% TR followed by IG and Loans tied at 4.9%. Private Credit sits in the middle with 5.4% in prospective returns.

The three most likely scenarios we see for 2026 along with return ranges for each asset class (Exhibit 6) are discussed below.

#### HY: Defensive and Poised to Outperform

HY with its 3.7yr duration is just short enough to benefit from curve steepening on the back of a Fed biased to cut. It is also more defensive vs Loans in the context of credit quality (higher) and AI-exposure (lower), which should keep fundamental deterioration and credit losses in check. As such we think it will be the best performer across credit in 2026 generating 5.8%. In particular we think B HY has the best upside given its decompressed state vs BBs, while BBs could continue to decompress against BBBs as IG spreads recover from the recent supply deluge.

The range of HY returns in upside and downside economic conditions is unusually wide next year (2% to 9%) because of the tight range of rate outcomes (which don't fully offset spread moves). Rates have a higher floor in a risk-off scenario due to structurally higher inflation and  $r^*$  vs pre-Covid, but also have a lower ceiling (<5yr rates) in a risk-on scenario due to pressure on front-end rates from Fed cuts.

#### Loans: lower carry with pockets of alpha

Loans could get hit from both sides- lower carry due to falling SOFR but also macro concerns pushing spreads higher to provide adequate yield compensation, generating



4.9%. Even in an economic downside or upside scenario, Loans likely end up underperforming HY (-1% to 6%). This is unlike the past because floating rate Loans benefit from increasing rates in an economic upside scenario. However, today even if GDP were to outperform expectations, the downside bias on front-end rates is expected to remain given Fed independence challenges. That might ultimately lead to higher back-end rates but that mostly impacts IG.

That said, we think one of the only remaining pockets to generate credit alpha is CCC loans for those able and willing to underwrite the riskiest segment in credit. We think falling rates will be most beneficial to CCC floaters, since they will finally be able to adequately meet their debt service for the first time in 3 years, likely facilitating a snap back from their 20% yields.

## IG: When the 10yr Matters

In our base case, IG at 4.9% TR falls short vs HY due to a lack of significant tailwinds at the belly of the rates curve. IG spreads are also likely to widen next year but the underperformance is largely rates-led given IG's higher sensitivity to rates than spreads. That said, IG could end up leading in 2026 should the 10yr finish at the bottom end of the expected range (4%). For perspective, TR would jump from 4.9% to 5.6% should the 10yr finish just 10bps lower than our base case. See our team's dedicated IG year ahead report here ([IG Credit Strategist: Year Ahead](#)).

Notably, IG provides the narrowest return range across our three economic scenarios which minimizes the risk of getting the economic call wrong. There is a fourth scenario, not included in our averages due to low likelihood, where GDP increases stoking inflation concerns and pushing the 10yr to '24 levels which could pressure IG returns towards 3%.

## Private Credit: the weakest link

PC is currently the weakest link across public and private credit. This is reflected in fundamental metrics (highest leverage and default rates), as well as publicly available valuations (BDCs). Next year we expect returns to fall meaningfully from this year's 9% levels amid asset health scrutiny, generating the highest capital losses across credit. Returns are expected to reach 5.4% potentially blunting PC's appeal as a diversification instrument in LP portfolios, which could have near-term allocation consequences.

## Three scenarios for 2026: From Easing to Triage

**Base case:** Solid economic growth on fiscal and monetary easing. Labor market continues to gradually soften amid AI-adoption but productivity gains/fiscal stimulus keep real wages/consumer spending from contracting. Fed cuts 3-4 times with diminishing impact as we go further out the rates curve. Investors reprice risk marginally higher, striking a balance between broad improvement in financial conditions, but potential divergence in credit markets (due to negative AI-impact sequenced before any potential gains). Mild decompression ensues, dispersion rises as AI disintermediation separates the haves from the have-nots. HY fair value is 25bps higher at 350bps, effective yields rise 0.2% to 7%. Equivalent forecasts in Loans are 460bps and \$96.5. These are valuations last reached in May'25 when credit sentiment was neutral, pricing out worst-case tariff impact, but wary of potential worsening in credit quality.

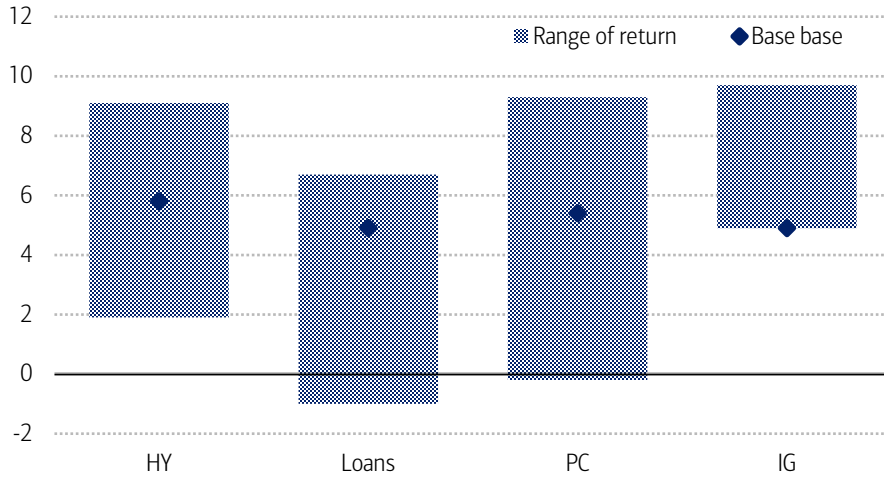
**Optimistic:** Labor/consumer market is stable, GDP growth is increasing, and inflation is transitory. Contrary to its usual trajectory under such circumstances, monetary policy turns accommodative under political pressure, adding fuel to the fire. Front-end rates fall further than our base case scenario but 10yr+ rates struggle to decline given budding inflation and fiscal profligacy concerns. HY and Loan companies spend less on interest costs and more on growth accretive projects, which could offset tariff impact over time, improving margins and solidifying fundamentals. The ensuing M&A wave is absorbed by rising demand, preventing a supply glut. Admittedly, hard to have so many things line up, but under these precise circumstances, HY can rally to 6% yields (lowest since '22) with spreads tightening to 275bps. Equivalent forecasts in Loans are 400bps and \$97.5.



**Pessimistic-** Macro concerns continue to build as the labor market cracks with rising unemployment, and downturn worries start to surface. Fed goes into triage mode cutting to 2% and 5/10yr rates rally to pre-hike levels. HY yields spike to 8% (levels >correction but <recession) and spreads gap to 500bps (they can't go wider structurally because rates likely have a higher floor today vs pre-Covid). Equivalent forecasts in Loans are 600bps and \$93. These are valuations last reached when downturn worries peaked in the aftermath of the interest rates shock of 2022.

**Exhibit 6: Expect HY to outperform with 5.8% TR in 2026 followed by IG and Loans tied at 4.9%. Private Credit sits in the middle with 5.4%**

Return ranges across our base/upside/downside economic scenarios (%)



Source: BofA Global Research, LCD, ICE, LSEG LPC

BofA GLOBAL RESEARCH



# USD HY

We expect HY to outperform credit in 2026 with TR of 5.8%, supported by shorter duration, defensive sector mix, and lower AI disruption. Issuance is expected to rise 13% to \$360bn, driven by refinancing needs. Higher net issuance and easing demand could soften technicals. Par DR will remain modest at 1.5%, with persistent downgrades amongst lower-quality facing coupon resets.

## Fundamentals

### Tariff headwinds to recede; AI in the driver's seat

HY issuers delivered revenue growth of 3.8% in 2025, however profitability metrics were less straightforward. While gross margins benefited from higher revenues, EBITDA margins compressed due to rising SG&A and other non-COGS expenses. Adjusted EBITDA growth slowed to just 1.3%, well below prior forecasts.

Sector trends were also mixed. Metals, Capital Goods, and Technology outperformed, supported by higher precious metals prices, AI-driven demand, and structural tailwinds such as grid modernization and aerospace backlogs. Conversely, Chemicals faced oversupply and pricing pressure, while Energy underperformed on falling crude prices—though rising demand for natural gas power generation is expected to provide a tailwind next year. We expect new risks to emerge in 2026 from AI disintermediation and subprime consumer stress which will likely drive continued sector dispersion into 2026.

### LME Pool to Rise Amid Liquidity Stress, Capex Cushion could provide offset

5.3% public HY issuers reported negative OCF in recent earnings. Among this cohort, issuers with <2yr of cash runway comprises 1.4% of public HY and are the most vulnerable to near-term liquidity stress, suggesting a ~3.5% LME pool in overall HY today, up from 3.0% in YE24. This segment is unlikely to benefit from rate cuts in '26 as coupons will be flat or higher, indicating a growing subset of HY issuers may face increasing cost pressures.

Cashflow coverage in HY has weakened this year in lower-quality segments, as B3 and CCC coverage slipped towards 1x. Exhibit 7 indicates that while the average HY CCC issuer can get by without defaulting even today (coverage gets to 1x with 0% CF growth even at 4% FF), FF at 3-3.5% will provide enough cushion against defaults even if cashflows turn negative. Notably, when accounting for capex buffers, CCC coverage is >1x under all scenarios.

The bar for preventing downgrades is higher. In our most benign 3% FF scenario, HY B3 issuers require +15% cashflow growth to reach 1.5x coverage (our threshold to prevent downgrades). Alternatively, in our best-case 7.5% cashflow growth scenario, FF rates would need to fall below 2% to achieve the same coverage. In our view both scenarios appear unlikely for 2026 (and are not covered in the below tables). In addition, private HY issuers which we don't cover in our analysis, likely have relatively worse metrics, suggesting continued downgrade pressure for low-quality HY in the absence of significant pick-up in cashflows. As such we think HY downgrades to CCC are likely to continue next year.

### Exhibit 7: HY CCCs can avoid defaults but B3 downgrade pressure remains high

Coverage stress test for HY issuers across different scenarios (post-capex spending)

		Public HY						
FF rate	CF chg	BB1	BB2	BB3	B1	B2	B3	CCC
Issuer count by rating		70	73	63	47	37	16	16
Actual median coverage		3.6	3.5	2.9	1.9	1.3	1.0	0.9
3.0%	-7.5%	4.0	3.7	2.8	1.8	1.4	0.8	1.0
3.0%	-5.0%	4.1	3.9	2.9	1.9	1.5	0.9	1.0
3.0%	-2.5%	4.3	4.1	3.0	2.0	1.6	1.0	1.0



**Exhibit 7: HY CCCs can avoid defaults but B3 downgrade pressure remains high**

Coverage stress test for HY issuers across different scenarios (post-capex spending)

FF rate	CF chg	Public HY						
		BB1	BB2	BB3	B1	B2	B3	CCC
3.0%	0.0%	4.4	4.2	3.1	2.0	1.6	1.2	1.1
3.0%	2.5%	4.6	4.3	3.3	2.1	1.7	1.3	1.1
3.0%	7.5%	4.9	4.7	3.5	2.3	1.8	1.4	1.2
3.5%	-7.5%	3.7	3.6	2.6	1.7	1.4	0.8	0.9
3.5%	-5.0%	3.8	3.7	2.7	1.8	1.4	0.9	1.0
3.5%	-2.5%	3.9	3.9	2.9	1.9	1.5	1.0	1.0
3.5%	0.0%	4.0	4.0	3.1	2.0	1.5	1.1	1.0
3.5%	2.5%	4.1	4.1	3.1	2.1	1.6	1.3	1.1
3.5%	7.5%	4.4	4.3	3.3	2.2	1.7	1.4	1.1
4.0%	-7.5%	3.4	3.4	2.5	1.6	1.3	0.8	0.9
4.0%	-5.0%	3.5	3.5	2.6	1.7	1.3	0.9	0.9
4.0%	-2.5%	3.6	3.6	2.8	1.8	1.4	0.9	0.9
4.0%	0.0%	3.7	3.7	2.9	1.9	1.4	1.1	1.0
4.0%	2.5%	3.8	3.8	3.0	2.0	1.5	1.2	1.0
4.0%	7.5%	4.1	4.0	3.1	2.2	1.6	1.3	1.1
4.5%	-7.5%	3.3	3.2	2.5	1.6	1.2	0.8	0.8
4.5%	-5.0%	3.4	3.3	2.6	1.7	1.2	0.8	0.9
4.5%	-2.5%	3.5	3.4	2.7	1.8	1.3	0.9	0.9
4.5%	0.0%	3.7	3.5	2.8	1.9	1.3	1.0	0.9
4.5%	2.5%	3.8	3.7	2.9	2.0	1.4	1.1	1.0
4.5%	7.5%	4.1	3.9	3.1	2.1	1.5	1.3	1.0

**Source:** BofA Global Research, ICE, Bloomberg

This analysis is based on Q2'25 data due to an incomplete sample of public Q3 reports

BofA GLOBAL RESEARCH

**Defaults and Downgrades**

HY LTM par default rate (DR) remains at a low 1.1% (2.1% by issuer) and net credit migration is essentially flat. We forecast a par DR of 1.5% for 2026 (2.7% by issuer), due to potentially higher defaults from distressed CCC issuers facing steep maturity wall and high MTM carry. We also project small net downgrades at -1% given our stress test results above. Recoveries are expected to hold near 45pt on continued LME dominance. With a moderately elevated default estimate, credit loss is poised to increase from 45bp to 57bp.

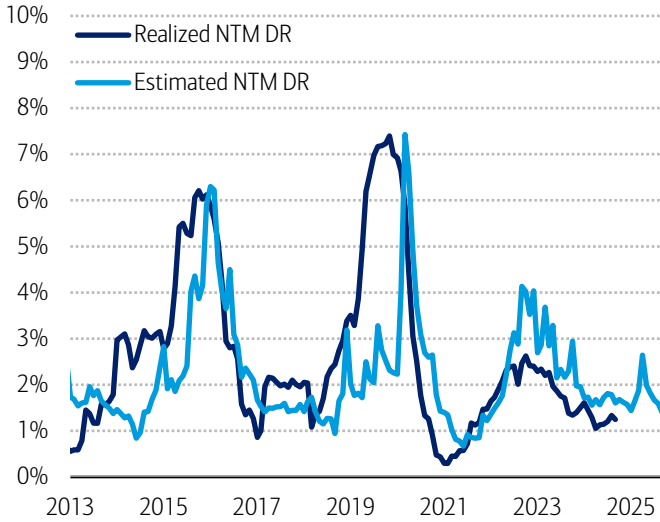
**Defaults in 2026: 1.5% by par, 2.7% by issuer**

Recent distress ratio and CSI levels, traditionally reliable defaults predictors, suggest continuously low levels of stress in the HY space (Exhibit 8). We forecast an NTM par DR of 1.5% (Exhibit 9) and a 2.7% issuer DR. We expect LMEs to dominate the defaults, accounting for 70-80%.



**Exhibit 8: US HY Par DR is expected to edge up to 1.5% in '26**

US HY Par DR has been trending lower from 2.7% in '23 to 1.1% the latest.



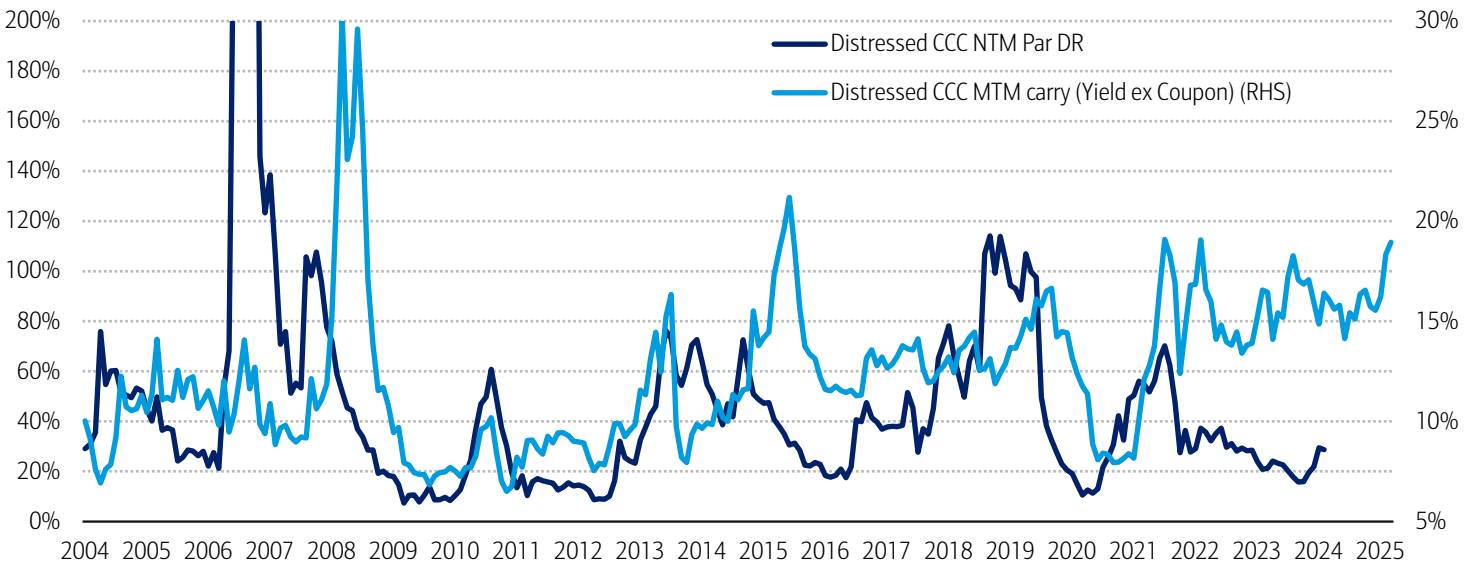
Source: BofA Global Research, ICE Data Indices

BofA GLOBAL RESEARCH

That said, our '26 forecast is higher than prevailing default levels at 1.1% (by par) and 2.1% (by issuer), driven by distressed CCC defaults. MTM Carry (yield minus coupon) stands at 0.3% for overall HY but at 19% for distressed CCCs (Exhibit 10), suggesting a steep step-up in coupons if the distressed issuers were to refi today. MTM carry for this cohort doubled in '22 as the Fed started hiking, and has since stayed elevated; however, a commensurate uptick in defaults has lagged. We expect more defaults to come as distressed CCCs DR normalize towards their historical median at 37%. Taken together with LTM DR of the remaining rating buckets (incl. performing CCCs), we also arrive at ~1.5% headline level DR, close to our top-down forecast.

**Exhibit 10: Distressed CCC default rates have lagged what is implied by their MTM (mark-to-market) carry, and are projected to rise**

MTM carry= expected cost increase at the time of refi (Yield-coupon)



Source: BofA Global Research, ICE Data Indices, LLC

BofA GLOBAL RESEARCH

**Credit Losses to Edge Higher in 2026**

Recoveries in HY sr unsecured bonds have notably improved from 35pt in '24 to 45-50pt YTD. We expect LMEs to continue comprising a large share of defaults, and thus

**Exhibit 9: CCCs bear the brunt of all HY defaults in '26**

We don't expect any BBs/Bs defaults NTM. CCC ex-D defaults could remain at current levels (1.3%) while distressed issuer reach 37%

Rating	Est DR	Ind Wt	Weighted DR
BB	0.0%	54%	0.0%
B	0.0%	33%	0.0%
CCC	12.0%	12%	
CCC ex Distress	1.3%	9%	0.1%
CCC Distress	37.0%	4%	1.4%
DR projection			1.5%

Source: BofA Global Research, ICE Data Indices, LLC

BofA GLOBAL RESEARCH



maintain our 45pt recovery estimate for '26. With moderately higher default and flat recovery, we estimate the credit loss to increase from 45bp to 57bp in '26 (Exhibit 11).

#### Exhibit 11: US HY Credit Loss to marginally increase from 45bp to 57bp in '26

We project the same recovery rate (45pt) and price of future defaults (83pt) next year as currently.

	Current	2026 Base Case
Default Rate, pct	1.2	1.5
Recovery Rate, pct	45	45
Assumed current price of future defaults, pts	83	83
Credit Loss, bps	45	57

Source: BofA Global Research, ICE Data Indices, LLC, Moody's

BofA GLOBAL RESEARCH

See [Defaults and downgrades in 2026](#) for an in-depth analysis.

## Demand and Supply

YTD HY has topped \$300bn issuance and is on track to finish 2025 at ~\$315bn. Looking ahead, we project 2026 gross issuance to rise 13% to \$360bn (Exhibit 12), driven primarily by a 25% increase in refi activity. Net supply is projected to be \$157bn with flat pace of redemptions, driving technicals to soften.

### Refies can jump 25% to \$250bn on steep maturity walls

HY refinancing volume is on pace to hit ~\$205bn this year at current run rate discounting the holiday slowdown. In 2026, we anticipate a 25% increase to \$250bn, supported by an aggressive near-term HY maturity wall (9.4% due next 2yrs, 22% next 3yrs). Issuers delaying refies amid high rates are expected to hit the market on Fed cuts.

### M&A supply in '26: flat at \$65bn

M&A/LBO supply is on track to close 2025 near ~\$58bn. While we expect overall M&A/LBO activity to pick up in '26, we believe the preferred funding source will be the Loan market, given its issuer-friendly call schedules. As such, we expect only modest growth in HY M&A issuance at 0-5% YoY, bringing the total to \$65bn, broken out as \$45bn in M&A and \$20bn in sponsor-led activity.

### GCP/Capex supply in '26: set for an AI boost

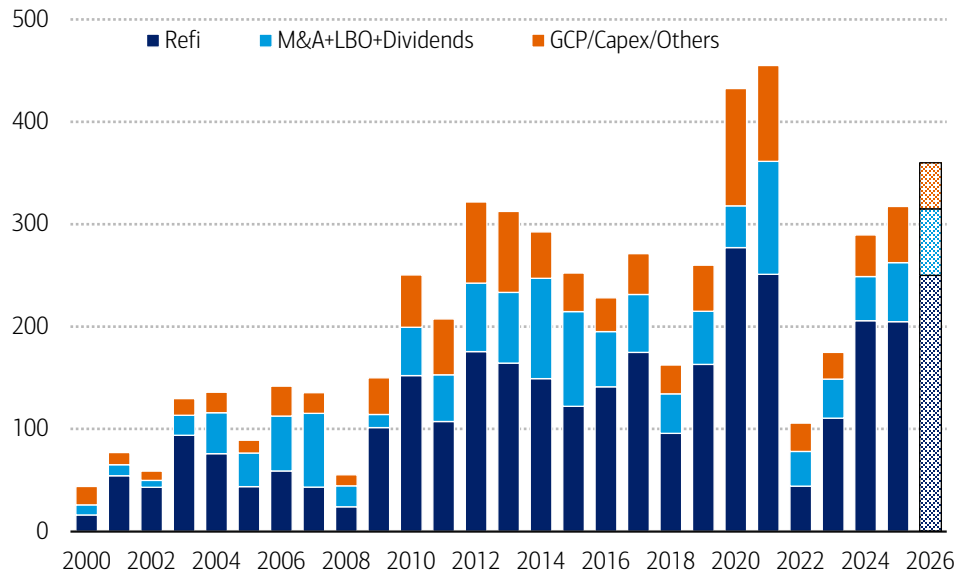
GCP/Capex is expected to finish at ~\$55bn in FY2025 with GCP accounting for 80% of the total. We estimate a similar supply of \$40-50bn in '26 but with a new subset dedicated towards AI Capex (\$20bn), as issuers fund their AI-related expansion and infrastructure buildout. Notably, this is comparatively much smaller than the >\$100bn in AI-capex related supply expected in the IG market next year.



**Exhibit 12: Gross issuance to increase to \$360bn in '26 led by refinancing activity**

US HY annual gross issuance by use of purpose (UoP).

We project \$250bn refies in '26, \$65bn M&A/LBOs, and \$45bn from GCP/AI Capex.



Source: BofA Global Research, ICE Data Indices, LLC, Bloomberg

BofA GLOBAL RESEARCH

**Calls/Tenders/Maturities/Coupons to provide steady demand**

14% of the HY index has been called/tendered LTM, and we estimate a similar level (~\$200bn) for '26, despite a rise in accompanying refies. Calls/Tenders are typically either 1) necessary from bonds maturing within the second following year or 2) opportunistic from bonds with maturity beyond two years but currently trading at YTM-YTW of >50bp, making them attractive for early takeout. Our quantitative analysis shows that the former, along with changes in the level and shape of the yield curve, primarily drives calls/tenders.

We also estimate \$108bn of secondary demand from coupons next year, in-line with '25 levels, as reflected by the MTM carry metric (yield minus coupon) approaching zero for the HY index. In addition, maturities are expected to inject \$26bn cash back into the market in '26.

**Fallen Angels net of Rising Stars to increase**

We assess cross-asset migrations using market pricing. \$89bn of BBB3 issuers are currently trading wide of post Liberation Day BB spreads (180bp). \$20bn of this bucket is on negative outlook by at least one rating agency, which we consider most at risk to fall into HY. On the flip side, screening for BB1 issuers trading tighter than the average BBB spread (100bps) and carrying a positive outlook yields zero candidates. The asymmetric distribution indicates that rating migration is skewed towards Fallen Angels, and we pencil in ~\$20bn net migration into HY in '26.

All told, we expect HY net supply to increase 31% from \$120bn by YE'25 to \$157bn in '26.

**HY Retail Flows may slow down**

The 10yr yield has historically been the most reliable indicator of HY retail flows. Its sharp decline from ~5% a year ago could reduce the relative appeal of HY for yield-focused investors, especially as spreads have failed to offset decreasing rates. Additionally, if equity volatility and earnings continue to improve (base case), retail could swap away from HY into equities. As such, retail inflows are poised to decrease towards ~\$12bn next year from LTM levels of \$19bn.

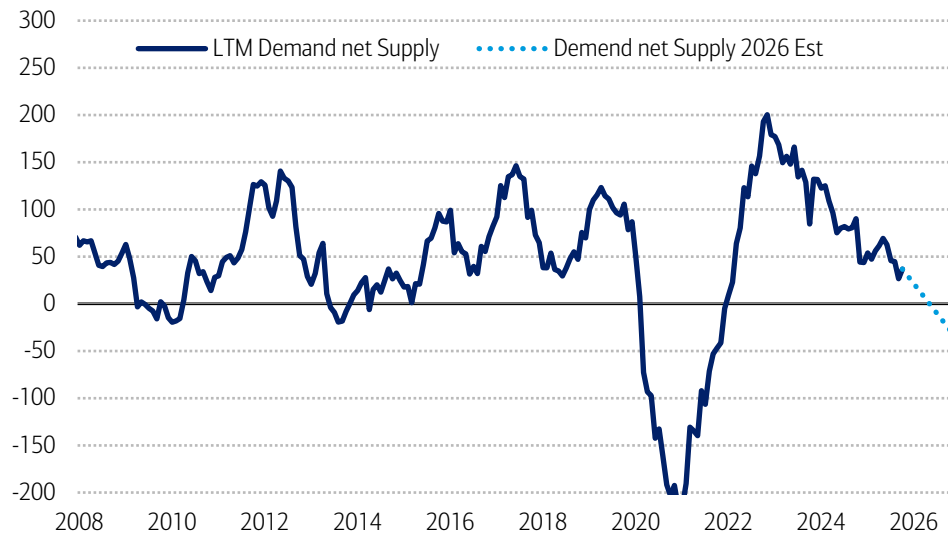


## Technical Reset: Supply Rises, Demand Eases

HY technicals are set to drift towards neutral territory in '26, as the gap between observable demand and supply narrows. Gross issuance should climb, supported by a meaningful pickup in refinancing volumes and rising AI funding needs. But without a commensurate increase in calls and tenders, net issuance is projected higher. On the demand side retail inflows are expected to ease. Institutional demand, though not reflected directly in our chart, may also temper if equities present a better return proposition. All told, we think that the excess demand regime that HY has enjoyed most of the last 3 years is likely over, and technicals are headed into neutral territory next year (Exhibit 13).

### Exhibit 13: HY visible demand net supply has been trending lower from ~\$200bn peak in late '22 and is expected to turn slightly negative in '26

HY LTM visible demand (retail flows, calls/mtty, coupons) net supply (issuance, fallen angels ex rising stars)



Source: BofA Global Research, ICE Data Indices, LLC

BofA GLOBAL RESEARCH

See report [LevFin technicals to soften amid higher M&A, lower demand in 2026](#) for an in-depth analysis.

## Spreads and Returns

We think HY spreads will leak wider next year amid softening technicals and repricing of risk wider from historically tight levels. While lower rates and fiscal easing are powerful tailwinds for HY, we are also cognizant of the possible fundamental challenges that can bubble up due to AI-disintermediation. On balance, increasing dispersion within credit is likely to keep investors cautious. Higher net HY supply also supports this outlook.

### HY fair value to increase +25bps to 350bps

We expect HY fair value to increase from 325bps to 350bps in 2026. Our +/- 50bps range suggests that HY should spend most of its time in the 300-400bps context next year. Layering in the base economic scenario as outlined earlier in the report, along with our default rate forecasts, we project a total return of 5.8% for HY in 2026 (Exhibit 14).

HY with its 3.7yr duration is just short enough to benefit from curve steepening on the back of a Fed biased to cut. It is also more defensive vs loans in the context of credit quality (higher) and AI-exposure (lower), which should keep fundamental deterioration and credit losses in check. As such we think it will be the best performer across credit in 2026.

The range of HY returns in upside and downside economic conditions is unusually wide next year because of the tight range of rate outcomes (won't fully offset spread moves). Rates have a higher floor in a risk-off scenario due to structurally higher inflation and  $r^*$



vs pre-Covid, but also have a lower ceiling (<5yr rates) in a risk-on scenario due to pressure on front-end rates from Fed cuts. In our optimistic economic scenario we see returns at 9.1% as HY enjoys double tailwinds from rates and spreads, while our pessimistic scenario could result in HY returns declining to 1.9% with rates not falling low enough to offset capital losses. Within HY we think Bs have the best prospect given their decompressed state vs BBs, while the latter might languish since they have recently outperformed against BBBs.

#### Exhibit 14: Expect HY to generate 5.8% total returns in 2026 in our base case

HY range of returns is 2-9% across various economic scenarios

	Current	2026 YE		
		Base	Pessimistic	Optimistic
<b>OAS</b>	<b>309</b>	<b>350</b>	<b>500</b>	<b>275</b>
Avg Treasury bps	373	350	300	325
Current Yield, bps	676	671	685	665
<b>YTW, bps</b>	<b>698</b>			
Spread change, bps	17	41	191	-34
Key Rate change, bps	-65	-23	-73	-48
<b>Capital gain, bps</b>	<b>152</b>	<b>-47</b>	<b>-326</b>	<b>247</b>
Default Rate, pct		1.7	4.0	1.0
Recovery Rate, pct		45	35	55
Assumed current price of future defaults, pts		60	60	60
<b>Credit Loss, bps</b>		<b>43</b>	<b>167</b>	<b>8</b>
<b>Total Return, pct</b>		<b>5.8</b>	<b>1.9</b>	<b>9.1</b>

Source: BofA Global Research, ICE Data Indices, LLC  
Scenarios above align with Scenario for 2026 section

BofA GLOBAL RESEARCH

In our base case, IG at 4.9% TR falls short vs HY due to a lack of significant tailwinds at the 10yr mark ([Global Rates Year Ahead: 2026](#)). IG spreads are also likely to widen next year but the underperformance is largely rates-led given IG's higher sensitivity to rates vs spreads. That said, IG could end up leading in 2026 should the 10yr finish at the bottom end of the expected range. For perspective, TR jumps from 4.9% to 5.6% if the 10yr reaches just 10bps lower than our base case.

Notably, IG has the narrowest return range across our most probable economic scenarios for 2026, which minimizes the risk of getting the economic call wrong. IG has an average of 6.5% returns equally weighted across our scenarios, compared to 5.5% in HY and 3.5% in Loans. There is a fourth scenario, not included in our averages due to low likelihood, where GDP increases stoking inflation concerns and pushing the 10yr to '24 levels which could pressure IG returns towards 3%, but this doesn't impact our relative value call.



# USD Loans

Loans can generate a TR of 4.9% next year, underperforming HY due to dual headwinds of lower carry and prices, while lower credit losses don't provide enough offset. Technicals to remain neutral on strong CLO issuance balanced by higher M&A/LBO activity, as refinancings and retail inflows recede. Default and downgrade pressures should ease on lower rates. CCC loans offer a meaningful alpha opportunity as debt service burdens ease.

## Fundamentals

### AI Fuels growth while earnings remain pressured

Recent earnings results reflect a mixed picture for Loan issuers. While revenue growth remains resilient, with Loans +4.5%, earnings performance was more nuanced. Gross margins increased despite increasing costs, but EBITDA margins declined and EBITDA growth fell well below expectations to 1.6%.

AI-led sectors outperformed on demand for semiconductors, cloud infrastructure, and data center buildouts, as well as structural tailwinds from grid modernization and aerospace backlogs – drivers we expect to persist into 2026 amid the AI arms race. That said, as tariff concerns recede into the background, new risks such as AI disintermediation and subprime consumer stress, are emerging with potentially divergent impact across sectors. Expect sector dispersion to continue into 2026.

### Restructuring Risks stable, default/downgrade pressure manageable

Loan LME pool remains stable at ~5% and we expect incremental declines in 2026 as falling rates provide cost relief to floating rate issuers. Low quality loan issuers (public and private) saw flat to improving coverage ratios, corroborating our 2026 default outlook.

Our pro forma coverage stress tests (Exhibit 15) indicate Loan CCC issuers can alleviate default pressures with another 1-2 Fed cuts, while B3 issuers can better manage downgrade risk with FF at 3% and flat cashflows – a relatively higher bar but still a likely outcome next year. However, when capex cushion is taken into account, CCCs attain >1x coverage. For a more comprehensive overview of our methodology and takeaways, please see our recent report: [From AI boom to credit stress: parsing Q3's contradictions](#)

#### Exhibit 15: CCC loans can alleviate default pressures with 1-2 cuts, while B3s need >3cuts to avoid downgrades

Coverage stress test for Loan issuers across different scenarios (post-capex spending)

		Public BSL							Private BSL						
FF rate	CF chg	BB1	BB2	BB3	B1	B2	B3	CCC	BB1	BB2	BB3	B1	B2	B3	CCC
Issuer count by rating		26	31	41	30	18	8	12	12	24	45	68	217	219	49
Actual median coverage		4.0	3.7	3.1	1.8	1.3	1.2	0.9	3.7	3.0	2.0	1.8	1.4	1.1	0.8
3.0%	-7.5%	4.7	3.8	3.1	2.1	1.3	1.2	1.0	4.2	3.6	2.1	2.2	1.6	1.4	1.0
3.0%	-5.0%	4.9	4.0	3.2	2.2	1.3	1.3	1.1	4.4	3.7	2.2	2.2	1.7	1.4	1.0
3.0%	-2.5%	5.0	4.2	3.3	2.2	1.4	1.4	1.1	4.5	3.8	2.2	2.3	1.8	1.4	1.0
3.0%	0.0%	5.2	4.3	3.4	2.3	1.5	1.4	1.1	4.7	3.9	2.3	2.4	1.8	1.5	1.1
3.0%	2.5%	5.3	4.5	3.5	2.4	1.6	1.5	1.2	4.8	4.0	2.4	2.5	1.9	1.5	1.1
3.0%	7.5%	5.6	4.9	3.7	2.5	1.8	1.7	1.3	5.1	4.2	2.7	2.6	2.0	1.6	1.2
3.5%	-7.5%	4.3	3.6	2.9	2.0	1.2	1.1	1.0	4.0	3.3	2.1	2.0	1.5	1.2	0.8
3.5%	-5.0%	4.4	3.9	3.1	2.0	1.3	1.2	1.0	4.1	3.4	2.2	2.0	1.6	1.3	0.9
3.5%	-2.5%	4.5	4.0	3.2	2.1	1.3	1.3	1.0	4.3	3.5	2.2	2.1	1.6	1.3	0.9
3.5%	0.0%	4.7	4.2	3.3	2.2	1.4	1.3	1.1	4.4	3.6	2.3	2.2	1.7	1.3	1.0
3.5%	2.5%	4.8	4.4	3.4	2.2	1.5	1.4	1.1	4.6	3.7	2.4	2.2	1.7	1.4	1.0
3.5%	7.5%	5.1	4.8	3.6	2.3	1.7	1.5	1.2	4.9	4.0	2.6	2.4	1.8	1.4	1.1
4.0%	-7.5%	4.0	3.4	2.7	1.9	1.1	1.1	0.9	3.7	3.0	2.1	1.8	1.4	1.1	0.8
4.0%	-5.0%	4.1	3.8	2.9	1.9	1.2	1.1	0.9	3.8	3.1	2.2	1.9	1.4	1.1	0.8
4.0%	-2.5%	4.2	3.9	3.0	2.0	1.2	1.2	1.0	4.0	3.2	2.2	1.9	1.5	1.2	0.9
4.0%	0.0%	4.3	4.1	3.1	2.1	1.3	1.3	1.0	4.1	3.4	2.3	2.0	1.5	1.2	0.9



**Exhibit 15: CCC loans can alleviate default pressures with 1-2 cuts, while B3s need >3cuts to avoid downgrades**  
 Coverage stress test for Loan issuers across different scenarios (post-capex spending)

		Public BSL							Private BSL						
4.0%	2.5%	4.4	4.3	3.2	2.1	1.4	1.3	1.0	4.3	3.5	2.4	2.1	1.6	1.2	0.9
4.0%	7.5%	4.7	4.6	3.4	2.2	1.6	1.4	1.1	4.5	3.7	2.5	2.2	1.7	1.3	1.0
4.5%	-7.5%	3.8	3.3	2.5	1.7	1.1	1.0	0.9	3.3	2.8	1.9	1.6	1.3	1.0	0.7
4.5%	-5.0%	3.9	3.5	2.6	1.7	1.1	1.1	0.9	3.5	2.9	2.0	1.7	1.3	1.1	0.7
4.5%	-2.5%	4.0	3.8	2.7	1.8	1.2	1.1	0.9	3.6	3.0	2.1	1.8	1.4	1.1	0.8
4.5%	0.0%	4.1	3.9	2.8	1.9	1.3	1.2	0.9	3.8	3.1	2.1	1.8	1.4	1.1	0.8
4.5%	2.5%	4.2	4.0	2.9	1.9	1.3	1.2	1.0	3.9	3.2	2.2	1.9	1.5	1.1	0.8
4.5%	7.5%	4.5	4.3	3.1	2.1	1.4	1.3	1.0	4.2	3.4	2.3	2.0	1.5	1.2	0.9

**Source:** BofA Global Research, Bixby, LCD, Bloomberg  
 This analysis is based on Q2'25 data due to delayed availability of private BSL issuer earnings and an incomplete sample of public Q3 reports  
 BofA GLOBAL RESEARCH

## Defaults and Downgrades

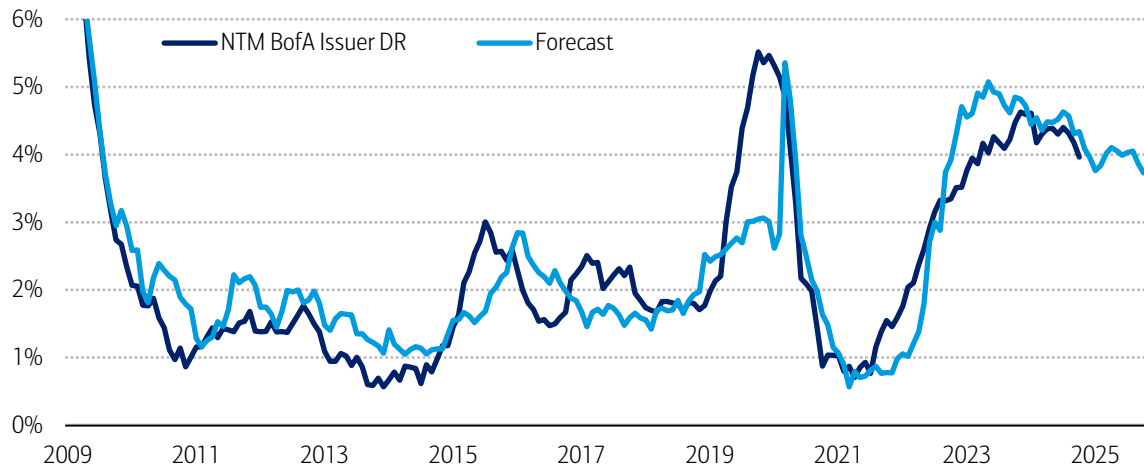
### Default Rates Poised to Ease as LMEs Drive Declines

Recent breakdown of the historically strong correlation between loan default rates and distress ratios led us to search for newer factors that could better explain default rates. In our report [Defaults and downgrades in 2026](#), we scrutinized a broad list of factors that could plausibly influence defaults, identified factors having the highest correlation with NTM default rates and ran parsimonious multivariate regressions to see which combination of factors maximizes explanatory power.

Based on our new approach, we estimate the NTM issuer default rate to be between 3.6% and 3.8%, depending on the number of rate cuts by YE'25, representing modest declines from today's 4.0% level (Exhibit 16). The historical relationship between par and issuer default rates indicates a par default rate of 3.5-3.7%.

**Exhibit 16: We estimate Loan issuer DR to decline to 3.6%-3.8% from today's 4.0% level**

NTM issuer default rate estimate (%)



**Source:** BofA Global Research, LCD, Bloomberg

BofA GLOBAL RESEARCH

Assuming a 60-40 split between LME vs hard defaults (see [The era of pre-emptive LMEs report](#)), gives us a 1.5% DR estimate excluding LMEs, flat from current levels, suggesting the improvement in DR will likely be a function of decreasing LME defaults going forward.

A bottom-up analysis based on the current rating and maturity distribution of the index, as done in our previous year-ahead report, suggests the same downward trajectory (Exhibit 17). On average issuer DR may reach 3.8% and par DR 3.6%, close to our top-down estimates. Note that these estimates don't account for the FF trajectory, therefore DRs could eventually finish lower because of 75bps-100bps of rate cuts in 2026.



**Exhibit 17: Our bottom-up estimates also suggest Loan DR reaching 3.6%-3.8%**

Bottom-up DR estimate by rating and remaining life (%) is close to our top-down estimates

Rating	Est DR	Ind Wt	Weighted Issuer DR
BBB	0.0%	6%	0.0%
BB	0.0%	23%	0.0%
B	2.4%	60%	1.4%
CCC	21.8%	9%	2.0%
NR	2.4%	2%	0.1%
<b>DR projection</b>			<b>3.5%</b>
Life	Est DR	Ind Wt	Weighted Issuer DR
0-1yrs	17.9%	1%	0.2%
1-2yrs	8.0%	3%	0.3%
2-3yrs	4.8%	22%	1.0%
3+yrs	3.5%	74%	2.6%
<b>DR projection</b>			<b>4.1%</b>

Source: BofA Global Research, LCD

Rating	Est DR	Ind Wt	Weighted Par DR
BBB	0.0%	6%	0.0%
BB	0.0%	24%	0.0%
B	2.1%	62%	1.3%
CCC	35.1%	6%	2.1%
NR	2.1%	2%	0.0%
<b>DR projection</b>			<b>3.4%</b>
Life	Est DR	Ind Wt	Weighted Par DR
0-1yrs	24.3%	0%	0.1%
1-2yrs	14.1%	2%	0.4%
2-3yrs	7.6%	19%	1.4%
3+yrs	3.0%	78%	2.3%
<b>DR projection</b>			<b>4.2%</b>

BofA GLOBAL RESEARCH

**Net migration to improve**

Loan net migration has continued to deteriorate YTD. At the index level, the 12-month net migration rate has declined from -2.8% at year-end 2024 to -5.0% as of the latest reading. The 3-month net migration rate has also remained negative throughout 2025, though it has shown signs of improvement since May, following a de-escalation in trade tensions and the Fed conveying its intention to start easing.

Looking ahead, we expect 12-month net migration to improve, supported by rate cuts, which will help coverage ratios across the board. In addition, GDP growth is expected to increase, helping corporate earnings. All told, we believe the benefits of rate cuts and economic growth will result in an improvement in net migration, though it is likely to still tilt net downgrades finishing near -4% level.

**Recoveries to remain flat**

Average loan recovery has continued its upward trajectory in 2025, reaching median levels at \$60, as LMEs continued to dominate defaults. LMEs facilitate higher recoveries, as partial exchanges/restructurings are generally realized at higher prices compared to recoveries from hard defaults (see [The era of pre-emptive LMEs](#)).

Looking ahead to 2026, we expect average recovery to remain at current levels of ~\$60 given LME preponderance. Combining this with our 3.6% par default estimate generates our credit loss estimate of 90bps for US loans in 2026 (Exhibit 18).

**Exhibit 18: We expect Loan credit loss to decrease to 90 bps in 2026**

Projected Credit Losses in 2026 (bps)

	2025	2026 Base Case
Default Rate, pct	4.0	3.6
Recovery Rate, pct	60	60
Assumed current price of future defaults, pts	80	80
<b>Credit Loss, bps</b>	<b>100</b>	<b>90</b>

Source: BofA Global Research, LCD

BofA GLOBAL RESEARCH

For more detailed coverage on defaults and downgrades, see our recent report [Defaults and downgrades in 2026](#).

**Demand and Supply**

YTD issuance stands at \$417bn, which based on current run rate discounted for typical seasonal slowdown, implies full-year 2025 issuance reaching \$440bn vs our YA'25 forecast of \$450bn ([M&A head fake](#)). Using similar underlying analyses, we expect issuance (excluding repricings) to decline 5% to \$425bn in 2026.

We anticipate a meaningful shift in issuance composition in 2026: refinancing activity as a share of total issuance is expected to decline for the 4th consecutive year, while true



new money activity (M&A + LBOs) is poised for a long-awaited rebound. We expect CLO demand to remain stable but retail flows to turn negative, leading technicals to soften further and remain in neutral territory in 2026.

**Loan Supply to Dip 5% Despite M&A Upside**

**New money activity to rise on rates and deregulation tailwinds**

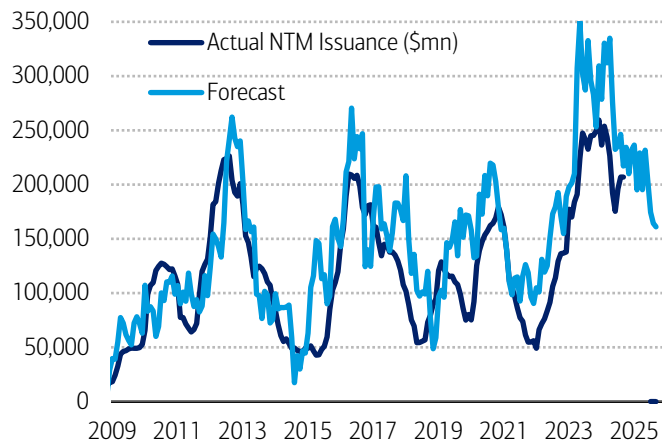
YTD M&A/LBO linked issuance stands at \$210bn, on track to finish around ~\$220bn by YE vs our \$230bn forecast. Looking to 2026, we forecast M&A/LBO/Dividend issuance to be \$250bn, representing a +13% YoY increase in new money activity. We expect strategic corporate activity to play a dominant role with a growth of +20% YoY to \$100bn. LBOs may also catch a tailwind due to rates, and public-to-private conversion trends, increasing 10% YoY to \$70bn, while dividend recaps may only grow 5% YoY, but still remain the dominant type of sponsor product at \$80bn.

**Refinancings to decrease 20% on benign near-term maturities**

Refinancing activity is also tracking close to our \$210bn forecast, with YTD at \$184bn, and full-year expected to reach \$200bn. In 2026, our quantitative estimate suggests a meaningful decline (outputs range from \$100-160bn). At the high end, \$160bn in refies would represent a 20% YoY decline, which is our forecast (Exhibit 19).

**Exhibit 19: We expect refi issuance of \$160bn in 2026, a 20% YoY decline**

Loan Refinancings forecast for 2026 (\$mn)

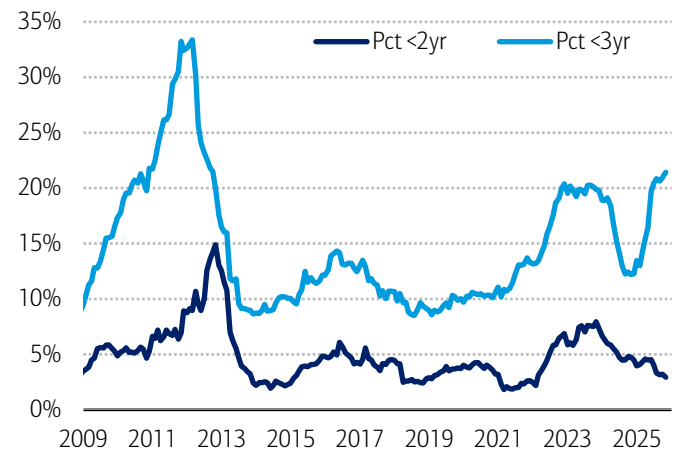


Source: BofA Global Research, LCD

BofA GLOBAL RESEARCH

**Exhibit 20: Pct of loans maturing next 2yrs has declined to 3%, but <3yr maturities have almost doubled to 22% over the last 12 months**

Pct of US loans maturing next 2 and 3 years



Source: BofA Global Research, LCD

BofA GLOBAL RESEARCH

Refi estimates are quantitatively most sensitive to <2yr maturities, which have declined to 3% in Sep'25 from 5% in Oct'24 (Exhibit 20). That said, we note that <3yr maturities have moved the opposite way, doubling from 12% to 22% over the last 12 months. As such we zoom into the upper end of our range of estimates. As more loans roll into the <2yr bucket in 2H26, there may be further upside to refies.

**Prepayments to slow down with refies**

Prepayments are a function of issuance levels as well as loans trading > 100. Since we expect both to decline next year, prepayments should decrease as well. A bigger loan market (+\$100bn this year) provides a partial offset, but we think prepayments will slow down to \$280bn in 2026, representing a 10% decline vs 2025.

**Repricings to decline as par+ loans ease**

YTD repricing volume has reached \$454bn, driven by a record-setting \$228bn in Q3 that included \$160bn in July alone - the highest monthly repricing volume on record driven by par+ loans reaching 50%+ through the summer.



Looking ahead, we forecast N3M repricing activity to decline to \$63bn, based on a \$97bn repriceable universe (Exhibit 21), defined as loans out of their 6-month non-call period and priced above 100.25. If market conditions remain constructive, N6M repricing volume could reach \$200bn, based on loans priced above 100 and out of their non-call window.

**Exhibit 21: We see \$97bn in potential short-term repricings of which \$63bn is most likely to be repriced**

Short term repriceable universe in the Loan index (\$mn)

Margins	Count	Repriceable Universe	Count%	Repriceable Universe%
<250	23	18,011	2%	1%
250-350	26	43,344	2%	3%
350-450	18	19,489	1%	1%
450-600	14	11,961	1%	1%
600+	9	3,824	1%	0%
<b>Aggregate repriceable universe</b>	<b>90</b>	<b>96,629</b>	<b>7%</b>	<b>6%</b>
<b>Most likely to be repriced</b>	<b>44</b>	<b>62,833</b>	<b>3%</b>	<b>4%</b>

Source: BofA Global Research, LCD

BofA GLOBAL RESEARCH

### Loan demand to moderate

#### CLO demand to remain robust

We expect CLO reset activity to increase in 2026, driven by '23 and early '24 vintages exiting their NC periods. For perspective, CLO spreads have tightened 51bps over the past two years with AAAs now at their tightest levels since GFC (~S+125). In addition, +13% YoY loan new money issuance could also contribute to CLO growth. We pencil in gross CLO issuance to grow +10% vs 2025, though net issuance may stay flat. The combination of lower liability costs, maturity-driven resets, and improving loan supply sets the stage for a more active CLO market in 2026, even if net growth remains modest.

#### Retail flows to turn negative

HY has historically led Loans in retail demand, and its recent softening suggests a slowdown in Loans inflows going fwd. Indeed, this is in line with our forecast and historical observations of outflows in the face of lower rates. We pencil in \$10bn in loan outflows for 2026.

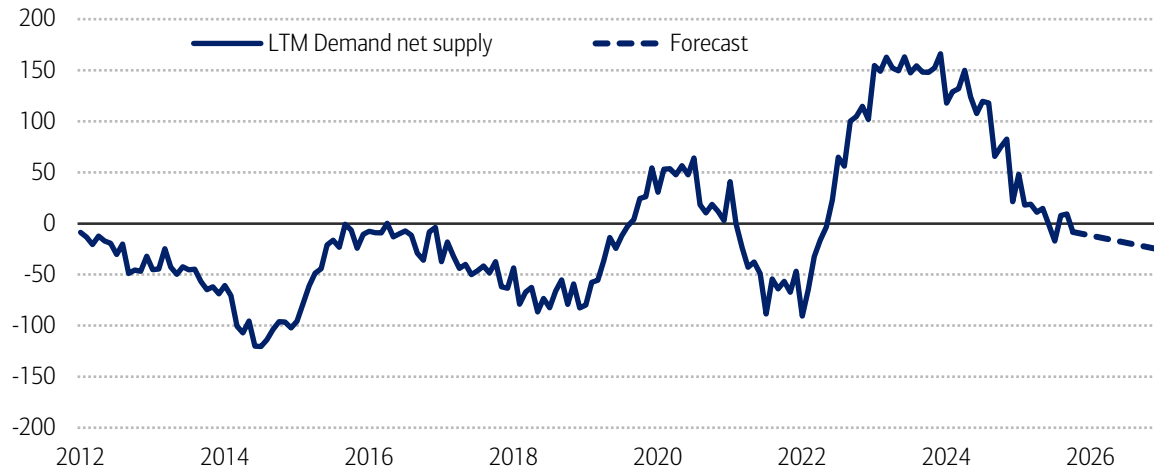
#### Loan Technicals Neutral Amid Balanced Supply and Demand

The Loan market in 2026 is poised for a constructive supply environment, led by higher strategic M&A and LBO activity, lower prepayments which are offset by declining Refi volumes as well. On the demand side, we expect CLO activity to remain at current levels, while retail outflows present headwinds. Overall, we expect the excess demand backdrop which has mean-reverted all year, to continue to soften and remain well in neutral territory next year (Exhibit 22). The upside to this base case is if macro conditions and investor sentiment lean more favorable, this will result in increasing demand potentially sending us back into positive technical territory.



**Exhibit 22: Demand net supply set to soften and stay in neutral territory in 2026**

Loan technicals in 2026 (\$bn)



Source: BofA Global Research, LCD

BofA GLOBAL RESEARCH

For more detailed demand/supply coverage, see our recent report: [LevFin technicals to soften amid higher M&A, lower demand in 2026](#).

**Spreads and Returns**

We think Loan spreads will leak wider next year amid higher M&A supply and repricing of risk wider from historically tight levels. While fiscal and monetary easing will improve overall financial conditions, we remain cognizant of AI-disintermediation risks which are particularly high in loans given tilt towards software and services. On balance, the loss of investor demand due to lower carry and increasing concerns around private credit are likely to keep dispersion high and investors cautious.

**Loan fair value discount margin to increase +30bps to 460bps**

We expect Loan fair value to increase from 430bps (\$97) today to 460bps (\$96.5) over 2026 with a +/- 50bps range around it. Layering in the base economic scenario as outlined earlier in the report, along with our default rate forecasts, we project a total return of 4.9% for Loans in 2026 (Exhibit 23).

Loans could get hit from both sides - lower carry due to falling SOFR but also macro concerns pushing spreads higher to provide adequate yield compensation. Even in an economic downside or upside scenario, Loans likely end up underperforming HY. This is unlike the past because floating rate Loans benefit from increasing rates in an economic upside scenario. However, today even if GDP were to outperform expectations, the downside bias on front-end rates is expected to remain given Fed independence challenges.

The range of return outcomes for Loans is as wide as HY, but generally a notch lower in absolute value. In our optimistic economic scenario we see returns at 5.7% as capital gains are offset by forced rate cuts. In our pessimistic scenario, loans get hit from both sides – lower carry as well widening spread, resulting in returns falling into negative territory.

**Exhibit 23: In our base case, loans can generate 4.9% total returns in 2026**

Loan range of returns is -1% to 6% across various economic scenarios

	Current	2026 YE		
		Base	Downside	Upside
Price, pts	97.1	96.5	93.0	97.5
DM 3yr, bps	429	463	606	424
Base rate, bps	404	325	200	300
Coupon equivalent, bps	754	655	530	630



**Exhibit 23: In our base case, loans can generate 4.9% total returns in 2026**

Loan range of returns is -1% to 6% across various economic scenarios

Current Yield, bps	777	2026 YE		
		679	570	646
Spread change, bps		34	177	-5
Key Rate change, bps		-79	-204	-104
<b>Capital gain, bps</b>		<b>-131</b>	<b>-530</b>	<b>-74</b>
Default Rate, pct		3.6	6.0	3.0
Recovery Rate, pct		60	50	65
Assumed current price of future defaults, pts		80	80	80
<b>Credit Loss, bps</b>		<b>90</b>	<b>225</b>	<b>56</b>
<b>Total return, pct</b>		<b>4.9</b>	<b>-1.0</b>	<b>5.7</b>

Source: BofA Global Research, LCD

Scenarios above align with Scenario for 2026 section

BofA GLOBAL RESEARCH

We think CCC loans provide one of the only remaining pockets to generate credit alpha for those able and willing to underwrite the riskiest segment in credit. Falling rates will be most beneficial to CCC floaters, since they will finally be able to adequately meet their debt service for the first time in 3 years, likely facilitating a snap back from their 20% yields.



# Private Credit

PC returns projected to fall meaningfully from YTD 9% levels to ~5.4% in 2026 due to loss of carry and potential capital losses. As returns converge towards public credit, PC faces allocation consequences. We expect spreads to widen to ~540bps and supply to normalize. Defaults will ease to ~4.4% on lower rates, but will continue to outpace public credit. Structural shifts (growth in secondaries, retail entry) may introduce liquidity and regulatory challenges that reshape PC’s appeal as a diversification tool.

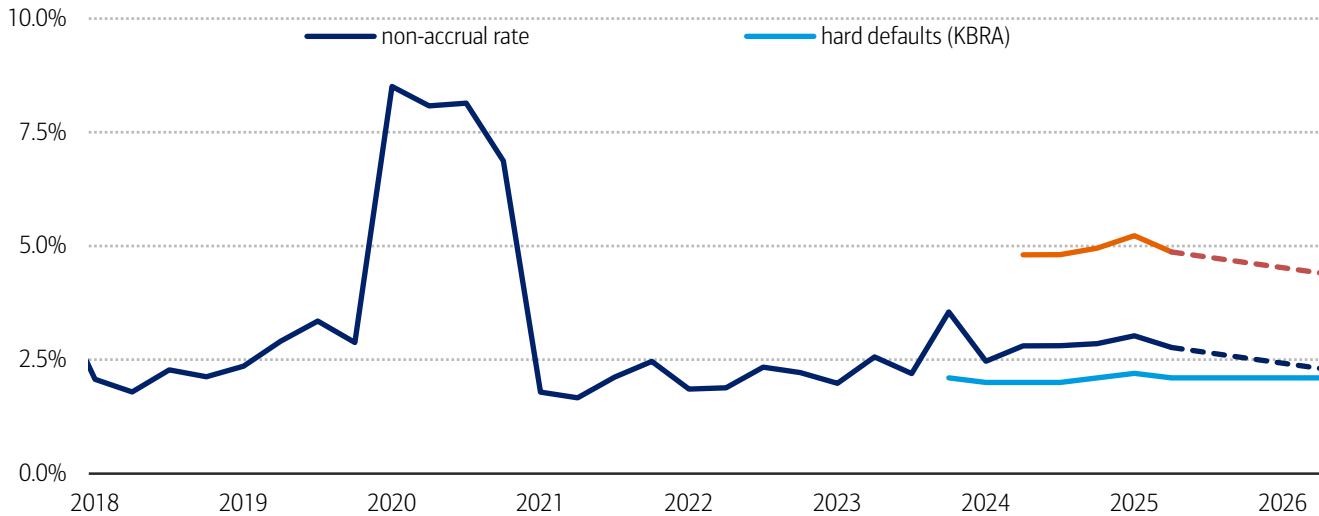
## Defaults and Non-accruals

We expect PC default rate to decline towards 4.4% from 5% today amid rate cuts which will help alleviate coverage pressures among distressed issuers. Our coverage stress test conducted amongst private BSL issuers (Loan fundamentals section) show that B3/CCC issuers - which are reflective of PC portfolios - can prevent defaults should rates reach 3.5% even without growing their cashflows. And in the event, we reach 3%, issuers can absorb a cashflow contraction as well.

Our DR calculation is a sum of KBRA DR (excl non-accruals) and BDC portfolio non-accrual rates which we use as a proxy for overall PC. Our non-accrual rate currently at 2.8% is expected to decline driving headline DR lower (Exhibit 24).

### Exhibit 24: Private Credit default rate is forecasted to decline from 5% to 4.4% through 2026

Lower non-accruals will drive a modest decline in headline default rate



Source: BofA Global Research, KBRA, Preqin

BofA GLOBAL RESEARCH

Exhibit 25 shows historical probability of a Loan being placed in non-accrual status over NTM given its prevailing fair value mark. It shows that fair value marks tend to be accurate proxies of credit stress. For Loans marked b/w 75 – 85pts, chances of being placed in non-accrual over the next year are the highest at 46%. However, these Loans currently comprise just 2% of BDC AUM. 87% of AUM is marked at 95pts or above, which have consistently seen <1% probability of being deemed non-accruing. This information helps us assess NTM non-accrual pressures across BDCs which we assess to be 2.3%, lower vs a year ago.



**Exhibit 25: Loans marked between 75 – 85pts have a 50/50 chance of being assigned non-accrual, but currently only comprise 2% of BDC Loans**

Fair value marks have historically been reliable proxies of credit stress in BDC portfolios

	Prob of non-accrual NTM	% wgt
> 100	0.80%	13%
(95, 100]	0.62%	74%
(85, 95]	10.80%	7%
(75, 85]	46.20%	2%
(0, 75]	0.00%	4%
<b>Projected non-accrual rate</b>	<b>2.31%</b>	

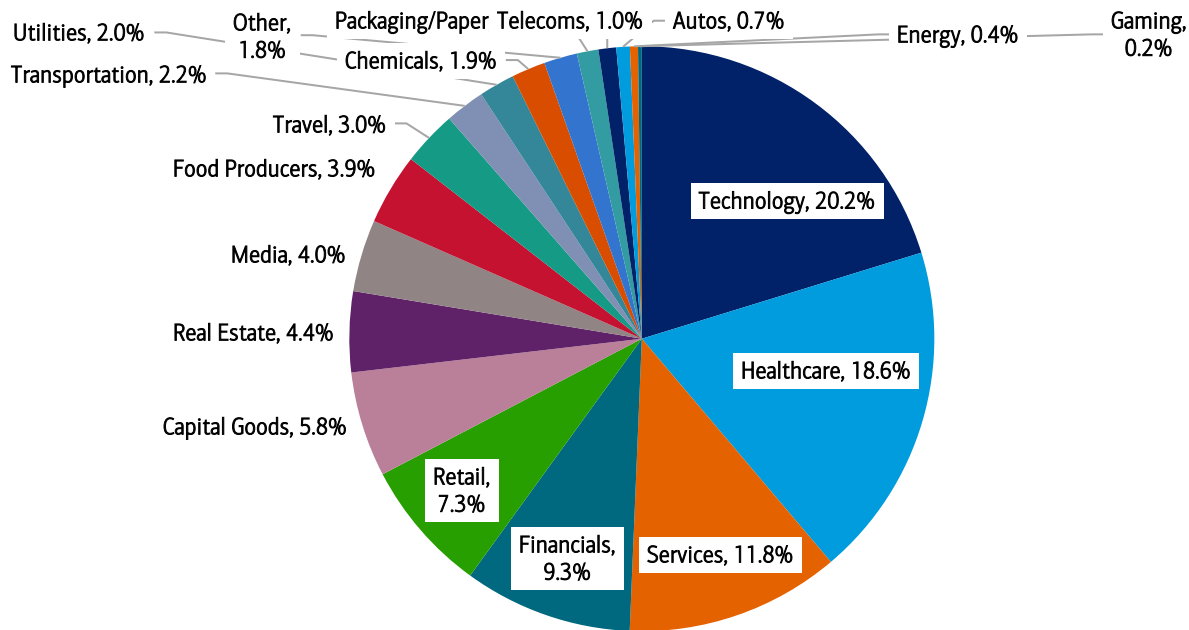
Source: BofA Global Research, KBRA, Preqin

BofA GLOBAL RESEARCH

Risks to our forecast include AI-driven disruptions among software issuers, who comprise a significant share of BDC holdings (16% of AUM) and broader Private Credit. Exposure is comparable to BSL, though disruption could be disproportionately shouldered by MM issuers who lack the maneuverability that larger software issuers possess.

**Exhibit 26: 20% of BDC holdings are in Technology issuers, and 80% of those issuers are software**

Breakdown of BDC holdings by sector. Software (not depicted) comprises 80% of the broader Tech sector



Source: BofA Global Research, Preqin

BofA GLOBAL RESEARCH

**Supply and Demand**

**Supply to mean-revert**

Just like in spreads, PC supply is a function of capital inflows (fundraising) in addition to credit quality (leverage). Both leverage and fundraising are positively correlated to issuance – increasing trajectory of leverage indicates more openness to risk, as does the level/change in fundraising activity. A regression based on appropriate lags and transformations of these factors explains 70% of the variation in PC new money supply.

12m rolling issuance has remained strong through 3Q, at \$146bn, outpacing our '25 estimate. However, when looking solely at core M&A/LBOs, realized volume is more in line with our estimate of \$90bn YTD, suggesting the bump in issuance YTD has been led by refies and non-traditional new money deals. We expect PC supply to correct towards



our forecasts over the next 12mo and likely retrace to \$120bn representing a -15% decline from current levels, while core M&A/LBO supply could stay flat YoY (but still represent a decline from our '25 estimate).

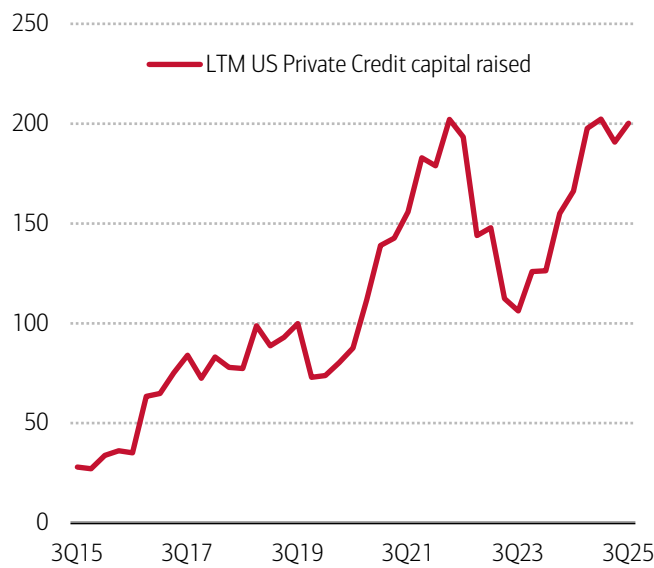
The risk here is to the upside, especially if an economic pick-up generates a larger pipeline of M&A/LBO activity. This will allow investors to accept higher levered deals signaling openness of the primary, and driving issuance on a lagged basis.

**Demand: Macro tailwinds but allocation headwinds**

US Private Credit fundraising began 2025 on a weak note but has since recovered to match last year's pace (Exhibit 28). Fundraising was 8% lower YoY in 1H, largely due to market headwinds, but rebounded strongly in Q3, bringing LTM total to \$200bn (Exhibit 27). Private Debt funds remain the dominant source of capital, accounting for roughly 80% of fundraising, while Middle Market CLOs contribute about 20%.

**Exhibit 27: LTM US Private Credit capital raised has remained near peak levels of \$200bn**

Fundraising recovered in Q3 after a weak 1H

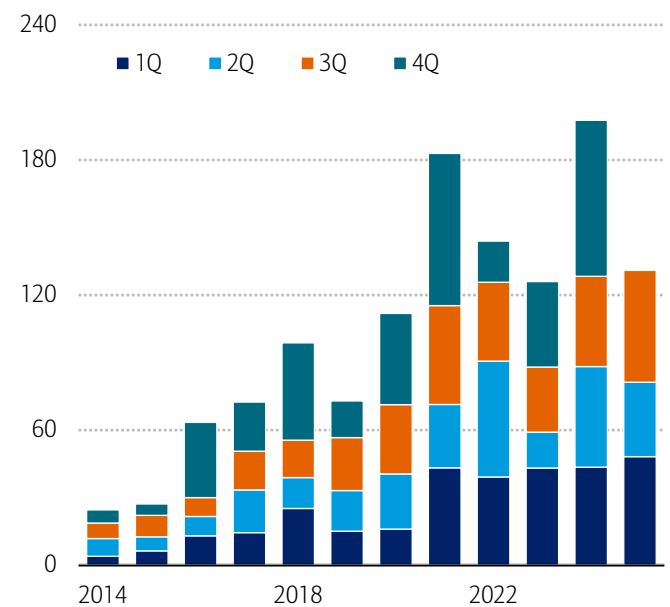


Source: BofA Global Research, LSEG LPC

BofA GLOBAL RESEARCH

**Exhibit 28: YTD Private Credit fundraising matches last year's pace**

YTD fundraising across Private Credit platforms now exceeds \$120bn



Source: BofA Global Research, LSEG LPC

BofA GLOBAL RESEARCH

The slowdown in 1H '25 was driven by three factors. Market volatility from trade and tariff uncertainty, combined with interest rates remaining elevated amid inflation concerns, discouraged investors. Liquidity challenges across private markets—muted PE exits, limited distributions, and difficulty selling fund interests—added pressure. Finally, a record \$335 billion in undeployed dry powder signaled excess capital relative to deal opportunities amid subdued M&A activity.

Looking ahead to 2026, conditions appear more favorable for fundraising. Easing trade uncertainty, stabilizing inflation, and continued Fed rate cuts should improve the macro backdrop. Liquidity should also improve as PE exits and distributions pick up, supported by growing private secondary markets. However, fundraising is unlikely to replicate the exceptional levels seen in late 2024. Headwinds also exist in the form of shifting allocations towards private equity, where returns are projected to be stronger next year.

**Spreads and Returns**

**Spreads to rebound from cycle lows**

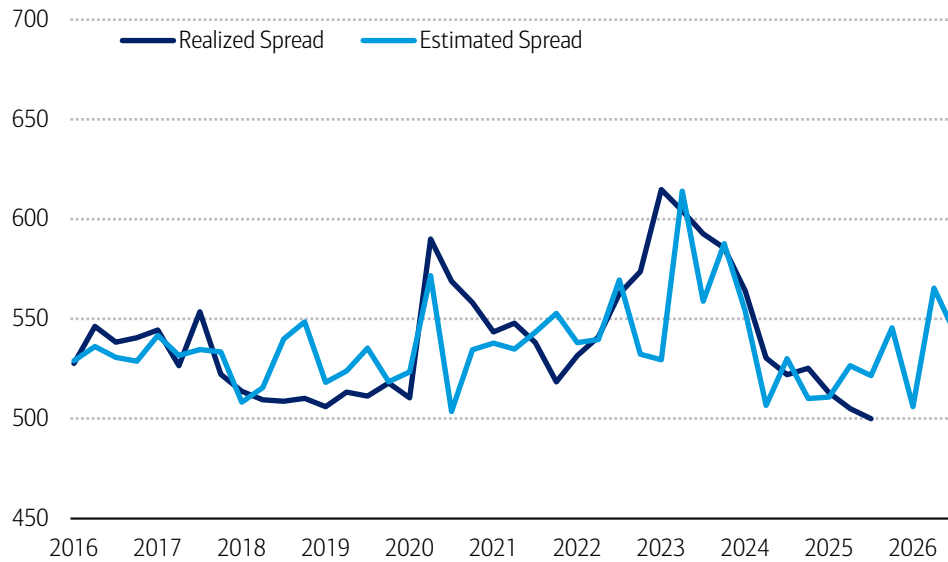
PC new issue spreads declined rapidly from Q1'23-to Q4'24 (-90bps), but have slowed down YTD (-25bps). Today, we are likely at an inflection point as recent record tights of 500bps serves as a strong resistance level for the industry. Primary market spread



trajectory is driven by fundraising strength, with various combinations of DL and CLO fundraising activity influencing spreads on a 1-2 quarter lag. Together, they explain 60% of the variation in PC new issue spreads, and the fit can be seen in Exhibit 29.

### Exhibit 29: Expect PC new issue spreads to increase to 540bps as compensation for risk increases and base rates decrease

PC spreads are expected to widen +40bps off of current cycle low (500bps) over next 12M



Source: BofA Global Research, LSEG LPC

BofA GLOBAL RESEARCH

We estimate PC new issue spreads to widen to 540bp over the next 12mo, attributable largely to the slowdown in MM CLO formation over the last quarter. In addition, the higher general context of DL fundraising over the last few quarters sets the stage for mean-reversion and a slowdown in overall fundraising activity, thereby pushing spread estimates incrementally wider.

That said, if the fundraising picture improves in 1H'26, we might see spreads tighten again and issuance increase on a delay (perhaps a 2H'26 story). This will entail sustained improvement in fundamentals which would allow lenders to accept tighter spreads, all things equal.

### PC returns to converge to HY and BSL

Putting our forecasts of new issue spread, base rate and default rate together, we come to our Total Return (TR) forecast of 5.4%, a meaningful step down from the ~9% likely to be realized in '25 (Exhibit 30). This is driven by lower carry due to rate cuts, capital gains flipping to losses as investors reprice risk, but with an offset from decreasing credit losses on lower default rates. Should this materialize, it will represent a 6<sup>th</sup> straight quarter of decline in LTM PC TR. Notably, this return profile will likely put Private Credit in the same zipcode as public credit, chipping away at its attractiveness as a yield enhancing strategy. Comparatively, we expect Private Equity returns to rise above 10% for the first time since 2022, encouraging some LPs to shift allocations away from PC to PE.

We also stress test PC returns using downside and upside scenarios. The former assumes prices fall back to '22 lows when interest rate concerns were at their peak, while the latter assumes valuations rally back to mid-last year highs. Notably, the output is extremely sensitive to macro assumptions highlighting the importance of getting the cycle right.

We also note that these projections are not useful for tactical trades given the long lock-up periods of investor capital (barring changes in market structure discussed later in the



report). However, they are designed to provide a directional guide of PC returns to investors looking to assess future cross-credit relative value and make long-term allocation decisions.

**Exhibit 30: We expect PC total returns to decline to 5.4% in '26 from ~9% levels this year**

Range of returns is 0%-9% under various economic scenarios

	YE 2024	2025	N12M Private Credit Total Return forecast		
			Base	Downside	Upside
Price, pts	94.7	94.6	94.5	93.8	95.2
DM, bps	<b>678</b>	<b>655</b>	<b>701</b>	<b>787</b>	<b>637</b>
Base rate, bps	430	370	300	200	370
Coupon equivalent, bps	955	870	840	800	870
<b>Current Yield, bps</b>	<b>1,008</b>	<b>920</b>	<b>889</b>	<b>853</b>	<b>914</b>
Spread change, bps		-23	45	131	-18
Key Rate change, bps		-60	-70	-170	0
<b>Capital gain, bps</b>		<b>102</b>	<b>-204</b>	<b>-590</b>	<b>82</b>
Default Rate, pct		4.9	4.4	7.0	3.0
Recovery Rate, pct		65	65	55	70
<b>Credit Loss, bps</b>		<b>172</b>	<b>154</b>	<b>315</b>	<b>90</b>
<b>Total return, pct</b>		<b>8.7</b>	<b>5.4</b>	<b>-0.2</b>	<b>9.1</b>

Source: BofA Global Research, LSEG LPC

BofA GLOBAL RESEARCH

## Market Innovation

### Structural innovation positions secondaries for scale

The private credit (PC) secondaries market has grown rapidly as investors seek liquidity amid slower distributions in private markets. Most PC investments are in closed-end structures, creating structural demand for secondary transactions, which can be LP-led or GP-led. LP-led deals allow investors to exit illiquid stakes in private funds, while GP-led deals extend portfolio life and offer rollover or liquidity options via sale of underlying portfolio assets. Evergreen funds, which have no fixed end date, have also emerged, allowing ongoing investment and exit flexibility.

The buyer base has also shifted significantly. Initially dominated by PE secondary buyers, the market now includes dedicated PC secondary funds and global entrants such as family offices and asset managers from diverse regions. Strategies vary from acquiring early-stage LP positions for diversification to later-stage concentrated portfolios.

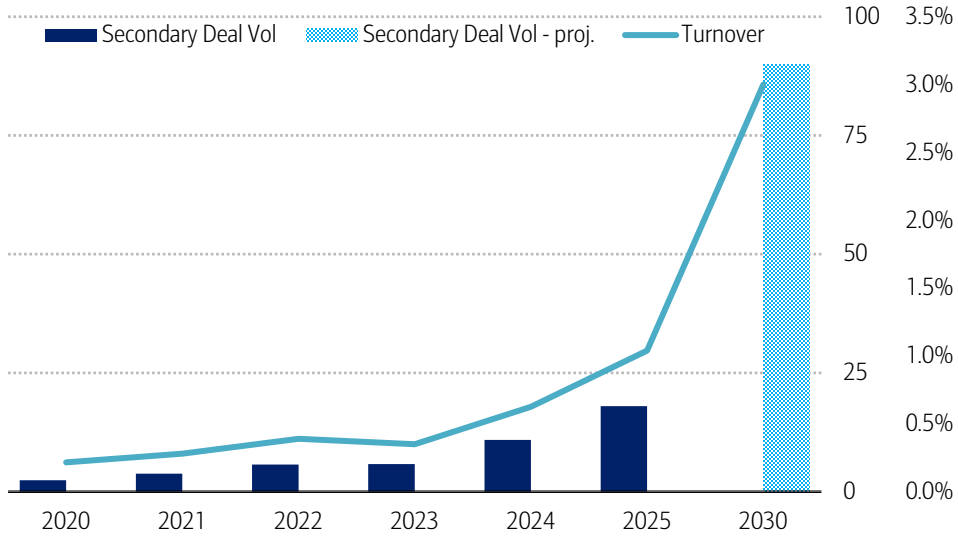
The market has transitioned from LP-led deals to GP-led structures, which comprised a majority of PC transactions this year. GP-led options include CV rollovers, strip sales, tender offers, and fund-to-fund transfers, enabling managers to retain high-performing assets longer and avoid forced exits. These structures also provide secondary buyers access to mature assets that have moved past their J-curve dip. PC trends have mirrored developments in PE secondaries, where deal types have become increasingly specialized by sector and geography.

PC secondary volumes remain small compared to PE but are expanding. In 2025, PC secondary turnover is estimated at 1% of AUM, or about \$18 billion, versus PE's \$200 billion and 2.3% turnover. With PC AUM projected to grow to \$1.83 trillion in 2026, secondary volumes should increase to \$18.3 billion next year. Longer term, continued elevated demand could drive turnover to reach 3% as infrastructure improves and GP-led innovations proliferate—in turn driving overall market growth to \$90 billion by 2030 (Exhibit 31).



**Exhibit 31: PC Secondary annual deal volume is expected to grow to \$90bn by 2030**

Turnover is expected to increase from 1% to 3% as market adapts to meet high demand



Source: BofA Global Resesarch, Preqin, Evercore

BofA GLOBAL RESEARCH



# Relative Value

Sector dispersion will widen in 2026 as AI impact accelerates, with defensive sectors and those positioned for AI-driven productivity gains offering best RV, while cyclicals and those exposed to low-end consumer may languish. Across market segments, we like HY Bs, Loan BBs and IG BBBs. HY>Loans. Secured>Unsecured. USD>EUR. PE>PC.

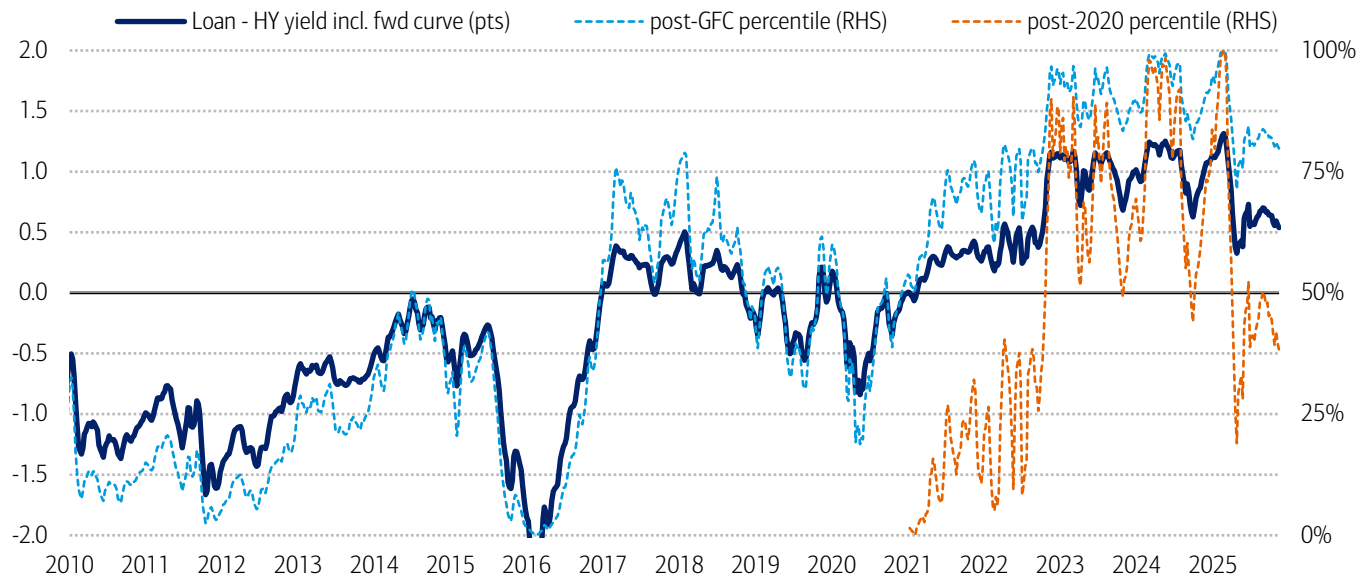
On an index level, we like HY over Loans on the back of rate cuts and our preference for quality yield. Within HY we like Bs over BBs which are too expensive, and CCCs where risk/reward is imbalanced. Within Loans we prefer BBs, and for those with the ability to underwrite risk, non-distressed Loan CCCs screen cheap. Controlling for issuers, we find unsecured HY bonds to be expensive and have room for correction.

## HY vs Loans

Our TR projections discussed earlier quantitatively highlight our preference for HY over loans by a clear margin. Loan demand is set to fall given rate cuts, which will eat into its carry premium over HY, dulling its relative attraction to both retail and institutional accounts. Exhibit 32 factors in the forward curve to calculate loan over HY premium. It oscillated around 1% for most of 2024 but has sat at less than 0.5% since April representing its 80th %tile post-GFC and 40<sup>th</sup> %tile post-2020.

**Exhibit 32: Loan vs. HY yield premium, including forward curve, has narrowed since April**

Loans currently outyield HY by 0.5% after factoring in the forward curve, below pre-April levels of around 1%



Source: BofA Global Research, Ice Data Indices, LLC, LCD, Markit

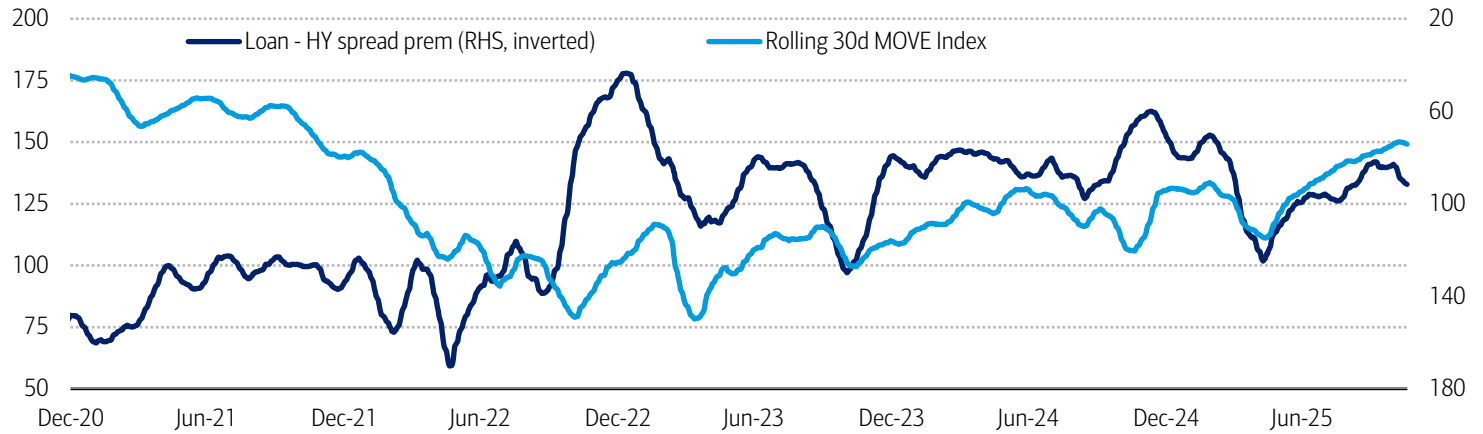
BofA GLOBAL RESEARCH

Bond-Loan index RV is not only impacted by rate levels but vol as well. Exhibit 33 shows the relationship of Loan spread prem. vs rates vol. Temporary rate vol spikes drive compression, with HY widening more than Loans but retracing after, as seen during the April-May tariff/trade uncertainty episode. Should '26 see flashes of rates vol similar to '25, the ensuing compression episodes could provide investors with entry points into HY – so long as volatility trigger remains benign.



**Exhibit 33: Loan – HY spread premium is negatively correlated to rates volatility**

Temporary spikes in rates volatility are often accompanied by Loan – HY compression



Source: BofA Global Research, ICE Data Indices, LLC., LCD

BofA GLOBAL RESEARCH

**Capital Structure RV**

We also look at bond-loan RV on a same issuer basis. Exhibit 34 shows the spread premium b/w issuer-matched unsecured HY vs. first-lien (“1L”) Loans. Unsecured HY premium over secured loans is cyclical, peaking >200bps during risk-off events (2011 debt crisis, 2016 oil selloff, Covid). The differential has been structurally lower post-2020 (median 63bps) due to high interest rate impact to bond prices. That said, even with the ongoing normalization of rates, differential is pinned <25bps–w/ the exception of a brief spike in April. Similar trends can be seen in yield metrics as well. We think there is upside to unsecured spreads as decompression pressures favor migration up the capital structure.

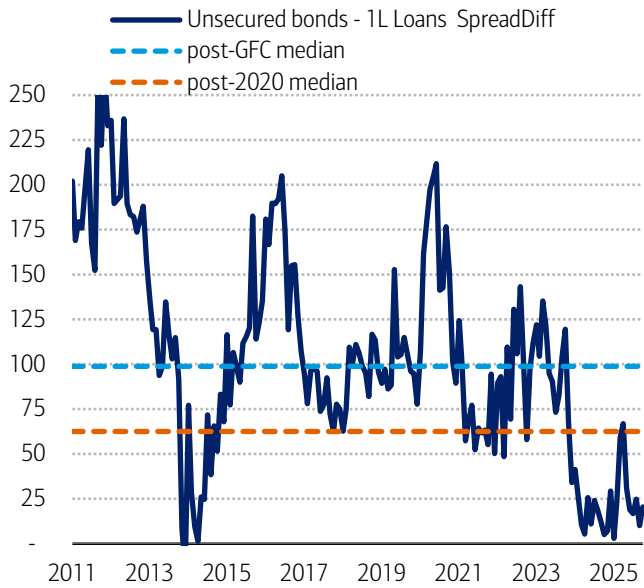
For similar reasons, the spread differential between secured HY and Loans on the same capital structure has remained in negative territory, wrapped around -100bps since 2023 (Exhibit 35). This HY bond premium is partially explained by its favorable non-call structure, but stands to also reverse as rates normalize.

While on an index level we like HY over Loans, controlling for issuers we find HY continues to screen expensive vs Loans especially on an unsecured basis.



**Exhibit 34: Issuer-matched unsecured bond – 1L Loan spread prem remains compressed**

Unsecured spreads could underperform due to decompression

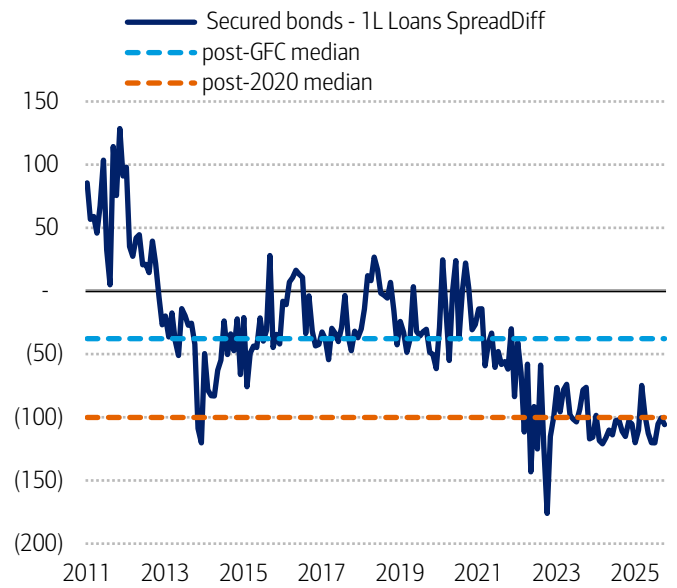


Source: BofA Global Research, Ice Data Indices, LLC., LCD

BofA GLOBAL RESEARCH

**Exhibit 35: Issuer-matched secured bond – 1L Loan spread prem remains negative**

Secured loans continue to outyield same issuer secured bonds



Source: BofA Global Research, Ice Data Indices, LLC., LCD

BofA GLOBAL RESEARCH

**Ratings RV**

**Belly of the Curve: Bs Screen Cheapest in HY**

To get a sense of RV across ratings we can look at difference (“premium”) or ratios of spreads. Spread premium measures the absolute compensation received for moving down credit quality. Spread ratio, on the other hand, normalizes various macroeconomic regimes to identify small-scale dislocations in tight spread environments. The two generally move together but sometimes lead to differing narratives such as today. Exhibit 36 shows BB to BBB RV measured both ways. Today’s level of spread premium would suggest room for BB decompression, while ratios would suggest the opposite.

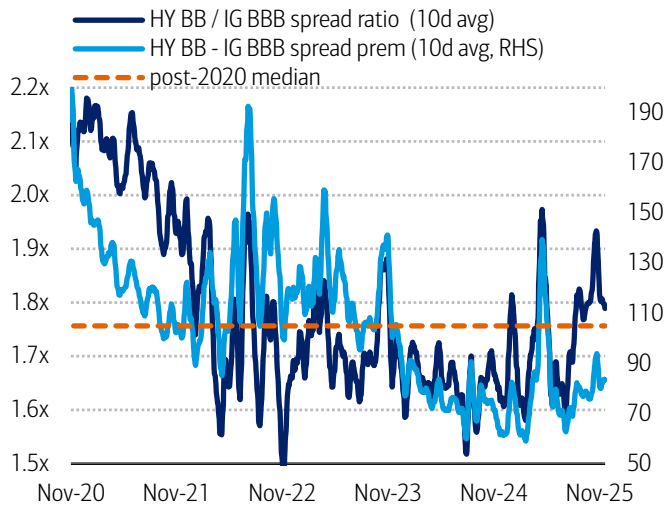
In such situations we prefer using premium based RV, since allocators look towards excess spreads to judge cross-asset attractiveness, reflected more aptly by premium differences as opposed to ratios. Additionally, ratios overcompensate in extreme spread environments– including the tight regime that exists today. BB-**BBB** spread prem today is 32<sup>nd</sup> %tile, ratio is at 61<sup>st</sup> % - levels last seen in Apr’25 amid the tariff-led risk off. Clearly, the periods are not similar macroeconomically, and looking at ratios today could result in out of scale compression expectations.

Bs now screen cheapest in HY w/ spread premium near post-2020 medians, while BBs are still below that threshold. Given our benign outlook for default rates, we think this serves as a good entry point for HY Bs (Exhibit 37). On the contrary, BB spreads decompressed against BBBs in early October to 95bps but have since compressed back to low 80s due to IG cash underperforming on AI capex supply indigestion (Exhibit 36). We think IG supply will gradually normalize given the negative feedback from spreads, leading BBBs to outperform vs BBs and driving further decompression.



**Exhibit 36: HY BB spreads are trading around median historical premium vs. BBB**

HY BB / IG BBB spread ratio and premium (RHS)

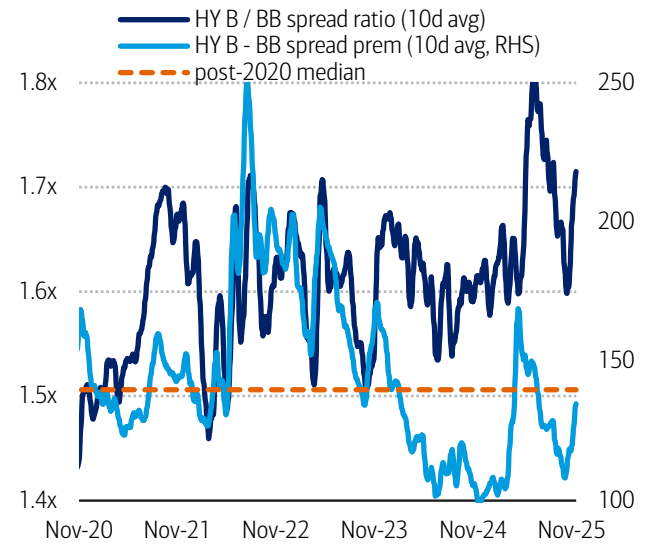


Source: BofA Global Research, ICE Data Indices, LLC.

BofA GLOBAL RESEARCH

**Exhibit 37: HY Bs are cheap based on their current premium over BBs**

HY B / BB spread ratio and premium (RHS)



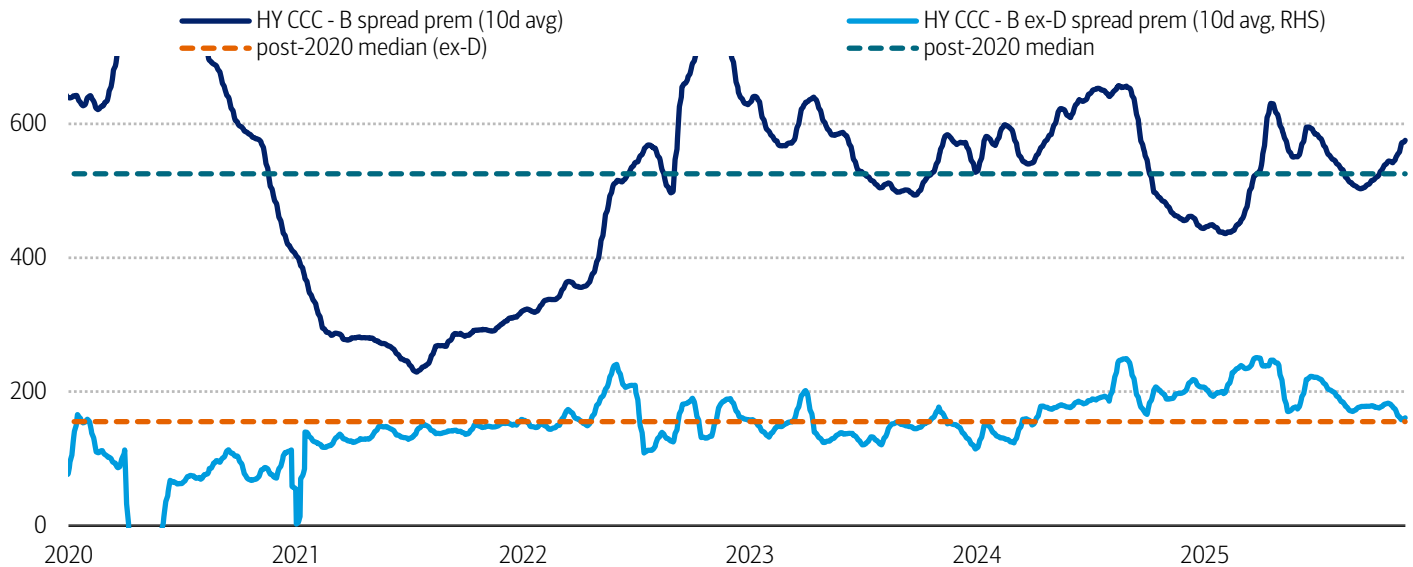
Source: BofA Global Research, ICE Data Indices, LLC.

BofA GLOBAL RESEARCH

HY CCC vs B spread premium is currently at 573bps - 70<sup>th</sup> %tile percentile (Exhibit 38). However, most of that runway sits in distressed names, excluding which the premium drops to 160bps - 54<sup>th</sup> percentile, and already near its most compressed level since early 2024. As such we expect performing CCCs to decompress against Bs going forward, aided by investors repricing risk.

**Exhibit 38: HY CCC - B spread premium is at median level after excluding distressed credits**

We expect performing CCCs to decompress against Bs going forward, as risk continues to be repriced



Source: BofA Global Research, Ice Data Indices, LLC.

BofA GLOBAL RESEARCH

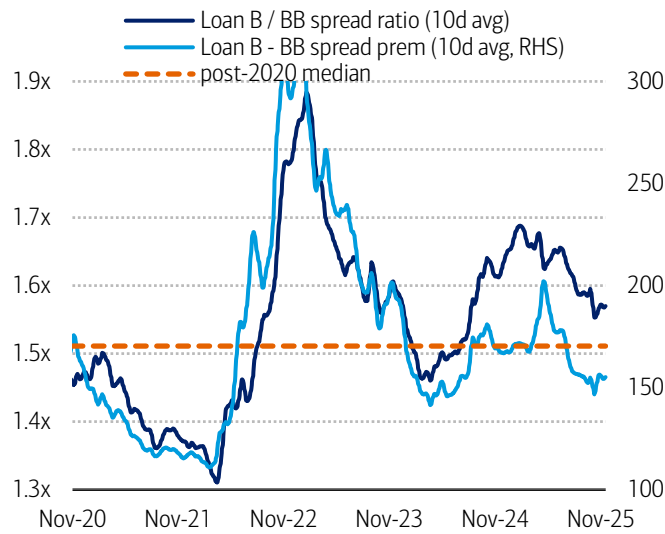


**Loans: wings are cheap with a large dose of risk in CCCs**

Loan Bs screen rich to BBs with premium at 156bps and well below median (Exhibit 39). Here we expect decompression as investors look for quality yield. CCCs screen very cheap vs. Bs (CCC – B spread prem is 1087bps, its 90<sup>th</sup> percentile post-2020) (Exhibit 40).

**Exhibit 39: Loan Bs screen rich against BBs, w/ spread premium well below median**

Loan B / BB spread ratio and premium (RHS)

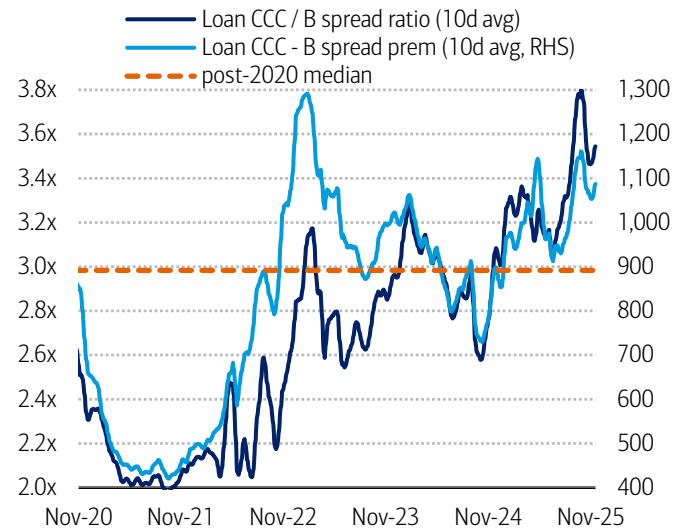


Source: BofA Global Research, LCD

BofA GLOBAL RESEARCH

**Exhibit 40: CCCs screen cheap vs. Bs**

Loan CCC / B spread ratio and premium (RHS)



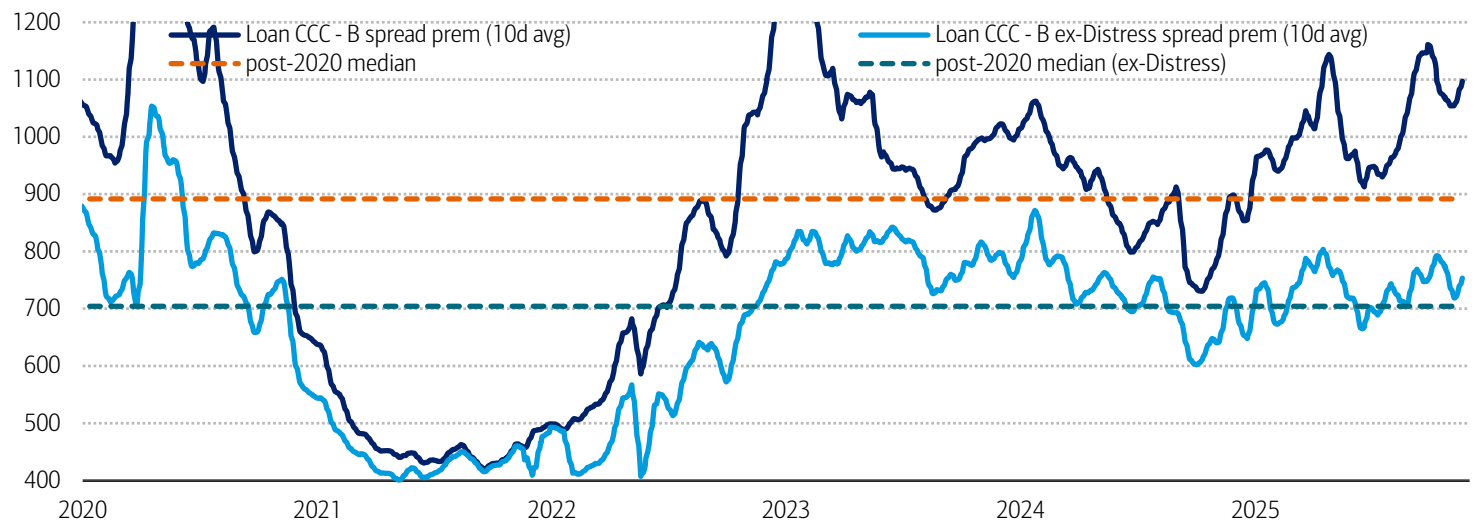
Source: BofA Global Research, LCD

BofA GLOBAL RESEARCH

Unlike HY CCCs, Loan CCCs remain attractive after carving out distressed issuers, with ex-D CCC – B premium at 745bps, its 65<sup>th</sup> %tile post-2020 (Exhibit 41). This compares to 54<sup>th</sup> %tile in ex-D HY CCC-B premium (Exhibit 38). Rate cuts will also help drive Loan CCC compression, as our analysis shows most CCC issuers will get to 1x coverage if fed funds fall to 3%. Even with 1-2 cuts, Loan CCCs can benefit if cash flows don't deteriorate.

**Exhibit 41: Loan CCCs remain attractive vs. Loan Bs, even after carving out distressed issuers**

Loan CCC – B spread premium, including and excluding distressed



Source: BofA Global Research, LCD

BofA GLOBAL RESEARCH



That said, CCC loans also pose sector risk due high exposure to subsectors which may be adversely affected by AI obsolescence and other cyclical risks. See the subsector level breakdown of CCC HY and Loans in The devil is in the details – dispersion within HY and Loan sectors. On balance we like Loan CCC ex-D and think it presents one of the only remaining alpha generation opportunities within credit for those that can underwrite this riskiest part of the credit market.

## HY vs IG

### The case for decompression

HY currently offers 220bps of premium over IG, below historical medians. While not at cycle lows (195bps), there is risk that HY spreads decompress against IG especially if BBs decompress against BBBs (the two largest ratings within each asset class).

It is also easy to argue for compression especially if we go by our house economic view of strong growth. However, there are important considerations: 1) Credit spreads are rich and are projected to widen from here in a way that delivers marginal decompression – see our spread forecast section 2) Technicals have been super strong since '22 and are forecasted to soften next year as issuance grows and demand slows down 3) AI disintermediation could LevFin credit more than large cap IG as discussed earlier. Therefore, despite strong headline economic growth, a mild decompression between IG and HY is not far-fetched to envision.

## Sector RV

### HY and Loans sector recommendations

Exhibit 42 shows current sector valuations across spread, price and yields for both HY and Loans along with our updated recommendations.

**Exhibit 42: HY: Utilities > Autos, Chemicals, Packaging/Paper. Loan: Metals, Telecoms>Autos, Energy, Food, Packaging/Paper, Retail, Tech, Transport**  
HY and Loan Sector valuation and recommendations

	High Yield								Loans								
	% of index	TR YTD	OAS		Price		YTW	Recommendation	% of index	TR YTD	3yrDM		Price		YTM		Recommendation
			Current	YTD	Current	YTD	Spot				Current	YTD	Current	YTD	Spot	3yr Yield	
Autos	6%	6.63%	347	30	98.3	0.99	7.1	UW+	4%	4.85%	446	-56	96.8	0.29	8.3	7.8	UW+
Cable	7%	7.52%	532	-49	89.1	3.29	8.7	MW+	2%	6.39%	454	29	97	0.37	8.4	7.8	MW+
Capital Goods	5%	8.05%	175	-21	101.8	2.64	5.5	MW-	7%	5.46%	403	11	97.4	-1.04	7.8	7.3	MW+
Chemicals	4%	2.80%	412	114	93.6	2.59	7.8	UW-	3%	-0.63%	685	275	91.3	7.15	10.3	10.2	MW-
Energy	12%	6.34%	291	30	99.8	0.77	6.8	MW+	3%	4.78%	361	19	97.8	-2.18	7.4	6.9	UW+
Financials	12%	7.77%	248	26	100.5	1.92	6.3	MW	13%	6.06%	320	-3	99.4	-0.31	7.1	6.5	MW+
Food Producers	2%	8.84%	201	-23	100.1	3.11	5.7	MW-	3%	4.16%	325	-165	99.5	3.26	7.2	6.6	UW+
Gaming	3%	5.44%	321	85	96.7	0.28	7	MW+	2%	5.35%	321	34	98.7	-1.01	7.1	6.5	MW-
Healthcare	9%	10.42%	292	-45	97.7	5.1	6.8	MW+	10%	6.26%	416	-21	97.8	-0.04	8	7.5	MW+
Media	6%	11.43%	362	-107	93.6	3.49	7.5	MW	4%	4.90%	642	151	94.4	-2.57	10.1	9.7	MW+
Metals	3%	8.57%	230	-18	100.7	3.11	6	MW	1%	5.18%	382	43	98.1	-1.61	7.7	7.1	OW
Packaging/Paper	3%	1.08%	627	258	88.8	4.48	10.1	UW	2%	4.33%	465	63	97	-1.82	8.5	8	UW
Real Estate	5%	7.60%	263	14	98.4	2.94	6.5	MW	6%	5.93%	382	20	97.9	-0.98	7.7	7.1	MW-
Retail	5%	5.50%	360	57	94.7	1.45	7.5	MW+	6%	4.51%	490	3	95.8	-1.05	8.5	8.2	UW+
Services	3%	5.78%	251	34	97.7	0.68	6.4	MW	8%	5.79%	426	-12	97.3	-0.52	8.1	7.6	MW-
Technology	4%	7.56%	304	40	98.3	2.21	6.9	MW	14%	4.40%	557	17	94.4	-0.82	9.2	8.9	UW+
Telecoms	5%	9.93%	298	-38	98	3.18	6.9	MW+	2%	9.26%	550	-122	95.3	2.15	9.2	8.8	OW-
Transportation	1%	2.69%	344	99	96.4	3.59	7.4	MW-	1%	5.65%	362	20	98.2	-0.93	7.5	6.9	UW
Travel	6%	6.62%	240	40	99	1.6	6.1	MW	6%	5.63%	309	3	99.1	-0.46	7	6.4	MW
Utilities	3%	7.67%	171	0	100.8	2.45	5.7	OW+	2%	6.14%	251	-44	100.1	-0.21	6.5	5.8	MW+

Source: BofA Global Research, ICE Data Indices, LLC, LCD

BofA GLOBAL RESEARCH

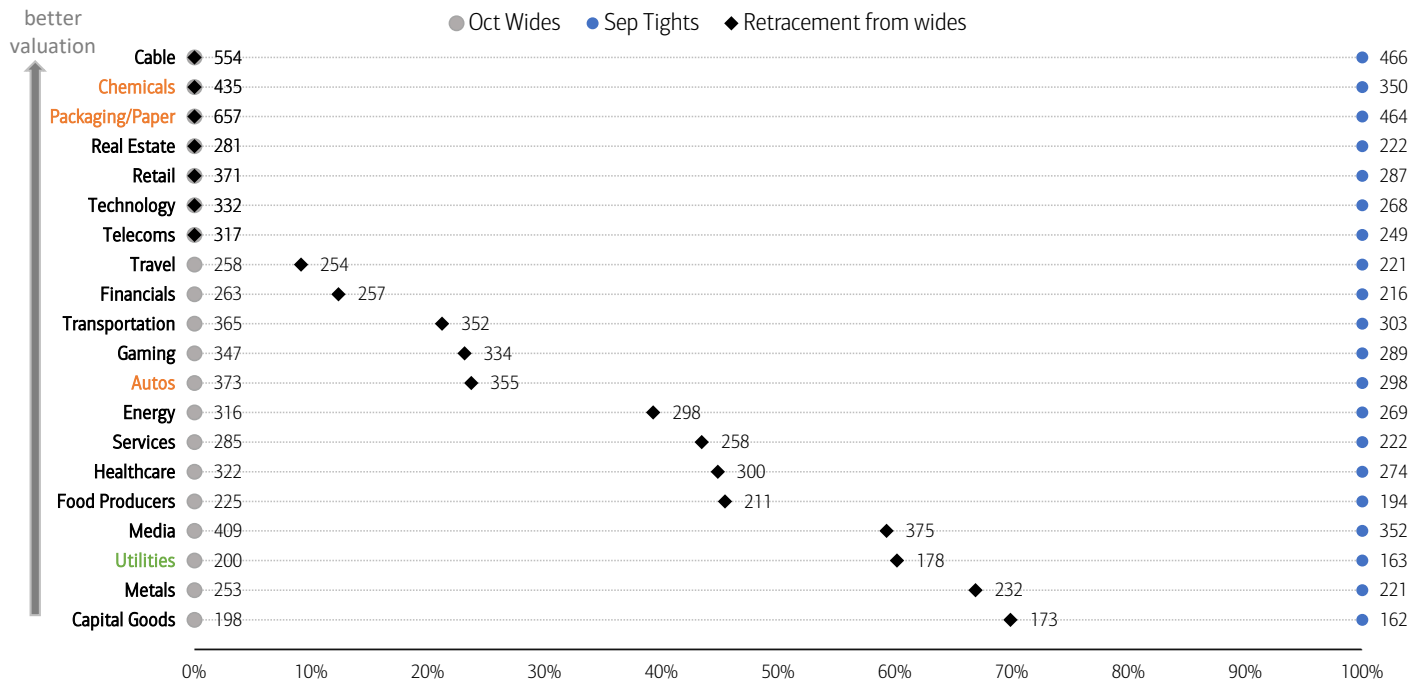
Our sector recommendations are based on absolute valuations as well as their individual retracements across their local tight (Sep) and wide (Oct). We show these retracements in Exhibit 43 and Exhibit 44. Notably, dispersion remains very high and



down to the subsector level. This can be appreciated in Exhibit 45 and Exhibit 46, which show how some sectors show extreme bifurcations and care need to be taken while underwriting risk.

**Exhibit 43: In HY, Cable, Chemicals, and Packaging/Paper have not retraced from Oct wides**

Spread retracements from Oct wides by sector in HY (Green = OW; Black = MW; Orange = UW).

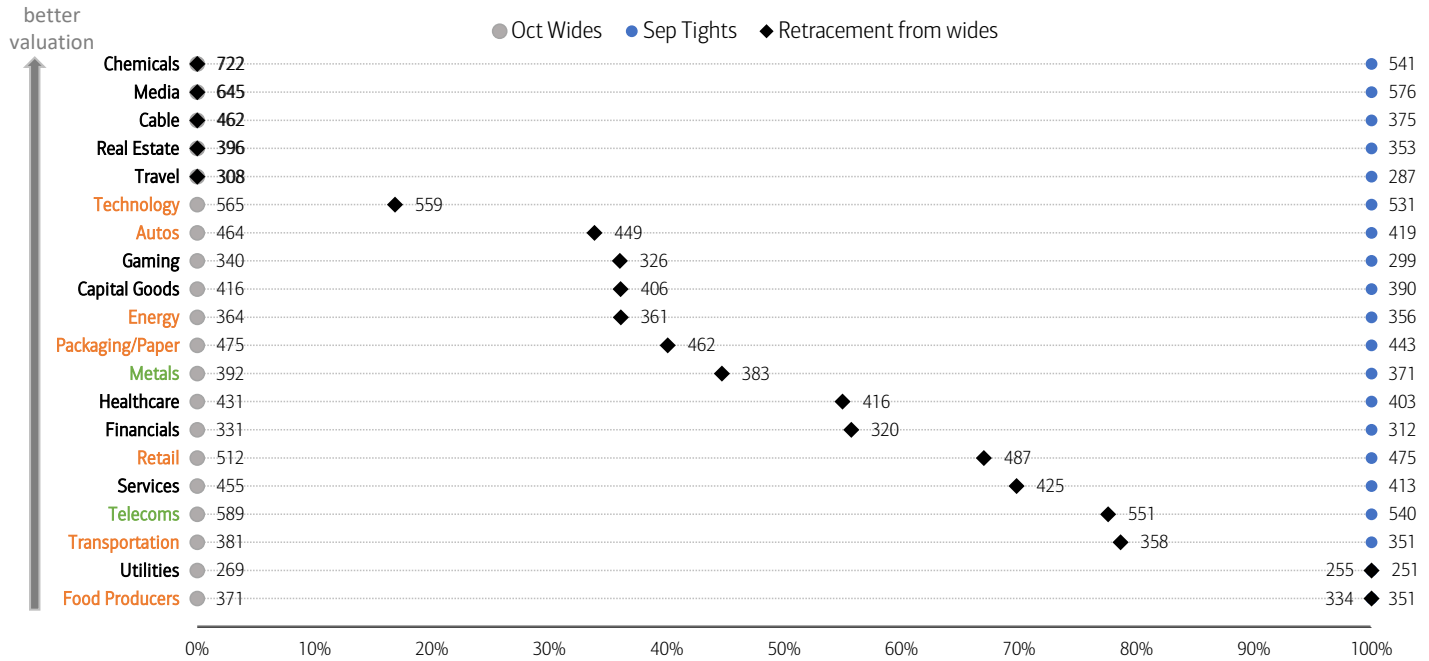


Source: BofA Global Research, ICE Data Indices, LLC



**Exhibit 44: In Loan, Chemicals, Media, and Cable have not retraced from Oct wides**

Spread retracements from Oct wides by sector in Loan (Green = OW; Black = MW; Orange = UW).



Source: BofA Global Research, LCD

BofA GLOBAL RESEARCH

**Chemicals and Packaging/Paper** are highly cyclical sectors with limited upside from AI but notable headwinds from weaker economy and slow growth. If tariffs are overturned, pricing pressure from China exports will further deteriorate margins. Both sectors are at their local wides in HY & Loans (except for paper) for right reasons – we are UW these sectors despite compensation.

**Retail** also at its wides in HY, mainly driven by subdued demand in discretionary segment while staples have retraced 1/3 from local wides. If tariffs are reversed, the segment could enjoy tailwinds from lower inflation and boosted demand and might have small upside. On the other hand, Retail doesn't screen cheap in Loans, with discretionary retail already retraced 50% and staples near tights.

**Technology** is at or near local wides in both HY and Loans but there is massive divergence on a subsector level - hardware directly benefits from the AI momentum evident by the tight spreads, while investors remain concerned around the potential AI obsolescence in software names. Since we don't know how deep the rabbit hole goes, we remain cautious despite valuations. Additionally, recent rout in IG tech shows that even hardware names may not be immune.

**Real Estate** is another cheap sector in both markets with subdued revenue and earnings growth. However, we believe rate cuts and supportive housing policies can be constructive to the growth next year, but macro headwinds exist for us to remain MW.

**Autos** have moderately retraced in both markets, as concerns around subprime weakness has receded and confidence has increased following earnings beats from GM and F. That said, given the extreme scrutiny around factoring and consumer spending, we remain cautious.

**Energy** has retraced ~50% bac to Sep tights in both markets but with divergent underlying drivers. In HY, E&P and drilling services have outperformed on AI needs, whereas Midstream has experienced softer demand. In Loans, the sector is already at tights leaving little to no upside in either.



**Services** is a large and incredibly diverse Loan sector. Consumer services (education, childcare, staffing) are at local wides on AI disruption while commercial services (business, consulting, environmental) are on the other end of the spectrum, highlighting again the need for investors to evaluate AI impact on an issuer and subsector level. We remain watchful on how this space evolves.

**Utilities** and capital goods are poised to ride the AI wave given the construction and power needs. These sectors are at their local tightts (except for Loan Cap Goods) and can be expected to remain strong.

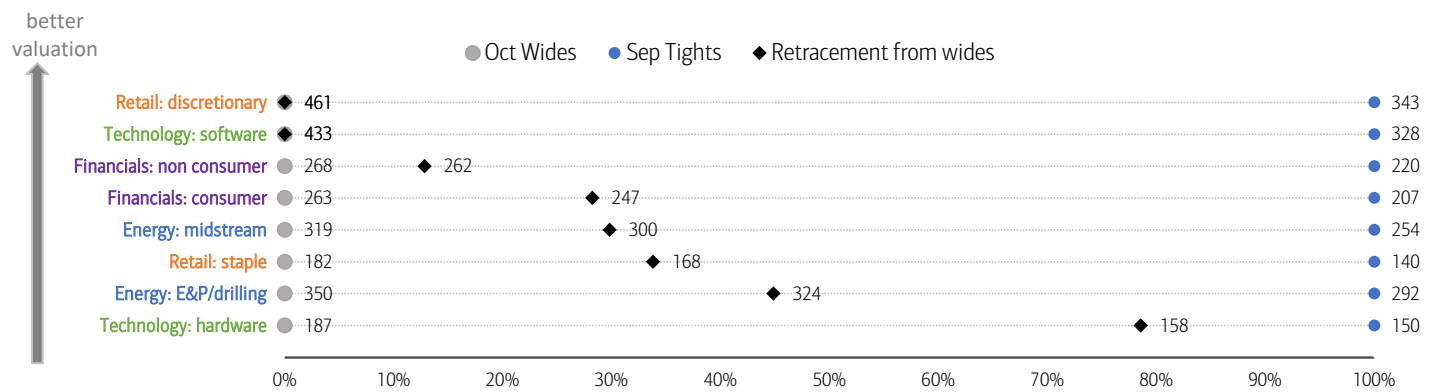
Another such sector benefitting from AI/construction trends is **Metals** – while valuations in HY reflect this, Loans seem to have some room to the upside.

**The devil is in the details – dispersion within HY and Loan sectors**

Dispersion is fraught even at the subsector level. Exhibit 45 and Exhibit 46 show some of the divergences within the same sector (color matched) created by risks from AI and low-end consumer.

**Exhibit 45: In HY subsectors, discretionary retail and software are at the wides**

Spread retracements from Oct wides by subsector in HY. Same color indicates the same sector.

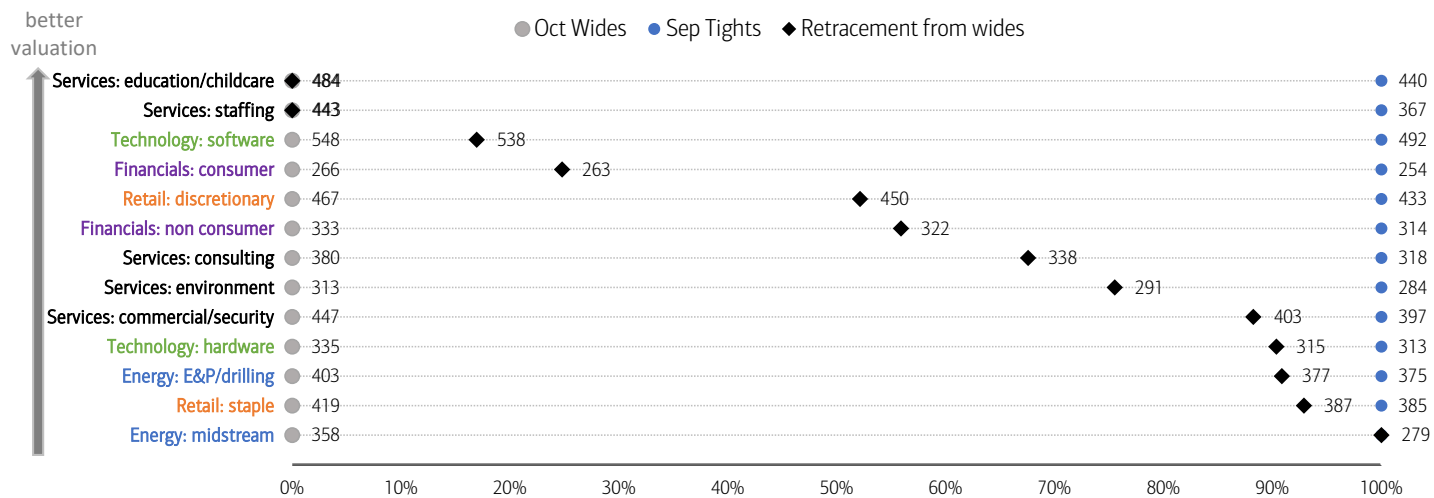


Source: BofA Global Research, ICE Data Indices, LLC

BofA GLOBAL RESEARCH

**Exhibit 46: In Loan subsectors, consumer services and software are at the wides; consumer financials and discretionary retail retraced less than half**

Spread retracements from Oct wides by subsector in Loan. Same color indicates the same sector.



Source: BofA Global Research, LCD

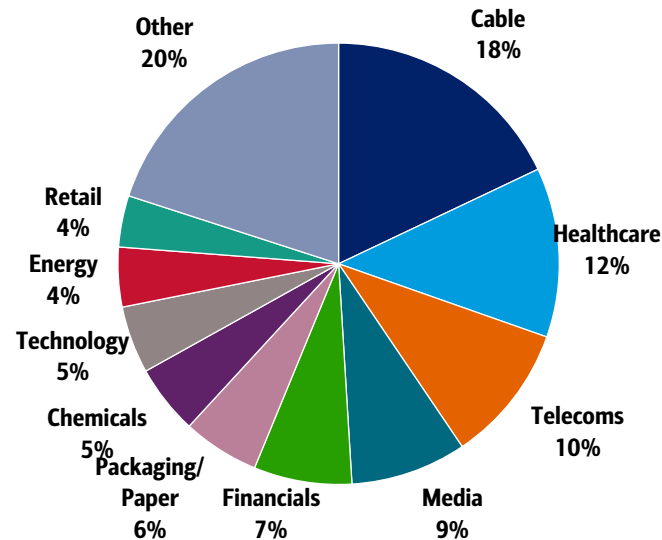
BofA GLOBAL RESEARCH



Exhibit 47 and Exhibit 48 show sector composition of Loan and HY CCCs. Vulnerabilities include Tech software/services (17%) + Chemicals (6%) + Education/Staffing Services (2%) + Discretionary retail (4%) + non-airline Travel (2%) = 31% of Loan CCCs. Comparatively, the equivalent risk is in Packaging/Paper (6%) + Chemicals (5%) + Discretionary Retail (4%) + Consumer Financials (1%) = 15% for HY CCCs. These subsector level differences suggest that there is meaningfully more credit risk in Loan CCCs than in HY CCCs.

**Exhibit 47: HY CCC concentrated across Cable, Healthcare and Telecoms**

Sector composition of HY CCCs by par

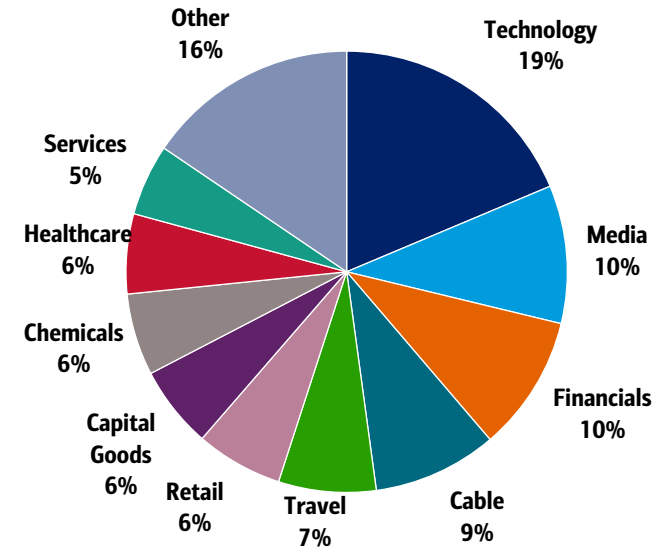


Source: BofA Global Research, ICE Data Indices, LLC

BofA GLOBAL RESEARCH

**Exhibit 48: Loan CCC concentrated across Tech, Media and Financials**

Sector composition of Loan CCCs by par



Source: BofA Global Research, LCD

BofA GLOBAL RESEARCH

## Private Credit vs BSL

Private Credit (PC) premium over broadly syndicated loans (BSL) is countercyclical in temporary dislocations as public markets move first while it could take months for impact to surface in MM data. In 2026, direction of premium will hinge on investor risk appetite. If risk reprices wider, PC premium will likely decline as public markets reprice faster. If risk rallies, PC premium may remain elevated or increase further.

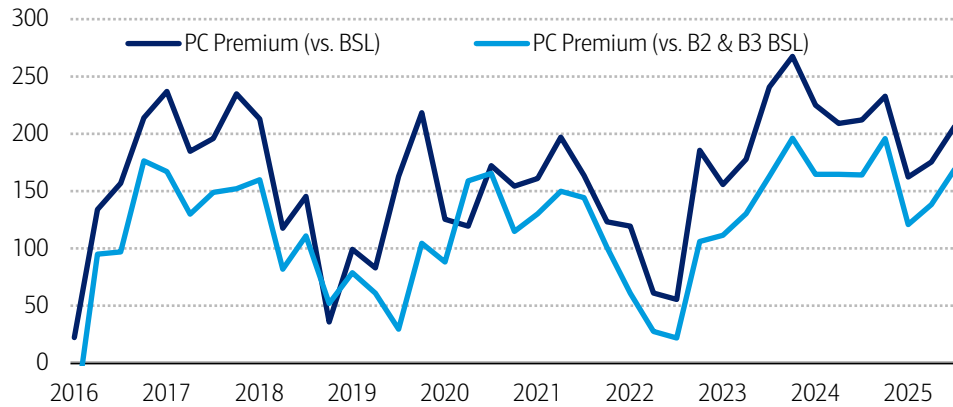
### PC Premium vs BSL

Exhibit 49 shows PC premium over BSL. We measure it two ways - against overall BSL primary spreads, and separately against the B2 & B3 BSL primary. We prefer to use the B2/B3 comparison since it is more comparable to MM issuers. This measure currently stands at ~170bps, up from 120bps in 1Q, driven by tighter BSL spreads while PC spreads plateaued near prior cycle lows of ~500bps. BSL new issue spreads have tightened by ~58bps since 1Q, while PC tightened only ~25bps before stopping out.



**Exhibit 49: PC new issue spread premium vs BSL is now 170bps, up from 120bps in 1Q**

PC spreads have decompressed, driven by greater YTD tightening in BSL



Source: BofA Global Research, LCD, LSEG

BofA GLOBAL RESEARCH

Elevated PC premium has driven net migration from PC to BSL, with \$44bn refinanced YTD from PC to BSL vs \$31bn in the opposite direction. This represents a 10% YoY increase in net migration toward BSL, as issuers seek cost savings and flexibility.

In 2026, the direction of PC premium will depend on growth upside vs dispersion downside. PC premium tends to be countercyclical: it compresses during risk-off periods (e.g., 2022, Q1'25) and widens during risk-on rallies (e.g., 2021, 2023). If risk reprices wider which is our base case, we expect PC premium to compress at first. If the market move represents a change in investor sentiment regime (i.e. lasts long enough), PC premium should ultimately widen beyond today's levels as decompression ensues. However, should it be a temporary dislocation, premium should mean revert towards current levels of 170bps over B2/B3 BSL primary.

## Bank Loans vs BSL

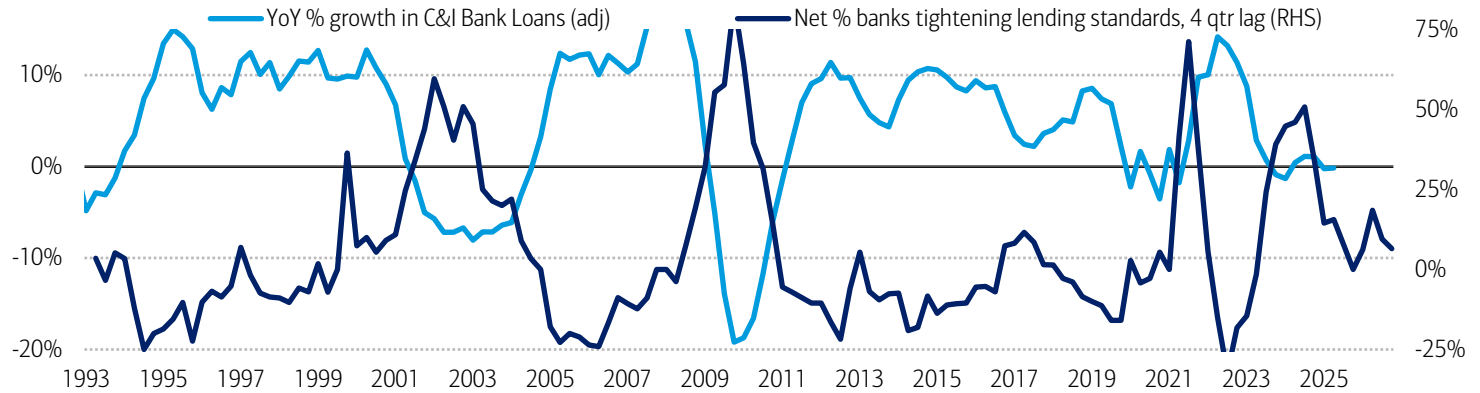
1H2025 saw flat YoY growth in C&I bank loans due to shallower than expected rate cuts driven by tariff uncertainty. We expect Bank Loan (BL) growth to recover through 2026, back in range of +3% YoY as headwinds from early 2025 continue to fade and upside from deregulation and continued loosening of lending standards is finally realized.

Changes in bank lending standards are a strong leading indicator of actual Bank Loan issuance 1 year in advance. Exhibit 50 shows YoY growth in C&I Bank Loans vs. the net % of banks reporting tighter (looser) lending standards four quarters ago. We saw this dynamic when the regional banking crisis in Q1 '23 drove lending standards to rapidly tighten, eventually transmitting into -1.3% YoY BL growth by Q1 '24.



**Exhibit 50: C&I Bank Loans are expected to grow 3% YoY in 2026 after flat growth through Q2 2025**

Bank Loan growth is expected to be boosted by loosening lending standards



Source: BofA Global Research, FRED

BofA GLOBAL RESEARCH

Since then, lending standards have for the most part improved aside from a brief bout of tightening amid Q2 tariff uncertainty. Latest Fed data shows 6.5% of banks currently tightening standards on C&I Loans, a moderate improvement from 15.6% in 2Q 2024 which should lift BL issuance from its current 0% level to 3% by end of next year.

Aside from gradual normalization of lending standards, anticipated cuts should stimulate borrowing demand, while a renewed focus on deregulation is likely to free up additional bank capital and create more favorable lending conditions. Moreover, banks are increasingly extending credit to non-depository financial institutions (NDFIs), which have been contributing a growing share of overall loan growth.

**USD vs EUR**

As laid out in [EU loans in 2026](#), we think current macro environment is more favorable in the US where economy is strong and the Fed has started the cutting cycle, compared to the Eurozone where macro headwinds, tariffs and rate cuts now in question outweigh tailwinds from German fiscal stimulus, making the economic trajectory rather uncertain. Below we discuss our views on US vs EU RV for both Loans and HY.

**US Loans > EU Loans**

At index level, European loans currently screen cheaper than their US counterparts on a percentile basis, with spread sitting at the 41st percentile compared to 23rd percentile for US loans (Exhibit 51), and price sitting at 35th percentile compared to 46th percentile for US loans (Exhibit 52). That said, there are nuances. While EU BBs seem cheap, the market lacks depth and diversity compared to US BBs. EU single Bs, which may be the only actionable market, offer only a marginal premium vs US Bs.

**Exhibit 51: EU loan spreads sit at the 41st percentile, compared to the 23rd percentile for US loans**

USD vs. EUR Loans spread percentile

	US	EU	Gap
Index	23%	41%	18%
BB	9%	56%	46%
B	15%	22%	7%
CCC	74%	70%	-4%

Source: BofA Global Research, LCD

BofA GLOBAL RESEARCH

**Exhibit 52: EU loan prices sit at the 35th percentile, compared to the 46th percentile for US loans**

USD vs. EUR Loans price percentile

	US	EU	Gap
Index	46%	35%	11%
BB	45%	12%	33%
B	51%	37%	14%
CCC	21%	26%	-4%

Source: BofA Global Research, LCD

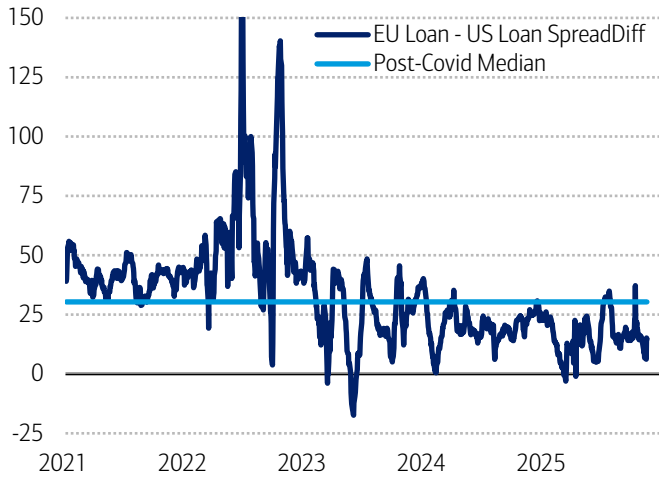
BofA GLOBAL RESEARCH

Exhibit 53 shows the historical time series of spread differential between EU and US loans on an issuer-matched basis. We find the spread premium has narrowed from ~40bps in early Oct to 10bps today, placing it only at the 7<sup>th</sup> percentile historically.



**Exhibit 53: Issuer-matched spread differential is only 10bps**

US vs EU Loan issuer-matched spread differentials (bps)

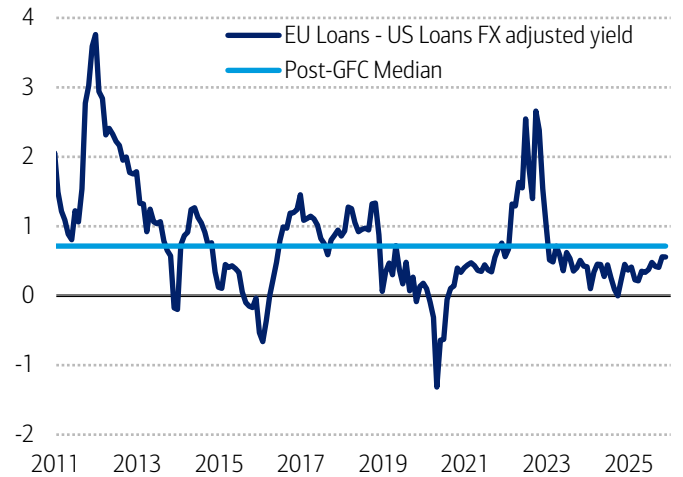


Source: BofA Global Research, LCD

BofA GLOBAL RESEARCH

**Exhibit 54: EU loans offer a modest 0.6% yield premium relative to US**

US vs EU Loan yield differential (FX-adjusted) (%)



Source: BofA Global Research, LCD

BofA GLOBAL RESEARCH

EU loan yields are also not compelling. On a nominal basis, EU loans yield 6.6% compared to 8.1% for US loans. After adjusting for FX forwards, EU loans yield 8.7% offering a modest 0.6% premium relative to US, below the 0.7% median level post GFC and insufficient to offset macro risks in our view (Exhibit 54).

Furthermore, our FX team’s bearish view on the USD vs. EUR (see report: [FX Viewpoint: USD: Maintaining a bearish bias amid growing 2-way risks](#)) suggests that hedging costs could decrease further as the Fed cuts rates. In such a scenario, US assets including loans could become relatively more attractive for global asset managers.

**US HY > EU HY**

EU HY valuations also look less compelling vs US HY on a percentile basis, with index level spread at 9th percentile and price at 46th percentile, both richer than their US counterparts (Exhibit 55 and Exhibit 56). CCC HY is the only rating bucket we see cheaper valuations in EU vs. US, though defaults in EU HY are also higher.

**Exhibit 55: EU HY spreads sit at the 9th percentile, compared to the 10th percentile for US HY**

USD vs. EUR HY spread percentile

	US	EU	Gap
Index	10%	9%	-1%
BB	9%	4%	-5%
B	11%	14%	2%
CCC	50%	62%	12%

Source: BofA Global Research, ICE

BofA GLOBAL RESEARCH

**Exhibit 56: EU HY prices sit at the 46th percentile, compared to the 35th percentile for US HY**

USD vs. EUR HY price percentile

	US	EU	Gap
Index	35%	46%	-11%
BB	30%	46%	-16%
B	45%	50%	-6%
CCC	26%	19%	8%

Source: BofA Global Research, ICE

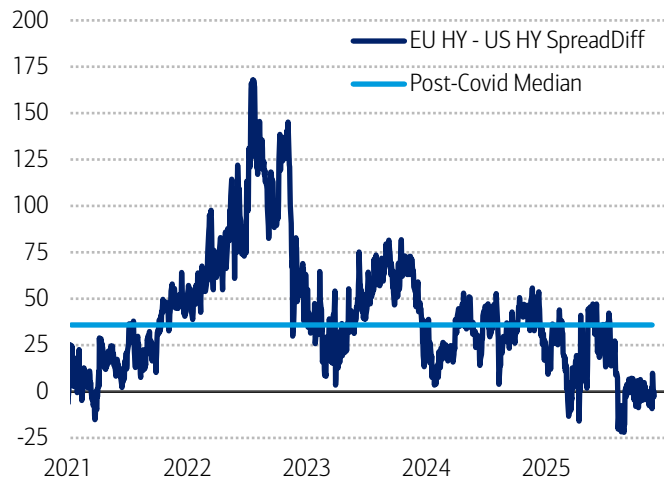
BofA GLOBAL RESEARCH

Issue-matched spread differential tells a similar story, with EU HY spread right on top of US HY today, offering no premium (Exhibit 57). Meanwhile EU HY yield, after adjusting for a 2% FX premium, stands at 7.1%, only 0.2% higher than US HY (Exhibit 58).



**Exhibit 57: EU HY offers no premium over US HY on an issuer-matched basis**

USD vs EUR HY issuer-matched spread differentials (bps)

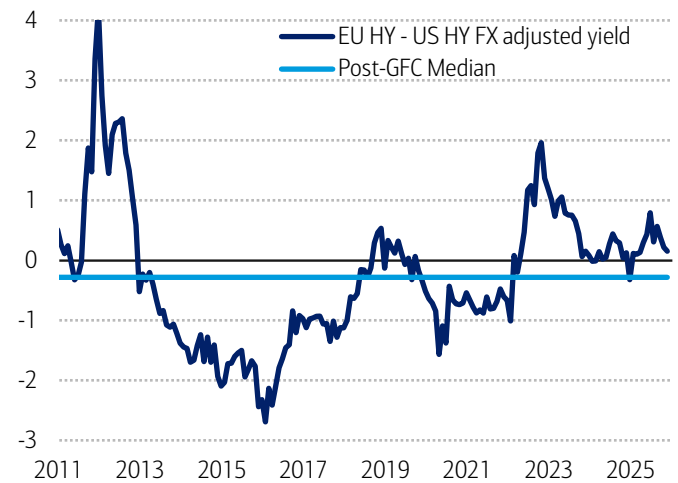


Source: BofA Global Research, ICE

BofA GLOBAL RESEARCH

**Exhibit 58: EU HY yields 0.2% higher than US HY after adjusting FX premium**

USD vs EUR HY yield differential (FX-adjusted) (%)



Source: BofA Global Research, ICE

BofA GLOBAL RESEARCH

Looking ahead, we like US HY better than EU HY given current valuation levels and more favorable economic backdrop in the US. US HY currently provides ~660bps of carry vs. ~500bps for EU HY, and it stands to benefit more from rate cuts compared to EU HY in 2026 (3 cuts in the US vs. 0-1 cut in EU). Assuming a similar magnitude of spread widening from current levels given respective risks in both markets, we expect US HY to generate higher nominal returns than EU HY in 2026. Moreover, given our expectation for a declining FX premium next year, we anticipate US HY to outperform even on an FX-adjusted basis.

## Key Risks Shaping 2026

### Artificial Intelligence: Promise and Peril

The rapid rise of generative and general artificial intelligence is reshaping the global economic and social landscape, with profound implications for US growth, corporate performance, and global and domestic financial markets across retail and institutional investors.

On the upside, successful integration of AI across technology, business, and healthcare could significantly boost productivity and long-term economic growth. Hyperscalers are committing trillions in capital expenditure to build AI infrastructure creating substantial financing opportunities - especially for private credit markets - given the scale of investment required. With more growth companies staying private for longer, there will be more opportunity for private debt financing. To date there has been ~\$150bn of PC investments into AI.

However, near-term risks are equally significant. Labor markets are showing strain, with AI-related layoffs adding to broader job losses (e.g., Verizon's recent 15-20k layoff announcement, on top of 153k private-sector layoffs in October). Reduced household income and consumption - roughly 70% of US GDP - could weigh on growth, particularly in a K-shaped economy where lower-income consumers bear the brunt. AI is also likely to displace lower-skilled jobs first, intensifying pressure on low-income households.

AI-driven transformation could complicate the Fed's rate-cut trajectory in 2026. Softening labor markets may add to the Fed's employment leaning tilt, while energy and data center demand could fuel inflation.



## Credit Risk and Sector Divergence

Heavy upfront investment in AI infrastructure may pressure corporate margins until benefits materialize, increasing the risk of Fallen Angels (forecasted at ~\$20bn next year). Large-cap and tech-heavy firms will also capture disproportionate gains given more resources to incorporate AI benefits, in contrast to smaller businesses that will struggle with high implementation costs. Regulatory and legal risks - such as the EU AI Act and US proposals - may add complexity and widen the gap between winners and losers.

AI will create strong tailwinds for Technology (increased demand for semiconductors, cloud infrastructure, data centers), Energy (rising power generation needs) and Capital Goods (equipment and infrastructure buildout, including grid modernization). Conversely, some sectors face decline or obsolescence. Services-oriented industries - such as Business Services (HR, staffing, accounting), Technology Services (IT support), and Enterprise Software (automated data generation and analysis) - are vulnerable to displacement. Consumer Services (Education, Childcare) and low skilled labor such as truck drivers are also at risk of reduced demand from virtual learning platforms, AI monitoring systems and self-driving vehicles.

## Sequence of Outcomes Matters

Even if AI ultimately delivers outperformance, the sequence matters: how will increased investment and leverage negatively impact performance before benefits materialize? And if AI fails, the consequences could be severe. Massive sunk costs in infrastructure and talent would lead to write-downs, margin compression, and a wave of downgrades. A burst of the AI investment bubble could trigger market corrections and credit stress across retail, institutional, corporate, and government investors - potentially on a scale similar to the dot-com boom and bust. Financing strain would intensify as hyperscaler capex commitments become liabilities against a backdrop of high public debt, amplifying systemic risk.

## Geopolitical

The Ukraine war remains a major source of global economic uncertainty, given the region's prominence in the supply of energy, metals and grains to the world. These dynamics weigh on global growth and increase risk premiums across credit and equity markets.

A fragile Middle East ceasefire also elevates geopolitical risk. The Strait of Hormuz remains a key passthrough point for ~20/25% of global LNG and oil supply, and any escalation could spike prices by 20% or more, amplifying inflationary pressures and slowing growth. Regional instability also dampens investor confidence, and may reinforce safe-haven demand for gold and US treasuries, while weighing on risk assets globally.

Beyond these conflicts, geoeconomic fragmentation and US/China strategic rivalry pose structural risks. Rising protectionism, sanctions, and investment screening threaten globalization, reducing efficiency and liquidity in global markets. Trade tensions and technology restrictions disrupt supply chains and increase costs, particularly for critical minerals essential to AI and green energy transitions. Together, these geopolitical risks create a challenging backdrop for global growth, with financial markets facing persistent volatility, wider credit spreads, and heightened uncertainty around capital allocation.

## Fed mistake to pause?

Pausing/delaying rate cuts could deepen labor market softening and erode consumer confidence, impacting US GDP growth in 2026. Higher for longer rates can also stress credit-sensitive sectors such as housing, autos, and the PC market, adding to default risks and liquidity pressures. These dynamics could accelerate a downturn and turn a soft landing into a hard one.



On the flip side, with core inflation still above the Fed's 2% target and with the data fog not yet lifted, pausing cuts could ease a potential AI-investment bubble and excessive risk-taking in credit and equity markets. The Fed continues to be tasked with the delicate balance between avoiding policy missteps and managing economic resilience.

**Tariff roll back**

A reversal of IEEPA tariffs would mark a significant shift in US trade policy, easing cost pressures for importers and improving margins in sectors such as retail, manufacturing, and consumer goods. Lower input costs will help to moderate inflation, providing a tailwind for US economic growth and potentially supporting consumer demand. It will also likely lead to better corporate margins and balance sheets, although many of the tariffs will not disappear. Rather they will be rerouted to alternative mechanisms (Section 122, Section 232 and Section 301).

On the downside, we could see a return of dedollarization on concerns around fiscal profligacy and US credit risk, pressuring long-end rates. But countries may also reassess trade commitments, weighing the benefits of maintaining agreements to avoid future sector-specific tariffs.

The legal requirement to refund duties will also add to tariff complexity. Refunds on unliquidated and liquidated entries could result in substantial cash outflows from the government and liquidity boosts for corporates. Timing and administrative hurdles, especially given the 180-day post-liquidation window, could create uneven financial impacts across industries.



# Glossary

---

A&E: Amendment and Extension  
 AI: Artificial Intelligence  
 AUM: Assets Under Management  
 BSL: Broadly Syndicated Loan Market  
 CCC: HY/Loans CCC Rating  
 CLO: Collateralized Loan Obligation  
 COGS: Cost of Goods Sold  
 CPI: Consumer Price Index  
 CSI: Credit Stress Indicator  
 DE: Distressed Exchange  
 EBITDA: Earnings before Interest, Taxes, Depreciation, and Amortization  
 Ex-D: Ex-Distress  
 GDP: Gross Domestic Product  
 DL: Direct Lending  
 DR: Default Rate  
 FCF: Free Cash Flow  
 FL/1L: First Lien  
 GFC: Global Financial Crisis  
 FOMO: Fear of Missing Out  
 IG: Investment Grade  
 HY: High Yield  
 ISM: Institute for Supply Management  
 IEEPA: International Emergency Economic Powers Act  
 LBO: Leveraged Buyout  
 LCD: Leveraged Commentary & Data  
 LevFin: Leveraged Finance  
 LME: Liability Management Exercise  
 LTM: Last 12 months  
 LP: Limited Partner  
 MM: Middle Market  
 MTD: Month to Date  
 MTM: Mark-to-Market  
 NTM: Next 12 months  
 OBBBA: One Big Beautiful Bill Act  
 OAS: Option-Adjusted Spread  
 OCF: Operating Cash Flow  
 OER: Owners' Equivalent Rent  
 PC/PD: Private Credit/Private Debt  
 PDR: Probability Default Rating  
 PIK: Payment-in-Kind  
 PPI: Producer Price Index  
 QoQ: Quarter over Quarter  
 RCF: Revolving Credit Facility  
 Refi: Refinancing  
 ROI: Return on Investment  
 RV: Relative Value  
 SL/2L: Second Lien  
 SG&A: Selling, General & Administrative Expenses  
 SMA: Separately Managed Accounts



SOFR: Standard Overnight Financing Rate

TCJA: Tax Cuts and Jobs Act

TL: Term Loan

TLA/TLB: Term Loan A/B

TR: Total return

UoP: Use of Proceed

USD: US Dollar

WK: Week

WoW: Week over Week

WTD: Week to Date

YoY: Year over Year

YTD: Year to Date

YTM: Yield to Maturity

CF: Cash Flow

FF: Fed Funds rate

RV: Relative Value

MTM: Mark-to-Market

OCF: Operating Cash Flow

FCF: Free Cash Flow

Capex: Capital Expenditure



# Disclosures

## Important Disclosures

### BofA Global Research Credit Opinion Key

BofA Global Research provides recommendations on an issuer's bonds (including corporate and sovereign external debt securities), loans, capital securities, equity preferreds and CDS as described below. Convertible securities are not rated. An issuer level recommendation may also be provided for an issuer as explained below. BofA Global Research credit recommendations are assigned using a three-month time horizon.

**Issuer Recommendations:** If an issuer credit recommendation is provided, it is applicable to bonds and capital securities of the issuer except bonds and capital securities specifically referenced in the report with a different credit recommendation. Where there is no issuer credit recommendation, only individual bonds and capital securities with specific recommendations are covered.

Loans, CDS and equity preferreds are rated separately and issuer recommendations do not apply to them.

BofA Global Research credit recommendations are assigned using a three-month time horizon:

**Overweight:** Spreads and /or excess returns are likely to outperform the relevant and comparable market over the next three months.

**Marketweight:** Spreads and/or excess returns are likely to perform in-line with the relevant and comparable market over the next three months.

**Underweight:** Spreads and/or excess returns are likely to underperform the relevant and comparable market over the next three months.

BofA Global Research uses the following rating system with respect to **Credit Default Swaps (CDS):**

**Buy Protection:** Buy CDS, therefore going short credit risk.

**Neutral:** No purchase or sale of CDS is recommended.

**Sell Protection:** Sell CDS, therefore going long credit risk.

Due to the nature of strategic analysis, the issuers or securities recommended or discussed in this report are not continuously followed. Accordingly, investors must regard this report as providing stand-alone analysis and should not expect continuing analysis or additional reports relating to such issuers and/or securities.

BofA Global Research personnel (including the analyst(s) responsible for this report) receive compensation based upon, among other factors, the overall profitability of Bank of America Corporation, including profits derived from investment banking. The analyst(s) responsible for this report may also receive compensation based upon, among other factors, the overall profitability of the Bank's sales and trading businesses relating to the class of securities or financial instruments for which such analyst is responsible.

BofA Securities fixed income analysts regularly interact with sales and trading desk personnel in connection with their research, including to ascertain pricing and liquidity in the fixed income markets.

## Other Important Disclosures

Prices are indicative and for information purposes only. Except as otherwise stated in the report, for any recommendation in relation to an equity security, the price referenced is the publicly traded price of the security as of close of business on the day prior to the date of the report or, if the report is published during intraday trading, the price referenced is indicative of the traded price as of the date and time of the report and in relation to a debt security (including equity preferred and CDS), prices are indicative as of the date and time of the report and are from various sources including BofA Securities trading desks.

The date and time of completion of the production of any recommendation in this report shall be the date and time of dissemination of this report as recorded in the report timestamp.

This report may refer to fixed income securities or other financial instruments that may not be offered or sold in one or more states or jurisdictions, or to certain categories of investors, including retail investors. Readers of this report are advised that any discussion, recommendation or other mention of such instruments is not a solicitation or offer to transact in such instruments. Investors should contact their BofA Securities representative or Merrill Global Wealth Management financial advisor for information relating to such instruments.

Rule 144A securities may be offered or sold only to persons in the U.S. who are Qualified Institutional Buyers within the meaning of Rule 144A under the Securities Act of 1933, as amended. SECURITIES OR OTHER FINANCIAL INSTRUMENTS DISCUSSED HEREIN MAY BE RATED BELOW INVESTMENT GRADE AND SHOULD THEREFORE ONLY BE CONSIDERED FOR INCLUSION IN ACCOUNTS QUALIFIED FOR SPECULATIVE INVESTMENT.

Recipients who are not institutional investors or market professionals should seek the advice of their independent financial advisor before considering information in this report in connection with any investment decision, or for a necessary explanation of its contents.

The securities or other financial instruments discussed in this report may be traded over-the-counter. Retail sales and/or distribution of this report may be made only in states where these instruments are exempt from registration or have been qualified for sale.

Officers of BofAS or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

This report, and the securities or other financial instruments discussed herein, may not be eligible for distribution or sale in all countries or to certain categories of investors, including retail investors.

**Information relating to Affiliates of BofAS, MLPF&S and Distribution of Affiliate Research Reports:**

Refer to [BofA Global Research policies relating to conflicts of interest](#).

**"BofA Securities" includes BofA Securities, Inc. ("BofAS") and its affiliates. Investors should contact their BofA Securities representative or Merrill Global Wealth Management financial advisor if they have questions concerning this report or concerning the appropriateness of any investment idea described herein for such investor. "BofA Securities" is a global brand for BofA Global Research.**

BofAS and/or Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") may in the future distribute, information of the following non-US affiliates in the US (short name: legal name, regulator): Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd., regulated by the Financial Sector Conduct Authority; MLI (UK): Merrill Lynch International, regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA); BofASE (France): BofA Securities Europe SA is authorized by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the ACPR and the Autorité des Marchés Financiers (AMF). BofA Securities Europe SA ("BofASE") with registered address at 51, rue La Boétie, 75008 Paris is registered under no 842 602 690 RCS Paris. In accordance with the provisions of French Code Monétaire et Financier (Monetary and Financial Code), BofASE is an établissement de crédit et d'investissement (credit and investment institution) that is authorised and supervised by the European Central Bank and the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the ACPR and the Autorité des Marchés Financiers. BofASE's share capital can be found at [www.bofam.com/BofASEDisclaimer](http://www.bofam.com/BofASEDisclaimer); BofA Europe (Milan): Bank of America Europe Designated Activity Company, Milan Branch, regulated by the Bank of Italy, the European Central Bank (ECB) and the Central Bank of Ireland (CBI); BofA Europe (Frankfurt): Bank of America Europe Designated Activity Company, Frankfurt Branch regulated by BaFin, the ECB and the CBI; BofA Europe (Zurich): Bank of America Europe Designated Activity Company, Zurich Branch, regulated by the Swiss Financial Market Supervisory Authority FINMA, the ECB and CBI; BofA Europe (Madrid): Bank of America Europe Designated Activity Company, Sucursal en España, regulated by the Bank of Spain, the ECB and the CBI; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited, regulated by the Australian Securities and Investments Commission; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited, regulated by the Hong Kong Securities and Futures Commission (HKSF); Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd, regulated by the Monetary Authority of Singapore (MAS); Merrill Lynch (Canada): Merrill Lynch Canada Inc, regulated by the Canadian Investment Regulatory Organization; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa, regulated by the Comisión Nacional Bancaria y de Valores; BofAS Japan: BofA Securities Japan Co., Ltd., regulated by the Financial Services Agency; Merrill Lynch (Seoul): Merrill Lynch International, LLC Seoul Branch, regulated by the Financial Supervisory Service; Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd., regulated by the Securities and Futures Bureau; BofAS India: BofA Securities India Limited, regulated by the Securities and Exchange Board of India (SEBI); Merrill Lynch (Israel): Merrill Lynch Israel Limited, regulated by Israel Securities Authority; Merrill Lynch (DIFC): Merrill Lynch International (DIFC Branch), regulated by the Dubai Financial Services Authority (DFSA); Merrill Lynch (Brazil): Merrill Lynch S.A. Corretora de Títulos e



Valores Mobiliários, regulated by Comissão de Valores Mobiliários; Merrill Lynch KSA Company: Merrill Lynch Kingdom of Saudi Arabia Company, regulated by the Capital Market Authority. This information: has been approved for publication and is distributed in the United Kingdom (UK) to professional clients and eligible counterparties (as each is defined in the rules of the FCA and the PRA) by MLI (UK), which is authorized by the PRA and regulated by the FCA and the PRA - details about the extent of our regulation by the FCA and PRA are available from us on request; has been approved for publication and is distributed in the European Economic Area (EEA) by BofASE (France), which is authorized by the ACPR and regulated by the ACPR and the AMF; has been considered and distributed in Japan by BofAS Japan, a registered securities dealer under the Financial Instruments and Exchange Act in Japan, or its permitted affiliates; is issued and distributed in Hong Kong by Merrill Lynch (Hong Kong) which is regulated by HKSCFC; is issued and distributed in Taiwan by Merrill Lynch (Taiwan); is issued and distributed in India by BofAS India; and is issued and distributed in Singapore to institutional investors and/or accredited investors (each as defined under the Financial Advisers Regulations) by Merrill Lynch (Singapore) (Company Registration No 198602883D). Merrill Lynch (Singapore) is regulated by MAS. Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795), AFS License 235132 (MLEA) distributes this information in Australia only to 'Wholesale' clients as defined by s.761G of the Corporations Act 2001. With the exception of Bank of America N.A., Australia Branch, neither MLEA nor any of its affiliates involved in preparing this information is an Authorised Deposit-Taking Institution under the Banking Act 1959 nor regulated by the Australian Prudential Regulation Authority. No approval is required for publication or distribution of this information in Brazil and its local distribution is by Merrill Lynch (Brazil) in accordance with applicable regulations. Merrill Lynch (DIFC) is authorized and regulated by the DFSA. Information prepared and issued by Merrill Lynch (DIFC) is done so in accordance with the requirements of the DFSA conduct of business rules. BofA Europe (Frankfurt) distributes this information in Germany and is regulated by BaFin, the ECB and the CBI. BofA Securities entities, including BofA Europe and BofASE (France), may outsource/delegate the marketing and/or provision of certain research services or aspects of research services to other branches or members of the BofA Securities group. You may be contacted by a different BofA Securities entity acting for and on behalf of your service provider where permitted by applicable law. This does not change your service provider. Please refer to the [Electronic Communications Disclaimers](#) for further information.

This information has been prepared and issued by BofAS and/or one or more of its non-US affiliates. The author(s) of this information may not be licensed to carry on regulated activities in your jurisdiction and, if not licensed, do not hold themselves out as being able to do so. BofAS and/or MLPF&S is the distributor of this information in the US and accepts full responsibility for information distributed to BofAS and/or MLPF&S clients in the US by its non-US affiliates. Any US person receiving this information and wishing to effect any transaction in any security discussed herein should do so through BofAS and/or MLPF&S and not such foreign affiliates. Hong Kong recipients of this information should contact Merrill Lynch (Asia Pacific) Limited in respect of any matters relating to dealing in securities or provision of specific advice on securities or any other matters arising from, or in connection with, this information. Singapore recipients of this information should contact Merrill Lynch (Singapore) Pte Ltd in respect of any matters arising from, or in connection with, this information. For clients that are not accredited investors, expert investors or institutional investors Merrill Lynch (Singapore) Pte Ltd accepts full responsibility for the contents of this information distributed to such clients in Singapore.

#### General Investment Related Disclosures:

Taiwan Readers: Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument. No part of this report may be used or reproduced or quoted in any manner whatsoever in Taiwan by the press or any other person without the express written consent of BofA Securities. This document provides general information only, and has been prepared for, and is intended for general distribution to, BofA Securities clients. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g., options, futures, warrants, and contracts for differences). This document is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of, and is not directed to, any specific person(s). This document and its content do not constitute, and should not be considered to constitute, investment advice for purposes of ERISA, the US tax code, the Investment Advisers Act or otherwise. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this document.

Securities and other financial instruments referred to herein, or recommended, offered or sold by BofA Securities, are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution (including, Bank of America, N.A.). Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. Digital assets are extremely speculative, volatile and are largely unregulated. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

BofA Securities is aware that the implementation of the ideas expressed in this report may depend upon an investor's ability to "short" securities or other financial instruments and that such action may be limited by regulations prohibiting or restricting "shortselling" in many jurisdictions. Investors are urged to seek advice regarding the applicability of such regulations prior to executing any short idea contained in this report.

This report may contain a trading idea or recommendation which highlights a specific identified near-term catalyst or event impacting a security, issuer, industry sector or the market generally that presents a transaction opportunity, but does not have any impact on the analyst's particular "Overweight" or "Underweight" rating (which is based on a three month trade horizon). Trading ideas and recommendations may differ directionally from the analyst's rating on a security or issuer because they reflect the impact of a near-term catalyst or event.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned in this report. Investors in such securities and instruments effectively assume currency risk.

BofAS or one of its affiliates is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. BofAS or one of its affiliates may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in this report.

BofA Securities, through business units other than BofA Global Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented herein. Such ideas or recommendations may reflect different time frames, assumptions, views and analytical methods of the persons who prepared them, and BofA Securities is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this information.

In the event that the recipient received this information pursuant to a contract between the recipient and BofAS for the provision of research services for a separate fee, and in connection therewith BofAS may be deemed to be acting as an investment adviser, such status relates, if at all, solely to the person with whom BofAS has contracted directly and does not extend beyond the delivery of this report (unless otherwise agreed specifically in writing by BofAS). If such recipient uses the services of BofAS in connection with the sale or purchase of a security referred to herein, BofAS may act as principal for its own account or as agent for another person. BofAS is and continues to act solely as a broker-dealer in connection with the execution of any transactions, including transactions in any securities referred to herein.

#### Copyright and General Information:

Copyright 2025 Bank of America Corporation. All rights reserved. iQDatabase® is a registered service mark of Bank of America Corporation. This information is prepared for the use of BofA Securities clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of BofA Securities. This document and its content is provided solely for informational purposes and cannot be used for training or developing artificial intelligence (AI) models or as an input in any AI application (collectively, an AI tool). Any attempt to utilize this document or any of its content in connection with an AI tool without explicit written permission from BofA Global Research is strictly prohibited. BofA Global Research utilizes AI, including machine learning and other technologies, to enhance the services we provide to our clients. These technologies assist our analysts in various aspects of their work, including but not limited to data analysis, content extraction, content creation, data aggregation and summarization and identifying relevant information from diverse sources. All AI-driven processes are subject to review by BofA Global Research employees. BofA Global Research information is distributed simultaneously to internal and client websites and other portals by BofA Securities and is not publicly-available material. Any unauthorized use or disclosure is prohibited. Receipt and review of this information constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained herein (including any investment recommendations, estimates or price targets) without first obtaining express permission from an authorized officer of BofA Securities.

Materials prepared by BofA Global Research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of BofA Securities, including investment banking personnel. BofA Securities has established information barriers between BofA Global Research and certain business groups. As a result, BofA Securities does not disclose certain client relationships with, or compensation received from, such issuers. To the extent this material discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this material. BofA Global Research personnel's knowledge of legal proceedings in which any BofA Securities entity and/or its directors, officers and employees may be plaintiffs, defendants, co-defendants or co-plaintiffs with or involving issuers mentioned in this material is based on public information. Facts and views presented in this



material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of BofA Securities in connection with the legal proceedings or matters relevant to such proceedings.

This information has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. None of BofAS any of its affiliates or their research analysts has any authority whatsoever to make any representation or warranty on behalf of the issuer(s). BofA Global Research policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

Any information relating to sustainability in this material is limited as discussed herein and is not intended to provide a comprehensive view on any sustainability claim with respect to any issuer or security.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

The information herein (other than disclosure information relating to BofA Securities and its affiliates) was obtained from various sources and we do not guarantee its accuracy. This information may contain links to third-party websites. BofA Securities is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this information and is not incorporated by reference. The inclusion of a link does not imply any endorsement by or any affiliation with BofA Securities. Access to any third-party website is at your own risk, and you should always review the terms and privacy policies at third-party websites before submitting any personal information to them. BofA Securities is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

All opinions, projections and estimates constitute the judgment of the author as of the date of publication and are subject to change without notice. Prices also are subject to change without notice. BofA Securities is under no obligation to update this information and BofA Securities ability to publish information on the subject issuer(s) in the future is subject to applicable quiet periods. You should therefore assume that BofA Securities will not update any fact, circumstance or opinion contained herein.

Certain outstanding reports or investment opinions relating to securities, financial instruments and/or issuers may no longer be current. Always refer to the most recent research report relating to an issuer prior to making an investment decision.

In some cases, an issuer may be classified as Restricted or may be Under Review or Extended Review. In each case, investors should consider any investment opinion relating to such issuer (or its security and/or financial instruments) to be suspended or withdrawn and should not rely on the analyses and investment opinion(s) pertaining to such issuer (or its securities and/or financial instruments) nor should the analyses or opinion(s) be considered a solicitation of any kind. Sales persons and financial advisors affiliated with BofAS or any of its affiliates may not solicit purchases of securities or financial instruments that are Restricted or Under Review and may only solicit securities under Extended Review in accordance with firm policies.

Neither BofA Securities nor any officer or employee of BofA Securities accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this information.

