Annual Fixed Income Market Outlook

An Ameriprise Investment Research Group publication

Fixed Income Research Team
December 16, 2025

2026 Fixed Income Outlook

A Compelling Case for 2026

With valuations stretched across many broad asset classes, Treasury yields, the foundation of fixed income returns, remain attractive in 2026. For investors considering portfolio rebalancing or incremental investment, bonds are a worthy consideration. Key factors include:

Strong real yields: The Bloomberg U.S. Aggregate Index yield exceeds intermediate-term inflation expectations by more than two percentage points.

Historical Context: The real yield on 10-year Treasuries is only slightly below the 2003–2007 average of two percentage points.

Yield over dividends: Ten-year U.S. Treasuries offer approximately 3.5 times the dividend yield of the S&P 500 Index.

Corporate Bond Premium: Investment-grade corporates yield more than the earnings yield of the equal-weighted S&P 500 Index, and about one percentage point more than the cap-weighted S&P 500 Index.

Bottom line -These key fixed income factors underscore the appeal of bonds for investors seeking reliable income and competitive total return potential in 2026.

Fixed Income Targets for 2026

Ameriprise 2026 Year-End Forecasts (See scenarios on page 6 of *2025 Investment Themes)*		
Favorable Scenario	Base Scenario	Adverse Scenario
Fed Funds Target Range 3.50% - 3.75%	Fed Funds Target Range 3.00% - 3.25%	Fed Funds Target Range 2.50% - 2.75%
10-Year Treasury 4.75%	10-Year Treasury 4.00%	10-Year Treasury 3.50%

Source: American Enterprise Investment Services, Inc.

Key Takeaways

- We continue to see U.S. Treasuries as reasonably valued, given where the Fed is in its rate cycle
- We anticipate the Fed to modestly lower its policy rate later in 2026.
- We see 10-year Treasury yields as likely to end 2026 around where they finish this year.

Recommendations

- **Theme – Carry and Roll:** Fixed income yields remain compelling for long-term investors. Total returns are poised to benefit from attractive income and potential price appreciation as bonds season and roll down the yield curve.
- **Theme – Stable Credit Risk:** We expect solid economic growth and supportive credit spreads through 2026, reinforcing a favorable credit environment.
- **Theme – Portfolio Positioning:** Reduce excess cash holdings and prioritize fixed-rate investments over floating-rate securities as the Fed moves toward lower policy rates.
- **Municipals:** Longer-dated municipal bonds continue to offer value for taxable investors seeking dependable, long-term income within diversified portfolios.

NOTE: FOR IMPORTANT DISCLOSURES, INCLUDING POSSIBLE CONFLICTS OF INTEREST, PLEASE SEE THE DISCLOSURE PAGES AT THE END OF THIS DOCUMENT. For further information on any of the topics mentioned, please contact your financial advisor.

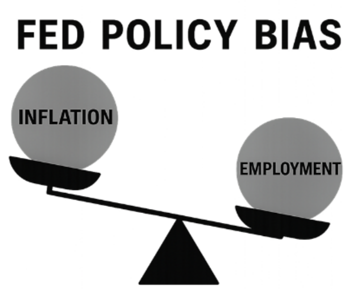
Fed Rate Policy Shapes Fixed Income Opportunities

Federal Reserve rate policy leads the front end of the US Treasury curve, regulating the level of yield compensation available to short-term investors. In September 2024, the Fed, guided by slowing inflation and signs of slack returning to labor markets, began lowering its policy rate from 5.25% to 5:50%. In that round of cuts, the Fed lowered its policy rate by a full percentage point to 4.25% - 4.50% moderating the level to which rate policy was restrictive.

Then, in September of this year, the Fed began another leg lower for rate policy, lowering its policy rate by 75 basis points in the final four months of the year. This brings us to where we stand today at 3.50% - 3.75%, still modestly restrictive in a historical context, but approaching a neutral or balanced level where rate policy would be neither restrictive nor stimulative.

In our view, the Fed is aiming to bring its policy rate into balance as inflation, as measured by the Fed's preferred gauge of core personal consumption expenditures (Core PCE), nears its 2.0% target, with a reading of 2.8% in September.

We anticipate that tariff-related inflation pressures could fade over the course of 2026, further shifting the Fed's emphasis from lowering inflation to supporting labor market conditions. This pivot supports recent rate cuts and leaves the door open for further easing next year, should inflation continue to be lower and slack in labor markets persist. The near absence of job creation could lead to a rise in unemployment simply because more high school and college graduates enter the workforce.



Source: American Enterprise Investment Services, Inc.

While the directional bias is toward lower rates, near-term labor market releases may be clouded by disruptions to data gathering from the U.S. government shutdown from October 1 to November 12. In the absence of data resulting from the shutdown, the Fed is operating partially in the dark. For an institution anchored in data to formulate each step in its policy formulation, taking no action is akin to doing no harm. Like docking an arriving capsule to the space station, the final approach is the most complex stage. We expect the Fed may hold rate policy steady rather than lower the policy rate without direct data support, now that policy is nearing a neutral level that neither restricts nor spurs economic activity.

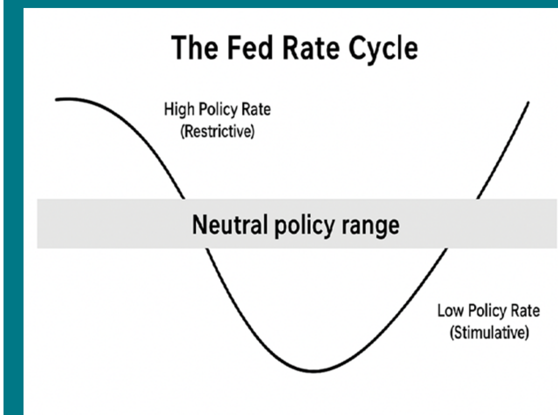
Longer term, labor dynamics will likely be shaped by AI-driven workforce changes and evolving immigration policies, potentially complicating the Fed's policy calculus over the coming quarters and years.

The Fed Rate Cycle

Don't fight the Fed may be a familiar reprise for many investors, and it often holds true. At its heart, the phrase suggests that Fed policy encourages investors to shift between cash investments or fixed income and into riskier investments, such as high-yield bonds or even stocks.

The Fed modulates its rate from high to low in an effort to influence the economy in accordance with its dual mandate of stable prices and the highest possible employment rate without causing inflation. It does this primarily by adjusting rate policy and borrowing costs in the bond market.

Critically, the Fed rate cycle tends to be out of sync with the stock market cycle, providing opportunities like today when US Treasury valuations are more attractive than broader risk assets.



Source: American Enterprise Investment Services, Inc.

High Fed policy rates:

- When the Fed seeks to cool the economy, it uses policy rates to increase the yield on cash and short-term investments.
- Typically, moderate to high inflation-adjusted fixed income yields.
- Incents savings and cash investments
- This is typically when inflation is a concern, as seen in 2022 and 2023.

Balance Fed policy rates:

- A hypothetical Fed policy rate level that neither depresses nor stimulates economic activity.
- Historically seen ranging from 2.50% to 3.50%.

Low Fed policy rates:

- When the Fed seeks to stimulate the economy to add jobs, it lowers cash and short-term investments.
- Low of negative inflation-adjusted fixed income yields.
- Encourages investors to put savings to work in the market.
- This last occurred in a meaningful way from 2020 into 2022.

Fixed Income Targets for 2026

We provide three broad scenarios that we use to frame the prevailing investment environment throughout the year. Our Base Scenario is our most likely case, centered on economic and market assumptions for the year ahead. Our Favorable Scenario depicts a potential economic and market environment that could result in a stronger economy and generally higher risk asset prices. Our Adverse Scenario shows how potentially weaker dynamics could impact the market context. We could envision environments that are more dramatic than our Favorable or Adverse Scenarios, but those would likely require low-probability shifts in a fundamental revaluation of the market that may be unforeseeable in advance.

In our Base Scenario, inflation is expected to settle at lower levels through 2026 as the unemployment rate stabilizes around current levels. Although the Fed is approaching the high end of the possible neutral range, building further slack in the labor market allows the Fed to move rate policy modestly lower into the potential neutral range with an additional half-percentage point rate cut, readying the market for stimulus should it become necessary. In this context, although short-term rates are expected to fall, we anticipate that 10-year Treasury yields may remain around 4.0%, which should facilitate further issuance of Treasury notes.

In our Favorable Scenario, the quickened pace of growth absorbs potential labor market slack and rebalances Fed concerns back towards inflation risk. This could leave the Fed's policy rate unchanged at year-end. As a result, 10-year yields could rise moderately to 4.75% as bond markets undo expectations for further cuts and increase the term premium.

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Source: American Enterprise Investment Services, Inc.

In our Adverse Scenario, stalling economic activity and a rising unemployment rate could prompt the Fed to reduce policy rates by a full percentage point next year. The somewhat stagflationary environment is one where added rate stimulus may be appropriate. And potentially stubborn inflation could prevent 10-year Treasury yields from falling more than half a percentage point below our Base Scenario to 3.50%.

Overall, we anticipate that the Fed could lower its policy rate in 2026, which, along with inflation and potential Treasury issuance, may lead the U.S. Treasury curve to steepen.

For additional context on our Scenarios, see page 6 of our *2026 Investment Outlook & Top Themes* report.

Theme: It's All About the Carry and the Roll

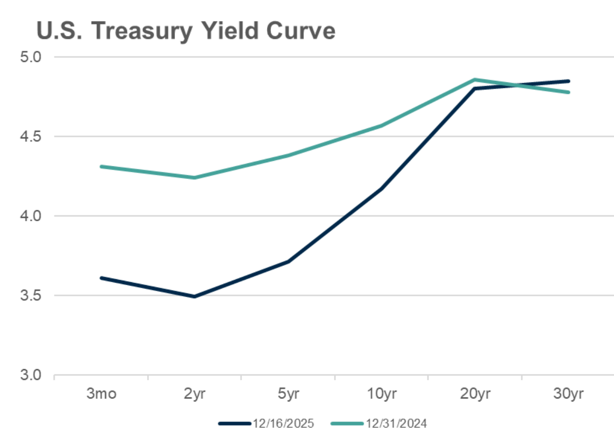
Total return in fixed income combines yield with price changes. In today's market, attractive yields could be complemented by modest price gains in 2026, which would support our carry and roll theme.

On page one, we outline why current yields are compelling. A key benchmark for investors is whether returns exceed inflation; otherwise, purchasing power erodes, incentivizing spending over saving. Today, Treasury yields surpass inflation expectations across the curve, from 3 months to 30 years, by nearly two percentage points. This creates a strong incentive to allocate to fixed income.

We view the real yield margin as a valuation gauge: narrow margins suggest limited return potential, while wider margins indicate attractive prospects. We start with U.S. Treasuries, then broaden to other fixed income sectors, which typically offer additional spread over the risk-free rate.

Carry: High-quality bonds currently offer meaningful income through coupon payments, often referred to as "carry." This steady income can provide a return tailwind even in flat or declining markets.

Roll: Looking ahead to 2026, we anticipate strong total return potential. A moderately steep 5–10-year segment of the curve creates an advantage: holding an 8-year bond for one year effectively re-prices it as a 7-year bond at a lower yield. Expected Fed rate cuts and moderating inflation should further compress yields, driving price appreciation. Combined with coupon income, this sets a constructive backdrop for fixed income. These conditions support buy-and-hold strategies while offering active managers opportunities to enhance returns through curve positioning.

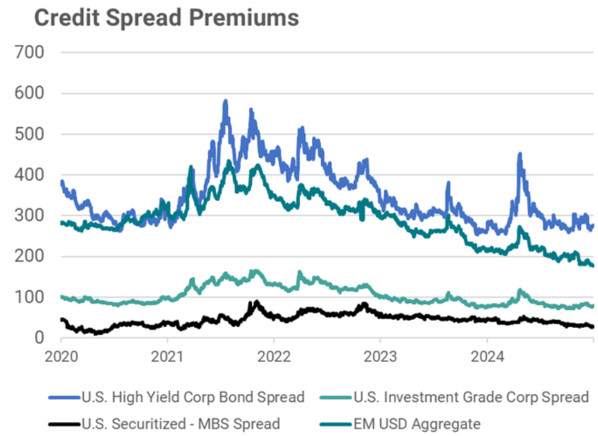


Source: Bloomberg L.P., American Enterprise Investment Services, Inc.

Theme: Narrow Risk Premiums Likely Persist

Credit spreads remain near five-year lows, supported by declining Fed policy rates, fiscal stimulus, and strong business investment in AI. These factors explain why spreads are currently tight and may remain narrow into 2026. In this environment, high-quality companies with industry leadership and financial flexibility are best positioned to navigate trade and policy uncertainty.

From a portfolio perspective, this limits incremental return potential from spread tightening in high-grade corporates, leaving performance more dependent on Treasury curve dynamics. Diversification across high-quality fixed income, such as U.S. investment-grade corporates, mortgage-backed securities, foreign developed bonds, and U.S. municipals, remains prudent for stability.



Source: Bloomberg L.P., American Enterprise Investment Services, Inc.

Credit Sector Outlook for 2026

- **Consumer:** Persistent tariff-driven cost inflation and cautious household spending will widen the gap between scale leaders and smaller retailers. Giants like Amazon and Walmart can leverage scale and omnichannel capabilities to manage tariffs and preserve value perception, while mid-tier players face margin pressure and weaker demand.
- **Energy:** Global adjustments to Russian sanctions and Europe's pivot from Russian hydrocarbons support stability in oil and gas prices. Renewables remain cost-advantaged for power-hungry AI data centers, though capacity constraints persist.
- **Financials:** Post-2023 banking stress has eased, but regional banks and private lenders remain exposed to loan risks. Investors should favor SIFIs, non-bank finance firms, and FinTech payment processors.
- **Healthcare:** MedTech leaders and drug distributors are positioned for resilient growth amid demographic trends and efficiency-driven innovation.
- **Industrials:** Early-cycle recovery expected in aerospace/defense, infrastructure, and automation.
- **Technology:** AI-driven investment dominates, with hyperscalers prioritizing hardware and connectivity before software monetization.

Theme: Avoiding Fixed Income Risks

In fixed income, the modest yield compensation investors earn can quickly be eroded as different risks increase, proving a headwind for total return investors, and leaving long-term investors with insufficient compensation over time for some segments of the bond market. As a result, we see that what to avoid in fixed income is nearly as critical as what to invest in.

Fed policy rates heading lower gives us pause. While cash investment rates may be attractive relative to other highly liquid options, the real yield level can be compressed by lower Fed policy rates. Fixed income beyond the very short end can benefit from lower yields, which increase prices; short-term investments are much less price-sensitive to falling yields. As a result, cash investments miss out on the price appreciation experienced by other bond investments. We see the potential for price performance as being highest in the 5- to 10-year segment next year. Declining Fed policy rates suggest eroding cash investment yields and lower yields on floating rate investments. We view this environment as much more favorable for fixed coupons and intermediate maturities.

On the longer end of the bond market, we favor intermediate fixed income investments and advise investors to deemphasize long-maturity exposure, as concerns about global indebtedness could prove temporarily painful if long-end investors were to withdraw their support. We acknowledge the rising indebtedness worldwide and the elevated deficits in many developed countries. While problematic in the long-term, we see warning signals from bond markets as likely to increase in frequency but ultimately prompt a measure of response from fiscal authorities. For the U.S., we view U.S. markets as likely to learn from dynamics in the United Kingdom, France, Germany and Japan in 2026, with U.S. Treasuries as likely to continue benefiting from the U.S. Dollar's reserve currency status over the next several years.

Ameriprise guidance on corporate sectors and individual bond issuers

In addition to our constructive view on corporate bond investments, we outline on page 4, we recommend focusing on select industries within each sector when constructing a diversified bond portfolio. In the remaining pages, we outline our guidance for each sector and provide individual company recommendations that can be used to construct customized bond portfolios and to recommend replacements for ladder strategies. Please see our coverage list below and our latest *Corporate Bond Recommended List* report for a list of specific securities we recommend.

Sector commentary table of contents:

CONSUMER		
Food & Beverage		
Anheuser Busch InBev	ABIBB	A3/A-
McDonald's Corp	MCD	Baa1/BBB+
Tyson Foods Inc	TSN	Baa2/BBB
Retailers		
Amazon.com	AMZN	A1/AA
Autozone, Inc.	AZO	Baa1/BBB
Costco Wholesale Corp.	COST	Aa3/AA
Home Depot	HD	A2/A
Target Corp	TGT	A2/A
Wal-Mart Stores	WMT	Aa2/AA

ENERGY		
Energy Services		
Baker Hughes GE	BHI	A3 *-/A *-
NOV Inc	NOV	Baa2/BBB
Oil & Gas		
BP Plc	BP	A1/A-
Chevron Corporation	CVX	Aa2/AA-
Renewables		
Equinor ASA	EQNR	Aa2/AA-
NextEra Energy Capital	NEE	Baa1/BBB
NextEra Energy Inc	NEE	Baa1/A-
Utilities		
Florida Power & Light Mtge	NEE	Aa2/A+

FINANCIALS		
Bank Holding Companies		
Bank of America	BAC	A1/A-
Goldman Sachs	GS	A2/BBB+
Non-Bank & Captive Finance		
BP Capital America	BPLN	A1/A-
BP Capital Markets, Plc.	BP	A1/A-
CNH Industrial Capital LLC	CNHI	Baa2/BBB+
John Deere Capital Corp	DE	A1/A
Financial Technology		
Fiserv, Inc.	FI	Baa2/BBB
Global Payments Inc.	GPN	Baa3/BBB-

HEALTHCARE		
Distribution		
Cencora, Inc.	COR	Baa1/BBB+
McKesson Corporation	MCK	A3/BBB+
Medical Equipment		
Abbott Laboratories	ABT	Aa3/AA- *-
Boston Scientific Corp	BSX	A3/A-
Medtronic, PLC	MDT	A3/A
Stryker Corp	SYK	A3/BBB+
Pharmaceuticals		
Merck & Co	MRK	Aa3/A+
Health Care Services		
Laboratory Corp of America	LH	Baa2/BBB

INDUSTRIALS		
Aerospace/Defense		
Lockheed Martin Corp	LMT	A2/A-
Intrastructure & Construction		
MasTec, Inc.	MTZ	Baa3/BBB-
Manufacturers		
Ball Corporation[1]	BALL	Ba1/BB+
CNH Industrial NV	CNHI	Baa2/BBB+
Deere & Company	DE	A1/A
Minerals & Mining		
Freeport-McMoran Inc	FCX	Baa2/BBB-
Freeport-McMoran Corp	FCX	Baa2/BBB-
Environmental Services		
Waste Connections Inc.	WCN	A3/BBB+
Construction Materials		
Martin Marietta Materials, Inc.	MLM	Baa2/BBB+

TECHNOLOGY		
Communication Services		
AT&T Inc.	T	Baa2/BBB
Comcast Corporation	CMCSA	A3/A-
T-Mobile US	TMUS	Baa1/BBB
Information Technology		
Apple Inc.	AAPL	Aaa/AA+
Microsoft Corporation	MSFT	Aaa/AAA

[1] High Yield Issuer * Under Review

Consumer

It's all natural…

Stephen Tufo | Director

We believe the 2026 US consumer sector may be defined by three interlocking realities: persistent tariff-driven cost inflation, cautious household spending, and a widening performance gap between scale leaders and the rest of the market. Industry giants such as **Amazon (AMZN: A1/AA, Corporate Bond Recommended List)**, **Walmart (WMT: Aa2/AA, Corporate Bond Recommended List)**, and **Costco (COST: Aa3/AA, Corporate Bond Recommended List)** are increasingly extending their lead by leveraging negotiating power, broad assortments, and omnichannel logistics, enabling them to manage tariff pass-through more strategically and preserve value perception even as costs rise. In contrast, mid-tier and specialty retailers are experiencing a deeper-than-expected contraction in sales and profits, as their more discretionary category mixes and narrower supplier leverage make price increases riskier and promotional defense more costly in a weak sentiment environment.

Key Takeaways

- Tariff pressures look increasingly manageable as companies use strategic sourcing and pricing to soften the impact.
- Value-focused consumer behavior increases as households lean into essentials and affordability.
- Scale continues to be a differentiator, allowing operators to harness efficiency and flexibility to outperform against a challenging backdrop.
- Strong execution regarding pricing, promotions, and inventory management is becoming critical to sustaining cash flow and margin resilience.

Cost inflation and low consumer confidence persist as significant issues, prompting companies to increase promotions and adjust pricing to stabilize sales volumes. While this can protect market share, it restrains earnings and free cash flow as price elasticity rises and households continue to seek value.

Tariffs remain a practical constraint, working through inventory and margin lines over multiple quarters. Rates peaked in April 2025, with some China-sourced categories reaching triple-digit levels, meaning higher-cost inventory will continue to impact results into 2026. Retailers with large private-label portfolios and direct sourcing models are particularly affected, as the cost shock directly affects gross margins. Leaders can mitigate some of this pressure by staggering pass-throughs, renegotiating with suppliers, and deploying price ladders across brands and private labels.

Durable categories, such as appliances, furniture, and home improvement goods, are more sensitive to tariffs and sentiment, while packaged food and beverage companies face volume elasticity after several rounds of price increases, often responding with heavier advertising and promotion to defend base volumes. The combined implication is that tariffs not only squeeze gross margins but also tighten cash conversion cycles, as higher-cost inventory raises carrying levels.

Consumer sentiment is the second structural force shaping outcomes. The University of Michigan index fell sharply from 74 in December 2024 to 51 by November 2025, signaling heightened uncertainty and a pivot toward essentials and value. Demand softening is most visible in discretionary hardlines and seasonal categories, dampening conversions for retailers that rely on impulse shopping. These behavioral shifts hinder operating profit growth, underscoring the need for targeted pricing and promotions that sustain basket size without compromising margins. Households are expected to remain cautious, trade down where practical, and respond most to value price points, everyday low-prices, membership discounts, and curated promotional offers.

Within the big-box retail sector, Walmart and Target are pursuing related but distinct strategies. Walmart's scale, vendor leverage, and omnichannel convenience align with value-seeking consumers, allowing it to delay and stagger pass-throughs and ladder pricing across brands to preserve value on core baskets. Even leaders may limit margin expansion to defend traffic, relying on logistics productivity, inventory turns, and a food-and-consumables mix to support cash generation as tariff-inflated inventory cycles. As such, Target is rebalancing its mix toward essentials and consumables, reducing its SKU count and focusing on owned-brand innovation.

Costco stands out among leaders, with membership economics and limited-SKU, high-velocity merchandising providing a buffer against tariffs and sentiment softness. Its ability to rotate assortments, buy opportunistically, and leverage the Kirkland Signature brand allows it to sustain price competitiveness and keep inventory moving. Groceries and other essential goods anchor repeat visits, while treasure-hunt elements add discretionary uplift without eroding the broad promotional margin. Success in 2026 will hinge on maintaining this balance and pushing supply chain velocity to avoid markdowns.

Home Depot (HD: A2/A, Corporate Bond Recommended List) and **AutoZone (AZO: Baa1/BBB, Corporate Bond Recommended List)** illustrate the split between deferrable durables and necessity-driven maintenance. Low housing turnover is a headwind for home improvement, suppressing demand for major remodels, especially as tariffs increase the cost of imported components. Home Depot's imperative is to own the "need-to-fix" mission, prioritizing assortments and services for non-deferrable repairs, value-engineering entry price points, and enhancing fulfillment and job-site delivery productivity.

AutoZone benefits from necessity-driven demand when vehicle uptime is at risk, but preventative maintenance may still be deferred by cost-conscious households. Its strategy includes dual-sourcing, price ladders, and a focus on commercial customers, with operational success measured by inventory productivity, last-mile speed, and program density.

Food, beverage, and quick-service restaurants face a different margin equation, one that is more sensitive to input volatility and price elasticity. Packaged food and beverage companies have struggled to pass through higher costs without losing volume, relying on advertising and promotions to stabilize share, which suppresses earnings and free cash flow. **Tyson Foods (TSN: Baa2/BBB, Corporate Bond Recommended List)** must navigate protein mix, plant utilization, and channel pricing with finesse, using procurement timing and targeted promotions to protect volumes.

McDonald's (MCD: Baa1/BBB+, Corporate Bond Recommended List) is relatively resilient, with brand strength and value menus sustaining traffic. Persistent inflation in labor and food inputs means continued menu optimization, limited-time offers, and digital engagement to maintain affordability and check sizes. **Anheuser-Busch (BUD: A3/A-, Corporate Bond Recommended List)** faces volatile input costs and shifting consumer preferences, requiring portfolio agility, competitive pricing, targeted promotions, and channel optimization.

Amazon (AMZN: A3/A-, Corporate Bond Recommended List) remains structurally advantaged, with its logistics density, digital engagement, first-mover position and assortment breadth enabling it to capture market share even as discretionary categories soften. Ongoing investments in fulfillment and technology may temper near-term margin growth, but selective price investments and promotional strategies will help defend Prime engagement and basket size. The ability to manage tariff exposure through sourcing diversification and demand sensing will help limit margin friction.

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Energy & Utilities

It's all natural…

Jon Kyle Cartwright | Senior Director

Key Takeaways

- We suggest bond investors remain equally weighted to the energy sector, and if possible, evenly divide energy investments between oil & gas, energy services, and renewable energy utilities.
- Internationally, Europe's desire to rid itself of Russian oil & gas imports could keep global energy prices relatively stable through at least 2030.
- Domestically, it's become difficult to gain federal approval to build wind farms or erect solar arrays, which we believe is forcing new A.I. and cloud storage data centers to purchase electricity from existing power stations and new gas-fired turbines. This should help keep natural gas and electricity prices high in 2026.
- We expect the world's energy transition to continue without triggering a global peak in crude oil demand until 2050.

We're almost a year into the new U.S. administration's term, and all of last year's uncertainties surrounding the severity, implementation, or longevity of U.S. sanctions against Russian energy exports remain. However, from our perspective, no matter what happens to U.S. sanctions or Russian hostilities in Ukraine, the Europeans are unlikely to welcome back imported Russian oil or natural gas anytime soon.

Four years after Russia invaded Ukraine, World oil markets have, for the most part, adjusted to anti-Russian sanctions and rising oil & gas demand from the European Union and the United Kingdom as they continue to struggle to eliminate Russian energy imports. To satisfy Europe's growing demand for non-Russian imported hydrocarbons, the Western world has been increasing natural gas production, adding natural gas liquefaction capacity, and expanding marine export terminals to load the rising number of LNG (Liquefied Natural Gas) tankers headed to Europe. While that's happening around the world, Europe is also working to increase its North Sea natural gas production and expand its marine gasification capacity to receive even more LNG tankers.

As a result, our outlook on the Energy Service subsector remains stable as projects are pursued globally to increase production and expand marine import/export facilities. Our favorite Energy Service Companies include **Baker Hughes (BKR; A3 *-/A *-; Corporate Bond Recommended List)** and **NOV Inc (NOV; Baa2/BBB; Corporate Bond Recommended List)**.

Domestically, it's been increasingly difficult to secure federal regulatory clearance to build wind farms or erect solar arrays, and we have every expectation that that will continue through 2028. That means that as data centers pop up across the nation, they're less likely to turn to new wind or solar power, and more likely to rely on existing electric power-generating stations or new gas-fired turbines to generate the massive amount of power demanded by A.I. and cloud storage. We've already seen a spike in electricity prices around data centers, and that should continue in 2026.

While it's difficult to add wind or solar electric generation to the U.S. power grid today, renewable electricity is still cheaper to produce than hydrocarbon-fired electric generation. This should give existing renewable power producers an advantage when it comes to selling power into the grid as domestic electricity demand grows. Our favorite renewable energy company is **NextEra Energy Capital Holdings, Inc. (NEE; Baa1/BBB+; Corporate Bond Recommended List)**, and our favorite electric utility is **Florida Power & Light Company (NEE; Aa2/A+; Corporate Bond Recommended List)**, which are both wholly-owned subsidiaries of NextEra **Energy, Inc. (NEE; Baa1/A-; Corporate Bond Recommended List)**.

Then there's the Energy Transition. While the U.S. administration's aversion to wind and solar is clear, the rest of the world is still pursuing a decades-long strategy to move away from hydrocarbons and towards electrification. While the International Energy Agency (IEA) previously estimated that the energy transition would peak world oil demand by 2030, it has since revised its forecast to suggest that oil demand could rise through 2050. While we continue to believe that Electric Vehicles are the future, we also expect gasoline and diesel to still be in use by the end of the century.

All things considered, it's difficult to forecast 2026 energy prices with high confidence. With that said, our current expectations are that Louisiana Light crude prices should continue to hover around $60 per barrel +/- $5, domestic natural gas futures could remain in the $4 to $5 range, and that European natural gas import prices (Dutch TTF futures) could oscillate around $10 +/- $1. As a result, we suggest investors equally weigh the energy sector as we head into 2026.

Our stable outlook on the integrated oils and exploration & production sectors also remains unchanged. Our favorite Oil and Gas Producers include **BP Plc (BP: A1/A-; Corporate Bond Recommended List)**, **Chevron Corp (CVX; Aa2/AA-; Corporate Bond Recommended List)**, and **Equinor ASA (EQNR; Aa2/AA-; Corporate Bond Recommended List).**

Financials and Real Estate

Is it time to "Sound the all clear"?

Jon Kyle Cartwright | Senior Director

Key Takeaways

- We recommend that investment-grade bondholders equally weight the financial sector.
- Long-term bond investors should remain exposed to Strategically Important Financial Institutions (SIFI), and underweight regional banks and private lenders exposed to office building loans.
- We think bond investors can safely buy and hold bonds issued by a select group of Captive Non-Bank Finance companies.
- We suggest a relatively oversized exposure to the FinTech - Transaction & Payment Processing Services subsector.

Now that we're approaching the third anniversary of the global bank run that heralded the demise of five U.S. banks and Credit Suisse, some investors may have already forgotten the fears that engulfed markets and panicked depositors in 2023.

While the worst may be over for Strategically Important Financial Institutions, some of the larger regional and community banks still have at-risk or defaulted office building loans on their books, unspecified exposures to private creditors that financed office buildings, and uncertain regulatory changes arising from the level of political pressure on Federal Reserve Governors and bank regulators.

> *Systemically Important Financial Institutions (SIFIs) are banks, insurance companies, or other financial institutions designated as SIFIs by financial regulators based on the belief that they pose a serious threat to national or global economies if they were to fail.*

Working from home not only left upper office building floors empty, but it also meant weaker foot traffic and sales for storefront retailers and restaurants struggling to make monthly lease payments. The truth is, there's no way to forecast if, or when, the work-from-home movement will dissipate enough to revitalize specific downtown office markets. If downtown leases expire and aren't renewed, office building owners may have to choose between prolonged negative cash flows or walking away and defaulting on their mortgage.

After living through the 2023 mini-banking crisis, many larger and more diversified lenders avoided the office building loan market, leaving it to regional banks, who were already overexposed, and to private creditors who were the lenders of last resort. As the list of lenders willing, or able, to refinance office building loans with reasonable terms continues to shrink, things could get worse for the regional banks and private lenders exposed to office buildings before it gets better.

While we're comfortable sounding the all clear to equal-weight the Financial Sector in aggregate, we suggest bond investors stick to the SIFIs and underweight regional and community banks and private office space real estate lenders until we see the signs of a traditional early-cycle recovery that includes robust bank loan growth before increasing our weighting on the Regional Banks from underweight to equal. Our favorite SIFI banks include **Bank of America (BAC; Aa2/A+; Corporate Bond Recommended List)** and **Goldman Sachs (GS; A2/BBB+; Corporate Bond Recommended List).**

We also recommend portfolios, overweight notes issued by captive non-bank finance companies with loan portfolios structured to weather deep industry down cycles and adverse economic conditions. The captive non-bank finance companies on our corporate bond recommended list have demonstrated histories of sustaining their financial strength, managing economic & industry cyclicality, navigating regulatory policy changes, mitigating geopolitical risk, and upholding their conservative financial management practices, all while retaining superior loan underwriting standards able to withstand the cyclical nature of their customers' businesses. We believe the sector will continue to generate stable and predictable cash flows and improve credit profiles. Our favorite captive non-bank finance companies include **BP Capital America (BPLN; A1/A-; Corporate Bond Recommended List)**, **CNH Industrial Capital (CNHI; Baa2/BBB+; Corporate Bond Recommended List)**, and **John Deere Capital (DE; A1/A; Corporate Bond Recommended List).**

After decades of leveraged buyouts to fund mergers and acquisitions, the Transaction & Payment Processing Services subsector of the Financial Technology (FinTech) group has distilled down to a few investment-grade bond issuers. We expect this subsector to continue to de-lever, streamline product offerings, and rely increasingly on organic growth. This should allow the group to improve credit metrics and produce predictable organic growth through at least 2027, which could result in credit rating upgrades in 2026 or 2028. As a result, we recommend overweighting this rapidly growing subsector that is quickly consolidating into a small number of higher-quality participants. Our FinTech favorites include Fiserv **(FI; Baa2/BBB; Corporate Bond Recommended List)** and **Global Payments (GPN; Baa3/BBB-, Corporate Bond Recommended List).**

Healthcare

Resilient Growth Amid Demographic Tailwinds and Pricing Pressure

Stephen Tufo | Director

The healthcare sector enters 2026 with strong structural tailwinds driven by demographic aging and the global imperative to improve care efficiency and outcomes. By 2030, one in six people worldwide will be over 60, and by 2050, that cohort will have more than doubled, creating sustained demand for chronic disease management, diagnostics, and surgical interventions. Health systems under fiscal pressure are prioritizing solutions that reduce hospital length of stay, avoid complications, and enable recovery in lower-acuity settings. Evidence-based protocols and advanced medical devices have demonstrated meaningful reductions in length of stay while maintaining safety, reinforcing the economic case for technologies that migrate procedures out of inpatient environments.

Key Takeaways

- Aging demographics and the push for care efficiency are creating durable demand for technologies that shorten hospital stays and enable recovery in lower-acuity settings.
- MedTech growth in 2026 is led by minimally invasive therapies, robotics-assisted procedures, and continuous monitoring platforms that improve outcomes and reduce readmissions.
- The migration of routine care to ambulatory centers and the home reinforces the economic case for innovation-led device makers with proven outcome benefits.
- Drug distributors remain resilient credits, leveraging scale and specialty capabilities to offset structural margin constraints, even as pricing reforms reshape economics.
- Regulatory and pricing pressures, including IRA implementation and patent expirations, underscore the importance of pipeline productivity, lifecycle strategies, and disciplined capital allocation for long-term stability.

MedTech demand in 2026 is expected to favor minimally invasive cardiovascular therapies, electrophysiology, structural heart interventions, robotics-assisted orthopedics, and continuous monitoring platforms. Hospitals are reconfiguring their operating environments to be modular and remote, reserving inpatient facilities for higher acuity cases while routine care shifts to ambulatory centers and the home. This migration supports franchises such as **Abbott Labs' (ABT: A3/A-, Corporate Bond Recommended List)** transcatheter valves and diabetes CGM systems, **Boston Scientific's (BSX: A3/A-, Corporate Bond Recommended List)** electrophysiology and left atrial appendage closure devices, **Medtronic's (MDT: A3/A- Corporate Bond Recommended List)** cardiac rhythm and neuro portfolios, and **Stryker's (SYK: A3/BBB+, Corporate Bond Recommended List)** robotics-enabled joint replacements–all technologies that shorten recovery times and reduce readmissions. These dynamics underpin resilient organic revenue growth profiles and margin defense for scaled innovators, even as reimbursement scrutiny and procurement committees demand clear evidence of outcome improvement.

Abbott Laboratories enters 2026 with diversified growth across devices and diagnostics, supported by strong positions in cardiovascular care, diabetes care, and nutrition. Boston Scientific continues to benefit from innovation-led outperformance, with robust free cash flow and a disciplined approach to capital allocation. Medtronic's broad portfolio provides stability, but execution in minimally invasive and connected platforms will be critical to defend pricing in value-based procurement. Stryker's robotics-led orthopedic strength supports top-line resilience, complemented by ongoing portfolio expansion in neurotechnology and MedSurg.

Drug distributors such as **Cencora (COR: Baa1/BBB+, Corporate Bond Recommended List)** and **McKesson (MCK: A3/BBB+, Corporate Bond Recommended List)** remain essential nodes in the healthcare supply chain, characterized by razor-thin margins but formidable scale and purchasing power. Both companies delivered double-digit revenue growth in fiscal 2025, supported by specialty distribution in oncology and GLP-1 therapies. Financial attributes that define these credits include high inventory velocity, strong operating cash flow, and disciplined capital returns, all of which offset working capital swings and ongoing opioid-related liabilities. In 2026, watch points include the normalization of GLP-1 demand, implementation of IRA (Inflation Reduction Act) drug pricing provisions, and execution in higher-margin services such as patient support and data analytics. Despite these pressures, both distributors maintain investment-grade profiles anchored by scale economics and consistent free cash flow.

Drug pricing pressure remains a critical theme for 2026, driven by continued implementation of the IRA in the US, which expands Medicare negotiation authority and introduces price caps on select high-cost therapies. These measures are expected to compress margins for branded pharmaceuticals and accelerate the shift toward generics and biosimilars, creating ripple effects across the distribution chain. While distributors like Cencora and McKesson benefit from higher volumes in generics and specialty drugs, pricing reform could alter rebate structures and working capital dynamics, requiring careful liquidity management. For manufacturers such as **Merck (MRK: Aa3/A+, Corporate Bond Recommended List)**, pricing pressure compounds the challenge of upcoming patent expirations, reinforcing the need for pipeline productivity and lifecycle strategies to sustain revenue and credit quality. Merck's near-term fundamentals are solid, but the looming 2028 loss of exclusivity for Keytruda represents a significant medium-term challenge. Lifecycle management strategies, including subcutaneous formulations and pipeline diversification, aim to cushion the impact, but the magnitude of the revenue cliff keeps long-term credit focus on leverage and R&D productivity.

Labcorp (LH, Baa2/BBB, Corporate Bond Recommended List), following its spin-off of Fortrea, is focused on core diagnostics, benefiting from aging demographics and steady utilization patterns in chronic disease and oncology testing. Capital allocation discipline and execution in advanced diagnostics will shape its credit trajectory, while payer reimbursement remains a structural risk.

Overall, the aging global population provides a favorable demand backdrop for medical devices and diagnostics, while technologies that reduce hospital stays and improve outcomes strengthen the economic case for innovation-led MedTech issuers. Drug distributors, despite structural margin constraints, offer stable cash generation and scale advantages, positioning them as resilient credits in a complex regulatory and pricing environment. For corporate bond investors, 2026 favors exposure to diversified device makers with proven outcome benefits and distributors with disciplined financial management, while monitoring reimbursement dynamics, pricing reforms, and strategic execution across the overall sector.

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Industrials and Materials

The choice is yours….

Jon Kyle Cartwright | Senior Director

Key Takeaways

- In aggregate, average U.S. and global industrial profits and credit qualities are showing signs of a long-term recovery.
- However, we suggest investing in the industrial subsectors already showing signs of an early recovery.
- Therefore, we recommend long-term bond investors overweight the Industrial Sector by selectively investing in the Aerospace/Defense, Agricultural Manufacturing, Infrastructure Construction, and Copper Mining subsectors.

In general, when economies are growing, industrials can become increasingly attractive investments, and less so as economies slow or slip into recession. While we can't confirm that a new early-cycle recovery has begun for the overall U.S. economy, several Industrial subsectors may have begun their own upcycles and, in our opinion, may be worthy of a second look.

In the Aerospace/Defense subsector, we believe there's an ongoing need for Western-allied countries (with or without the U.S.) to bolster national defense capabilities to counter mounting threats from adversarial nations, which could sustain the demand for next-generation weapons for another 25 years. Our favorite Aerospace/Defense bond issuer is **Lockheed Martin Corp (LMT; A2/A-; Corporate Bond Recommended List)**, the planet's largest defense contractor by revenue.

Infrastructure Construction had been stuck in a downcycle for years, but 2025 was different. We believe we saw the beginnings of a cyclical recovery in public and private non-residential construction projects, including AI server farms, data centers, commercial warehouses, communication hubs, LNG terminals, power plants, ports, bridges, roads, and other public works.

Residential Construction in the U.S. could be ready to emerge from its lull. There's nearly a universal acceptance that America has a housing shortage. If the U.S. avoids a major recession and the Fed continues pushing down interest rates, we could soon see a new domestic housing and apartment construction upcycle that could improve housing affordability and produce sustainable benefits for the Infrastructure construction sector in 2026 or 2027.

Our favorite infrastructure construction ideas include **Baker Hughes Holdings LLC (BHI; A3 *-/A *-; Corporate Bond Recommended List)**, **CNH Industrial (CNH; Baa2/BBB+; Corporate Bond Recommended List)**, **Deere & Company (DE; A1/A; Corporate Bond Recommended List)**, **Martin Marietta (MLM; Baa2/BBB+; Corporate Bond Recommended List)**, **MasTec (MTZ; Baa3/BBB-; Corporate Bond Recommended List)**, **NOV Inc (NOV; Baa2/BBB; Corporate Bond Recommended List)**, and **Waste Connections (WCN; A3/BBB+; Corporate Bond Recommended List).**

In the Industrial Agricultural Equipment Manufacturing space, despite the negative effect of the current farm income downcycle, we believe the move from mechanized to precision farm equipment is a long-term investment theme that could last through the end of the century. Farmers now have an opportunity to enjoy cost savings generated by intelligent, autonomous, and semi-autonomous precision farming equipment and techniques that reduce the need for farm labor. Autonomous and semi-autonomous precision farming equipment can till, plant, monitor, harvest, and apply water, fungicides, herbicides, insecticides, pesticides, fertilizers, and other agricultural chemicals while targeting areas as small as a square inch, using only the exact amount each plant needs, thus avoiding costly and wasteful applications. At the same time, precision farming techniques promise to boost crop yields and help farmers feed the world's growing population. Our favorite Agricultural Equipment Manufacturers are CNH **Industrial (CNH: Baa2/BBB+, Corporate Bond Recommended List)** and **Deere (DE; A1/A; Corporate Bond Recommended List).**

In the Minerals and Mining subsector, we believe there's a long-term secular shift in copper demand caused by the growing need for copper wire used to build electric generators and motors for electric vehicles, which is consuming a growing amount of the available supply, that could cause copper prices to rise long-term. **Our favorite copper miners are Freeport-McMoRan Inc. (FCX; Baa2/BBB-; Corporate Bond Recommended List)** and its affiliate **Freeport Minerals Corporation (FCX; Baa2/BBB-; Corporate Bond Recommended List).**

Technology

AI Acceleration, Network Scale, and Commercial Adoption

Stephen Tufo | Director

The 2026 US technology sector is being fundamentally reshaped by the rapid acceleration of artificial intelligence (AI) investment and adoption. This surge is transforming competitive dynamics, capital allocation, and business models across the industry. Scale leaders such as **Microsoft (MSFT: Aaa/AAA, Corporate Bond Recommended List)**, **Alphabet (GOOGL: Aa2/AA+, Not Rated)**, and **Apple (AAPL: Aaa/AA+, Corporate Bond Recommended List)** are leveraging robust balance sheets and proprietary platforms to drive record levels of AI-related capital expenditures. S&P Global (S&P) estimates that nearly $350 billion in capital expenditures (capex) will be invested by the top five technology firms, with a significant share dedicated to AI data centers, infrastructure, and software platforms. Microsoft, in particular, is capitalizing on this trend through its Azure cloud and productivity suite, which are increasingly infused with generative AI capabilities. Apple continues to integrate AI across its ecosystem, reinforcing its competitive moat and deepening user engagement.

Key Takeaways

- AI investment is accelerating, reshaping competitive dynamics and driving record levels of capital allocation across technology infrastructure and platforms.
- Hyperscaler expansion is fueling a virtuous cycle of cloud and AI adoption, creating powerful tailwinds for the broader tech ecosystem and hardware supply chain.
- Data center buildouts are becoming more specialized and capital-intensive, with success hinging on sustained user uptake and operating efficiencies.
- The AI cycle is hardware-led in its early phase, with semiconductors and infrastructure suppliers benefiting most before software monetization scales in later stages.
- Connectivity providers are positioned to capture incremental growth as AI-driven applications increase demand for high-speed, low-latency networks and recurring revenue models.

A major engine of sector growth in 2026 is the continued expansion of hyperscalers, large-scale cloud service providers whose infrastructure underpins much of the digital economy. Companies such as Microsoft, **Amazon (AMZN: A1/AA, Corporate Bond Recommended List)**, and Alphabet are rapidly scaling their global data center footprints to meet surging demand for cloud computing, AI workloads, and enterprise digital transformation. This hyperscaler growth is driving a virtuous cycle of investment: as more organizations migrate to the cloud and adopt AI-powered solutions, hyperscalers can leverage their scale, efficiency, and capital resources to deliver increasingly sophisticated services at lower marginal costs. The result is not only robust top-line growth for the hyperscalers themselves, but also a powerful tailwind for the broader technology ecosystem, including semiconductor, networking, and infrastructure providers that supply the backbone of these platforms. The sector's ability to sustain this pace of expansion will depend on continued innovation, disciplined capital allocation, and the ability to manage rising energy and operational demands associated with hyperscale operations.

The growth in data centers, while a clear enabler of AI and cloud expansion, brings its own set of nuances and challenges. The industry is witnessing a shift toward highly specialized, AI-optimized data centers that require advanced cooling, power management, and network architectures to handle the intense computational loads of generative AI and large language models. This evolution is driving up both capital intensity and operational complexity, with leading firms investing in custom silicon, modular designs, and renewable energy sourcing to manage costs and sustainability pressures. At the same time, the rapid pace of buildout is straining supply chains for critical components and skilled labor, which can occasionally lead to project delays or cost overruns. Regulatory scrutiny around energy and water consumption and data sovereignty is also increasing, requiring operators to balance growth ambitions with compliance and community engagement. As a result, success in the data center space will increasingly hinge on the ability to innovate not just in technology, but also in operational efficiency, sustainability, and risk management.

AI is not only a growth engine but also a catalyst for business model transformation. Moody's notes that most large incumbents are maintaining revenue growth and have no near-term expectation of decline, even as smaller players face revenue cannibalization and margin compression from the shift to AI-enabled automation and outcome-based pricing.

Companies with unique assets, diversified offerings, or an essential human dimension such as Apple's integrated hardware-software ecosystem are adapting and using AI to their advantage.

The transition to consumption-based or pay-as-you-go models in software and services presents both revenue upside and increased volatility, underscoring the importance of effective execution and strong customer engagement. However, the pace of enterprise AI adoption may lag behind the infrastructure buildout, creating periodic "digestion" phases that could exacerbate sector cyclicality. Companies that can leverage AI to augment human capabilities, develop proprietary platforms, and diversify revenue streams will be best positioned to capture long-term growth.

Telecom operators such as **AT&T (T: Baa2/BBB, Corporate Bond Recommended List)** and **T-Mobile (TMUS: Baa1/BBB, Corporate Bond Recommended List)** are also central to this transformation. The proliferation of AI-powered applications is driving demand for high-speed, low-latency connectivity, which supports ongoing investments in 5G and fiber infrastructure. Critically, both companies benefit from vast subscriber networks and the stability of recurring service revenues. These large, loyal customer bases provide a resilient foundation for generating cash flow, enabling AT&T and T-Mobile to fund ongoing network upgrades and innovation, even in periods of economic uncertainty or shifting technology cycles. Recurring revenues from monthly service plans and bundled offerings help insulate these operators from volatility in device sales or one-time transactions, supporting margin stability and long-term strategic investment. As digital engagement deepens and new AI-driven services emerge, the ability to monetize a broad subscriber base through value-added offerings and cross-selling will be a key differentiator.

Comcast (CMCSA: A3/A-, Corporate Bond Recommended List) is similarly positioned at the intersection of AI-driven demand and network scale. As one of the nation's largest broadband providers, Comcast's extensive, high-capacity network is increasingly critical in supporting the low-latency, high-bandwidth requirements of next-generation applications–from cloud gaming and streaming to remote work and AI-powered home automation. The Company's vast broadband footprint not only provides a stable base of recurring revenue but also positions Comcast to capture incremental growth as households and businesses demand ever-faster, more reliable connectivity. The ability to deliver consistent, low-latency service is becoming a core competitive advantage as digital experiences become more immersive and latency-sensitive.

In summary, the current environment is emblematic of the classic technology investment cycle: hardware leads the charge as the sector lays the groundwork for AI, while software and services are poised to follow with broader monetization and value capture as adoption deepens. Investors and operators alike should recognize these dynamics when allocating capital and setting strategic priorities for the years ahead.

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If a security is added to our Recommended List, we believe the issuer to be appropriate for investment based on known credit fundamentals.

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