



# **2025 in Review and What to Watch in 2026**

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As we approach year-end, it's worth reflecting on how markets have evolved relative to expectations and where we see opportunities and risks taking shape for 2026. While some broad asset-class forecasts at the start of the year proved directionally accurate – particularly around equities – several important dynamics have unfolded beneath the surface that are shaping the opportunity set for active managers.

## **Equity Markets: A Bullish Consensus Largely Vindicated**

Coming into 2025, analysts were generally constructive on equities, and this positioning has been broadly validated. Despite a notable correction in April following tariff announcements from the Trump administration, markets ultimately proved resilient. Performance has been supported by strong corporate earnings, continued enthusiasm around AI-related investments, and a macro backdrop characterized by moderating inflation and earlier-than-expected rate cuts.

This resilience underscores an important point: while headline indices have performed well, the path through the year has been far from uniform. Dispersion across sectors and styles remained elevated, reinforcing the value of active management.

## **Interest Rates: Cuts Came Earlier and Faster Than Expected**

If equity forecasts were broadly accurate, expectations for interest rates were less so, with rates falling faster than expected.

A persistently weaker economy in Canada and cooling inflation prompted an earlier and more aggressive faster easing cycle by the Bank of Canada than markets anticipated. By October, the Bank had already cut rates to 2.25%.

The US Fed also pivoted more quickly amid slowing economic momentum, now sitting at 3.5-3.75%, with another cut forecasted by the Fed in 2026.

The pace and magnitude of these cuts have had ripple effects across credit issuance and private markets, shaping the themes that dominated much of 2025. There are three themes in particular that are worth discussing further:

### **■ Theme 1: Elevated Dispersion Across Corporate Credit**

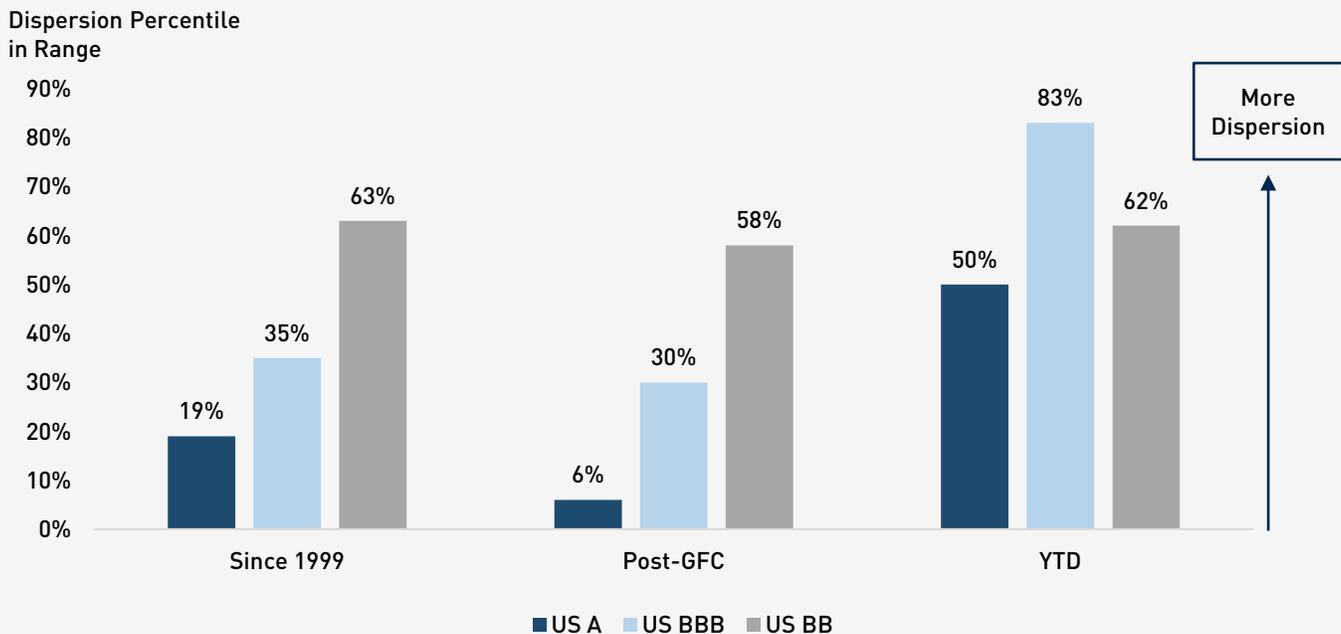
One defining characteristic of 2025 has been high dispersion across companies and sectors, both in equity and credit markets.

In equities, this manifested in the continued “growth vs. value” debate, with large-cap growth outperforming but experiencing significant divergence within each style bucket. In credit markets, dispersion was influenced by factors such as:

- Sector positioning, particularly in cyclical versus defensive industries
- Supply-chain resilience or vulnerability
- Corporate finance policy and balance-sheet strategy
- M&A activity, especially in sectors undergoing consolidation

Importantly, dispersion persisted through both tightening and widening credit environments. Individual issuers frequently diverged meaningfully from their peers. This trend has rewarded managers with rigorous bottom-up research and active security selection who can nimbly reposition across sectors, issuers, and their capital stacks, and geographies with conviction.

### Dispersion Has Increased Notably in the A and BBB Segments of the US Credit Market



Source: BarclaysLive, Goldman Sachs. Data as of November 7, 2025. Dispersion is calculated by taking the standard deviation of bond-level OAS (i.e. all of the bonds in the index but winsorized – excluding the top/bottom 1% of bonds by OAS), and then dividing by the average OAS to calculate dispersion on a daily basis.

## ■ Theme 2: Localized Stress Emerges in Private Credit

The private credit market – now a \$3 trillion segment – continued to attract capital and attention in 2025. However, the defaults of Tricolor and First Brands brought renewed scrutiny to lending standards.

While these failures were idiosyncratic, they highlighted a broader issue: pockets of stress are emerging as capital flows remain strong while underwriting discipline varies across providers. An additional challenge in this space is the variability in how identical exposures are marked across different portfolios, which became particularly evident as conditions grew more complex in parts of the US market.

Private credit remains an important – and growing – source of financing, but 2025 reinforced that not all risk is created equal, and transparency continues to be limited relative to public markets. Though private and public credit remain connected as they are both debt instruments, our preference for higher-in-quality corporate bonds enables us to manage any spillover risks between these two asset classes.

## ■ Theme 3: Notable Shifts in Corporate Bond Market Dynamics

Two developments in the issuance landscape stood out in 2025:

### 1. Tech-Driven Supply Surge

The global build-out of data centers contributed roughly \$120 billion of US investment-grade issuance from major tech firms such as Amazon, Google, Meta, and others, during the second half of the year. These companies traditionally have not been large debt issuers, and the sudden supply put upward pressure on tech spreads and created spillover effects in adjacent sectors such as Technology, Media & Telecom.

### 2. Creativity and Cross-Border Funding

Borrowers have become increasingly opportunistic in how and where they raise capital. Examples include:

- A resurgence in hybrid issuance globally, including the recent Telus transaction, designed to reduce leverage
- Growing interest among US issuers in the European market (“Reverse Yankees”), including Bristol-Myers, Couche-Tard, and Pfizer
- Increased Maple bond issuance (CAD-denominated bonds) as global borrowers tap competitive Canadian funding levels, aided by the inclusion of Maples in the Canadian benchmark as of January 2025

These trends reflect a more global, flexible approach to balance-sheet management. An approach we expect to continue seeing moving forward. Our global reach and longstanding expertise in global credit allow us to navigate cross-border funding with ease. The tech-driven supply surge has also created idiosyncratic opportunities to capitalize on, especially in adjacent sectors, which are seeing more dispersion.

## Looking Ahead to 2026

Heading into 2026, we are conservatively positioned given recent macro-economic volatility and current valuations. We continue to leverage the expertise of our credit research team to identify idiosyncratic opportunities amid the persistent dispersion across sectors.

We anticipate another year of volatility, but also of opportunity.

- **Dispersion is likely to remain elevated**, making credit selection critical on both the long and short side. The most topical dispersion theme is the flood of AI-related issuance, which will have downstream effects and cause disruption risks for Technology and adjacent sectors, as we have already begun to see in 2025.
- **M&A activity should accelerate**, increasing idiosyncratic risk as acquirers take on leverage. Deal volume is expected to rise by 24% in 2026, with \$800 billion of pending M&A deals announced already. This will create numerous opportunities for capturing additional value.
- **Issuance trends should remain dynamic**, creating opportunities for active, nimble investors. Markets are expecting a sharp increase in supply across the entire credit spectrum, but most notably in investment grade credit, which is expected to see about \$1 trillion US in net supply.

Overall, active management and disciplined research will be essential in navigating this environment and in uncovering mispricings that volatility tends to create.

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