IG Credit Strategist

Year Ahead 2026 US IG Credit Strategy Outlook: Clip the coupon

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Credit Strategy
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Clip the coupon

We expect weaker fundamentals and technicals in 2026. That means spreads should trade a bit wider. Our spread range for 2026 is 80 - 100bps, compared to 86bps currently. In this environment of range-bound spreads with a weakening bias, we like positioning in the belly of the curve (5-10yr), where duration risk is lower.

Long carry

We prefer to clip the highest coupons available in the 3-10yr maturities, as carry exceeds the negative impact of wider spreads for these tenors even if the IG index spread widens to 120bps. BBBs are also less impacted by re-leveraging risk.

Good news seems already priced in …

The outlook calls for a strong US economic growth, a dovish Fed, stable long-term rates and low defaults. This is unlikely to bring new spread tights in 2026, however. That's because this good news seems already priced in. The IG index spread of 86bps is now at 5th percentile since 2010 and is at 11th percentile after adjusting for structural changes.

… while lots of risks could push spreads wider

The key risks for IG spreads are: 1) A lack of recovery in the labor markets leads the Fed to cut to 2%, disrupting the strong yield sensitive demand for IG, 2) higher than expected supply for M&A, re-leveraging and AI, 3) a stronger outlook for AI revenues threatens the labor market, while a weaker outlook deflates the stock market.

Less strong technicals

We expect less strong technicals in 2026, as the demand remains the same or potentially moderates while net supply should be higher. The risks to yields are to the downside. Domestic demand could be offset by better FX hedged yields on USD IG for foreign investors.

Weaker fundamentals

Credit quality typically trends lower. The past four years were unusual as IG issuers de-levered on recession fears due to the Fed hiking cycle and trade-related volatility. In 2026, credit quality should return to the normal downward trajectory on heavy debt-financed M&A volumes and more financial engineering to support shareholder value.

Return forecast for 2026

We look for+4.9% total return and +70bps excess return for US IG in 2026.

2026 IG supply forecast: $1.8tr

The big jump in the issuance since October has pushed YTD IG supply 10% above the same period last year. We look for a similar 11% increase in 2026 as well, as gross supply rises to $1.8tr. We look for $75bn more in M&A supply. Hyperscalers don't need to issue more in 2026, but they may choose to do so.

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Refer to important disclosures on page 30 to 32. **12905394**

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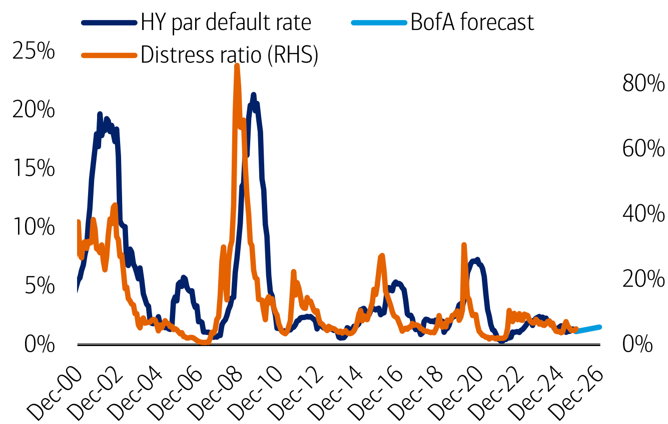
2026 IG credit outlook

The outlook is benign …

The outlook for a strong US economy (Bloomberg consensus 2026 US GDP forecast = +1.9%, the same as 2025), a relatively healthy global economy, low default rates (Exhibit 1), steady corporate earnings (S&P 500 EPS up 10% in 2026, see S&P 500 EPS Outlook), attractive yields (BofA YE-2026 10yr Treasury forecast = 4.25%) and a dovish Fed all point to a benign spread outlook for next year. Recession risk is low given the lack of major imbalances in the US economy for both consumers and businesses. The low risk of a recession puts a ceiling on how much IG spreads could widen in 2026.

Exhibit 1: HY default outlook is relatively benign in 2026
We expect HY par default rate at 1.5% in 2026, up from 1.1% LTM rate as of October 2025.



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

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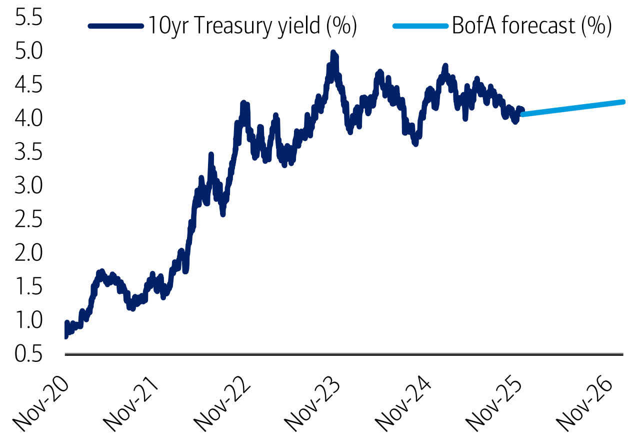
Exhibit 2: Treasury rates should stay relatively stable
BofA YE-2026 10yr Treasury yield forecast is 4.25%.



Source: Bloomberg, BofA Global Research

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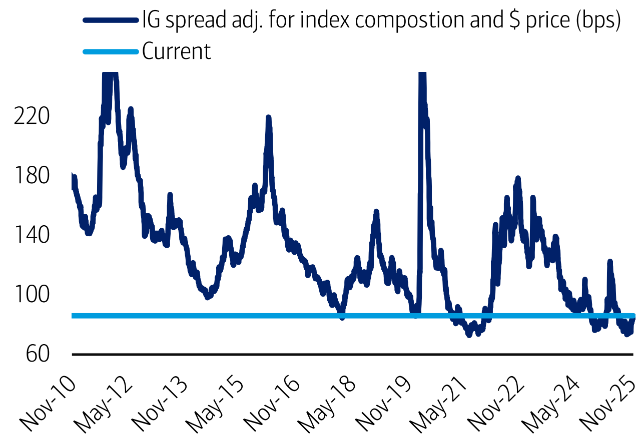
… but good news seems already priced in

The IG index spread of 86bps is at the 5th percentile since 2010 and is at the 11th percentile after adjusting for structural changes (Exhibit 3). Stocks (even excluding the Mag-7) are up +9.5% so far in 2025 and are trading near record highs (Exhibit 4). Clearly, most of the good news seems already priced in.

Exhibit 3: IG index spread remains near the tights
IG index spread is currently at 10th percentile since 2010, after adjusting for structural changes.



Source: BofA Global Research, ICE Data Indices, LLC

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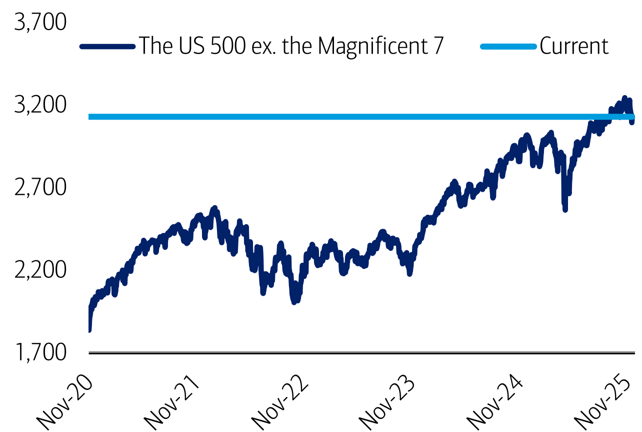
Exhibit 4: S&P 500 ex. Mag 7 remains near record highs
The S&P 500 ex. Mag 7 is up 9.5% so far in 2025.



Source: Bloomberg

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Goldilocks scenario needed to reach new tights

Should spreads set a new 70 or 60bps tights in 2026? We think that's unlikely. Reaching new tights would require a combination of strong demand, limited supply, improving credit quality, and stable and preferably rising yields. The economy and policymakers would need to thread the needle with strong US economic growth, moderate inflation, a dovish Fed, and stable rates. While not impossible, we see such Goldilocks environment unlikely in 2026.

Weaker on balance

We see the balance of risks pointing towards moderately wider spreads in 2026. Technicals should be weaker, both in terms of higher net supply and downside risks to investor demand. IG credit quality has been improving (based on ratings) but should stabilize and potentially weaken in 2026 as companies no longer need to de-lever.

Macro risks are also skewed to the downside for spreads. Economic growth that's too strong should lead to a less dovish Fed, more rate volatility and potentially lower risk assets on less central bank support. Growth that's too weak likely means a big drop in rates (given the dovish bias at the Fed) and weaker credit investor demand.

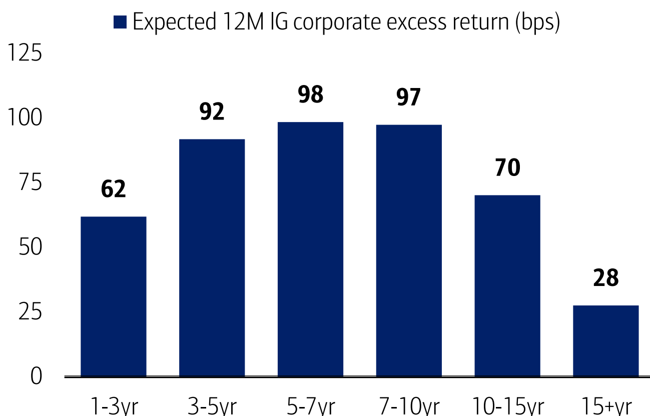
Clip the belly coupon

The outlook for a bit weaker technicals and fundamentals suggests spreads are likely to go a bit wider. A strong US economy, a dovish Fed and a very benign outlook for defaults suggest spreads should not widen too much. In such an environment, the belly (5-10yr) should outperform the wings (1-3yr, 15+yr) in terms of excess return. The belly enjoys higher carry, while lower duration limits the negative impact of modest spread widening.

When spreads leak wider, lower-rated, wider credits underperform. However, it requires a large move to offset their higher carry. To illustrate this point, we compare the expected returns for high quality issuers (2nd quintile of the spread distribution for each maturity bucket) to returns for lower quality issuers (4th quintile of the spread distribution).

Not surprisingly, in a stable to slightly wider markets, the higher carry dominates, and wider credits outperform (Exhibit 6). However, even if spreads reach the wide end of our expected range (100bps) we estimate wider credits will still deliver higher excess returns over the next 12M (Exhibit 7). Even in the risk scenario of spreads widening to 120bps by year-end 2026 we expect returns on the wider credits to remain similar to those on the tighter credits for maturities up to 10 years (Exhibit 8).

Exhibit 5: Our base-case excess return forecast
The forecast assumes the IG index spread widens from 86bps currently to 90bps in 12 months.



Source: BofA Global Research, ICE Data Indices, LLC

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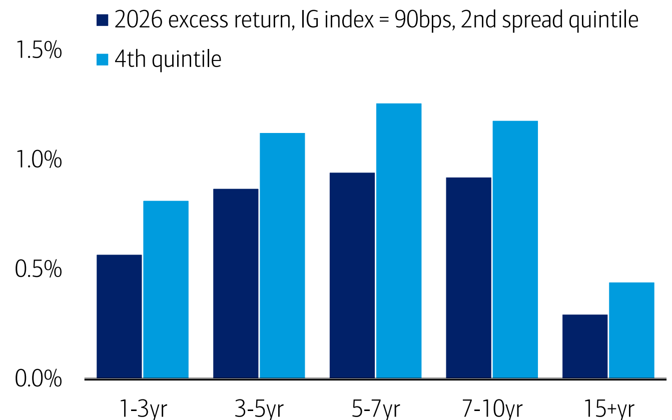
Exhibit 6: Excess return forecast for high vs low quality issuers (90bps)
The forecast assumes the IG index spread widens from 86bps currently to 90bps in 12 months.



Source: BofA Global Research, ICE Data Indices, LLC

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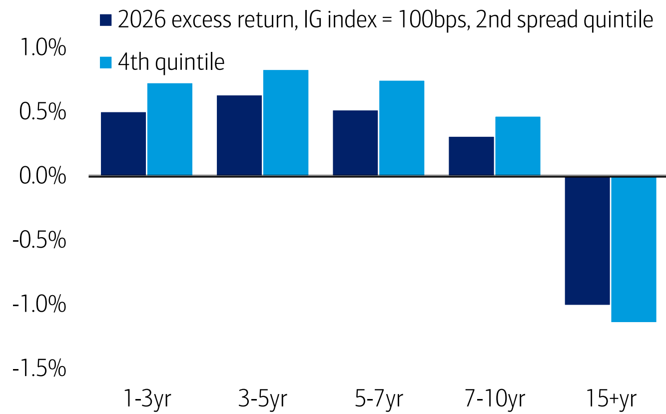
Exhibit 7: Excess return forecast for high vs low quality (100bps)
Should the IG index spread go to 100bps, belly of the curve still outperforms.



Source: BofA Global Research, ICE Data Indices, LLC

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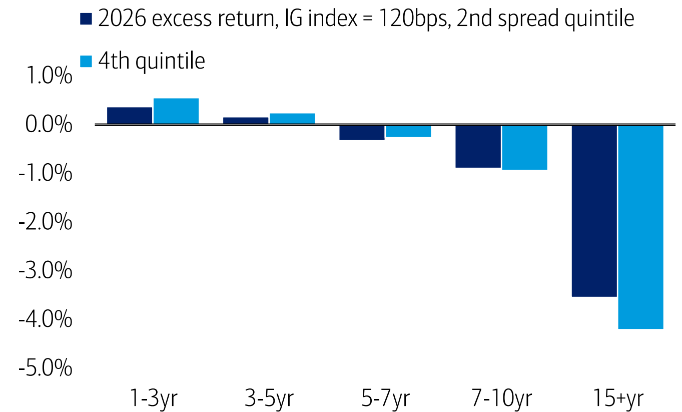
Exhibit 8: Excess return forecast for high vs low quality (120bps)
If the IG index spread reaches 120bps, our estimates show the front end (1-5yr) outperforms.



Source: BofA Global Research, ICE Data Indices, LLC

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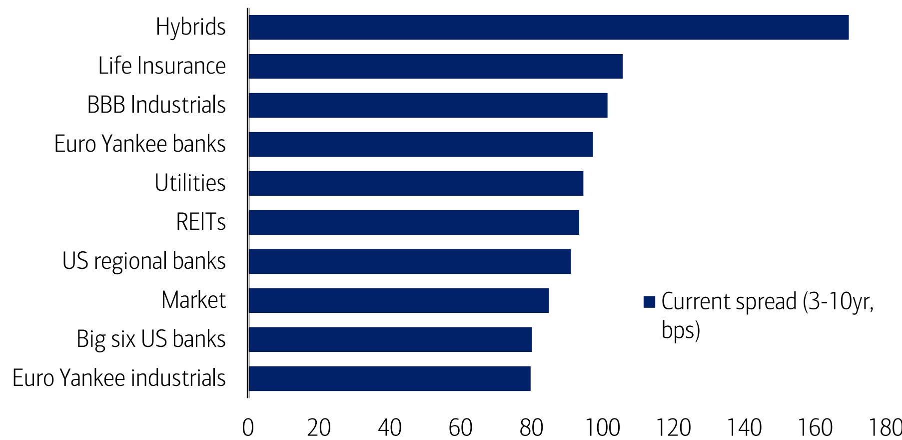
Where is the carry

Range-bound and tight spreads suggest carry is king in 2026. Hybrids offer the widest spreads in the IG index for bonds with maturities between 3 and 10 years (170bps OAS), followed by Life Insurance (106bps), BBB-rated industrials (102bps), European Yankee banks (98bps) and Utilities (95bps). These broad sectors offer carry that is 10bps or more above the average market spread of 86bps (Exhibit 9).

Exhibit 9: Hybrids, Life Insurance and BBB industrials offer the widest 3-10yr spreads in IG
In addition, European Yankee banks and Utilities have spreads at least 10bps wider than the market spread of 86bps.



Source: BofA Global Research, ICE Data Indices, LLC

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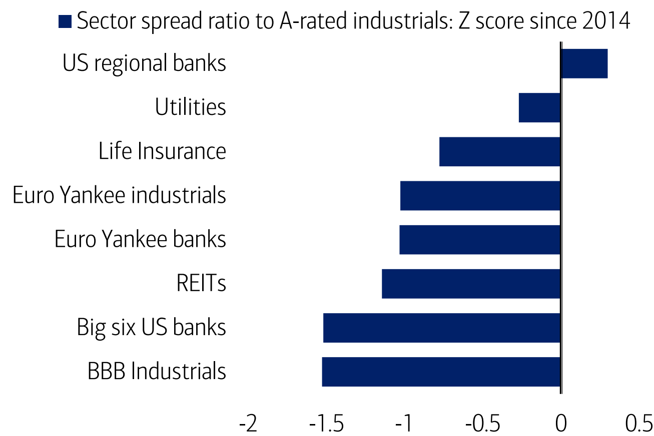
The state of compression

As index spread traded near record tights most of the year (apart from April), most broad sectors have compressed significantly. In terms of the sector spread ratio to single-A industrials, BBBs are the most compressed (7th percentile since 2010), followed by the big six banks (spread ratio is now at 2nd percentile since 2014 (Exhibit 12, Exhibit 13).

On the other hand, US Regional banks, Utilities, Life Insurance and European Yankee Industrials are the least compressed sectors (Exhibit 10).

For hybrids, spreads are not compressed much in the front-end (1-5yr) but are significantly compressed in the back-end (5-10yr, Exhibit 11). For the 5-10yr tenors, hybrid to senior ratio has now compressed to 8th percentile since 2015 when matched by issuer, and to 22nd percentile when matched by rating and maturity (Exhibit 14, Exhibit 15).

Exhibit 10: Compression for broad IG sectors
US regional banks, Life Insurance, Utilities, and Euro Yankees are the least compressed.



Source: BofA Global Research, ICE Data Indices, LLC

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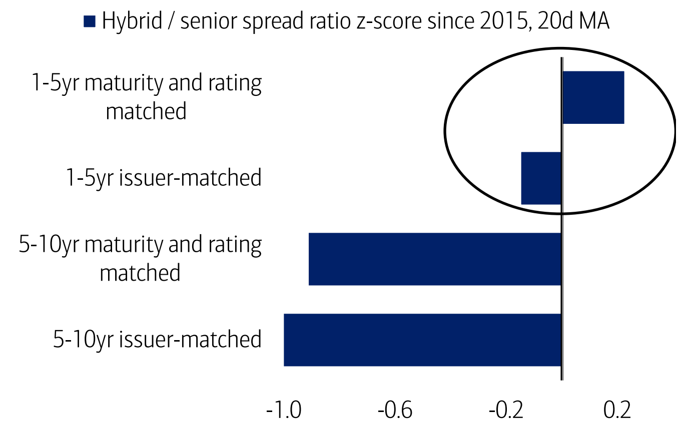
Exhibit 11: Front-end hybrids screen cheap
1-5yr hybrids are the least compressed to senior spread compared to 5-10yr.



Source: BofA Global Research, ICE Data Indices, LLC

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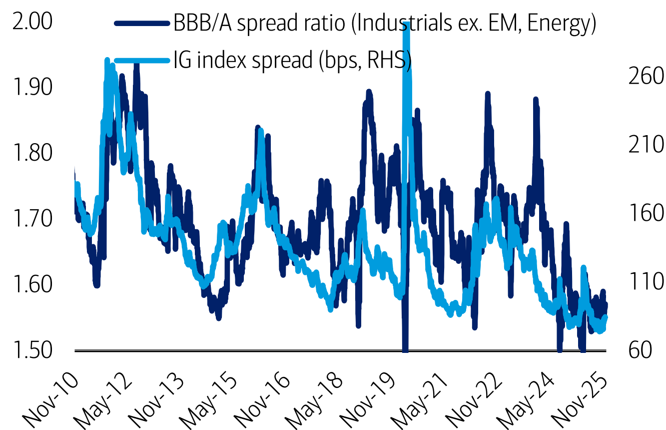
Exhibit 12: BBB industrials remain compressed
BBB spread ratio to A-rated industrials remain compressed at 7th percentile since 2010.



Source: BofA Global Research, ICE Data Indices, LLC

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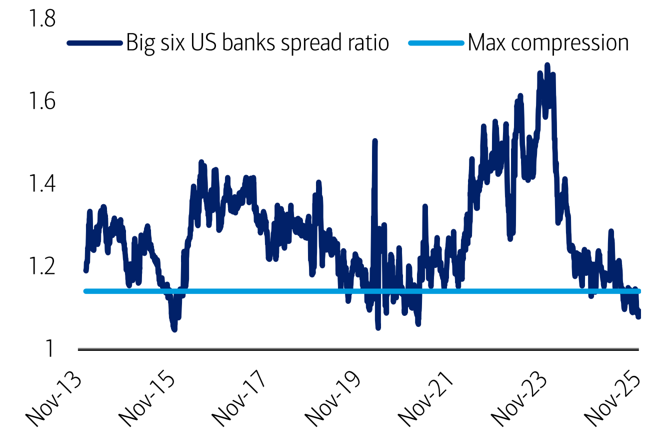
Exhibit 13: Big six US banks are near max compression
Big six US banks spread ratio to A-rated industrials are near the max compression level, at 2nd percentile.



Note: DM issuers only. Spreads are adjusted for $ prices.
Source: BofA Global Research, ICE Data Indices, LLC

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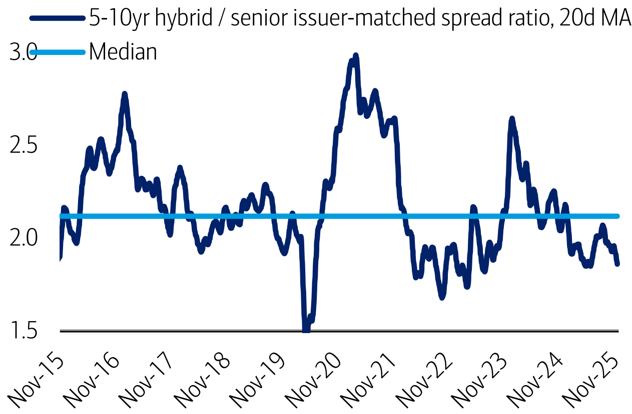
Exhibit 14: Long-end hybrids compressed since 2024
5-10yr hybrid spread ratio to same issuer senior spread is currently at 1.86x, down from 2.07x in August and below the 2.12x median.



Source: BofA Global Research, ICE Data Indices, LLC

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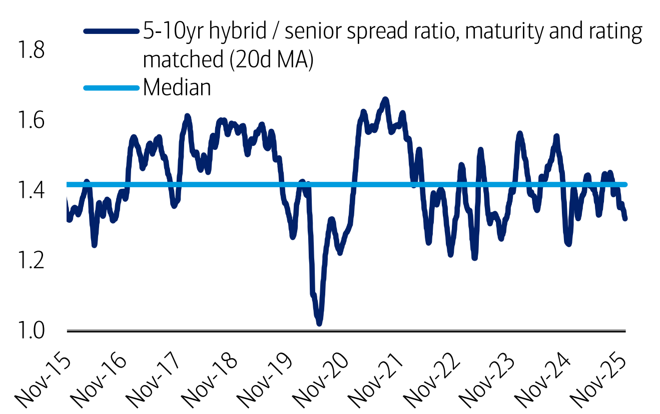
Exhibit 15: Long-end hybrids compressed since August
5-10yr hybrid spread ratio to senior is currently at 1.32x, down from 1.45x in August and below the 1.42x median.



Source: BofA Global Research, ICE Data Indices, LLC

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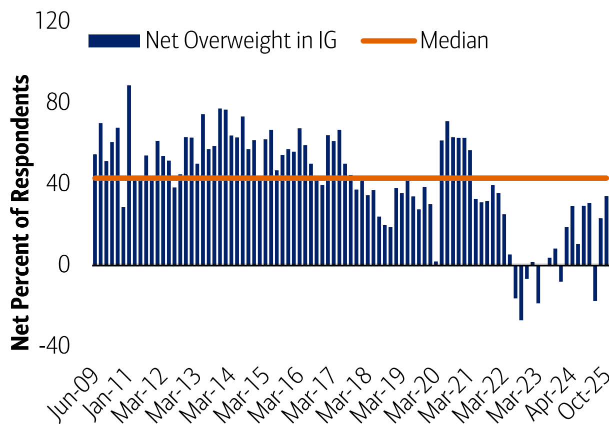
Investor sentiment: not too bearish

IG investor sentiment is relatively constructive, based on our latest US Credit Investor Survey from the first week of October (see IG Credit Strategist: Oct '25 Credit Investor Survey). Investors reported the highest overweight in IG credit since the start of the Fed hiking cycle in 2022 (Exhibit 16), and an overweight positioning in BBBs over single-As (Exhibit 17). While investors continue to find spreads overvalued, this is a notable change from a much more cautious outlook during the first half of 2025. We see stronger sentiment as evidence that most of the constructive outlook for credit is already priced in, thus increasing downside risks to spreads.

Exhibit 16: IG investors report a relatively high credit overweight
Reported IG credit overweight in our October survey was the highest since the Fed hiked rates in 2022.



Source: BofA US Credit Investor Survey

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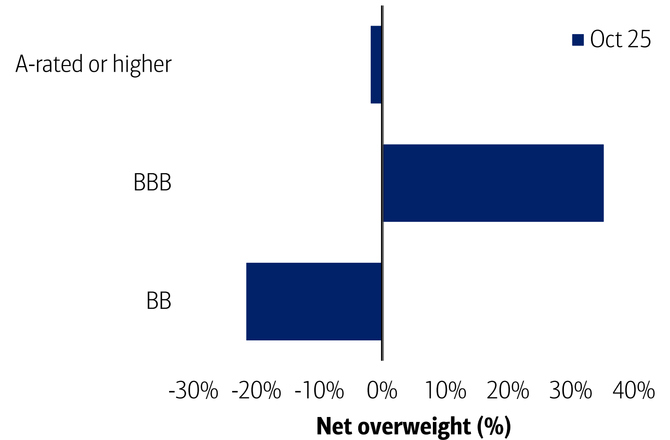
Exhibit 17: IG investors are overweight BBBs
IG investors are net overweight BBBs (35%), and net underweight HQ (-2%) and BBs (-22%) as of Oct 2025.



Source: BofA US Credit Investor Survey

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Less strong technicals

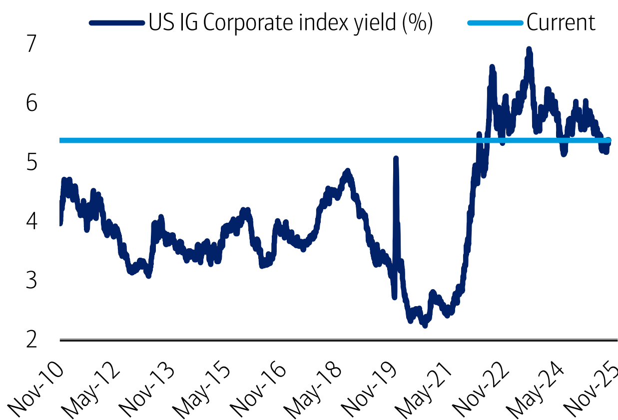
IG spreads reached new cyclical tights in 2025 on very strong technicals. Those were a result of strong yield-sensitive demand combined with moderate net supply. We expect weaker technicals in 2026, as the demand remains the same or potentially moderates a bit while net supply increases.

Demand: stable to weaker

The demand for IG has been unusually strong due to the attractive yields and, more recently, a dovish Fed. Both should fade a bit in 2026. First, yields are currently near the low end of the range since the Fed started hiking rates in 2022 (Exhibit 18). Moreover, given the new and presumably very dovish Fed chair in 2026, risks to rates are to the downside. That could weaken the strong yield sensitive demand we experienced this year.

Second, demand has been supported by the much more benign outlook for rate risks after the Fed signaled rate cuts at the Jackson Hole conference in August. The dovish Fed outlook (a low risk of hikes) has allowed rates vol to decline materially in 2025 (Exhibit 19). As the outlook for the Fed solidifies in 2026, the risk to rates should become more symmetric, which is less supportive of demand.

Exhibit 18: UG IG corp yield is on the low end since the hiking cycle
US IG index yield is near the lower end of the range since 2022, at around 4.9% currently.



Source: Bloomberg

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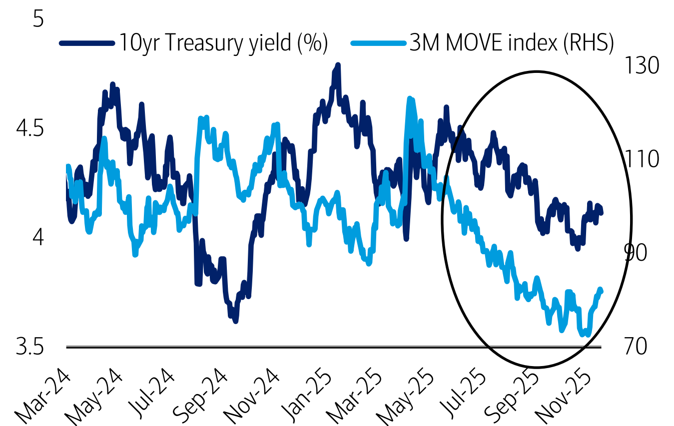
Exhibit 19: Rates are elevated while rate vol is lower
Rate vol is lower since August, while Treasury yield remains elevated.



Source: Bloomberg

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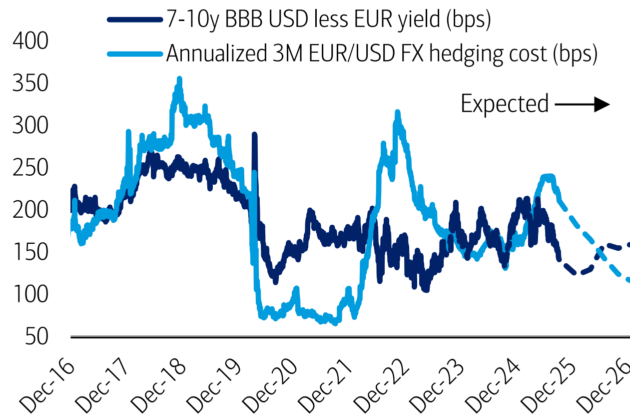
Better value for foreign investors in 2026

The weaker domestic yield-sensitive demand could be partially offset by stronger foreign investor buying. A steeper US Treasury yield curve on the back of Fed cuts should translate into 1) relatively stable long-term yields and 2) lower FX hedging costs. Plugging in the market pricing for the global central banks and the BofA interest rate forecasts shows hedged US IG yields improving from relatively unattractive levels in 2025 to attractive levels in 2026.

Exhibit 20: USD yield pickup vs. FX hedging costs: EUR investors
FX hedging costs should continue declining through 2026 as the Fed cuts rates.



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

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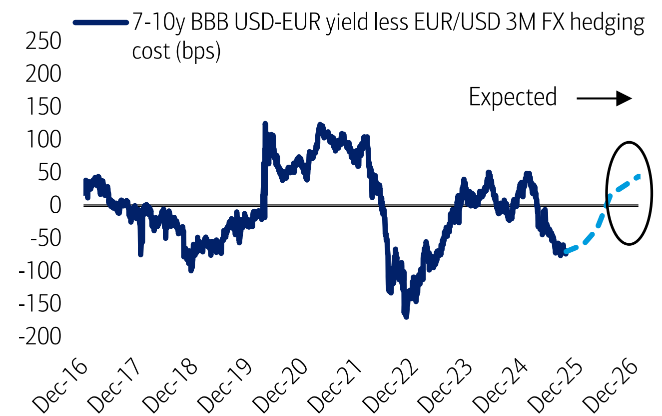
Exhibit 21: US IG should become attractive to EUR investors in 2026
BofA rates forecast and market pricing for the FX hedging cost imply US IG hedged yields exceeding EUR IG yield in 2026.



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

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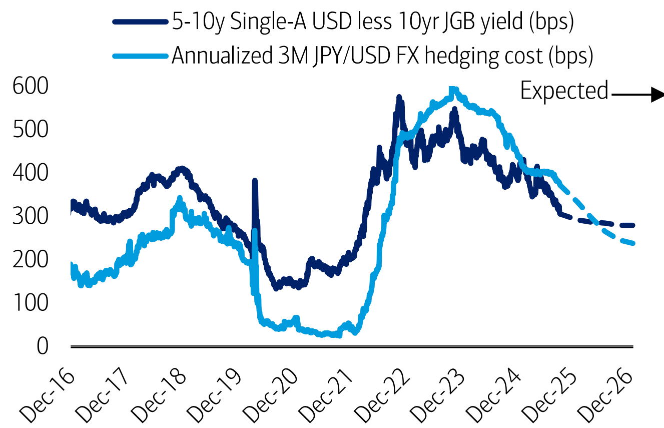
Exhibit 22: USD yield pickup vs. FX hedging costs: JPY investors
FX hedging cost should continue to decline in 2026, as relative USD / JPY yields remain relatively stable.



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

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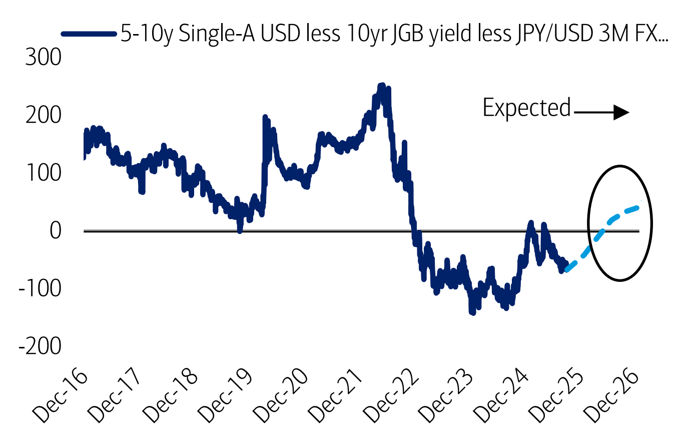
Exhibit 23: US IG should become attractive to JPY investors in 2026
BofA rates forecast and market pricing for the FX hedging cost imply US IG hedged yields exceeding JGB yields in 2026.



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

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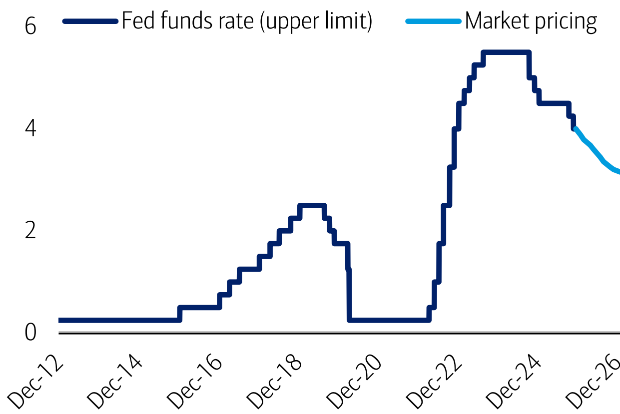
Bonds > cash

Higher cash yields have attracted $4.5tr of inflows to money market funds (MMFs, Exhibit 24, Exhibit 25). Now, Fed rate cuts and a steeper Treasury yield curve should slow inflows instead (Exhibit 26, Exhibit 27). Slower inflows to MMFs should benefit the demand for duration. If the Fed cuts more than expected—say, to 2%—rates would be within striking distance of triggering outflows from MMFs next year.

Exhibit 24: Markets are pricing three more Fed cuts by YE-2026
Markets are pricing the Fed to cut rates to around 3% next year.



Source: BofA Global Research, Bloomberg

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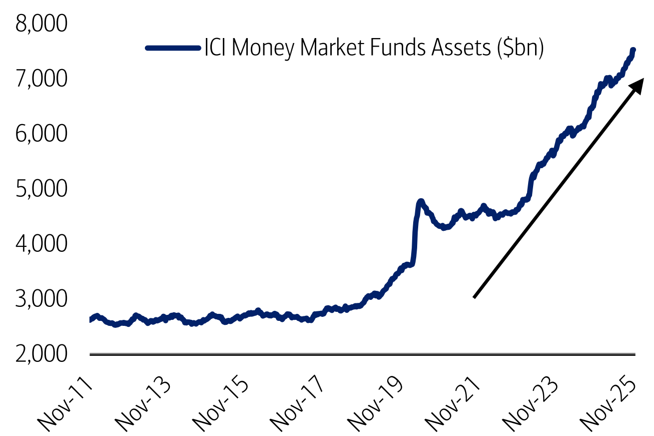
Exhibit 25: Money market fund assets have reached $7.5tr
Attractive cash yields led money market fund assets to increase to $7.5tr currently from $3tr in 2019.



Source: Bloomberg

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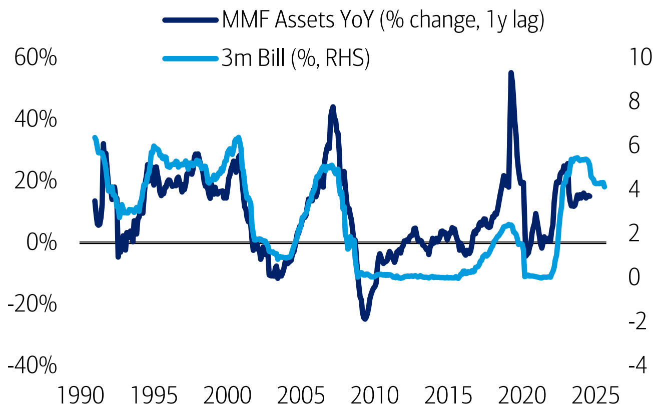
Exhibit 26: MMF assets vs. 3M bill yields
MMFs typically see outflows whew 3M bill yield drops below 2%.



Source: Bloomberg

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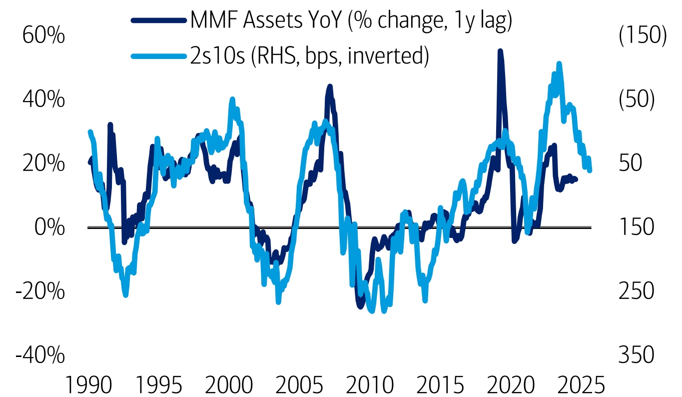
Exhibit 27: MMF assets vs. 2s10s Treasury yield curve
MMFs typically see outflows when 2s10s Treasury yield curve steepens to 150bps.



Source: Bloomberg

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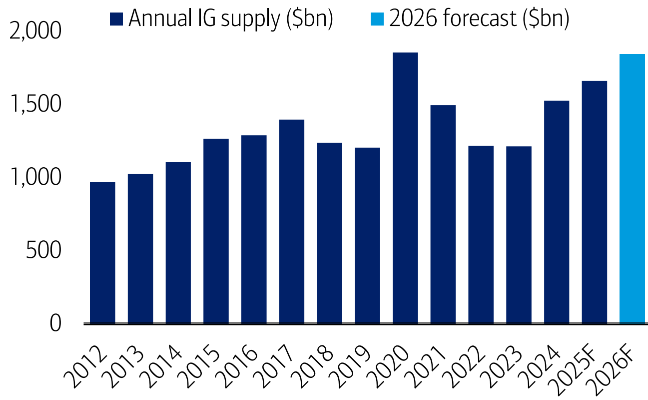
2026 IG supply forecast: $1.8tr

The big jump in the issuance pace since October has pushed YTD IG supply 10% above the same period last year. We look for a similar 11% increase in 2026, as gross supply rises to $1.84tr from the expected $1.66tr in 2025 (Exhibit 28). Net supply should also be higher (Exhibit 29). Issuers should be borrowing more to fund M&A, share buybacks (as balance sheets are under-levered), calls/tenders and capex. On the flip side, bank issuance should slow, coupon income should continue to grow and net upgrades from HY (a drain on IG cash) should decline. For more details, see IG Credit Strategist: 2026 US IG supply outlook: higher.

Exhibit 28: Even higher gross supply in 2026

We look for IG supply to increase to $1.84tr in 2026 from $1.66tr in 2025.



Source: BofA Global Research

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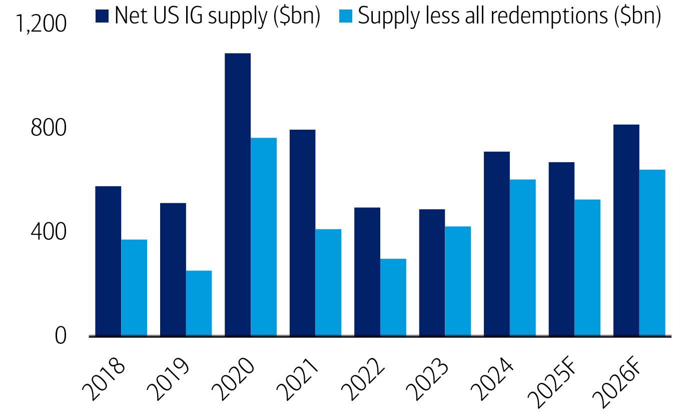
Exhibit 29: More net supply in 2026

We look for 2026 net supply of $755bn, up from $610bn expected for 2025.



Source: BofA Global Research

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Exhibit 30: IG 2026 supply outlook
Details of the 2026 supply outlook

Category	2025F	2026F	Change	% change
Gross supply	**1,660**	**1,843**	**184**	**11%**
Maturing debt	990	1,029	39	4%
Net supply	**669**	**814**	**145**	**22%**
Changes to gross supply				
Refinance maturities			39	
More M&A supply			75	
More re-leveraging			25	
Less bank issuance			-30	
Funding for call / tender activity			25	
Capex funding (including AI)			50	
Total			**184**	

Source: BofA Global Research

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Internally generated funds

Accounting for the broader types of cash returned to investors - i.e. coupons, calls & tenders and net downgrades to HY, we expect IG supply net of internal funds to increase to $217bn in 2026 from $134bn in 2025. Some of the increase in gross supply should be offset by higher maturities, coupon income and calls / tenders (Exhibit 31). Net upgrades from HY to IG should also decline (which is a positive technical) in 2026.

Exhibit 31: Summary of US IG supply and internally generated funds ($bn)
The table includes the details on net supply, coupons, calls/tenders and net downgrades to HY

Cash Flow	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Estimate	2026 Estimate
Gross Supply, Total	1,205	1,855	1,495	1,216	1,213	1,525	1,660	1,843
Maturing Debt, Total	692	767	700	721	725	815	990	1,029
Net Supply, Total	**513**	**1,089**	**795**	**495**	**489**	**710**	**670**	**815**
Coupons	313	321	324	321	341	387	407	424
Calls/Tenders	260	325	383	197	66	107	144	174
Net downgrades to HY	-54	248	-44	-89	-86	-28	-15	1
Supply Net of Internal Funds	**-6**	**194**	**133**	**66**	**168**	**244**	**134**	**217**

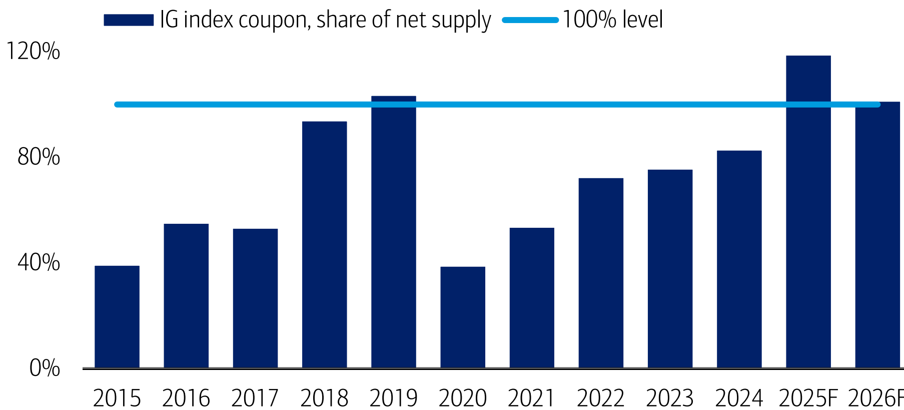
Source: BofA Global Research

BofA GLOBAL RESEARCH

Index internal cash: lower

For 2025, we are tracking 20% more coupon income for the US IG bond index than net supply. That means on net the index generated cash this year was the strongest showing in at least 10 years. This was due to the combination of rising index coupon and a drop in index net supply, as trade volatility disrupted markets. While the coupon income should continue to rise next year, supply should increase even faster. We estimate the ratio of coupon income to index net supply dropping to 100% in 2026 from 120% in 2025 (Exhibit 32). For more details, see: Situation Room: Less supportive technicals in 2026).

Exhibit 32: We expect less supportive IG market technicals in 2026
The ratio of the IG index coupon income to net supply reached 119% in 2025 and should come down to 101% in 2026. That still leaves it at some of the highest levels since 2019.



Source: BofA Global Research, ICE Data indices, LLC

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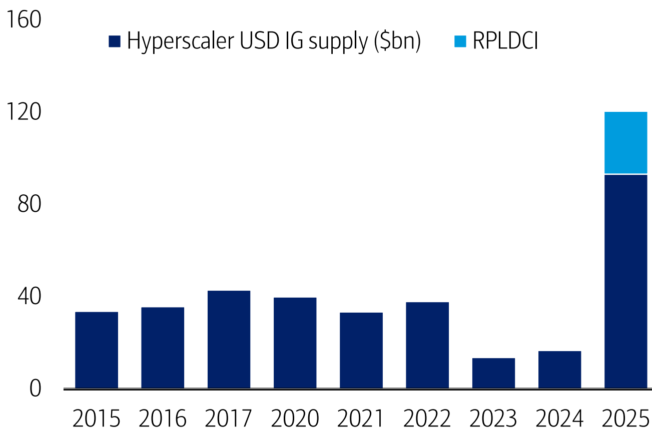
AI capex supply: stable with upside risks

The big spike in AI-related supply during September and October raised concerns about a further pickup in 2026 (Exhibit 33). We disagree. While capex is expected to increase further next year, so are profits (Exhibit 34). Collectively, firms should continue to able to cover capex spending with operating cash flow, even after dividend payouts and share buybacks (Exhibit 35).

However, the margin is getting smaller, and for some issuers capex will exceed earnings next year (Exhibit 35). That's likely why the companies borrowed $121bn (USD only) in 2025, including the RPLDCI deal (Exhibit 33). Given a similar cash flow to capex ratio expected for 2026, another ~$100bn next year makes sense. The hyperscalers do not *need* to increase their borrowing substantially next year. However, given the large scale of spending ($525bn expected for 2026) and significant balance sheet capacity for most of the issuers, the risk is the hyperscaler *choose* to borrow more.

Exhibit 33: IG supply from hyperscalers exploded in late 2025
Hyperscaler supply (including RPLDCI) jumped to $121bn so far in 2025, up from $17bn in 2024.



Note: "Hyperscalers" include the following companies: AMZN, GOOGL, META, MSFT, ORCL.
Source: BofA Global Research

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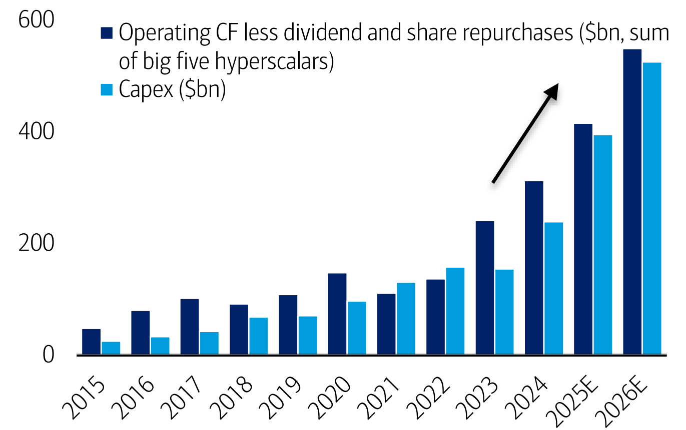
Exhibit 34: Both capex and profits are going to be higher in 2026
For the five hyperscalers, consensus forecasts call for capex to increase by $130bn in 2026. Operating CF is expected to rise by a similar $134bn.



Note: "Hyperscalers" include the following companies: AMZN, GOOGL, META, MSFT, ORCL.
Source: BofA Global Research, Bloomberg, Visible Alpha.

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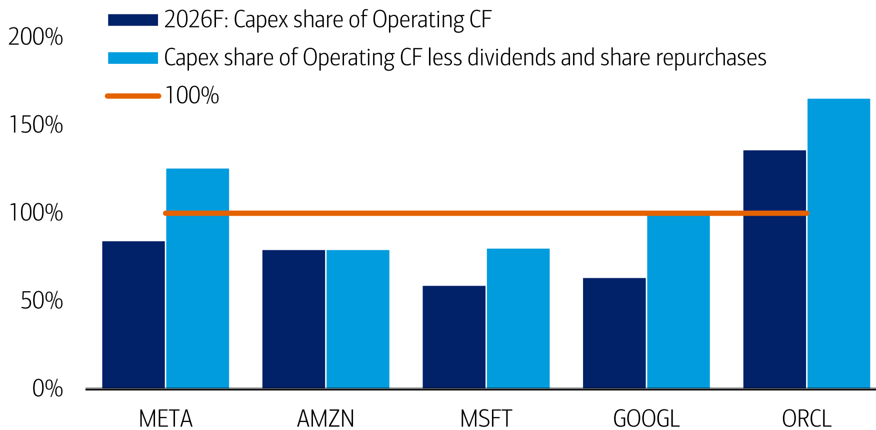
Exhibit 35: Capex vs. cash flow by issuer in 2026
Consensus forecasts call for capex to exceed operating cash flows less dividends and share buybacks for Meta and Oracle, while capex should be similar to available cash flows for Alphabet.



Source: BofA Global Research, Bloomberg, Visible Alpha.

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M&A funding needs: higher

We expect a sizeable increase in M&A IG supply next year. North American M&A transaction volumes are accelerating, despite a still suppressed CEO confidence (Exhibit 38). Close to a record share of those deals are funded with cash (rather than stock, Exhibit 37). As a result, the pipeline of M&A deals with potential funding needs in the IG market is at some of the highest levels since 2018 (Exhibit 39).

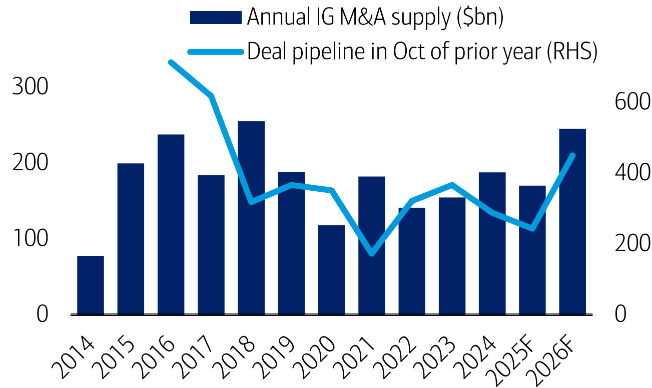
As a result, we expect M&A supply to accelerate to $245bn in 2026 from the expected $170bn in 2024. That would put M&A issuance close to 2016 and 2018 levels, when the deal pipeline was similarly elevated (Exhibit 36).

We expect the pent-up M&A activity to continue for two reasons. First, M&A activity in 2025 was dampened coming out of recession fears in 2022 – 2023, an unfriendly regulatory environment under the Biden administration in 2024, and trade uncertainties. The resulting backlog of transactions should support an acceleration in M&A volumes in 2026.

Second, companies have de-levered over the past five years. Many now have underleveraged balance sheets. That implies plentiful balance sheet capacity to deploy for M&A. This also explains why the cash portion of M&A is elevated despite still relatively high borrowing costs and expensive equity valuations. For more details, see "Debt-financed M&A is coming" here: IG Credit Strategist: Lock in the yield while you can.

Finally, the current M&A deal pipeline with issuance implications suggests the heaviest supply volumes for Health Care, Energy and Tech (Exhibit 40).

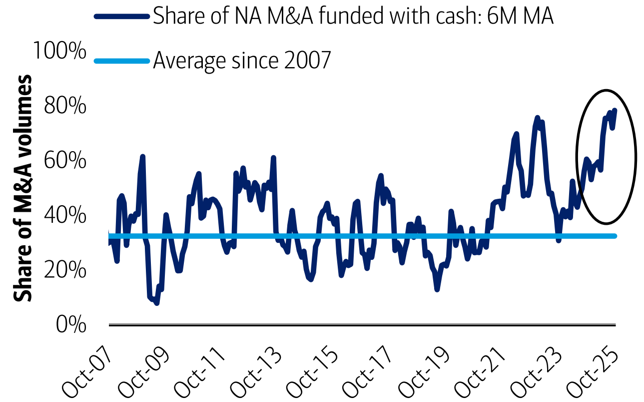
Exhibit 36: We expect $245bn in M&A supply in 2026
That's up from $170bn expected for 2024 and similar to 2016 and 2018 levels.



Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 37: More deals are funded with cash
Average share of M&A funded by cash over the past 6M increased to the highest since at least 2007.



Source: BofA Global Research, Bloomberg

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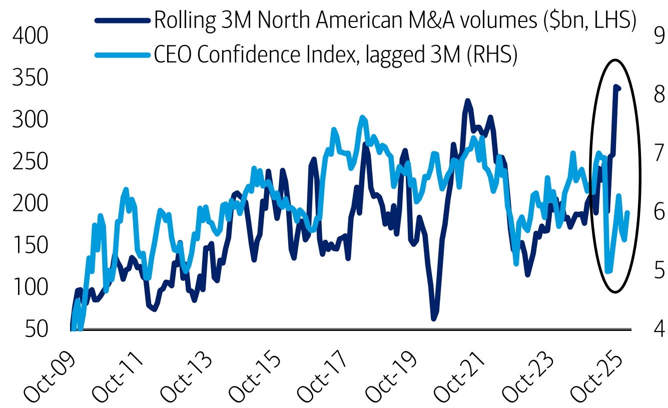
Exhibit 38: M&A volumes accelerated despite weak CEO confidence
CEO confidence weakened materially on the back of trade uncertainties. However, that had little impact on the accelerating pace of M&A activity.



Source: Bloomberg

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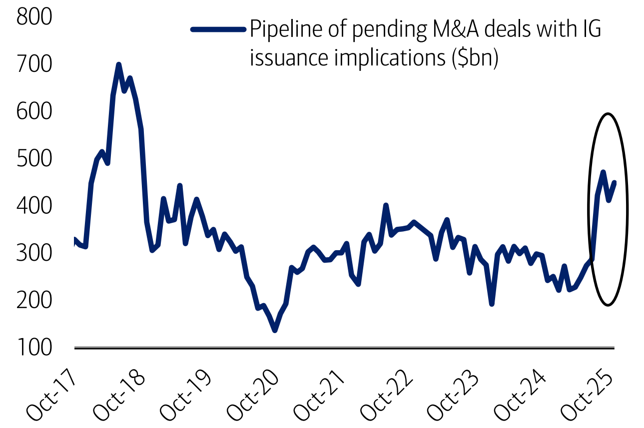
Exhibit 39: Elevated pipeline of deals with issuance implications
The pipeline of deals with issuance implications reached $450bn in October–near the highest since 2018.



Source: BofA Global Research

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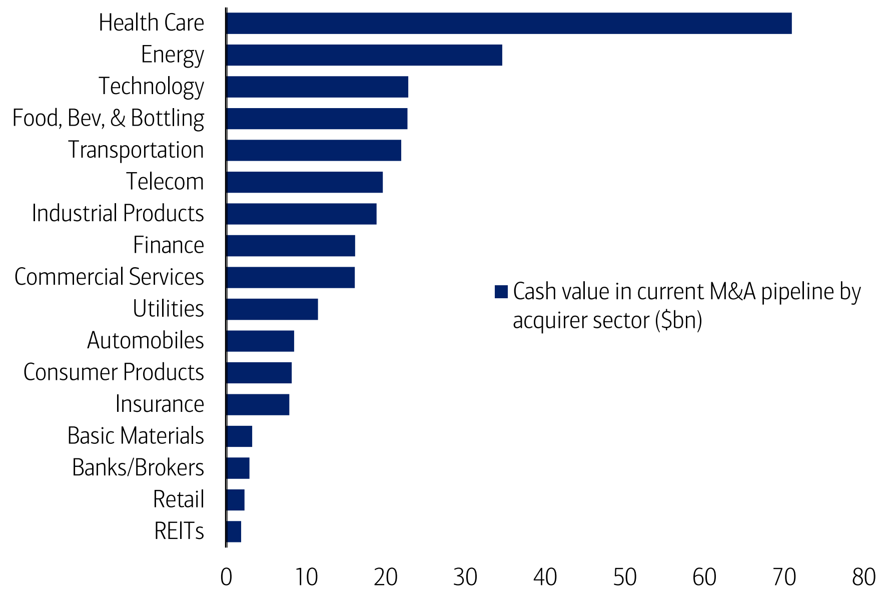
Exhibit 40: The current M&A pipeline by sector

The chart aggregates the equity value for each transaction in the pipeline, or the cash portion for stock & cash deals. Cash value is concentrated in Health Care.



Source: BofA Global Research, Bloomberg

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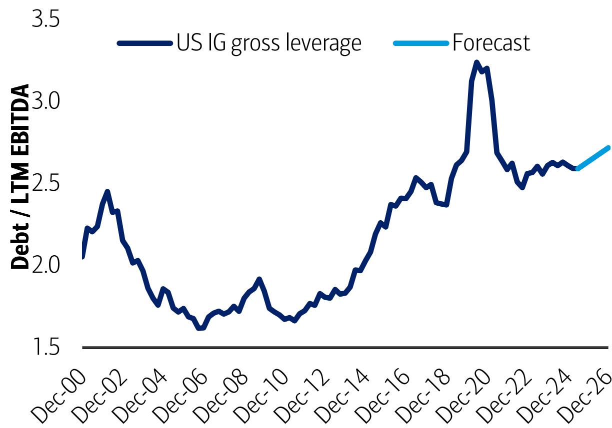
Weaker fundamentals

After relative stability in 2024 and 2025, we see room for IG fundamentals to weaken a bit in 2026. The culprit is the accelerating pace of borrowing due to underleveraged balance sheets, accelerating M&A, and willingness to deploy balance sheets as trade and growth uncertainties fade. On top of that, issuers will continue rolling out of 3.4% and into 5% coupons, putting some downward pressure on the coverage ratio. We expect IG leverage to increase to 2.7x from 2.6x currently, while the coverage ratio could drop to 9.7x from 10.0x.

Exhibit 41: We look for moderately higher IG leverage in 2026

We see IG leverage of 2.7x by 4Q-2026, up from 2.6x in 2Q-2025.



Source: BofA Global Research

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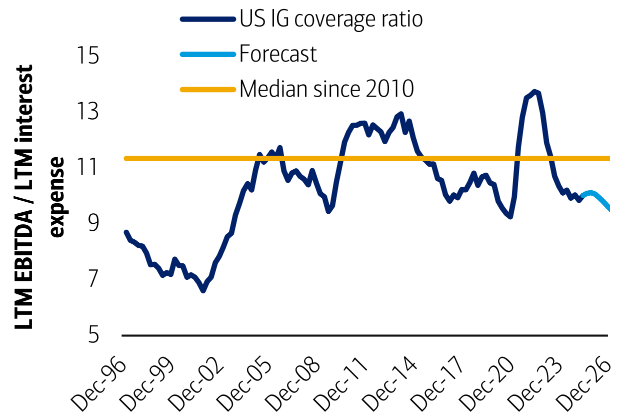
Exhibit 42: We expect IG coverage ratio to weaken a bit in 2026

IG coverage ratio should decline to 9.7x by year-end 2026 from 10x in 2Q-2025.



Source: BofA Global Research

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Back to normality

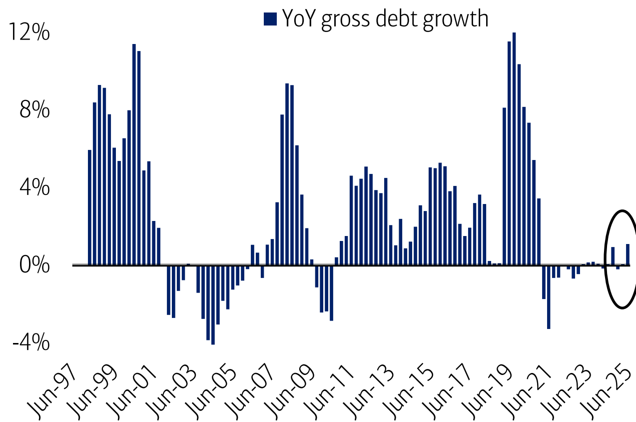
The past four years were unusual. IG issuers mostly just rolled their debt (for public US IG non-financial issuers, ex. Utilities, Exhibit 43). That, in turn, led to the largest ratings upgrade cycle since the Global Financial Crisis (Exhibit 44).

IG companies typically de-lever during recessions, and the last few years were not an exception. Equity investors preferred to keep balance sheets strong first due to recession fears as the Fed hiked rates in 2022 and 2023, and then due to tariff uncertainties in 2025. Those uncertainties are now declining (Exhibit 45), allowing management to finally deploy the underleveraged balance sheets to create shareholder value in 2026.

During more typical periods, such as 2012 and 2015, gross debt grew at an annual rate of about 4.5%. We pencil in something similar for 2026. While yields remain high, issuance needs are elevated due to the expected busy M&A cycle and potentially AI funding needs. For more details on our HG fundamentals outlook, see: [IG Credit Strategist: 2026 IG credit fundamentals: A bit weaker].

Exhibit 43: Little debt growth since 2022

IG issuer YoY debt growth has been mostly flat since 2022, although it's accelerated in 2Q of this year.



Source: BofA Global Research

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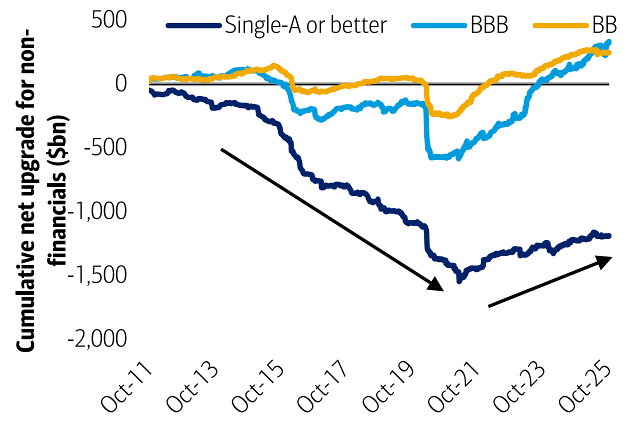
Exhibit 44: The big upgrade cycle should end in 2026

The lack of debt growth has triggered a large upgrade cycle in IG. The return of debt growth in 2026 should end it.



Source: BofA Global Research, Bloomberg.

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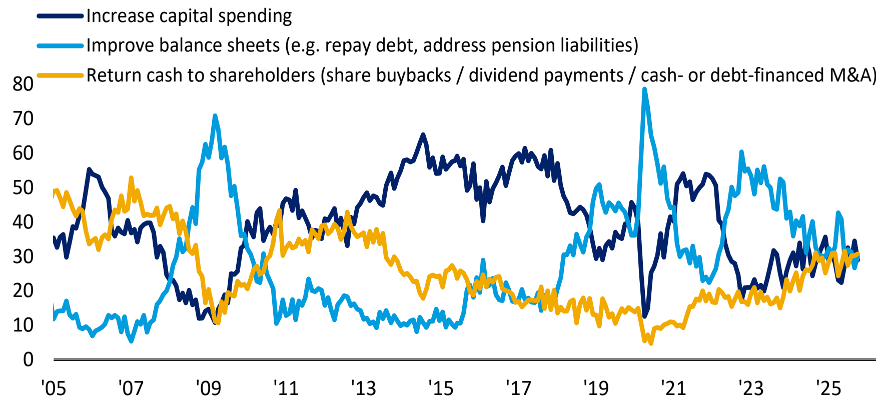
Exhibit 45: What would you most like to see companies do with cash flow?

Asked what companies should do with cash flow...31% said "return cash to shareholders," 30% said "improve balance sheets," and 29% said "improve capital spending."



Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

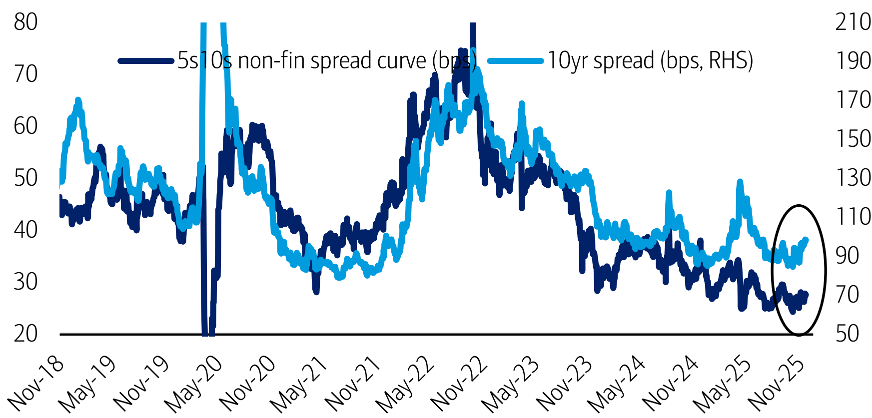
Spread curve outlook – stable

We look for IG spread curves to remain relatively stable next year. The 5s10s spread curve is mostly driven by beta, suggesting wider spreads lead to a steeper 5s10s IG spread curve. Our outlook for slightly wider spreads suggests a bias toward 5s10s spread steepening in 2026. In addition, the 5s10s IG spread curve screens as too flat relative to the 10yr spread currently (Exhibit 46).

The 10s30s IG spread curve is a function of 30yr supply volumes, the level of rates, and Treasury 10s30s yield curve. Our rates strategy team expects 10 and 30yr Treasury yields to remain relatively stable next year (Exhibit 64). Elevated 30yr yields and a steeper Treasury yield curve on Fed cuts suggest issuers should continue to prefer borrowing more in the front end. Additional large deals to fund M&A and potentially AI are unlikely to move the needle on the share of 30yr issuance in 2026 (see the section below). This suggests 10s30s IG spread should remain flat in 2026 as well (Exhibit 47).

Exhibit 46: 5s10s IG spread curve screens a bit flat to the level of IG spreads

5s10s IG spread curve tends to track spreads. While spreads are about unchanged over the prior 12M, the 5s10s IG spread curve is flatter. That suggests steepening bias in 2026.



Source: BofA Global Research, ICE Data Indices, LLC

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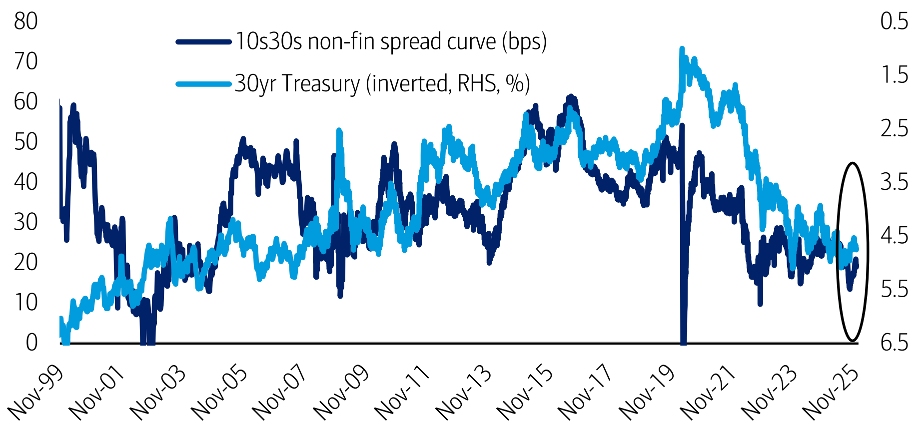
Exhibit 47: 10s30s IG spread is flat, in line with higher rates

The 10s30s IG spread curve should remain flat in 2026 as 30yr Treasury yields remain relatively stable.



Source: BofA Global Research, ICE Data Indices, LLC

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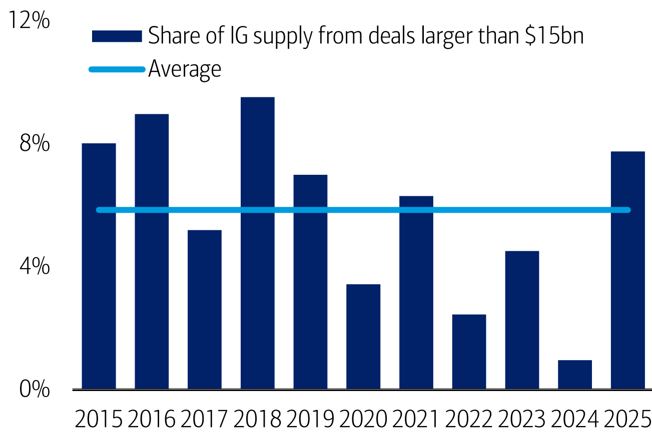
Large deals are not moving the needle for 30yr supply

While the number of jumbo deals may well be even higher in 2026, that's unlikely to provide much additional back-end (10+yr) supply. The share of IG new issue supply from large deals ($15bn or larger) has already jumped to 7.8% in 2025 – above 10yr average (Exhibit 48). The surge in hyperscaler supply certainly helped.

Larger deals also tend to include much more 10+yr bonds. That was especially true this year, when the share of 10+yr supply was 20% for deals smaller than $15bn and 57% for deals $15bn or larger (Exhibit 49). The surge in hyperscaler issuance was entirely responsible for the jump in the share of back-end supply in 2H-2025 (Exhibit 50).

For the whole year, however, the impact is relatively small. We estimate that if the share of supply from large deals were to jump from 7.8% in 2025 to 15% in 2026 – well above the 9.5% record of the past 10 years – the 2026 share of back-end supply would only increase by 2.7%, or $47bn (Exhibit 51).

Exhibit 48: A lot more supply came from large deals in 2025
The share of IG new issue supply from large deals ($15bn or larger) has already jumped to 7.8% in 2025 – above the 10yr average.



Source: BofA Global Research

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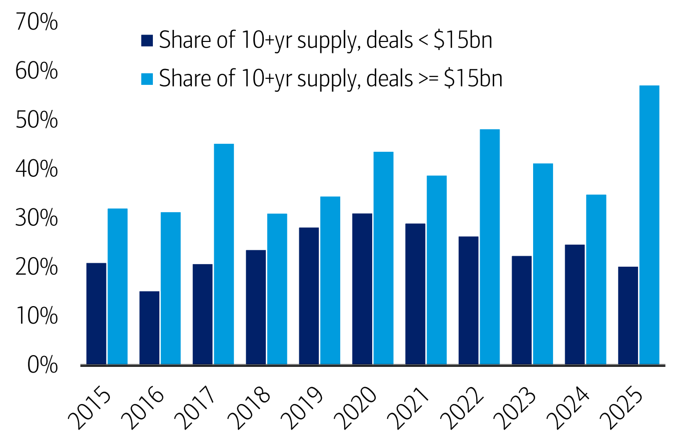
Exhibit 49: Large bond deals include much more back-end bonds
In 2025, the share of 10+yr supply was 20% for deals smaller than $15bn and 57% for deals $15bn or larger.



Source: BofA Global Research

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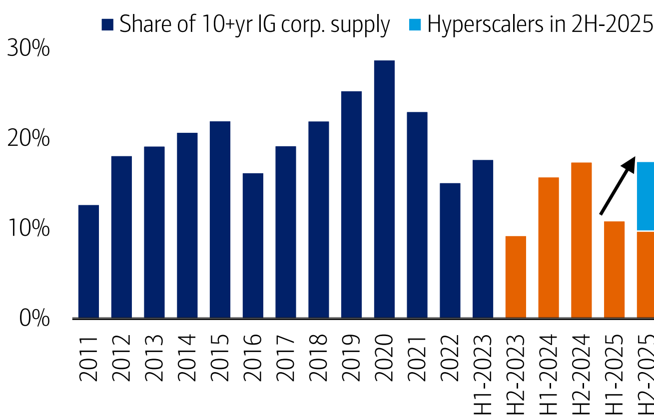
Exhibit 50: Hyperscaler supply = more back-end issuance in 2H-2025
The surge in hyperscaler issuance was entirely responsible for the jump in the share of back-end supply in 2H-2025.



Source: BofA Global Research

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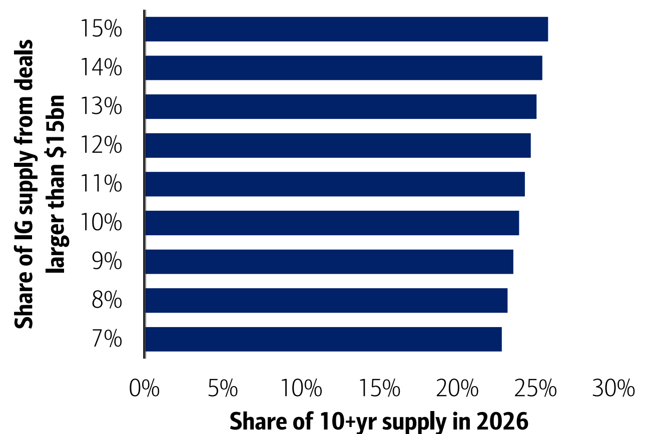
Exhibit 51: Large deals don't move the needle for back-end supply
We estimate that if the share of supply from large deals were to jump to 15% in 2026 – the share of back-end supply would only increase by 2.7%.



Source: BofA Global Research

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Sector outlook for 2026

The key drivers of sector strategy are 1) the outlook for spreads to remain relatively tight and range-bound, 2) the biggest tail risk is weaker US growth, 3) M&A and re-leveraging activity should accelerate in 2026 (see IG Credit Strategist: 2026 US IG supply outlook: higher). Given the outlook for tight spreads, we seek to outperform by staying overweight sectors with more spread (Pipelines, Tobacco). We hedge the tail risk of weaker growth with preference for less cyclical sectors (REITS, Utilities). We are underweight sectors with elevated re-leveraging and M&A risks (Food, Bev, & Bottling, Consumer Products).

Details

Combining our top-down, bottom-up views of our credit analyst team and valuations we update our sector outlook as follows. Overweight: Aerospace/Defense, Banks, Energy, Insurance, Railroads, REITs, Tobacco and Utilities. Underweight: Basic Materials, Consumer Products, Food, Bev, & Bottling, Industrial Products, Retail and Telecom. For more details see IG Credit Strategist: Sector outlook.

Exhibit 52: High Grade Sector Views Summary
US IG credit strategy sector views matrix

Overweight	View	Market weight	View	Underweight	View
Aerospace/Defense	Over	Automobiles	Market	Basic Materials	Under
Banks/Brokers	Over	Media & Entertainment	Market	Metals & Mining	Market
Energy	Over	Technology	Market	Chemicals	Under
Oil & Gas	Over	Health Care	Market	Consumer Products	Under
Pipelines	Over			Food, Bev, & Bottling	Under
Life Insurance	Over			Industrial Products	Under
Railroads	Over			Retail	Under
REITs	Over			Discounters	Under
Tobacco	Over			Non-Discounters	Under
Utilities	Over			Telecom	Under

Source: BofA Global Research

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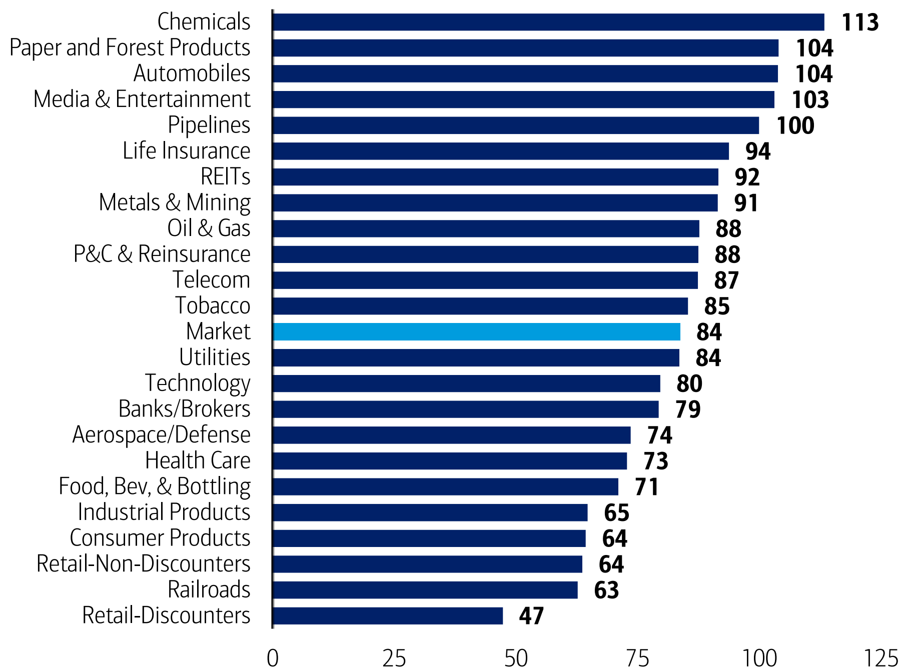
Sector spread relative value

Adjusting for duration, Chemicals (113bps), Paper (104bps) and Autos (104bps) offer the widest senior spread is ICE BofA US IG index as of November 20th. On the other end of the spectrum, the tightest sectors include Retail – Discounters (47bps), Railroads (63bps) and Retail-Non-Discounters (64bps, Exhibit 53).

In terms of performance over the past 12 months (adjusting for beta, i.e. looking at the ratio of sector spreads to the market), sectors underperforming the market the most were Technology, Chemicals, and Consumer Products. On the other hand, sectors trading the richest relative to the 12M average are Metals & Mining, Banks/Brokers and Aerospace/Defense (Exhibit 54).

Exhibit 53: Sector spreads, senior bonds only, adjusted for duration (bps)

Chemicals, Paper and Autos offer some of the widest spreads in IG after adjusting for duration. Retail-Discounters and Non-Discounters - some of the tightest.



Note: for each sector we compute spread difference vs. the market for four maturity buckets: 1 to 3.5yr, 3.5 to 5.5yr, 5.5 to 11yr, and 11+yr. Sector spread adjusted for duration is the weighted average spread difference for the four buckets plus the index spread. Result includes senior bonds only.

Source: BofA Global Research, ICE Data Indices, LLC

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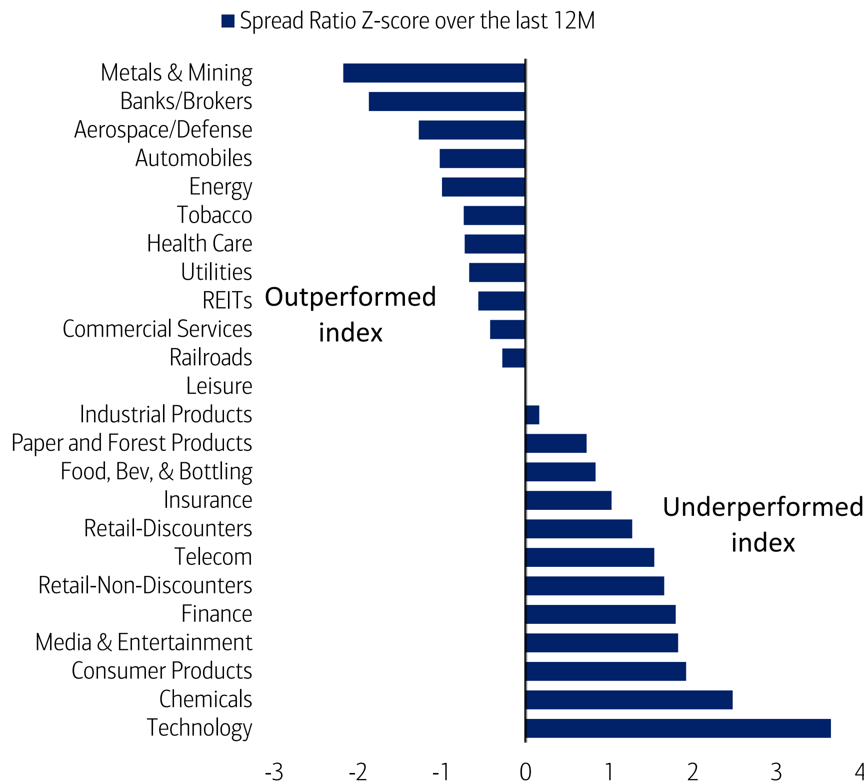
Exhibit 54: Sector performance relative to the index over the past 12M
Technology, Chemicals, Consumer Products underperformed over the prior 12M. Metals, Banks, Aerospace & Defense have outperformed.



Note: the z-score is based on the ratio of sector spread to the index over the past 12 months.
Source: BofA Global Research, ICE Data Indices, LLC

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Risk menu for 2026

Just like in 2025, "big" risks, such as a recession, are low. The outlook calls for a solid US economic growth in 2026, while corporate balance sheets are strong. Smaller risks that could push the IG index spread to 100bps are plentiful, however. We list the key ones below.

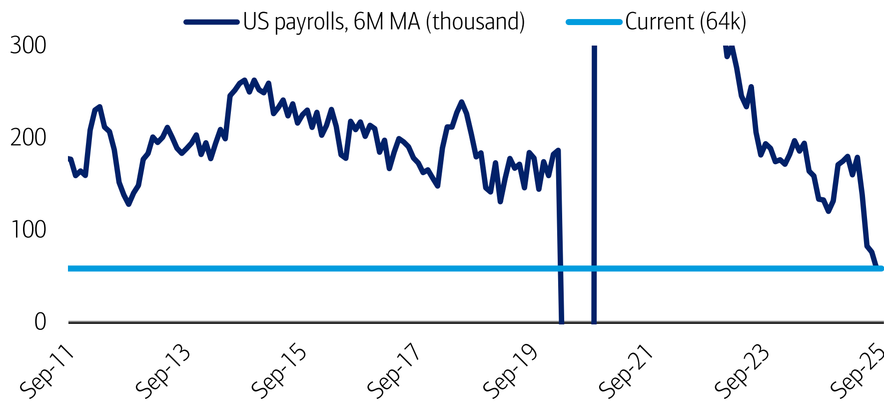
Weak labor market

The labor market has slowed materially in the second half of this year (Exhibit 55). The base case is that the payrolls rebound in 2026 to match the strong consumer spending (see US Economic Weekly: A deepening conundrum), although a lower supply of workers limits how much US payrolls can grow (see US Economic Viewpoint: Supply, supply, supply: Lower breakeven & full employment).

Still, weaker jobs have already generated significant volatility for the Fed outlook and would be a big market mover if it persists. Should the labor market weaken further, the Fed is likely to cut much deeper than the current expectations of 3% by year-end 2026.

That would be the best scenario for IG total returns with 10yr Treasury yield potentially going near 3.5% (see the **Return forecast for 2026** section below). But it would certainly be bad for spreads due to both a weaker outlook for the economy and lower yields (and hence weaker yield sensitive demand). We hedge this risk with an overweight in less cyclical sectors (see IG Credit Strategist: Sector outlook).

Exhibit 55: US labor market weakened materially in 2H-2025
The average monthly US payrolls have collapsed to 59k – well below the +200k pre-Covid run rate.



Source: Bloomberg

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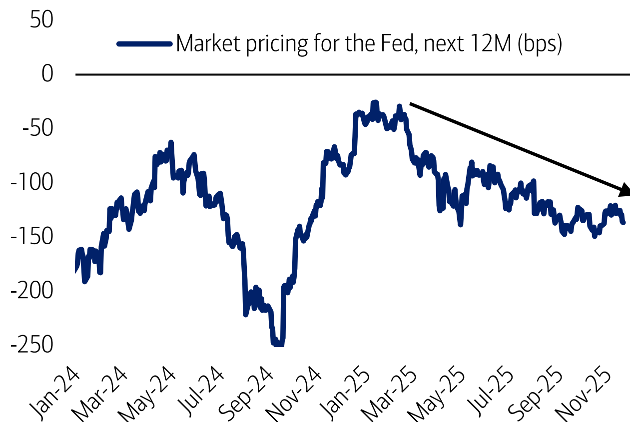
US re-acceleration / inflation

The big re-pricing of the Fed in the dovish direction (Exhibit 56) led to a significant decline in implied rate volatility (Exhibit 57). Such an environment is positive for risk assets but also for investor demand for bonds. The outlook of stable or lower yields is a powerful positive technical for IG corporate bonds.

That means if the US economy accelerates more than expected, this dovish Fed outlook could come into question. The same would happen should US inflation surprise to the upside (which is currently not priced in). While strong growth is good for fundamentals, higher rates vol should be bad for technicals. Spreads could go wider in such a scenario.

Exhibit 56: Markets are now pricing a lot more Fed cuts
Pricing of Fed cuts over the next 12M went from -35bps in February to -137bps currently.



Source: Bloomberg

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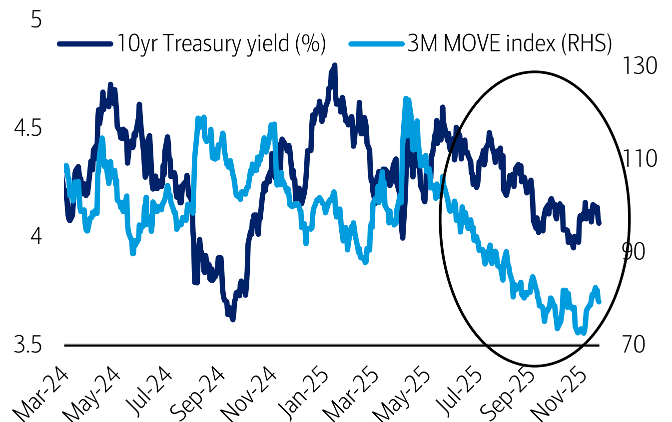
Exhibit 57: Lower yields, but also much lower rate vol
While 10yr Treasury yields declined, rate vol dropped to some of the lowest levels since the Fed started hiking rates in 2022.



Source: Bloomberg

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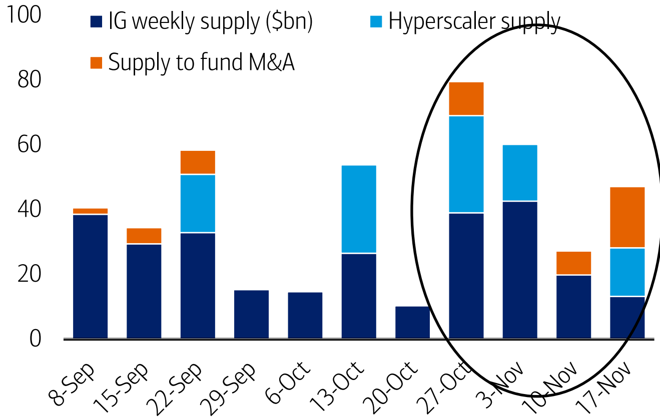
Supply shock

The jump in IG supply since October led to a notable IG spread underperformance (Situation Room: The grand finale for IG supply). The jump in issuance was led by borrowing to fund M&A and AI (Exhibit 58, Exhibit 59). We expect more re-leveraging, debt-financed M&A, and potentially hyperscaler supply in 2026 as well. An upside surprise can clearly have an impact on spreads.

Exhibit 58: IG supply volumes were heavy in Oct / Nov
The jump in issuance was led by borrowing to fund M&A and AI.



Source: BofA Global Research

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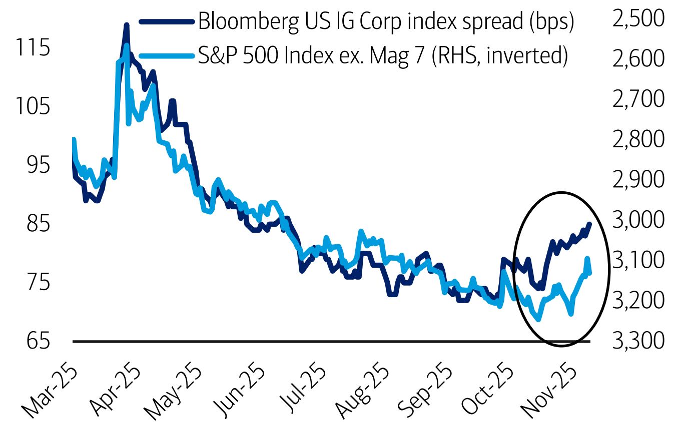
Exhibit 59: IG index has underperformed stocks by 7bps
While the S&P 500 index declined, the IG index spread widened even more than implied by the lower stocks.



Source: Bloomberg

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AI

With IG spreads near historically tight levels, AI developments present mostly downside risks to credit. Lower than expected AI revenues (or the outlook for revenues) could deflate the Magnificent 7 valuations. Spreads should go wider in an environment of lower stocks and potentially the weaker wealth effect for consumers.

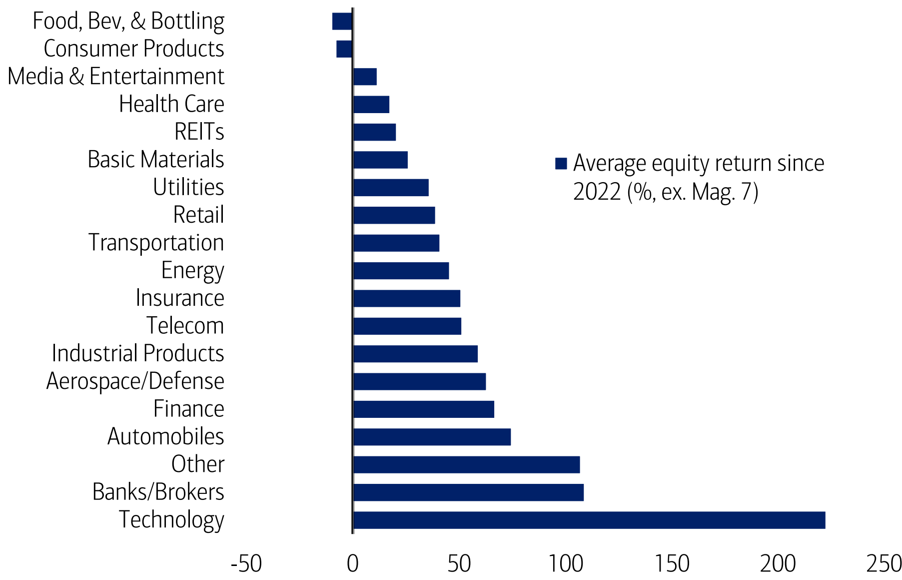
Should AI revenues instead come in as expected (and numbers here could be large particularly going into 2027 and 2028) the labor market could weaken materially. That’s because companies will be willing to spend heavily on AI only if they can offset those costs somewhere else, likely in payrolls. A weaker labor market could lead to more Fed cuts, lower yields, a weaker consumer and weaker US growth overall, at least in the short term.

Re-leveraging

With low recession risks and strong balance sheets, the time is ripe for IG companies to borrow more to enhance shareholder value. Management for sectors with underperforming stocks should be under more pressure to use financial engineering to improve performance. Hence, we generally want to be underweight sectors with weaker equity performance over the past three years, such as Food & Bev and Consumer Products (Exhibit 60). We also prefer BBB over single-A industrials, as higher quality issuers have more room on the balance sheet to add debt.

Exhibit 60: Average cumulative return by sector since 2022

Sectors with the highest average equity return were Technology, Banks, and Autos, while those with the lowest equity return were Food & Bev, Consumer Products, and Media.



Note: equity returns are weighted based on each issuer bond size in the US IG bond index.

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

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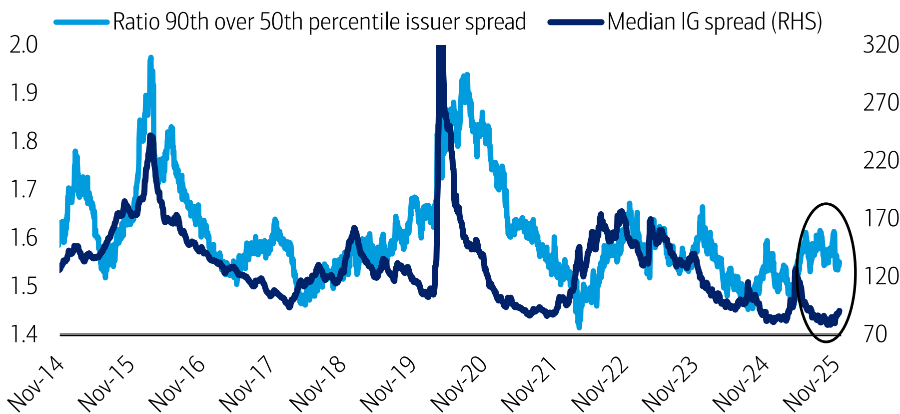
Elevated dispersion

While IG spreads are near record tights (5th percentile since 2010), the spread discount for the widest IG issuers remains closer to typical levels (21st percentile). Put another way, the weakest issuers in IG are trading unusually wide given how much the rest of the IG has compressed (Exhibit 61). That suggests idiosyncratic risks for a few individual issuers remain elevated despite a constructive overall market outlook.

Exhibit 61: Weaker IG issuers are trading at large spread discounts

The median IG spread is currently at 6th percentile since 2010. The ratio of the 90th percentile to 50th percentile (a measure of the size of the right tail of the spread distribution) is at 21st percentile.



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

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Return forecast for 2026

Our call for moderately wider spreads in 2026 (80 to 100bps range, here we use the 90bps mid-point) and a steeper Treasury yield curve (with the YE-2026 10yr Treasury yield forecast of 4.25%) implies +4.9% total return and +70bps excess return for US IG in 2026 (Exhibit 62, Exhibit 63).

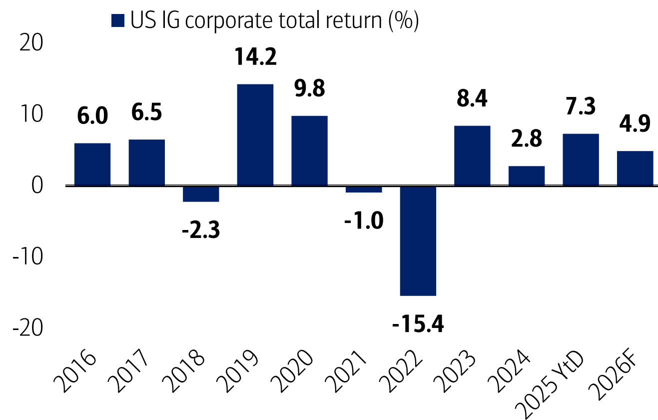
Spreads near year-end 2025 remain near the tight end of the historical range, at 86bps. That typically implies negative excess return over the next 12M. However, as we saw this year and in 2004 and 2005, returns can remain positive even when spreads are this tight to start the year (Exhibit 66).

The scenario of weaker job growth leading the Fed to cut to 2% instead of 3% base case could lead to a 7.6% total return for IG, as 10yr Treasury yield rallies to about 3.5%. The expected IG spread widening to 100bps is not enough to offset the large decline in rates. On the other hand, strong growth resulting in zero Fed cuts and 10yr Treasury yield reaching about 4.5% should cut the expected 2026 US IG return to about 3%, even as spreads remain little changed around the current levels (Exhibit 67).

By maturity, the outlook for a steeper Treasury yield curve and moderately wider spreads imply the belly (5-7yr) delivers both the highest total (+5.7%) and excess (+98bps) returns in 2026 (Exhibit 68, Exhibit 69).

Exhibit 62: We forecast a US IG total return of 4.9% for 2026

10yr Treasury yield of 4.25% by YE 2026 implies a US IG total return of 4.9%.



Source: BofA Global Research, ICE Data Indices, LLC

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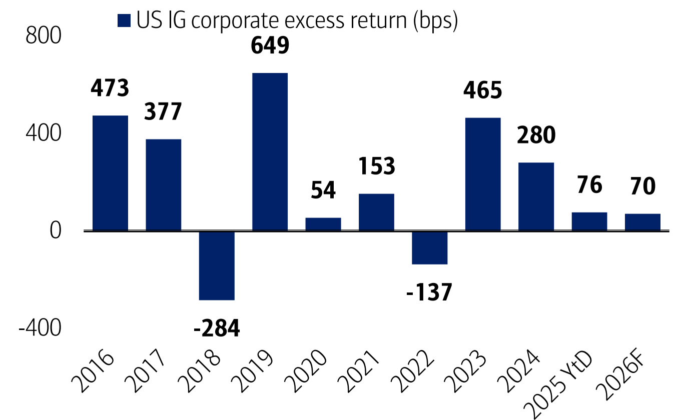
Exhibit 63: We forecast an excess return of 70bps for 2026

We forecast IG excess return of +70bps in 2026, similar to +76bps YtD.



Source: BofA Global Research, ICE Data Indices, LLC

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Exhibit 64: Interest rate forecast for year 2026

BofA Rates team is calling for YE 2026 10-year Treasury rate of 4.25%.

Tenor	Current (%)	Year-end 2024F (%)	Change (bps)
2-year Treasury	3.53	3.25	-28
5-year Treasury	3.65	3.50	-15
10-year Treasury	4.08	4.25	17
30-year Treasury	4.72	4.75	3

Source: BofA Global Research, Bloomberg

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Exhibit 65: IG spread forecast for 2026

We call for US IG spread of 90bps in 2025, 4bps wider from current level of 86bps.

Tenor	Current (bps)	Forecast (bps)	Change (bps)
1-3yr	54	57	3
3-5yr	77	82	5
5-7yr	90	95	5
7-10yr	100	106	6
10-15yr	100	106	6
15+yr	103	109	6
Market	**86**	**90**	**5**

Source: BofA Global Research, ICE Data Indices, LLC

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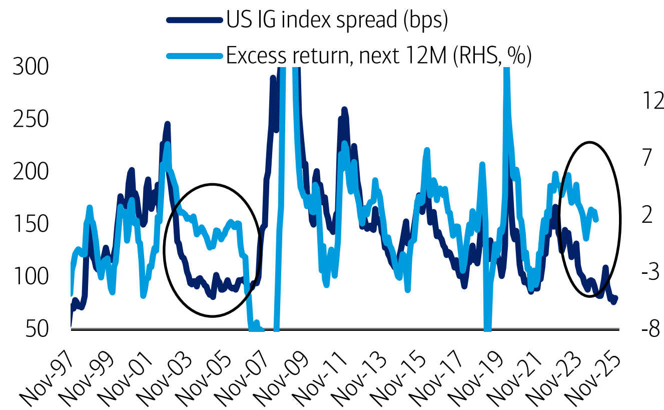
Exhibit 66: Spreads are tight, but we expect a positive excess return
IG spreads at 85bps typically lead to a negative excess return over the next 12M. It's not unprecedented to have a positive return, however.



Source: BofA Global Research, ICE Data Indices, LLC

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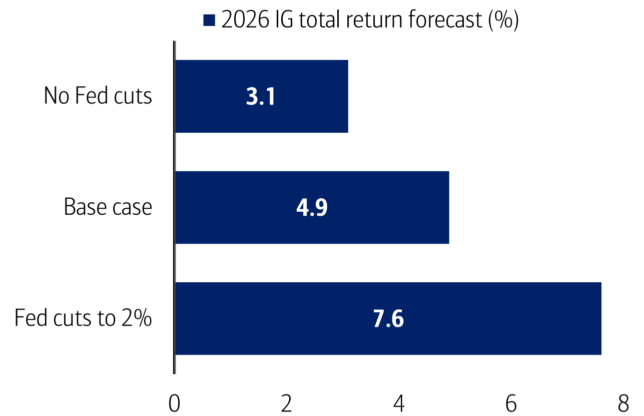
Exhibit 67: 2026 IG total return scenarios
YE-2026 10yr Treasury yield assumptions: No Fed cuts = 4.5%, base case = 4.25%, Fed cuts to 2% = 3.5%.



Source: BofA Global Research, ICE Data Indices, LLC

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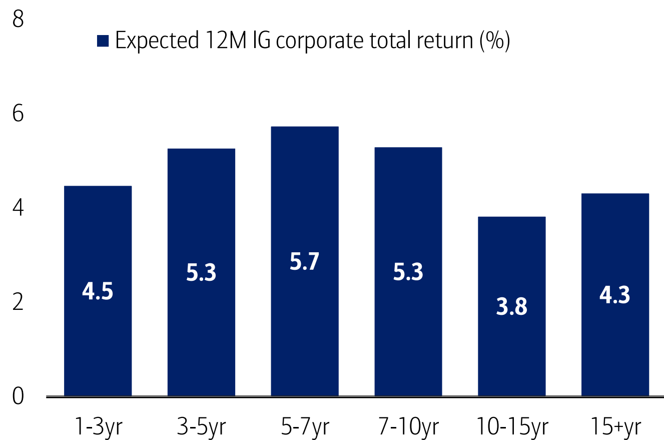
Exhibit 68: 2026 total return forecast: 5-7yr to outperform
Our outlook for a steeper Treasury yield curve and slightly wider spreads implies 5-7yr maturity outperforms with a 5.7% total return in 2026.



Source: BofA Global Research, ICE Data Indices, LLC

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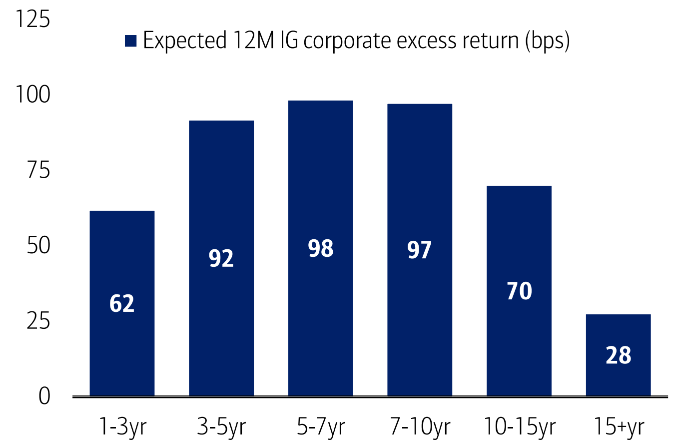
Exhibit 69: 2026 excess return forecast: 3-10yr to outperform
Our 90bps IG spread target for 2026 implies the belly (3yr to 10yr) outperforms in 2026 in terms of excess returns.



Source: BofA Global Research, ICE Data Indices, LLC

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Exhibit 70: IG corporate returns forecast for 2026 by maturity bucket
We expect an excess return of 70bps and a total return of 4.9% for US IG corporates over the next 12M.

	Current					Treasury yield change (%)		Spread change (bps)		Return forecast	
Maturity	**Maturity (years)**	**Mod. Duration**	**Yield (%)**	**Spread (bps)**	**Full market value ($bn)**	**Constant maturity**	**Roll down**	**Constant maturity**	**Roll down**	**Excess (bps)**	**Total (%)**
1-3yr	1.89	1.81	4.18	54	1,982	-0.31	-0.02	3	-7	62	4.49
3-5yr	3.95	3.58	4.41	77	1,823	-0.19	-0.08	5	-8	92	5.28
5-7yr	5.86	5.14	4.66	90	1,075	-0.09	-0.14	5	-7	98	5.75
7-10yr	8.58	6.65	4.96	100	1,521	0.08	-0.15	6	-4	97	5.31
10-15yr	12.27	8.74	5.26	100	544	0.15	-0.03	6	-1	70	3.84
15+yr	24.12	13.18	5.69	103	2,217	0.07	-0.03	6	0	28	4.33
Total	**9.87**	**6.52**	**4.84**	**85**	**9,162**	**-0.08**	**-0.07**	**5**	**-5**	**70**	**4.85**
1-5yr	2.88	2.65	4.29	65	3,805	-0.25	-0.05	4	-7	76	4.87
1-10yr	4.74	4.02	4.51	78	6,401	-0.15	-0.09	5	-6	85	5.12

Source: BofA Global Research, ICE Data Indices, LLC

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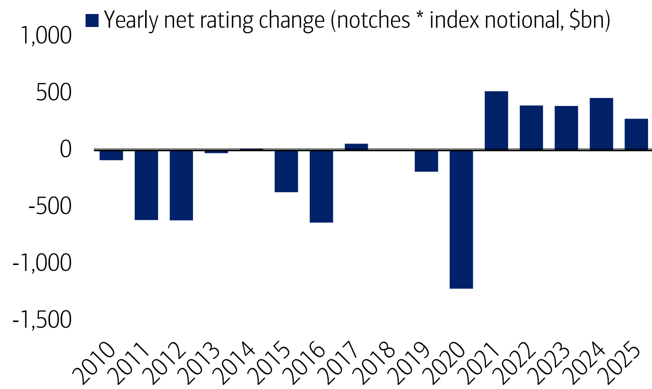
Ratings review: less upgrades

The pace of rating upgrades slowed to $274bn YtD (notional * notches) from $456bn in 2024 (Exhibit 71, Exhibit 72). We expect even less upgrades in 2026 as companies finally start to re-lever. Over the next three months, the outlook for rating actions remains positive (Exhibit 73).

This year, fallen angel volumes (downgrades to HY) remained moderate. The largest downgrades of 2025 were WBD ($16bn), CE ($7bn), and NSANY ($9bn). Next year, fallen angel volumes could accelerate as the large issuer Ford remains a low-BBB rated issuer with a negative outlook at S&P (Exhibit 74).

Exhibit 71: Net upgrades have been very strong since 2021.
The last five years have seen significant waves of net upgrades.



Source: BofA Global Research

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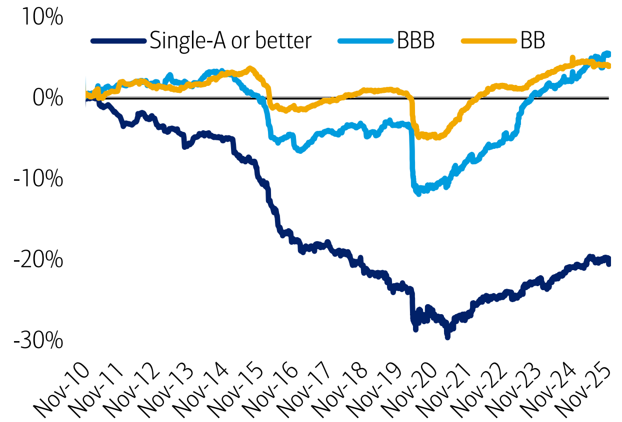
Exhibit 72: Cumulative net upgrade for non-financials (% index)
2025 saw a wave of upgrades, especially in BBBs.



Source: BofA Global Research, Bloomberg

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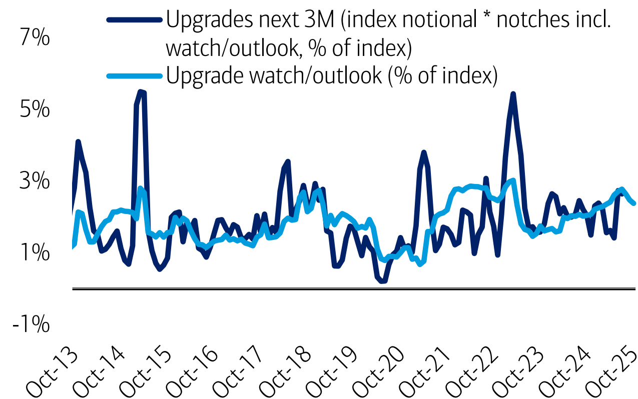
Exhibit 73: More ratings on positive watch/outlook
Upgrade watch/outlook is now at 2.4% of the index.



Note: watch/outlook is computed as 0.66 * notional for a watch and 0.33 * notional for an outlook. Upgrades are tracking rating changes only (ignoring outlook and watch changes).
Source: BofA Global Research

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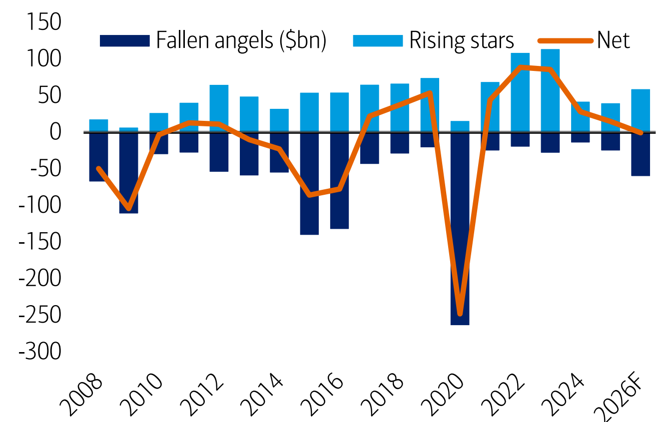
Exhibit 74: We expect more rising stars and fallen angels in 2026
We look for $60bn of rising stars and $61bn of fallen angels in 2026, up from $41bn of rising stars and $26bn of fallen angels in 2025.



Source: BofA Global Research

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2025 IG performance review

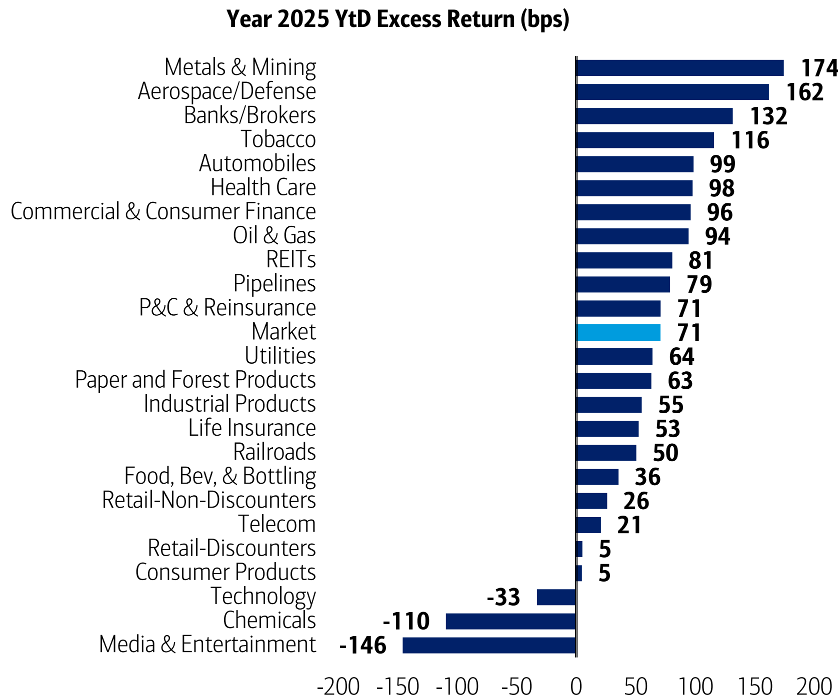
Following a relatively volatile year the spread on the BofA US IG ICE index is only 4bps wider year to date. The index has delivered a strong +7.4% total return YtD and a more modest +71bps excess return over the same period.

What has outperformed?

At the sector level, Metals & Mining, Aerospace/Defense, and Banks outperformed in terms of excess return, while Media, Chemicals and Tech underperformed (Exhibit 75). Single-As (+75bps) have performed in line with BBBs (+76bps) in terms of excess return YtD. In terms of larger issuers, the biggest outperformers this year were LIBMUT, BBVASM, and DB, while FMC, WBD, and FSK underperformed the most (Exhibit 76, Exhibit 77).

Exhibit 75: High Grade YtD sector excess return

Year-to-date excess return for HG corporate market sectors, through November 21, 2025. Results include hybrid and subordinated securities.



Source: ICE Data Indices, LLC

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Exhibit 76: Best performing large issuers in 2025
The table lists large issuers where 10yr spreads tightened the most so far in 2025.

Ticker	Issuer notional ($bn)	Starting spd (bps)	Latest spd (bps)	Spread change (bps)	Spread change (%)
LIBMUT	0.3	181	141	-40	-22%
BBVASM	1.8	165	127	-38	-23%
DB	1.3	150	115	-35	-23%
SOCGEN	1.3	169	134	-35	-21%
CVS	3.2	139	104	-35	-25%
SANTAN	4.8	147	115	-32	-22%
ISPIM	2.8	145	115	-30	-21%
BAYNGR	2.5	168	139	-29	-17%
BA	4.3	132	104	-28	-21%
TE	0.3	122	97	-25	-20%
APTV	0.5	132	110	-22	-17%
KBCBB	1.0	127	105	-22	-17%
BPCEGP	3.7	158	136	-22	-14%
CABKSM	2.0	135	114	-22	-16%
HSBC	9.5	144	124	-20	-14%

Note: DM only. Minimum beginning notional of $3bn, 7-10yr bonds only.
Source: BofA Global Research, ICE Data Indices, LLC

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Exhibit 77: Worst performing large issuers in 2025
The table lists large issuers where 10yr spreads widened the most so far in 2025.

Ticker	Issuer notional ($bn)	Starting spd (bps)	Latest spd (bps)	Spread change (bps)	Spread change (%)
FMC	2.5	125	299	174	139%
WBD	0.3	187	316	129	69%
FSK	4.4	143	238	95	66%
CE	6.7	149	239	90	61%
WHR	3.2	133	214	81	61%
NSANY	9.5	152	218	66	43%
ORCL	75.5	84	137	53	63%
DOW	11.4	102	153	50	49%
CNC	15.7	133	182	50	37%
BHF	4.8	105	154	49	47%
LYB	9.6	118	160	42	35%
EIX	29.9	80	118	38	48%
OCINCC	3.4	150	186	36	24%
FI	17.6	68	100	33	48%
COXENT	11.2	119	150	31	26%

Note: DM only. Minimum beginning notional of $3bn, 7-10yr bonds only.
Source: BofA Global Research, ICE Data Indices, LLC

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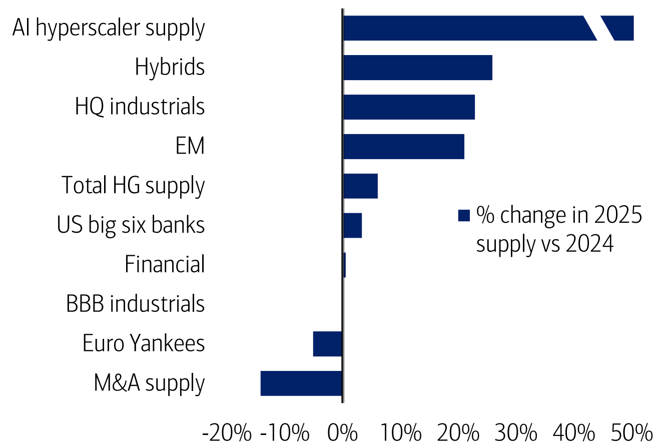
2025 supply review

IG corporate issuance in 2025 tracked 2024 levels closely until October, when the hyperscaler and M&A supply accelerated notably (see Situation Room: The grand finale for IG supply, Exhibit 79). Hyperscaler issuance is up by $104bn YtD, or +620% relative to full year 2024. Hybrid issuance was also active, up +26% YoY. Meanwhile, M&A issuance was down -14% from 2024, likely due to tariff related volatility that weighed on M&A activity this year (Exhibit 78).

Exhibit 78: IG supply by broad sector
In terms of % change supply accelerated the most in 2025 for hyperscalers, hybrids and high quality (rated single-A or better) Industrials.



Note: AI hyperscaler supply was up +620% in 2025 YtD vs. full year 2024.
Source: BofA Global Research

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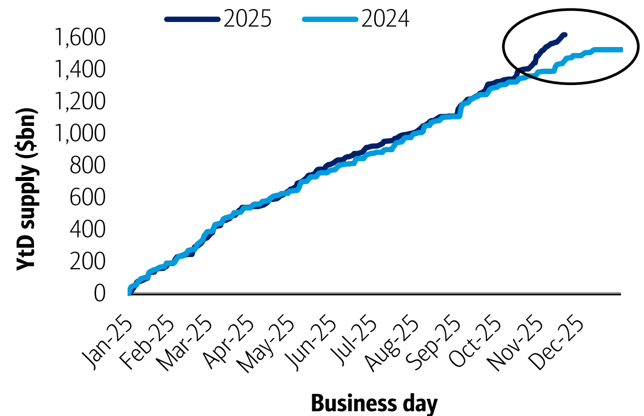
Exhibit 79: IG gross supply is up +10% YoY
2025 supply has tracked 2024 closely until October, when hyperscaler and M&A issuance pushed it to +10% YoY.



Source: BofA Global Research

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