

Q3 2026

MULTI-SECTOR CREDIT ASSET ALLOCATION PERSPECTIVES

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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

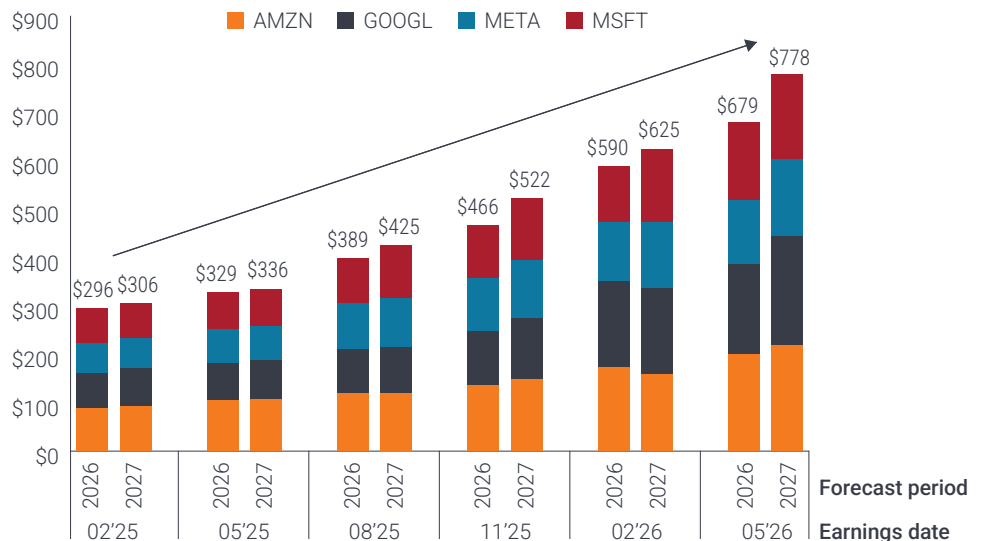
“Reduced visibility into the Fed’s policy path leads us to prefer the relatively stable carry offered by securitized assets, while retaining a highly selective approach to corporates”

John Lloyd
Portfolio Manager.

- Artificial intelligence (AI) driven capital spending (capex) is reshaping credit markets. Increased funding needs are lifting supply pipelines, particularly in U.S. investment grade, pressuring spreads and limiting valuation upside despite strong fundamentals.
- By contrast, agency and commercial mortgage-backed securities we believe offer a more favorable technical backdrop, supported by a broad buyer base and strong liquidity.
- Heightened rate uncertainty is a key risk, caused by an on-off U.S.-Iran truce, a less communicative Federal Reserve (Fed) and the inflationary aspects of the AI buildout. This leads us to favor short duration and floating rate assets, such as securitized and loans, over more interest rate-sensitive corporate bonds.

Chart to watch

Hyperscaler capex estimates trending higher (US\$ billion)



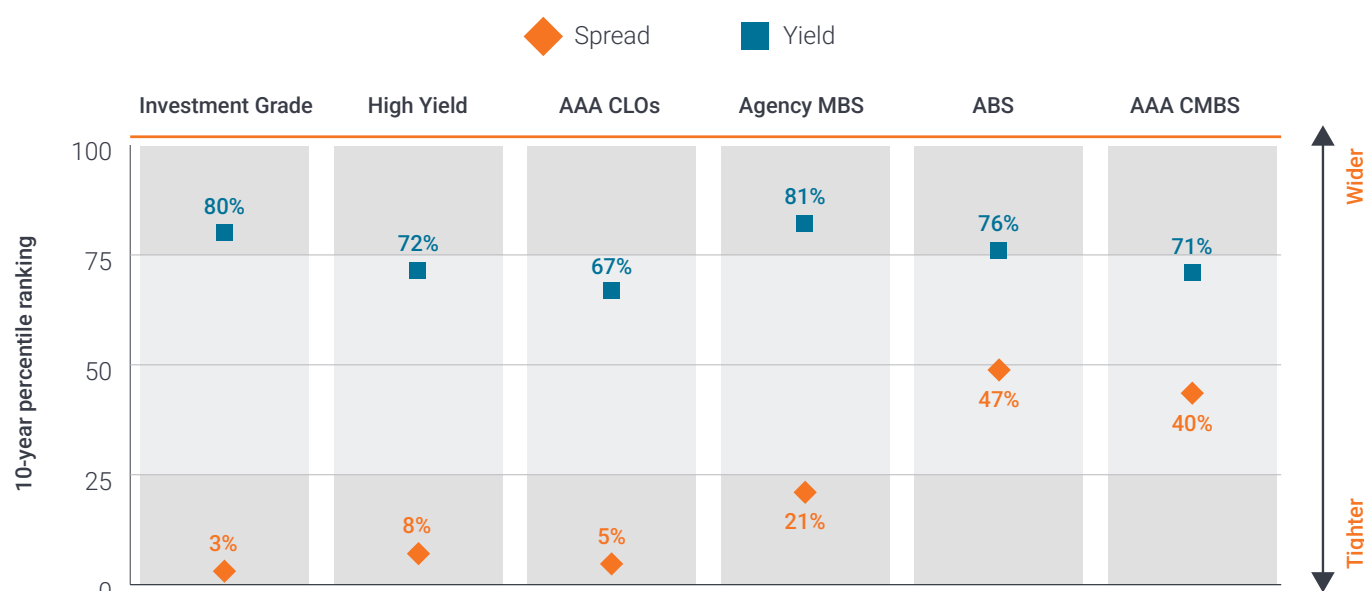
Source: Bloomberg, S&P Capital IQ sellside consensus estimates at each quarterly earnings date for the years 2026 and 2027, Janus Henderson Investors, February 2025 to May 2026. References made to individual securities do not constitute a recommendation to buy, sell or hold any security, investment strategy or market sector, and should not be assumed to be profitable. Janus Henderson Investors, its affiliated advisor, or its employees, may have a position in the securities mentioned. **There is no guarantee that past trends will continue, or forecasts will be realized.**

Hyperscaler capex estimates have stepped up meaningfully over the past 18 months, both in absolute terms and as a share of GDP, and we have been ahead of the market in raising our capex and issuance expectations. With forecast budgets approaching ~\$800bn – over 2% of current U.S. GDP – this AI-led investment cycle is supporting above-trend growth while driving sustained funding needs across capital markets. While issuance has broadened into high yield, securitized, private, and international markets, it remains heavily concentrated in U.S. investment grade (IG) corporates. This persistent supply is weighing on IG technicals, contributing to wider spreads and a more challenging near-term backdrop, limiting valuation upside despite otherwise solid fundamentals. As such, we remain cautious on IG tech exposures but continue to seek more attractive ways to access the theme across other markets that may offer a combination of better relative value, higher return potential, and less technical pressure.

ASSET ALLOCATION VIEWS

Rate uncertainty favors short duration and floating rate assets to optimize carry

- We remain neutral on overall spread beta, as relatively full valuations are supported by resilient growth, easing geopolitical tensions, strong corporate profits, and a broadly stable consumer backdrop.
- We favor securitized credit and loans over corporate bonds and Emerging Market (EM) debt, with convexity less valuable in an environment where carry is likely to be an outsized driver of returns.
- Short duration and floating-rate assets are attractive in a more uncertain Fed regime, where reduced policy visibility may drive demand for instruments with lower sensitivity to rate volatility.
- Demand for performing assets remains robust across markets, while supply dynamics vary by sector and continue to drive much of our technical positioning and relative value.
- Dispersion within stressed corporate sectors has increased, with markets further distinguishing between winners and losers across areas such as software, building materials, and chemicals.
- We maintain an up-in-quality bias, prioritizing stronger credits where fundamentals are resilient and technicals are supportive, rather than reaching for underperforming or lower-quality assets.



Metrics	Investment Grade	High Yield	AAA CLOs	Agency MBS	ABS	CMBS
Spread (bps)	74	270	126	24	88	104
10yr Tights	72	257	110	7	56	77
10yr Wides	272	880	302	75	343	263
10yr Average	111	377	155	37	97	135
Yield to Worst	5.2%	7.2%	5.0%	5.0%	5.0%	5.2%

Source: Janus Henderson Investors, Morningstar and Bloomberg as of 30 June 2026.

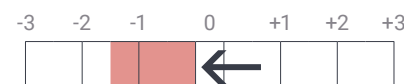
Note: **Basis point (bp) equals 1/100th of a percentage point. 1 bp = 0.01%, 100 bps = 1%.** "Investment Grade" represents the Bloomberg US Corporate Bond Index, "High Yield" represents the Bloomberg US Corporate High Yield Bond Index, "AAA collateralized loan obligations (AAA CLO)" represents the JPM 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 Q2 2026.

Key ■ Negative ■ Neutral ■ Positive ➔ Direction of score change since the previous quarter

Global high yield (HY)



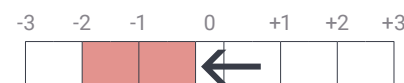
Score rationale

(-1.5 new | -0.5 prior) Spreads at ~275 basis points (bps)¹ OAS are tight with limited upside, though solid carry, technicals, and fundamentals argue against a more aggressive underweight.

Views

- Fundamentals are strong: Q1 2026 HY revenue growth was the strongest in 12 quarters, EBITDA growth the strongest in five quarters, and 42% of HY issuers have interest coverage ratios above 5x, the strongest in seven quarters.²
- We emphasize quality given weakness is concentrated in lower-quality credit. Fundamentals in issuers with coverage ratios below 2x continue to deteriorate, creating dispersion and driving the CCC/B basis to levels not seen since 2024.³

Global investment grade (IG)



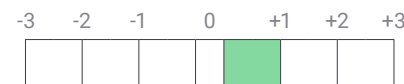
Score rationale

(-2 new | -0.5 prior) IG offers the weakest risk/reward profile in our framework: spreads at ~75bps and near the tights imply challenging breakevens in a longer duration asset class.⁴

Views

- Supply remains a key headwind, with the hyperscalers tracking to around \$250bn in issuance this year, a pace that could see the technology sector's weight in the IG corporate index roughly double over the next 3 years.⁵
- Limited convexity and unattractive breakevens make IG a preferred funding source for reallocations into securitized credit, loans, and opportunities with higher risk-adjusted carry.

Mortgage-related debt



Score rationale

(+1 new | +1 prior) Agency mortgage-backed securities (MBS) offer liquid, high quality carry, though near-term returns remain largely a function of interest rate dynamics. Record supply in parts of Residential MBS is met by a broadening investor base, helping to support spreads.

Views

- Agency MBS technicals remain supportive, aided by the ongoing \$200bn in Agency MBS purchase program, despite compressed valuations: net issuance estimates have fallen to \$150–175bn⁶ amid higher mortgage rates continuing to pressure housing activity. Carry is attractive higher up the coupon stack. (Agency MBS +1)
- Non-agency RMBS issuance is elevated but demand – especially from insurers – remains strong; credit fundamentals are stable with tighter underwriting, though differences in deal quality and rating approaches are increasing, necessitating selectivity. (RMBS +0.5)

References made to individual securities do not constitute a recommendation to buy, sell or hold any security, investment strategy or market sector and should not be assumed to be profitable.

¹Source: Bloomberg, ICE BofA Global High Yield Index (Option-adjusted spread) at 30 June 2026. ²Source: J.P. Morgan, 12 June 2026 ³Source: Bloomberg, ICE HY indices, 30 June 2026. ⁴Source: Bloomberg, ICE BofA Global Corporate Index (OAS) at 30 June 2026. ⁵Source: Barclays, 21 May 2026. ⁶Source: J.P. Morgan, 12 June 2026.



Commercial mortgage-backed securities (CMBS)

Score rationale

(+1.5 new | 0 prior) CMBS remains attractive due to meaningful spread pickup versus corporates, consistent investor demand, and reliable liquidity, supported by stable fundamentals and generally orderly deal execution.

Views

- Demand remains broad, with most deals clearing smoothly; however, transactions with overly tight price talk or elevated rollover/refinancing risk face pushback, highlighting increasing market discipline.
- CMBS offers compelling relative value and strong secondary liquidity, but investor selectivity is rising – particularly around structure, paydown profiles, and asset-specific risks.



Loans

Score rationale

(0 new | -1 prior) Strong technicals and floating-rate carry are offset by above-par pricing, heavy repricing activity, and persistent dispersion.

Views

- US loans are supported by stronger GDP growth, solid payrolls, and captive CLO demand but face less-compelling valuations, while European loans show stronger momentum despite mixed fundamentals, with macro headwinds offset by low near-term default risk.
- The first software loan issuer since “SaaSocalypse” is attempting an amend and extend (A&E) for its 2027 maturity, proposing an increase of 100bps+ spread plus original issue discount (OID) – potentially a blueprint for future A&Es.



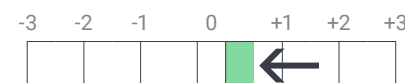
Collateralized loan obligations (CLOs)

Score rationale

(1 new | 0 prior) AAA CLOs offer high quality, floating rate carry, while BBBs are attractive vs high yield corporates, though manager selection remains key with greater downgrade, software, and structure risk.

Views

- Senior CLOs offer attractive spread pickup vs IG corporates with lower volatility and strong liquidity, making them an efficient place to park capital until dislocations emerge elsewhere. (AAA +1)
- Within mezz tranches, our preference for EUR over USD is fading as the spread differential has narrowed; higher collateral quality in EUR is offset by greater diversification and liquidity in the USD market (BBB +0.5)



Asset-backed securities (ABS)

Score rationale

(+0.5 new | +1 prior) ABS technicals and fundamentals remain strong, but the lower score reflects tighter spreads, more dispersion, and reduced upside after strong performance. (U.S. +0.5 | EU +0.5)

Views

- Consumer fundamentals remain bifurcated, with lower-income cohorts pressured by inflation; we favor higher-quality consumer ABS and commercial ABS exposure while continuing to avoid subprime risk.
- YTD supply is up ~16%⁷ and has been met by spillover from ~\$450bn⁸ of global bond inflows, supporting strong technicals. Dispersion has widened, with data center, fiber, and timeshare tightening and non-prime auto lagging.



Emerging market (EM) debt

Score rationale

(-1 new | 0 prior) Spreads are near the tights, leaving limited beta upside; however, EM still offers diversification benefits and idiosyncratic alpha opportunities.

Views

- Fundamentals have improved, supported by ratings upgrades over the past ~3 years, greater EM central bank credibility, and commodity exposure that benefits many energy and metals exporters.
- Selectivity is important: Brazil, Colombia, Central Asia, and parts of Africa are recent beneficiaries, while Pakistan, Sri Lanka, Kenya, and Egypt are vulnerable if energy prices stay high or financial conditions tighten.

⁷Source: J.P. Morgan, 26 June 2026, ⁸Source: BofA Global Research, 25 June 2026.

Geopolitical upheaval creates yield curve opportunities

The second quarter of 2026 was eventful with a temporary Memorandum of Understanding signed by the U.S. and Iran, Kevin Warsh starting his term as the new Fed Chair, and the AI buildout continuing to consume capital across markets. How these themes and others impact the outlook for inflation continues to be the market's main focus.



Rates spotlight – US exceptionalism revisited

- U.S. inflation (personal consumption expenditures less food and energy) continues to trend at a 3%+ level in the US, having been above target for 5+ years. Aside from how this elevated inflation feeds into rates, it is also relevant because it leads to more frequent periods of positive correlations where rates rise and risk assets sell off together because of fears that central banks will hike interest rates to slow the economy.
- While in much of the world, rates dipped due to the 'resolution' in the Middle East driving oil prices lower, U.S. rates continued their march higher, driven by the continued AI buildout and the need for capital to fund it. The highlight of this capital raising was SpaceX's record IPO, together with multi-billion USD deals in the U.S. IG markets. On the front end of the U.S. yield curve, the inflationary and growth-positive effects of AI have pressured rates higher, alongside evidence of a resilient labor market. On the longer end, we believe that this deluge of highly rated, high quality IG corporate paper is effectively crowding out Treasuries, keeping yields higher in the U.S.
- Elsewhere, Australia has raised rates three times this year and a more floating-rate mortgage market is already seeing negative effects on housing. The European Central Bank raised rates in June, perhaps committing the same mistake they made in 2011, raising rates into an energy price spike. And in the UK, economic and political volatility continues as the Bank of England attempts to hold their ground and not hike. Japan has seen increased inflation but political pressure to not hike rates. As the U.S. heads into its midterm election cycle, we are alive to the risks of a backlash against AI capex for societal inequality reasons – this could shift the narrative on growth if higher regulation and taxation enter the national discussion.

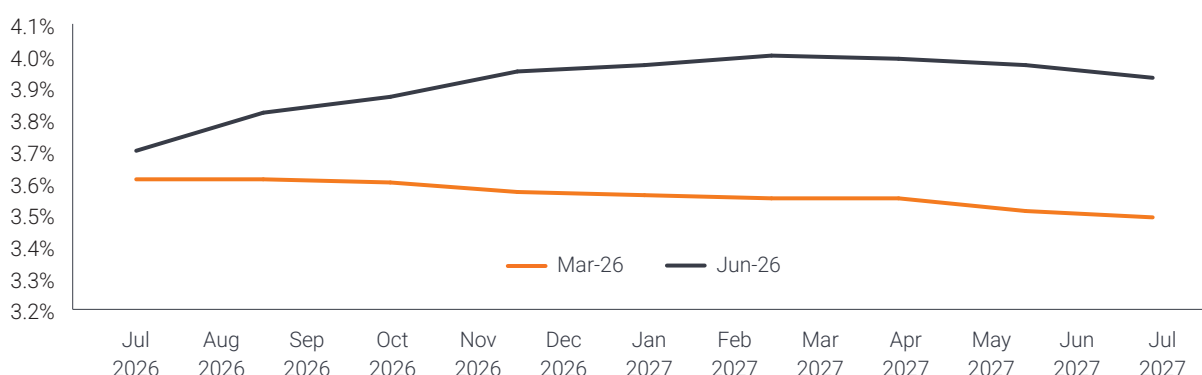
Key risk to watch



- Kevin Warsh's first meeting (17 June 2026) as Fed Chair marked a shift in policy communication and market interpretation of the Fed's reaction function. While he stressed a commitment to curbing inflation, he removed forward guidance, leaving less clarity on how policy responds to evolving data, reinforcing a more reactive framework. Markets now price in a hike by year-end and possibly another in Q1 next year.⁹
- Despite a notable sell-off in rates following the meeting, credit spreads were largely unchanged. In our view, rates are a key risk to spreads, with credit markets still underappreciating the potential for additional tightening. A higher-for-longer or renewed tightening backdrop is likely to increase rate volatility and pressure valuations, even as elevated yields continue to support carry.

Markets have repriced from cuts toward hikes

Implied U.S. overnight rates (%)



Source: Bloomberg, U.S. Fed Funds Futures, Mar-2026 = 31 March 2026, Jun-2026 = 26 June 2026. **Past performance does not predict future results.**

⁹Source: Bloomberg, world interest rate projections, US Fed funds futures, 30 June 2026.

Portfolio management



John Lloyd

Global Head of Multi-Sector
Credit | Portfolio Manager

Industry since 1998
Joined Firm in 2005



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

Glossary

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.

Amend and extend: The process of amending terms in a loan agreement, including extending the maturity date.

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.

Beta: The beta of the market is always 1. Anything with a beta above 1 is more volatile than the market, anything below 1 is less volatile. A neutral beta position indicates not wishing to stray far from market risk.

Business development company (BDC): An investment vehicle in the U.S. designed to fuel economic growth by investing in small and mid-sized enterprises and financially distressed businesses.

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.

Capex: Money invested to acquire or upgrade fixed assets such as buildings, machinery, equipment, or vehicles in order to maintain or improve operations and foster future growth.

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.

Default: The failure of a debtor (such as a bond issuer) to pay interest or to return an original amount loaned when due.

Dispersion: The extent to which returns across securities vary. Higher dispersion means returns are spread out rather than clustered together, creating bigger opportunities for both gains and losses.

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.

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.

Futures: A contract that allows an investor to buy something at a future date at a price agreed upon today. Interest rate futures allow participants to lock in a specific interest rate.

Hedge: Hedging consists of holding positions of opposite sensitivity, with the aim of offsetting losses of one position with the gains of another.

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.

Hyperscaler: Technology providers that provide IT architectures that scale dynamically to handle exponential increases in workload and data.

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.

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.

Private credit: Loans and debt financing provided by non-bank lenders to businesses, typically outside of public markets.

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

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

Reaction function: The policy framework that describes how a central bank adjusts its policy tools, such as interest rates, in response to evolving economic conditions.

Refinancing/rollover: The process of revising and replacing the terms of an existing borrowing agreement, including replacing debt with new borrowing before or at the time of the debt maturity.

SaaS apocalypse: The February 2026 market sell-off in Software-as-a-Service (SaaS) providers.

Spot price: The current market price at which a commodity, security or currency can be bought or sold for immediate payment and delivery.

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.

Technical: Relating to the supply of and demand for assets.

Tranche: Distinct layers of debt and equity within a securitized investment, stacked by risk and seniority. AAA debt is highest quality, with low risk but lower return. Mezzanine debt (AA to BB) is typically higher risk but higher return, while equity is highest risk, highest potential return.

Volatility: The rate and extent at which the price of a portfolio, security, or index, moves up and down

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 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.

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 Global High Yield Index tracks the performance of USD, CAD, GBP and EUR denominated below investment grade corporate debt publicly issued in the major domestic or eurobond markets.

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.

S&P UBS Leveraged Loan Index measures the performance of the investible universe of USD-denominated leveraged loans.

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