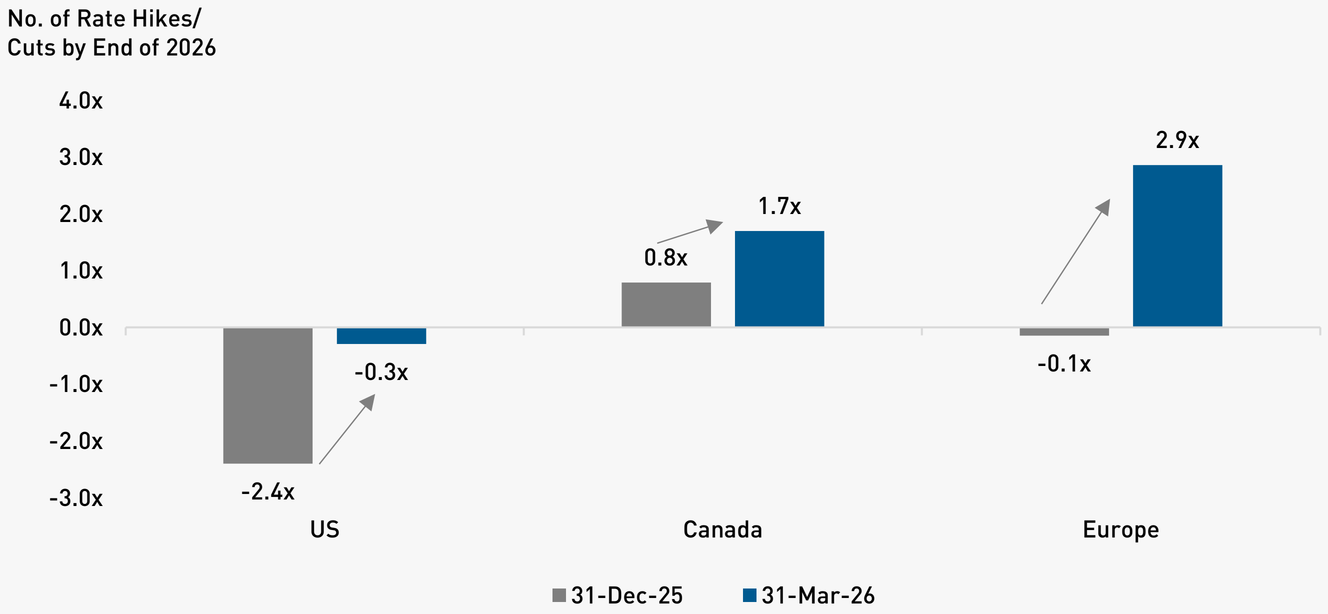
Credit Market Themes in 5 Charts

Q1 2026

1 Markets Reprice Central Bank Paths After Geopolitical Shock

Geopolitical shocks in March drove a sharp increase in oil prices and broader risk asset volatility. The immediate impact was elevated inflation expectations, forcing markets to reassess the path of monetary policy. At the start of the year, expectations were for Canadian rates to hike once throughout 2026 and for the Fed to deliver 2-3 cuts. By quarter-end, pricing had shifted materially, with markets now expecting 1.7 hikes in Canada and almost no cuts from the Fed.

Inflation Risk From Geopolitical Tensions is Driving a Drastic Change in Rate Hike Expectations in 2026

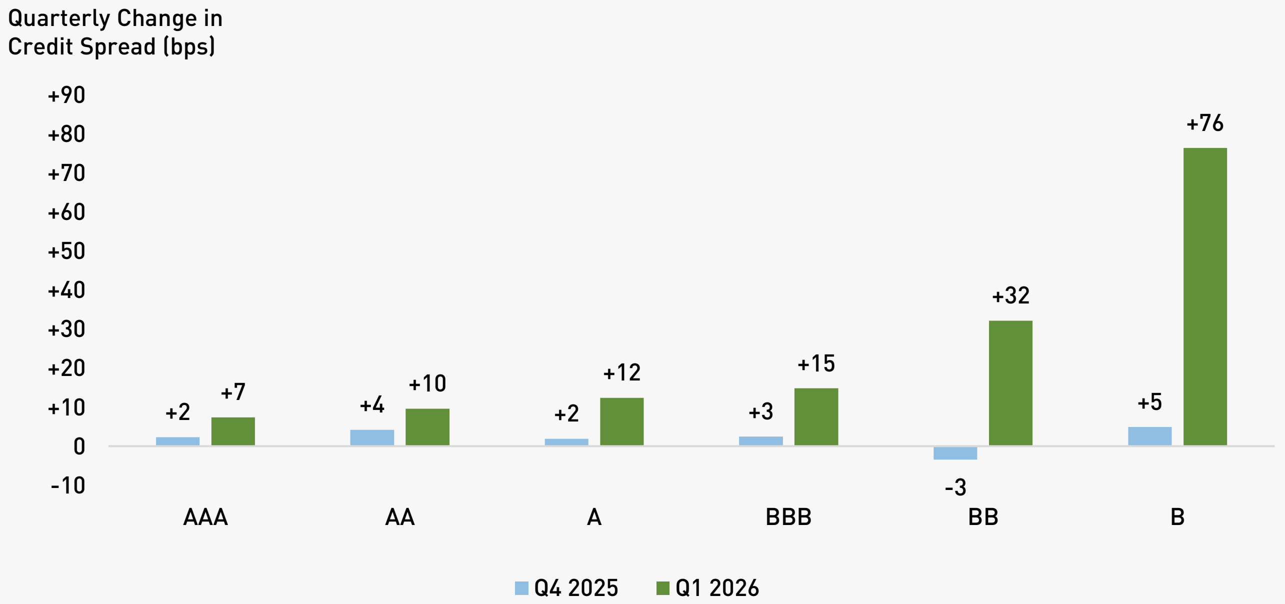


Data as of March 31, 2026. Source: Bloomberg. Hikes/cuts priced in is estimated by Bloomberg based on pricing of Overnight Interest Swap expiring in December 2026.

2 Decompression Across Credit Ratings and Rising Dispersion Continue to Reshape Public Credit Markets

Decompression across credit ratings has increased meaningfully in public credit, with both the direction and magnitude of spread movements in Q1 diverging from prior quarters. We are also observing elevated dispersion across sectors and geographies. In this environment, active management is critical - not only to capture relative value opportunities, but also to manage downside risk.

Credit Spreads Have Reset in Q1 With Lower Rated Securities Experiencing More Widening



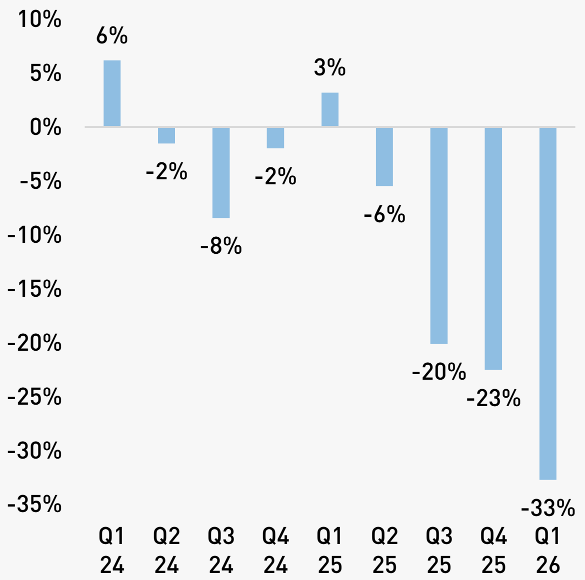
Data as of March 31, 2026. Source: BarclaysLive. Investment grade rating buckets are within the Bloomberg Barclays Global Investment Grade Corporate Bond Index ; while high yield rating buckets are within the Bloomberg Barclays US high yield corporate bond index.

3 AI Disruption Pressures Software and Private Credit

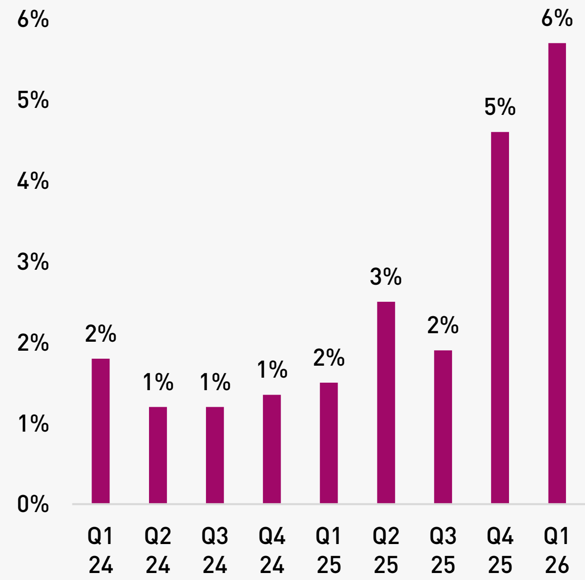
Beyond geopolitics, market focus has centered on AI disruption and its implications for credit. Private credit is now facing its first meaningful stress test this cycle, as private credit portfolios have roughly double the exposure to software compared to public credit. Public proxies such as BDCs – backed by similar loans – are trading at steep discounts to NAV and seeing sustained outflows in recent quarters, signaling growing investor caution in this space.

BDC Redemptions Go Higher and Discounts Grow

Premium/Discount to BDC NAV



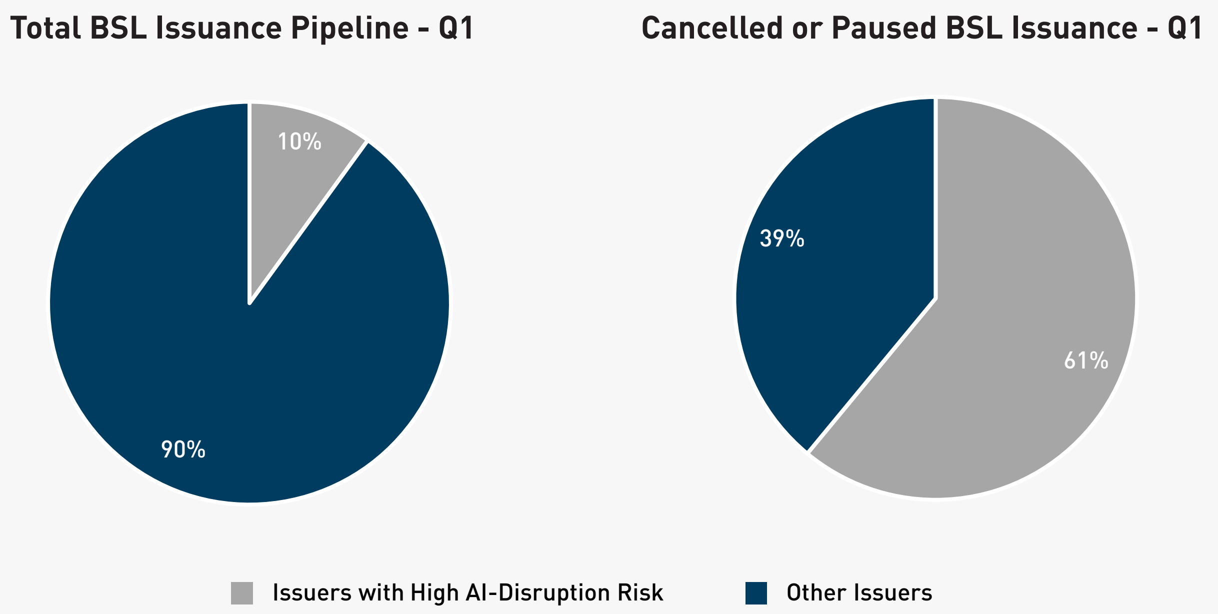
Redemption as % of BDC NAV



Data as of March 31, 2026. Source: BarclaysLive, Bloomberg, Morgan Stanley. The cohort consists of eight perpetual BDCs with IG debt (APODS, ARESII, BCRED, GCRED, HLEND, NHPIFS, OAKSCF, OCINCC).

4 AI Uncertainty Weighs on the Broadly-Syndicated Loans Market

AI-driven uncertainty is also impacting the broadly syndicated loan market. Borrowers perceived to face higher disruption risk are experiencing more difficulty accessing financing and are seeing spreads widen significantly versus levels seen at the end of January. In Q1, issuers with higher exposure to AI disruption made up about 10% of the issuance pipeline but accounted for nearly 60% of pulled issuance deals, reflecting weak investor demand.

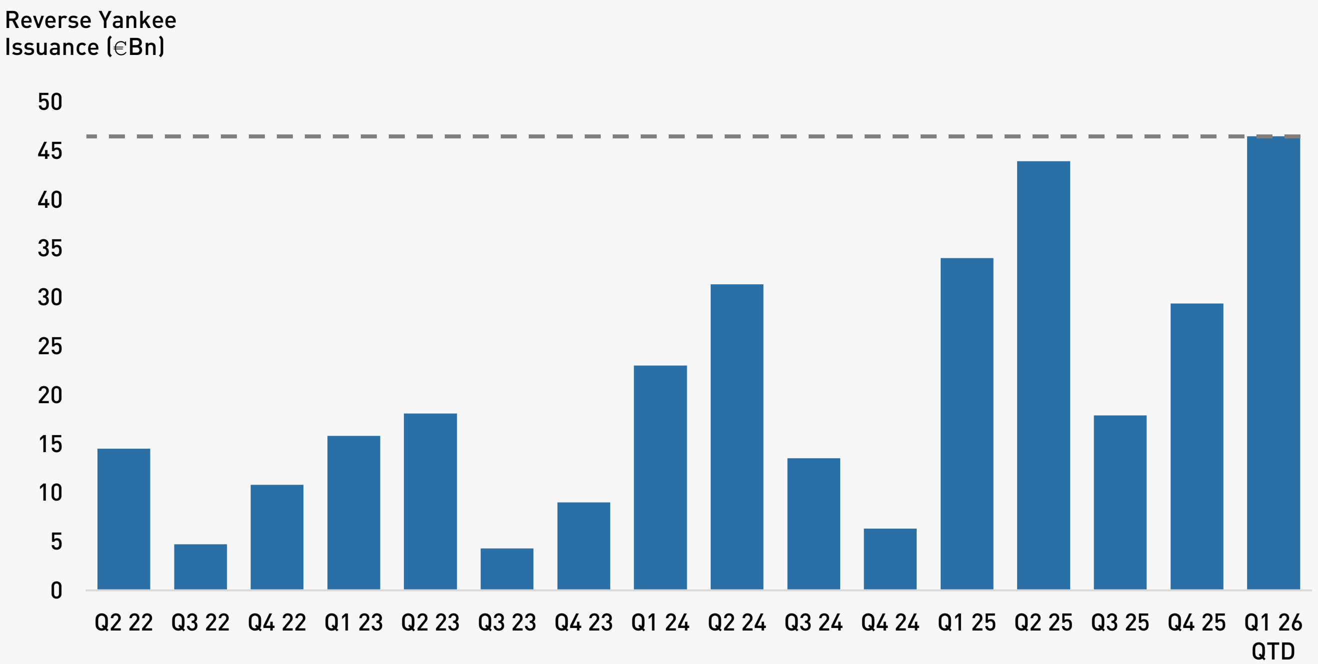


Data as of March 27, 2026. Source: BarclaysLive.

5 Reverse Yankee Issuance Surges as Companies Diversify Funding Sources

Despite volatility in secondary markets, primary issuance remains robust. A key trend is the surge in Investment Grade reverse Yankee issuance, with US issuers tapping European markets to diversify funding. We expect this trend to continue given ongoing geopolitical uncertainty – though a near-term rise in European rates could moderately temper issuance appetite. Overall, we remain defensively positioned but see strong opportunities to generate alpha through new issuance and active trading, and continue to participate selectively.

Reverse Yankee Bond Issuance Reached a Record High in Q1 2026



Source: Bloomberg, TD Securities. Data as of March 31, 2026.

Important Information

RPIA

43 Hazelton Ave.
Toronto, ON
M5R 2E3
www.rpia.ca
General Line: +1 647 776 1777
Investor Services: +1 647 776 2566