Janus Henderson
INVESTORS

Q1 2026

MULTI-SECTOR CREDIT ASSET ALLOCATION PERSPECTIVES



The Multi-Sector Credit Team share perspectives on the fixed income market and their quarterly asset allocation ranking. They highlight a timely chart to watch, explore relative value opportunities, and provide insight on their latest asset allocation scores by fixed income sub-sector.

Marketing communication.
The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

KEY TAKEAWAYS

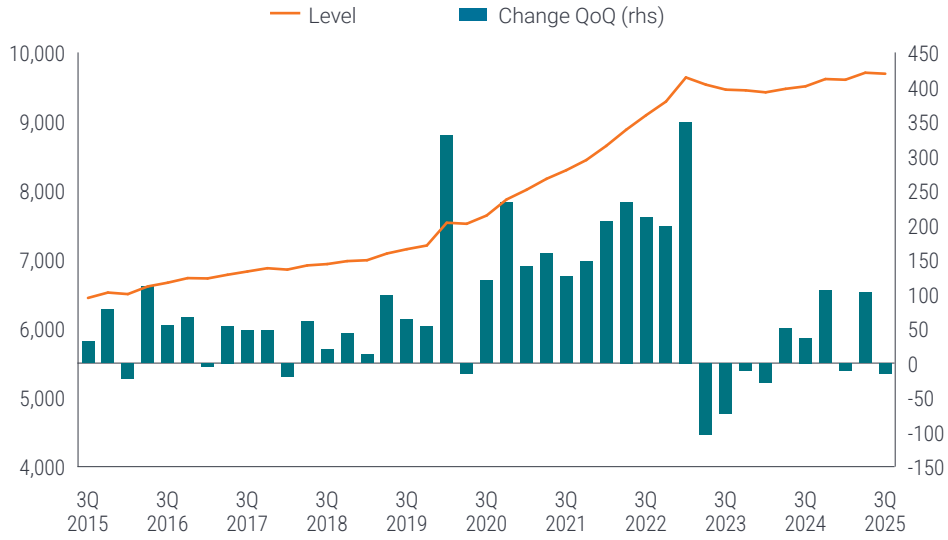
> We remain very constructive on credit as growth remains resilient, inflation is contained, and favorable policy action in mortgages has the potential to trigger positive second round effects across securitised assets."
>
> **John Lloyd**
> Portfolio Manager.

- US economic growth is proving resilient; this supports corporate fundamentals but equally keeps spreads tight, driving a keener focus on asset allocation and uncorrelated opportunities.
- Liquidity injections from authorities, together with government-sponsored enterprise purchases of mortgage-backed securities, could put a near-term floor under certain markets and have a positive read-across to other securitised assets.
- Positive real yields, the potential for inflation to move lower as we lap tariff impacts, and the prospect of a dovish-leaning US Federal Reserve (Fed) chair, lead us to favour the front-end of the yield curve.

Chart to watch

GSE balance sheet cumulative level and quarter-on-quarter change.

US$ billion



Source: FRED, St. Louis Fed, Government-Sponsored Enterprises (GSE); Total Assets (Balance Sheet), QoQ = quarter-on-quarter, 3Q 2015 to 3Q 2025.

Washington's latest policy actions, both from the Trump administration and the Fed, are injecting large amounts of liquidity into the financial system, even as officials insist they are not reviving quantitative easing (QE). A series of fiscal and regulatory steps – including the GENIUS Act, reduced bank capital requirements, and directives for federal entities like Fannie Mae and Freddie Mac – are effectively boosting credit creation.

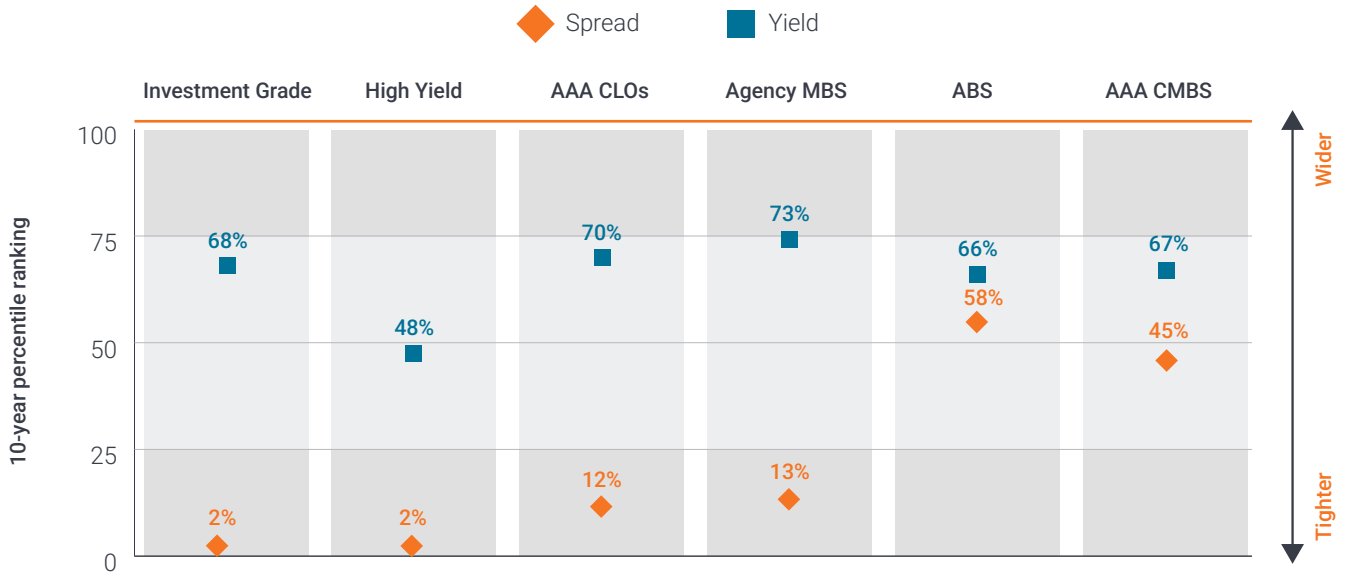
Most notably, the administration has ordered the government-sponsored enterprises (GSEs) to purchase US$200 billion of mortgage-backed securities, aiming to push down mortgage rates and support housing demand. In the coming months, we will start to see this flow through to the official figures reported in the chart above. Meanwhile, the Fed has restarted balance-sheet expansion by buying short-term Treasury bills, with estimated purchases of US$220–300 billion in the first year and over US$54 billion already since mid-December. Combined with recent rate cuts and the expectation for further cuts, the policy mix is unmistakably accommodative. This influx of liquidity can buoy asset prices by creating a perceived "floor" under markets and placing a lid on fixed income spreads.

ASSET ALLOCATION VIEWS

Supportive growth meets tactical opportunities

US Q4 gross domestic product (GDP) growth in mid-January is now tracking well ahead of expectations from just a month ago, prompting most economists to remove the prospect of a near-term recession. Looking ahead, we expect above-trend growth in 2026, supported by artificial intelligence (AI) driven capital spending (and productivity gains from AI adoption), deregulation, and the One Big Beautiful Bill (OBBB) tax package. The labor market appears to be in a "low hire, low fire" equilibrium, and recent data have been encouraging, though the Fed remains attentive to downside risks. Easing monetary policy and fading tariff impacts further support the growth outlook. With inflation likely to fall – we soon start lapping tariff increases – the positive real yield on most fixed income asset classes should look increasingly attractive.

Spreads remain tight, but this environment should help keep them range bound for longer, increasing our confidence that we can at least "earn our carry" across many sectors. We intend to stay tactical in our asset allocation by taking advantage of potential sector dislocations. The current regime should be favorable for active managers focused on security selection, particularly those who succeed in avoiding downside credit situations. In general, we prefer securitized assets over corporates as they have lagged the broader move tighter and offer more room for further compression in addition to benefiting from comparatively higher carry.



Metrics	Investment Grade	High Yield	AAA CLOs	Agency MBS	ABS	CMBS
Spread (bps)	78	266	131	22	96	115
10yr Tights	74	261	110	7	56	77
10yr Wides	272	880	302	75	343	263
10yr Average	115	395	160	37	98	137
Yield to Worst	4.8%	6.5%	5.0%	4.6%	4.6%	4.8%

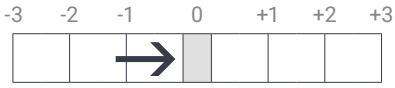
Source: Janus Henderson Investors, Morningstar and Bloomberg as of 31 December 2025.

Note: **Basis point (bp) equals 1/100th of a percentage point. 1 bp = 0.01%, 100 bps = 1%.** "Investment Grade" represents the Bloomberg US Corporate Bond Index, "High Yield" represents the Bloomberg US High Yield Index, "AAA collateralized loan obligations (AAA CLO)" represents the JPM CLOIE Index, "Agency mortgage-backed securities (Agency MBS)" represents the Bloomberg MBS Index, "Asset-backed securities (ABS)" represents the ICE BofA ABS Index and "Commercial mortgage-backed securities (CMBS)" represents the ICE BofA CMBS Index. **There is no guarantee that past trends will continue, or forecasts will be realized.** AAA CLO spreads (Discount Margin) experienced a one day spread widening of 26bps on June 28, 2023, when J.P. Morgan transitioned the referenced rate from LIBOR to SOFR. Actual results may vary, and the information should not be considered or relied upon as a performance guarantee.

Dynamic allocation

We use an internal qualitative and quantitative asset allocation model to evaluate the sectors within our multi-sector credit universe. Sectors are rated from -3 to +3 across fundamentals, technical (or market dynamics), and valuations. During our asset allocation meeting, the summary of these scores is used to rate sectors relative to each other. The result is reflected in portfolio sector allocation. The views and scores are those held at the end of Q4 2025.

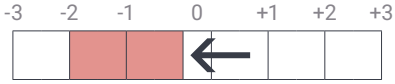
Global high yield



Views

Global High Yield (HY) enjoyed a strong 2025, producing total returns of 8.5%.[1] The average price on HY bonds is around 98 with yields in the mid-6%.[1] Strong performance and inflows in 2024 and 2025 have raised the AUM of the traditional HY fund base (including ETFs) to a record high.[2] The default rate at the end of 2025 remains low at 1.9%.[2] We anticipate another year of low defaults given improved index quality and a supportive growth outlook. Supply is not expected to increase as much as elsewhere and demand remains high.

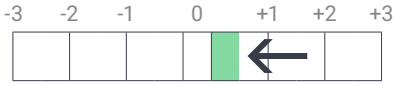
Global investment grade



Views

Corporate earnings and consumer spending remain resilient, but broad investment grade (IG) looks unattractive given tight spreads, unfavorable breakevens, and a heavy supply pipeline, leading us to have negligible exposure. We are particularly cautious on the IG technology sector, where hyperscalers are expected to drive a meaningful share of new issuance. We look for selective opportunities within IG based on fundamental narratives or tactical dislocations, but at current spread levels we see better value in securitized assets.

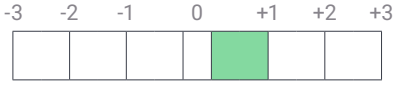
CLOs



Views

Collateralized loan obligations (CLOs) continue to tighten, with AAA tranches of new 5nc2 (5-year maturity and 2-year non-call period) deals pricing at ~125 basis points (bps) of spread in Europe and inside 120bps in the US. Similarly, BBB tranches of these new deals are now coming at ~265bps in Europe and inside 250bps in the US. We currently see the best value in EU AA tranches. As spreads tighten, the option cost embedded in CLOs decreases (as the call becomes less likely), making them more attractive on a relative basis. In compressed spread environments where carry remains important but convexity is limited, we favor CLOs versus corporates. We score AAA +0.5 and BBB 0.

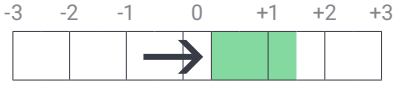
CMBS



Views

Commercial mortgage-backed securities (CMBS) continue to trade well, with December new issue supply met by strong demand. We expect issuance to remain elevated and continue to seek opportunities in the primary market. We prefer single-asset single-borrower (SASB) transactions across offices, retail, industrials, and hotels, where fundamentals and deal structures appear attractive. The overall market is firm, supported by limited secondary supply and well-funded investors eager to deploy capital. We are cautious, however, on multi-family SASB in New York City due to landlord-punitive laws being put in place on rent control.

Mortgage-related debt



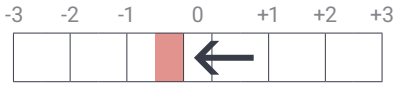
Views

Our positive view on mortgage-backed securities (MBS) is underpinned by strong technicals, reasonable valuations, and supportive fundamentals – most notably substantial buying from GSEs. This additional demand helps absorb relative value selling from money managers as well as new origination. Mortgages can also behave in a counter-cyclical manner, making their risk adjusted carry attractive. A further steepening of the yield curve would only strengthen the fundamental backdrop. Outside of Agency MBS, AAA spreads in the low 100s for Residential MBS and resi products compensate investors for short duration cash flows, and despite pockets of heavy supply, new deals are oversubscribed.[3] Senior tranches offer robust credit enhancement and stable cash flows. We score Agency MBS +1.5, RMBS +1.

Key Negative Neutral Positive → Score change since the previous quarter

[1] Source: ICE BofA Global High Yield Index, USD total return in year to 31 December 2025, yield to worst, as of 31 December 2025. Past performance does not predict future returns. [2] Source: J.P. Morgan Markets, 2025 High Yield Annual Review. Default rate is from JPM and includes distressed exchanges. [3] Source: BofA, Non-Agency MBS Weekly, 16 January 2026.

Loans



Views

The bifurcation theme in loans remains firmly in place. Stressed names continue to share a common profile: high leverage and mediocre operating performance. We have observed recent weakness in French loan issuers, where we remain cautious. Performing loans continue to trade well in the secondary market. A large share is comfortably above par, fueling a wave of repricings. The more compelling opportunities lie in the primary market, where new deals still price at a discount to high yield and come with a fresh six months of call protection, enhancing near term carry and mitigating early refinancing risk. We continue to prefer Euro loans where 25bps extra margin in Euro tranches vs US tranches remains the norm. We score US loans at -0.5 and EU loans at 0.

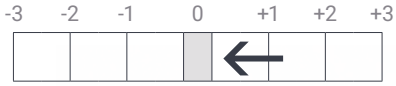
ABS



Views

Asset-backed securities (ABS) remains a broad sector, and we continue to be selective – particularly within non-prime consumer, where challenges persist in certain pockets. Within subprime specifically, we think it prudent to stay higher in the capital stack and focus on established sponsors and programs. Esoteric ABS segments have seen strong supply trends and continue to offer value, providing more tailored commercial-asset exposure away from traditional consumer loans. The digital infrastructure sector, especially the data-center subsector, will be important to watch. Data-center ABS valuations have cheapened somewhat into the turn of the year as the market anticipates continued supply in the coming months, yet we think they may still not fully reflect the significant expected uptick in issuance for 2026.

Emerging market debt



Views

We continue to expect emerging market (EM) economies to outgrow developed markets (DM) over the coming years, even as near term DM growth forecasts have been revised higher. Supply in EM debt is not anticipated to rise as sharply as in other asset classes. Against a backdrop of increasing global diversification away from the US, EM remains structurally under-owned, leaving room for allocations to expand. EM B-rated bonds now screen very tight versus DM Bs, while BBs sit closer to the middle of their historical ranges. We remain neutral on EM, appreciating its strong fundamentals while noting that recent strong performance makes it more difficult to justify overweight allocations.

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The role of duration

Our economic outlook remains constructive. We continue to use duration primarily as a hedge against spread risk, with most of our exposure at the front end. This helps dampen volatility and offers upside if growth slows. We remain less constructive on the long end given our positive view on US growth, persistent inflation pressures, large fiscal deficits, and challenges to Fed independence. The Fed's dot plot signals only one cut in 2026 versus the market expecting two. The timing of cuts is uncertain, particularly with a more dovish incoming Fed chair but data that may not justify additional easing. Rate spread correlations remain negative, underscoring duration's effectiveness as a volatility buffer. Multisector funds have recently benefited from a balanced mix of interest rate and credit spread risk, and we expect this dynamic to persist.

Fixed income indices returns (%)

2020	2021	2022	2023	2024	2025
Global Investment Grade 8.26%	Global High Yield 2.53%	AAA CLOs 1.05%	Global High Yield 13.66%	Global High Yield 10.71%	Emerging Markets Debt 14.30%
US Treasury 8.00%	AAA CLOs 1.40%	US ABS -4.43%	Emerging Markets Debt 11.09%	AAA CLOs 7.06%	Global High Yield 10.02%
US Aggregate 7.51%	US ABS 0.34%	US CMBS -10.20%	Euro Aggregate 9.61%	Emerging Markets Debt 6.54%	US MBS 8.58%
US CMBS 6.76%	US CMBS -0.33%	Global High Yield -11.05%	Global Investment Grade 9.10%	US ABS 5.93%	US CMBS 7.56%
Global High Yield 6.73%	Global Investment Grade -0.79%	Global Aggregate -11.22%	AAA CLOs 8.68%	US CMBS 5.89%	US Aggregate 7.30%
Global Aggregate 5.58%	US MBS -1.04%	US MBS -11.81%	Global Aggregate 7.15%	Euro Aggregate 4.31%	Global Investment Grade 7.08%
Euro Aggregate 5.37%	Global Aggregate -1.39%	US Treasury -12.46%	US ABS 6.28%	Global Investment Grade 3.69%	US Treasury 6.32%
Emerging Markets Debt 5.26%	US Aggregate -1.54%	US Aggregate -13.01%	US Aggregate 5.53%	Global Aggregate 3.40%	US ABS 5.66%
US MBS 3.87%	Emerging Markets Debt -1.80%	Global Investment Grade -14.11%	US MBS 5.05%	US Aggregate 1.25%	AAA CLOs 5.45%
US ABS 3.82%	Euro Aggregate -2.07%	Euro Aggregate -15.27%	US CMBS 4.71%	US MBS 1.20%	Global Aggregate 4.86%
AAA CLOs 2.54%	US Treasury -2.32%	Emerging Markets Debt -17.78%	US Treasury 4.05%	US Treasury 0.58%	Euro Aggregate 3.35%

Source: Bloomberg, as at 31 December 2025, total returns in USD or USD hedged. YTD = year to date. Global Investment Grade: Bloomberg Global Aggregate – Corporate Index (USD hedged); Global High Yield: Bloomberg Global High Yield Index (USD hedged; Global Aggregate: Bloomberg Global Aggregate Index (USD hedged); Euro Aggregate: Bloomberg Euro Aggregate (USD hedged); US Aggregate: Bloomberg US Aggregate; AAA CLOs: J.P. Morgan CLO (AAA) Index; US CMBS: ICE BofA US Fixed Rate CMBS Index; US MBS: Bloomberg US Mortgage Backed Securities (MBS) Index; US ABS: ICE BofA US Fixed Rate Asset Backed Securities Index; Emerging Market Debt (hard currency): J.P. Morgan EMBI Global Diversified USD; US Treasury: Bloomberg US Treasury Index.

Note: **Past performance does not predict future returns.**

Portfolio management



John Lloyd

Global Head of Multi-Sector Credit | Portfolio Manager

Industry since 1998. Joined Firm in 2005.

We would be pleased to talk in more detail about any views within this document and our thinking more broadly.

Glossary

Above par: When a bond trades above par, it means that the bond's current market price is higher than its face value (also known as its par value). This typically occurs when the interest rate environment has changed since the bond was issued, specifically when market interest rates have declined below the bond's coupon rate**.**

Agency Mortgage-Backed Securities (Agency MBS): A type of asset-backed security that is specifically secured by a collection of mortgages. These securities are issued by one of the three **government-sponsored enterprises** (GSEs): Fannie Mae (Federal National Mortgage Association), Freddie Mac (Federal Home Loan Mortgage Corporation), or Ginnie Mae (Government National Mortgage Association). They buy mortgages and either hold them to maturity or repackage them into Agency MBS, which helps provide liquidity to the mortgage market.

Asset-backed Securities (ABS): These are financial instruments that are backed by a pool of assets—typically those that generate a cash flow from debt, such as loans, leases, credit card balances, or receivables.

Call option: In bonds this typically refers to being able to call (repay) a bond early, i.e. before its maturity date; this creates reinvestment risk for the bondholder as prevailing interest rates may be less favorable than the rate on the bond.

Carry: Return earned from a security assuming its price remains unchanged. For a bond, carry is essentially the income generated by the bond less the cost of financing.

Collateral: In a securitisation, collateral refers to the pool of financial assets that are bundled together to form the basis of a security.

Commercial Mortgage-Backed Securities: A type of mortgage-backed security that is secured by the loan on commercial real estate properties rather than residential real estate.

Convexity: In the context of bonds, convexity measures how a bond's price sensitivity to interest rate changes (duration) changes as interest rates fluctuate. Convexity quantifies how much more the bond's price will increase when interest rates fall, or how much more the price will decrease when interest rates rise, compared to what duration alone would predict.

Correlation: The degree to which two variables move in relation to each other. A value of 1.0 implies movement in parallel, -1.0 implies movement in opposite directions, and 0.0 implies no relationship.

Duration: Duration can measure how long it takes, in years, for an investor to be repaid a bond's price by the bond's total cash flows. Duration can also measure the sensitivity of a bond's or fixed income portfolio's price to changes in interest rates. The longer a bond's duration, the higher its sensitivity to changes in interest rates and vice versa.

Fiscal policy: Government policy related to setting tax rates and spending levels.

Fundamentals: In the context of corporate debt, "fundamentals" refer to the essential financial health indicators and characteristics of a company that suggest its ability to meet debt obligations.

High yield bond: Also known as a sub-investment grade bond, or 'junk' bond. These bonds usually carry a higher risk of the issuer defaulting (failing to meet payments), so they are typically issued with a higher interest rate.

Hyperscalers: Companies providing cloud, networking, and internet services at a massive scale, typically involving expansive data centers.

Investment grade bond: A bond typically issued by governments of companies perceived to have a low risk of defaulting on their payments, reflected in the higher rating given to them by credit ratings agencies.

Liquidity: How quickly and easily an asset can be bought and sold (and/or converted into cash). Higher money supply typically increases liquidity.

Litigation finance: Third-party funding of a claimant's legal costs in exchange for a share of the proceeds from a successful lawsuit.

Loans: Also called "Leveraged loans". Loans to companies that tend to be rated below investment grade.

Monetary policy: The policies of a central bank aimed at influencing inflation and economic growth. Monetary policy tools include setting interest rates and controlling the supply of money.

Quantitative Easing (QE): A central bank monetary policy occasionally used to increase the money supply and lower financing costs by buying government securities or other securities from the market.

Residential Mortgage-backed Securities (RMBS): A type of mortgage-backed security that is secured by the interest in residential real estate loans.

Real yield: The yield on an investment after adjusting for inflation.

Spread: The credit spread is the difference in yield between securities with similar maturity but different credit quality, often used to describe the difference in yield between corporate bonds and government bonds.

Spread risk: This refers to the potential for financial loss that arises from the widening of the credit spread between two debt securities.

Yield-to-worst: The lowest yield a bond with a special feature (such as a call option) can achieve provided the issuer does not default.

Yield curve: This plots the yields (interest rate) of bonds with equal credit quality but differing maturity dates. Typically, bonds with longer maturities have higher yields.

Bank loans often involve borrowers with low credit ratings whose financial conditions are troubled or uncertain, including companies that are highly leveraged or in bankruptcy proceedings.

Collateralized Loan Obligations (CLOs) are debt securities issued in different tranches, with varying degrees of risk, and backed by an underlying portfolio consisting primarily of below investment grade corporate loans. The return of principal is not guaranteed, and prices may decline if payments are not made timely or credit strength weakens. CLOs are subject to liquidity risk, interest rate risk, credit risk, call risk and the risk of default of the underlying assets.

Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

Fixed income securities are subject to interest rate, inflation, credit and default risk. As interest rates rise, bond prices usually fall, and vice versa. **High-yield bonds**, or "junk" bonds, involve a greater risk of default and price volatility. **Foreign securities**, including sovereign debt, are subject to currency fluctuations, political and economic uncertainty and increased volatility and lower liquidity, all of which are magnified in emerging markets.

Securitized products, such as mortgage- and asset-backed securities, are more sensitive to interest rate changes, have extension and prepayment risk, and are subject to more credit, valuation and liquidity risk than other fixed-income securities.

Index definitions

Bloomberg Euro Aggregate Index measures the investment grade, euro-denominated, fixed rate bond market, including treasuries, government-related, corporate and securitized issuers.

Bloomberg Global Aggregate Corporate Index is a measure of global investment grade, fixed rate corporate debt. The multi-currency benchmark includes bonds form developed and emerging market issuers within the industrial, utility and financial sectors.

Bloomberg Global Aggregate Index is a measure of global investment grade debt. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed rate bonds from both developed and emerging market issuers. Bloomberg Global High Yield Index is a multi-currency measure of the global high yield debt market.

Bloomberg US Aggregate Index measures the investment grade, US dollar-denominated, fixed rate taxable bond market. It includes treasuries, government-related and corporate securities, MBS (agency fixed rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg US Corporate Bond Index measures the investment grade, fixed rate, taxable corporate bond market. Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed rate corporate bond market.

Bloomberg US Mortgage Backed Securities (MBS) Index tracks fixed rate agency mortgage backed pass-through securities guaranteed by Ginnie Mae, Fannie Mae and Freddie Mac.

Bloomberg US Treasury Index measures US dollar-denominated, fixed rate, nominal debt issues by the US Treasury.

ICE BofA AAA US Fixed Rate CMBS Index tracks the performance of US dollar denominated investment grade AAA rated fixed rate commercial mortgage backed securities publicly issued in the US domestic market.

ICE BofA US Fixed Rate Asset Backed Securities Index tracks the performance of US dollar-denominated investment grade fixed rate asset backed securities publicly issued in the US domestic market.

J.P. Morgan Collateralised Loan Obligation AAA Index (CLOIE AAA) tracks the performance of AAA-rated debt tranches of broadly syndicated, arbitrage US dollar-denominated debt.

J.P. Morgan EMBI Global Diversified Index tracks liquid, US dollar-denominated emerging market fixed and floating rate debt instruments issued by sovereign and quasi-sovereign entities.

S&P UBS Western European Leveraged Loan Index (WELLI) measures the performance of the investible universe of EUR, GBP and USD leveraged loans issued by companies domiciled within eligible countries.

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