

October 2026

US PENSIONWATCH

A review of Q3 2026 and investment outlook

The third quarter was defined by the return of Fed tightening and renewed concerns over inflation. A rate hike, increasingly hawkish rhetoric from Fed Chair Warsh and ongoing disruption to global energy markets pushed Treasury yields sharply higher across the curve. While the Middle East conflict continued to oscillate between escalation and de-escalation, concerns around oil and refined-product shortages remained a key driver of inflation expectations and market volatility. At the same time, economic growth has proven remarkably resilient, corporate earnings continued to surprise to the upside, and credit markets have so far absorbed an unprecedented wave of AI-related debt issuance.

In this edition, we explore how the AI infrastructure buildout is impacting fixed income markets, creating both concentration risks for liability-aware portfolios and potentially attractive security-selection opportunities. We also assess the growing importance of geopolitical resilience in a world increasingly defined by strategic bottlenecks and supply-chain vulnerabilities. Finally, we provide an update on our pension indices, market performance and an outlook for key fixed income sectors.

- **The tightening cycle has restarted:** The Federal Reserve delivered its first rate hike since 2023, raising rates by 25bp and signaling a greater focus on inflation. Markets are pricing a steeper path of future tightening than the Fed's own projections, contributing to a sharp rise in Treasury yields across maturities.
- **Pension discount curves may be affected by AI issuance:** The growing weight of hyperscalers within AA-rated corporate bond markets is beginning to influence liability discount rates. Although the impact remains modest today, pension plans may wish to monitor how increasing issuance and issuer concentration could affect future liability valuations.
- **AI issuance is reshaping credit markets:** AI-related investment-grade issuance has soared so far this year, with significantly more expected ahead. While the scale of supply is creating attractive opportunities for active investors, it is also driving long-term changes in index composition.
- **Investment outlook:** We remain broadly constructive on credit markets. Strong economic growth, robust corporate earnings and attractive all-in yields continue to support demand. However, elevated issuance and geopolitical uncertainty reinforce the importance of active security selection.
- **Key risks:** The principal risks remain a sharper-than-expected slowdown in growth, policy uncertainty stemming from the Fed's evolving framework and an increasingly unpredictable geopolitical backdrop.
- **Educational update:** Geopolitical competition is increasingly centered on strategic bottlenecks and chokepoints, from energy infrastructure and trade routes to semiconductors and critical minerals. Understanding these vulnerabilities may become increasingly important for assessing future inflation, growth and market risks

RATES UPDATE

THE TIGHTENING CYCLE HAS RESTARTED

The Federal Open Market Committee (FOMC) unanimously voted for a 25bp rate hike at its September meeting, taking the Fed Funds range to 3.75% to 4%. This was its first hike since July 2023.

We believe there may be more hikes to come, but with markets already pricing them in, it may be a good time for investors to start seeking opportunities to lock in fixed income yields.

FED NARROWS IN ON INFLATION MANDATE

Chair Warsh emphasized the Fed's commitment to the central bank's inflation target. He noted the labor market side of its mandate is "in good shape ... so our predominant focus is on the price stability side¹".

The FOMC's official statement noted the rate hike is intended to "support a timelier return" to its 2% inflation target. Warsh added: "We must be confident that underlying inflation is moving toward our objective, clearly and at sufficient speed".

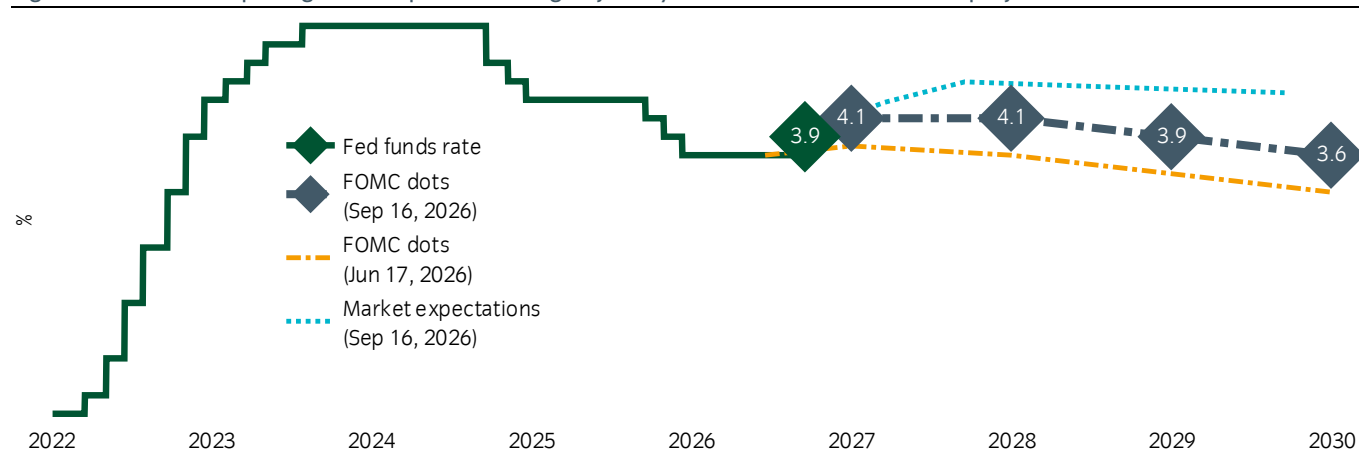
Core inflation measures have run above 2% for 66 months straight². Although core CPI has eased in recent months, core PCE (the Fed's preferred measure) has uncharacteristically been running higher, partly due to a higher weighting to software and accessories, posing challenges to the Fed.

Warsh also stated that the Fed was removing a "dose of accommodation" with the hike. He also continued to characterize the economy as strengthening, attributing recent rises in Treasury yields primarily to the growth environment. The FOMC's official statement also continued to note "domestic spending has been resilient. Productivity growth is strong, and capital investment is robust".

In our view, this is more likely to indicate that a traditional hiking cycle, rather than a policy recalibration, will be needed to bring inflation back to target. This would suggest the underlying strength of the economy will determine the number of rate hikes the Fed will need.

The Fed's median updated "dot plot" projections now reflect one more rate hike in 2026 (see Figure 1). Current market pricing, however, reflects another three hikes over the next 12 months, a steeper trajectory. In our view, up to three hikes may represent a reasonable base case, so markets may therefore present attractive opportunities to lock in higher yields.

Figure 1: Markets are pricing in a steeper rate hiking trajectory than the Fed's own median projections³



¹ Source: [Chairman Warsh Press Conference](#), Federal Reserve, September 16, 2026.

² Source: Insight and Bloomberg, September 2026.

³ Source: Federal Reserve, Bloomberg, September 2026.

PENSION TRENDS

PENSION INDEX

Insight maintains two model pension indices. The Traditional Pension Index aims to reflect those plans that have not yet adopted LDI. The LDI Pension Index aims to reflect those plans that have adopted LDI in the fixed income portion of their portfolio.

The Traditional Index has a 50% allocation to growth assets and a 50% allocation to bonds. The LDI Index has a 10% allocation to growth assets and a 90% allocation to bonds.

Q3 funded status impact: Rates increased by 73bp over the quarter and spreads increased by 5bp, resulting in a 78bp increase in discount rates. Global equities generated a 1.6% return. Both pension indices outperformed the liability over the quarter. The Traditional Index, which contains aggregate fixed income, recorded a -0.87% return, while the LDI Index, which seeks to hedge 100% of interest rate and credit spread risk, recorded a -5.57% return. The outperformance of the Traditional Index was driven by positive growth-asset returns and the increase in discount rates. Both the Traditional and LDI indices have also outperformed the liability year to date, but funded status under the LDI strategy has experienced less volatility.

Table 1: Long-term statistics (annualized)³

	Return	Volatility	Surplus return	Surplus vol (TE)	Surplus Var95	Max drawdown
Liability	5.22%	8.22%				
Traditional	6.14%	8.31%	0.92%	8.61%	-17.56%	-52.8%
LDI	5.40%	8.83%	0.18%	2.54%	-6.06%	-16.9%

Figure 4: 3-year rolling tracking error³

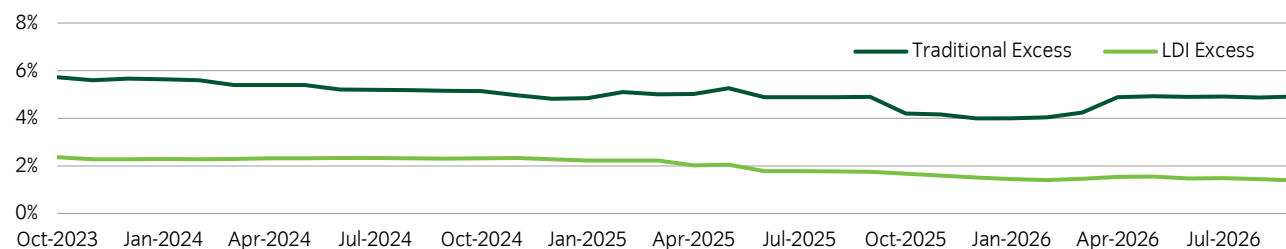


Figure 2: Q3 2026 returns⁴

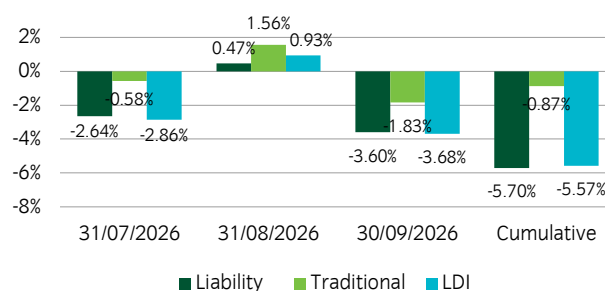
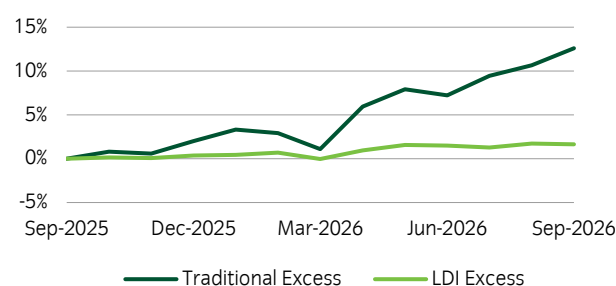


Figure 3: Trailing 12-month chain-linked excess returns³



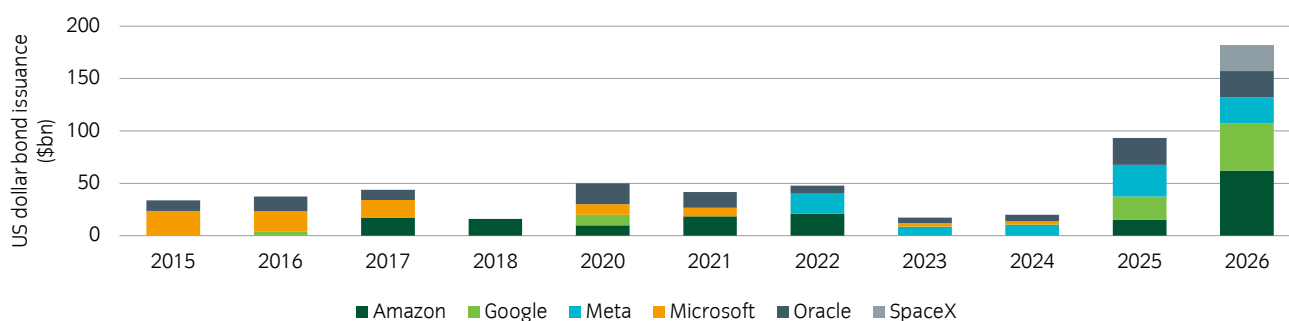
⁴ Source: Insight MSCI BarrOne, Bloomberg. Data as of September 30, 2026. The traditional and LDI proprietary indices reflect an assumed 0.40% annualized excess return that is modeled to offset asset management fees and transaction costs. Note: Beginning in 2026, we introduced two indices to provide insight into the impact of rate and market movements on different types of pension plan investors. Traditional Pension Index: The index reflecting those pensions that have not yet adopted LDI. LDI Pension Index: The index reflecting those who have adopted LDI in the fixed income portion of their portfolio. Assumptions behind the Insight indices include an illustrative static defined benefit cashflow profile calibrated to a 10-year duration as of June 30, 2025 and no external cashflows. WHERE MODEL OR SIMULATED RESULTS ARE PRESENTED, THEY HAVE MANY INHERENT LIMITATIONS. CLIENTS' ACTUAL RESULTS MAY BE MATERIALLY DIFFERENT THAN THE RESULTS PRESENTED. UNLIKE AN ACTUAL PERFORMANCE RECORD, MODEL RESULTS DO NOT REPRESENT ACTUAL TRADING AND MAY NOT REFLECT THE IMPACT THAT MATERIAL ECONOMIC AND MARKET FACTORS MIGHT HAVE HAD ON INSIGHT'S DECISION MAKING IF ACTUAL CLIENT FUNDS WERE BEING MANAGED. ALSO, SINCE SUCH TRADES HAVE NOT BEEN EXECUTED, THE RESULTS MAY HAVE UNDER OR OVERCOMPENSATED FOR THE IMPACT, IN ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. MODEL RESULTS ARE ACHIEVED THROUGH THE RETROACTIVE APPLICATION OF A MODEL. MODEL RESULTS SHOWN DO NOT REFLECT MANAGEMENT FEES, TRANSACTION COSTS AND OTHER EXPENSES THAT WOULD REDUCE RETURNS. THIS IS A HYPOTHETICAL MODEL. THE QUOTED BENCHMARKS DO NOT REFLECT DEDUCTIONS FOR FEES, EXPENSES OR TAXES. THE BENCHMARKS ARE UNMANAGED AND DO NOT REFLECT ACTUAL TRADING. THERE COULD BE MATERIAL FACTORS RELEVANT TO ANY SUCH COMPARISON SUCH AS DIFFERENCES IN THE VOLATILITY, AND REGULATORY AND LEGAL RESTRICTIONS BETWEEN THE INDEXES SHOWN AND THE STRATEGY. INVESTORS CANNOT INVEST DIRECTLY IN ANY INDEX.

NAVIGATING AI CONCENTRATION RISKS IN LIABILITY-AWARE PORTFOLIOS

The AI-related investment boom continues to reshape financial markets

The hyperscalers (Amazon, Google, Microsoft, Meta, Oracle, and now SpaceX⁵) alone project ~\$5trn of additional capex out to 2030⁶. As a result, AI-related issuance has continued at pace. Year-to-date, issuers raised over \$180bn in US dollar investment grade corporate bonds. Hyperscalers have also been increasingly issuing in other currencies.

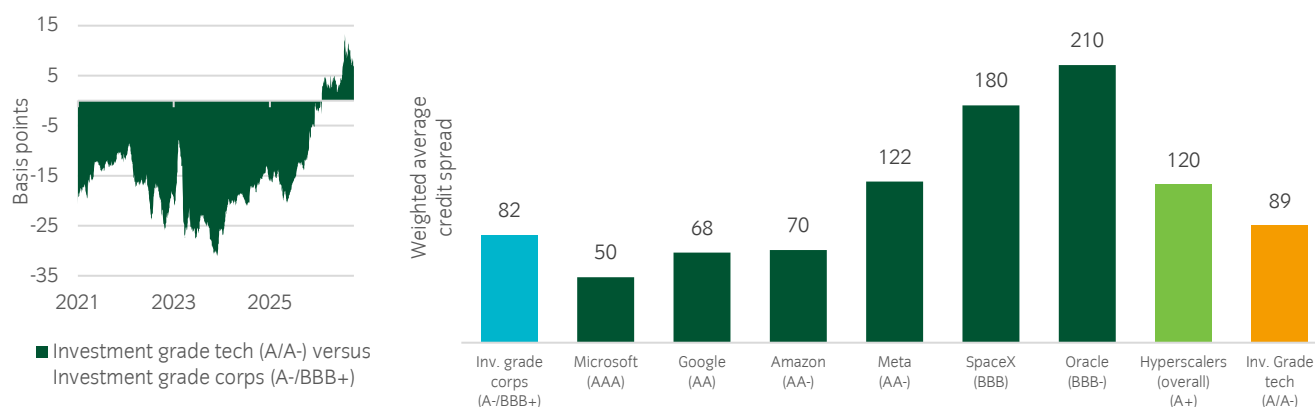
Figure 5: AI-related debt issuance has been substantial so far in 2026⁷



These firms and other AI-related issuers (like utilities, “neocloud” providers and others pivoting business models to the AI ecosystem) have also been busy tapping [high yield](#), bank debt, private credit, joint ventures, vendor financing and equity issuance for finance.

Amid this “supply shock”, hyperscaler and tech credit spreads have widened, potentially creating security selection opportunities for diligent bottom-up credit investors (Figure 6).

Figure 6: The AI “supply shock” has caused spreads to widen, even for the highest rated issuers⁶



AI fixed income concentrations are rising, particularly for liability-aware investors

The US investment grade market’s exposure to hyperscalers has risen from 3% to 5% over five years. This is dwarfed by the 20% to 56% concentrations that mainstream US equity indices face (Figure 7).

Liability-aware investors, like corporate defined benefit pension plans, may have more to consider, however. Many hyperscalers are AAA to AA rated (the least common ratings) so their higher quality index concentrations are significant.

Long US corporate bond strategies (often used to more closely match a pension plan liability’s interest rate sensitivity) have a modestly higher exposure to hyperscalers (Figure 7) than broad investment grade indices at ~8% (up from ~5% five years ago).

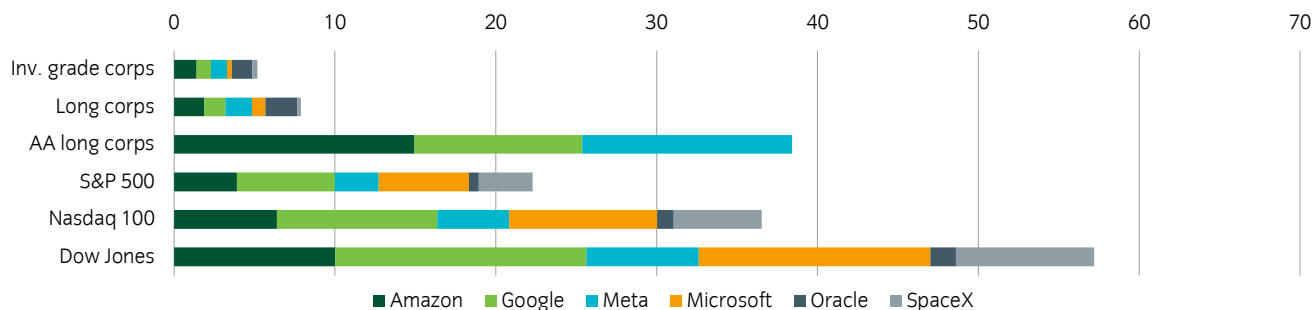
⁵ The mention of a specific security is not a recommendation to buy or sell such security. The specific securities identified are not representative of all the securities purchased, sold or recommended for advisory clients. It should not be assumed that an investment in the securities identified will be profitable. Actual holdings will vary for each client and there is no guarantee that a particular client’s account will hold any or all of the securities listed.

⁶ Bloomberg Intelligence, July 2026.

⁷ Bloomberg (Bloomberg US Corporate Investment Grade Bond Index, Bloomberg US Investment Grade Technology Index), YTD to October 5, 2026.

PENSION TRENDS

Figure 7: Broad bond indices still have modest hyperscaler concentration, but high-quality indices are more exposed⁸



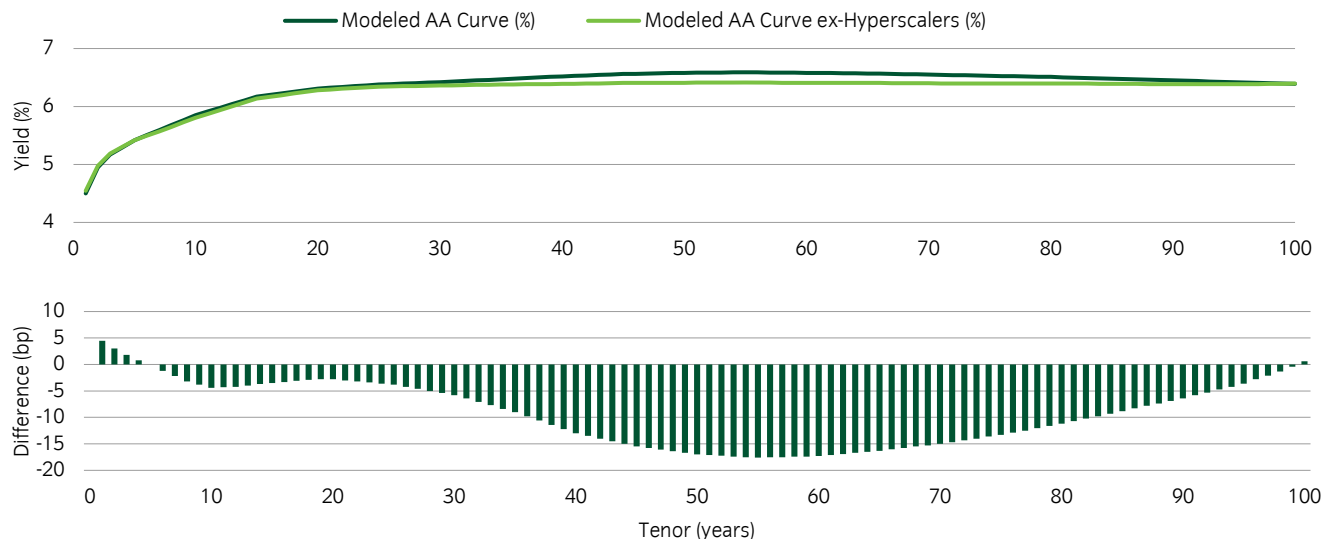
The impact of AI-issuance pension discount rates is worth watching

Concentration risks are significantly higher in AA long corporates where Hyperscalers account for a ~35% concentration (Figure 7 – above) and tech firms account for ~50%. This is particularly notable for plan sponsors because AA corporate yields are often the basis for pension liability discount curves.

Discount-rate providers typically construct AA curves from screened bond universes using maturity-based averaging or regression techniques. Sometimes they exclude anomalously priced securities or offer issuer-capped curve variants, which can reduce the influence of highly concentrated issuers.

The impact of hyperscalers on the pension discount curve is still relatively modest. Insight's modeling indicates that if all AA hyperscalers were downgraded below AA, pension discount curves would likely flatten, with yields falling by up to 18bp at longer maturities (Figure 8). We estimate this may have a 50-75bp impact on pension benefit obligations for a typical plan.

Figure 8: Hyperscalers are pushing up longer-dated AA yields⁹



As AI-related issuance continues to ramp up, pension plans may wish to take a closer look at the construction of their discount curves, because the impact of hyperscaler issuance may vary. For example, if curve construction seeks to optimize discount rates for yield by filtering for the highest-yielding securities, this may produce more concentrated discount curves that are more sensitive to hyperscaler pricing and sudden downgrades

⁸ Bloomberg (Bloomberg US Investment Grade Corporate Bond Index, Bloomberg US Long Investment Grade Corporate Bond Index, Bloomberg US AA Long Investment Grade Corporate Bond Index, S&P 500 Index, Nasdaq 100 Index, Dow Jones Industrial Average Index), October 5, 2026.

⁹ Insight, Bloomberg, as of September 30, 2026. Modeled curve based on a universe of USD AA corporate bonds. The universe excludes non-standard features such as structured, hybrid, convertible, perpetual, and similar issues, and limits callable bonds to those with only short-dated call exposure near maturity. Bonds are grouped by duration, with outliers removed within each bucket. The selected bonds are fit to a smooth cubic spline curve. Modeled data provided is point in time as of September 30, 2026.

KEY MARKET MOVEMENTS: Q3 2026

It was a volatile quarter for asset markets as the Middle East conflict de-escalated and re-escalated repeatedly. The Strait of Hormuz remained largely closed, and oil product inventories continued to deplete, raising concerns about energy shortages and future inflation.

The Treasury yield curve moved sharply upward over the quarter. Short-dated yields rose as the Fed raised interest rates and markets built in expectations of further tightening. Long-dated yields also moved sharply higher on inflation concerns.

Given the sharp upward move in yields, the Bloomberg Long Treasury Index significantly underperformed the Intermediate

Index. The Bloomberg US Treasury Index in aggregate also generated a negative return.

Credit markets outperformed Treasuries as higher yields cushioned price declines.

Despite exceptionally strong corporate earnings reports, equity markets rose by just 2.3% over the quarter, taking the year-to-date return to 12.75%.

The relative outperformance of US growth and Fed tightening underpinned the US dollar, with the dollar index rising by 0.26%.

Table 2: Q3 2026 fixed income/equity index total returns and volatility index levels¹⁰

	Q3 2026 total return	YTD 2026 total return (%)	Q3 2026 excess return (%)	YTD 2026 excess return (%)
Bloomberg US Treasury Index	-3.04%	-2.77%	-	-
Bloomberg US Intermediate Treasury Index	-1.69%	-1.46%	-	-
Bloomberg US Long Treasury Index	-8.03%	-7.62%	-	-
Bloomberg US IG Corporate Index	-3.94%	-3.11%	-0.14%	0.50%
Bloomberg US Intermediate IG Corporate Index	-2.31%	-1.57%	-0.15%	0.49%
Bloomberg US Long IG Corporate Index	-7.46%	-6.46%	-0.10%	0.56%
ICE BofA US High Yield Index (H0A0)	-1.81%	0.04%	1.22%	2.81%
S&P 500 Index	2.30%	12.75%	-	-
MSCI Emerging Markets Equity Index	-0.37%	23.38%	-	-
Dollar Index	0.26%	3.18%	-	-
VIX	16	-	-	-
MOVE	110	-	-	-

ECONOMICS

Consensus growth expectations for 2026 generally improved over the quarter, with the eurozone and Japan recording the largest upward revisions among developed markets. Eurozone growth is now expected to reach 0.9% in 2026, while Japan's forecast was raised to 0.8%. US growth expectations were unchanged at 2.2%, leaving the US economy still expected to outperform other major developed markets.

Looking ahead to 2027, the outlook also improved modestly. US growth is forecast to remain steady at 2.2%, while expectations for the eurozone were revised up to 1.3%. Japan's 2027 growth outlook was unchanged at 0.8%.

Inflation expectations eased over the quarter, particularly at the global level. Global inflation is now expected to average 4.0% in 2026 and 3.6% in 2027, representing downward revisions of 0.3 and 0.1 percentage points respectively.

In the US, inflation expectations were unchanged, with CPI forecast at 3.4% in 2026 and 2.5% in 2027, remaining above the Federal Reserve's target. The eurozone was a notable outlier, with inflation projections increased for 2027.

¹⁰ Source: Bloomberg. Data as of September 30, 2026. Excess return is relative to US Treasuries (duration adjusted for IG indices). VIX and MOVE are actual value at month end.

Table 3: Consensus GDP and CPI expectations¹¹

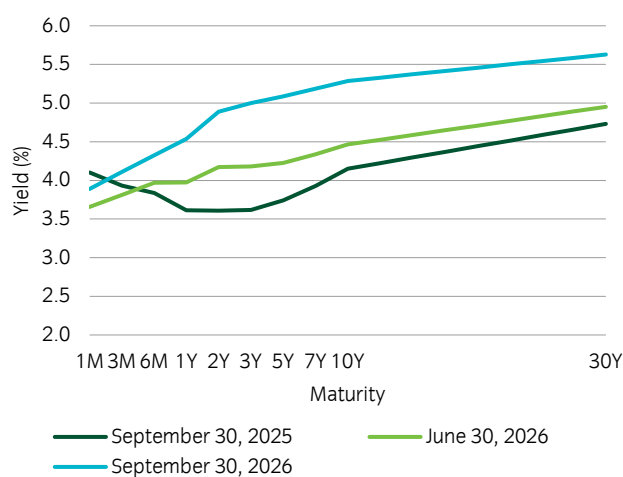
	Real GDP (%)			Change over Q3 (percentage points)		Inflation (CPI) (%)			Change over Q3 (percentage points)	
	2025	2026 ^F	2027 ^F	2026 ^F	2027 ^F	2025	2026 ^F	2027 ^F	2026 ^F	2027 ^F
United States	2.2	2.2	2.2	0.0	0.1	2.7	3.4	2.5	0.0	0.0
Eurozone	1.5	0.9	1.3	0.3	0.1	2.1	2.9	2.5	0.0	0.3
Japan	1.1	0.8	0.8	0.2	0.0	3.2	1.9	2.1	-0.1	0.0
China	5.0	4.6	4.4	0.0	0.0	0.0	1.0	1.1	-0.2	-0.1
Developed markets	1.9	1.7	1.8	0.1	0.1	3.4	3.6	2.9	0.0	0.1
Emerging markets	4.5	3.7	4.4	-0.3	0.2	2.5	3.4	3.2	-0.1	0.1
Global	3.2	3.0	3.1	0.1	0.0	3.4	4.0	3.6	-0.3	-0.1

TREASURY MARKETS

The yield curve moved sharply upwards

A Fed rate hike, coupled with increasingly hawkish rhetoric and mounting concerns over oil and refined product shortages, drove a sharp rise in yields across the curve.

By quarter-end, two-year yields had risen 71bp to 4.89%, and 30-year yields were 68bp higher at 5.63%.

Figure 9: Treasury yield curve change¹²

No easing in net borrowing needs

At its August 2026 presentation, the US Treasury Borrowing Advisory Committee estimated that tax receipts for the first nine months of the 2026 financial year totaled \$4,151 billion (+4% versus 2025). Total outlays were \$5,518 billion (+3% versus 2025). On a year-on-year basis bills issuance significantly increased, along with issuance in the two-to-five-year maturity bracket.

The median forecast of Primary Dealers was for net privately held marketable borrowing of \$2 trillion in FY2026, \$2.1 trillion in FY2027 and \$2.2 trillion in FY2028. This was a small upward revision from the last meeting. It was noted that uncertainty regarding future funding needs remains relatively high.

Table 4: US Treasury net marketable borrowing¹³

Market (\$bn)	2024 FY	2025 FY	2026 Q1-Q3	Yr/Yr change
Bills	744	392	294	888
Floating rate	40	75	16	-44
2-5yr Treasury	-38	409	357	152
5-10yr Treasury	685	783	466	-186
10yr+ Treasury	472	468	360	-15
5-10yr TIPS	42	19	41	13
10yr+ TIPS	17	-29	-24	13
Buybacks	-42	-185	-202	-34
Total	1,921	1,931	1,307	788

¹¹ Source: Insight and Bloomberg. Data as of September 30, 2026. F=Forecast. * Bloomberg consensus forecast.

¹² Source: Bloomberg as of September 30, 2026.

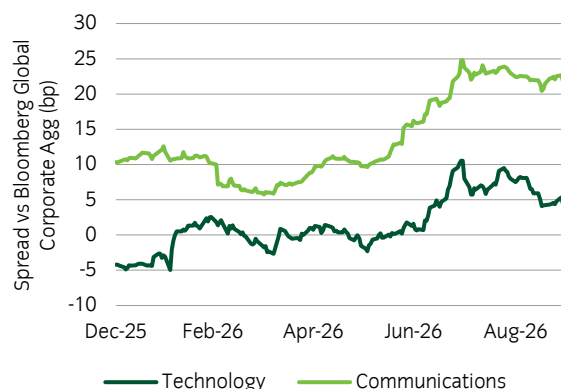
¹³ Source: Insight and US Treasury. Data as of August 31, 2026. Yr/Yr change is August 31, 2026 versus August 31, 2025.

AI INVESTMENT: IMPLICATIONS FOR GLOBAL CREDIT MARKETS

With AI infrastructure related issuance soaring, 2026 is likely to be a record year for investment-grade credit issuance.

The market has so far absorbed the additional supply, but we remain cautious about supply outpacing demand. Spreads have stabilised in recent months as some companies have issued equity alongside debt, and this has helped to reassure markets, however large volumes of issuance are still expected in the years ahead. We are concerned that each wave of issuance risks pushing spreads wider, as investors are aware that many further waves of funding lie ahead.

Figure 10: AI-related sectors have underperformed¹⁴



Differentiating risk and opportunity

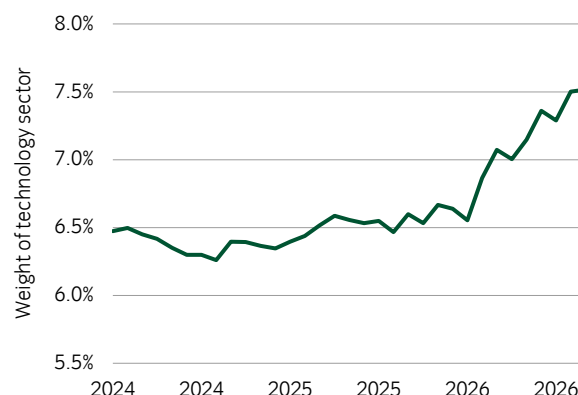
The credit issuance of hyperscalers is attractive on paper. It is backed by companies with high credit ratings (typically AA), and with large proven cashflows, which have historically had little need for debt issuance. For this reason, some of the deals had been oversubscribed.

However, the projected scale of issuance has materially changed the outlook. This is not because of any expectation that these credits will significantly deteriorate, or that valuations have become unattractive, but simply because the scale of future issuance may keep pushing spreads wider, eroding the benefit from holding the issuance.

Bond indices are projected to change

Over the long term, the scale of issuance is projected to have a significant impact on global credit indices. The size of the technology sectors has increased during 2026, and this trend could continue for years to come.

Figure 11: Weight of global technology sector within the Global Corporate Aggregate Index¹³



Long-dated issuance is growing

A large proportion of this debt is issued in longer maturities so that it matches the life of the infrastructure it is funding. This is likely to push the duration of credit indices longer but also increase the liquidity pool in longer-dated credit.

This year, gross US dollar corporate issuance of maturities of 30 years or longer is on track to outpace 30-year Treasury issuance for the first time since the pandemic, driven by AI related issuance.

This has created some potential competition for Treasuries, particularly given the high credit quality of these issuers, often the same as the US government.

Navigating AI-driven change in credit markets

We expect uncertainty and volatility around AI issuance to remain a feature of credit markets for the foreseeable future. For active investors, identifying where markets may have mispriced these risks may become an increasingly important source of investment opportunity.

¹⁴ Source: Insight and Bloomberg, references Bloomberg Global Corporate Aggregate Index. Data as of September 30, 2026.

CREDIT UPDATE

CORPORATE PROFITS SURGE

Factset¹⁵ data shows analysts expect S&P 500 Q3 2026 earnings to grow 29.1% year-on-year, up from 26.7% at the start of the quarter, with revenue growth revised to 12.1% from 10.9%. After these upgrades, expectations for 2026 as a whole are for profits to grow by 32% on revenue growth of 12.3%. For 2027, profits are expected to grow by 15.4% on revenue growth of 9.2%.

CREDIT MARKET PERFORMANCE

Credit spreads widened over the quarter despite some easing of concerns around AI-infrastructure-related issuance. Aggregate US corporate spreads ended the quarter 6bp tighter. The intermediate component of the credit curve underperformed the long component, with spreads widening by 8bps and 4bp respectively. BBB and AAA credit outperformed other rating categories on a spread basis in long maturities.

Table 5: Average spread (bp) of corporate bonds¹⁶

Bloomberg Index	Sep 30, 2025	Jun 30, 2026	Sep 30, 2026	Change QTD	Corporate weight (%)
Corporate	74	74	80	6	100.0%
Intermediate	66	65	73	8	67.7%
Long	90	94	98	4	32.3%
- AAA	39	50	50	0	
- AA	58	78	86	8	
- A	73	78	82	4	
- BBB	113	116	119	3	

ISSUANCE BREAKDOWN

Investment grade credit: gross issuance was 27.1% higher year-on-year in the 12 months to end June, with issuance in Q3 30% higher than in Q3 2025. Net issuance was significantly higher, demonstrating the level of new borrowing being undertaken, driven by tech names.

High yield: gross issuance was 7.3% higher year-on-year, and 20% lower in Q3 relative to Q3 2025. Net issuance by contrast was significantly higher.

Table 6: Gross new US bond issuance

Market	2024 total	2025 total	Q1 to Q3 2026	y/y change (%)
US investment grade	1,758	1,819	1,885	+27.1%
US high yield	281	330	271	+7.3%

In high yield, \$6.6bn of issuance was upgraded to investment grade (rising stars) in Q3, taking the YTD figure to \$51.9bn, well above the \$33.8bn seen in the whole of 2025. Issuance totaling \$6.4bn was downgraded from investment grade to high yield (fallen angels), taking the YTD figure to \$36.5bn. Defaults YTD totaled \$19.3bn.

Table 7: High yield issuance breakdown in \$bn

Market	2025 (\$bn)	YTD 2026 (\$bn)
Downgraded to high yield	45.1	36.5
Called/falling below 12mths	156.6	136.0
Upgraded to investment grade	33.8	51.9
Defaults	15.7	19.3

¹⁵ Source: [FactSet Earnings Insight](#), September 25, 2026

¹⁶ Source: Barclays research. Data as of September 30, 2026.

GEOPOLITICAL RISK IS HERE TO STAY

Globalization is giving way to a world of chokepoints

The defining geopolitical trend of recent years has been the shift from globalization towards a more fragmented world. Increasingly, governments are prioritizing security of supply over efficiency, bringing an end to an era in which cost minimization was often the primary objective.

This transition has important implications for investors. The vulnerabilities exposed during the pandemic have been reinforced by more recent disruptions to energy markets, shipping routes and critical supply chains. We believe an increasingly important factor for investors to consider is the battle to control strategic bottlenecks. Trade routes, payment systems, semiconductor technology, critical minerals and energy infrastructure are all becoming strategic assets in a more contested global environment.

One consequence is likely to be structurally higher inflation. The deflationary benefits of globalization were built on efficient international supply chains and the free movement of goods and capital. As companies reshore production, diversify suppliers and build redundancy into their operations, resilience is replacing efficiency as a priority. While this may improve security of supply, it also risks raising costs across the global economy and creating new sources of volatility.

Resilience may matter as much as growth

The competition for strategic chokepoints extends well beyond physical trade routes. China's dominance in the processing of rare earth metals, restrictions on semiconductor technology, the emergence of alternative payments systems and growing political influence over capital flows all demonstrate how economic power is increasingly being exercised through control of critical networks and infrastructure. At the same time, advances in low-cost drone technology are making previously secure assets and transport corridors more vulnerable, increasing the strategic importance of geography and supply-chain security.

For investors, this points to a future in which geopolitical risk remains persistently elevated. Market disruptions are likely to become more frequent. While this creates challenges, it may also create opportunities. Periods of indiscriminate selling often produce attractive valuations in fixed income markets, particularly for active managers able to identify resilient issuers and exploit dislocations. In our view, a world defined by bottlenecks and chokepoints is likely to reward selectivity, diversification and a greater focus on resilience than investors have needed for much of the past three decades.

INVESTMENT OUTLOOKS

Investment grade credit

The investment grade credit market remains finely balanced; on one hand credit spreads are still close to post-GFC tightness despite heightened geopolitical uncertainty and yet look more attractive when considering value from an all-in-yield perspective. New issuance remains elevated, driven largely by a wave of issuance from hyperscalers but has been matched by investor demand that continues to be supported by strong corporate earnings growth. Some hyperscalers have started to supplement debt funding with equity issuance, partly easing concerns around rising leverage levels. Given the scale of issuance seen so far this year from the broader market, we believe some financing activity has been brought forward, which could result in better technical dynamics into the year-end. From a fundamental perspective, corporate balance sheets are underpinned by robust and broad-based earnings growth, healthy liquidity positions and continued access to capital markets. So, while valuations remain rich, it's difficult to see meaningful softening in demand for investment grade credit with supportive all-in-yields, supportive fundamentals and a resilient economic outlook. We therefore believe this supports a modestly constructive outlook for credit markets, with a focus on bottom-up security selection.

High yield credit

Despite ongoing geopolitical tensions, inflation uncertainty and interest-rate volatility, we remain broadly constructive on high yield markets. Attractive all-in yields, resilient corporate fundamentals and strong corporate earnings and revenue growth are underpinning demand. Spreads widened in Q3, with a sharp selloff in lower rated credits. This came despite a generally positive outlook for future earnings for the asset class as a whole and high interest coverage levels that suggest many companies could weather a higher rate environment. Although we continue to be cautious on CCC-rated names, we believe this offers an attractive entry point for higher rated issuers, although we continue to see income rather than spread compression as the primary driver of future returns. Dispersion continues to run at elevated levels as investors are rewarding issuers with strong balance sheets, resilient cashflows and credible deleveraging plans while penalizing those facing structural or operational challenges. Against this backdrop, we believe careful credit selection will continue to be important. While we believe high yield markets continue to offer compelling income opportunities, future performance is likely to depend on identifying and avoiding issuers facing business model disruption or deteriorating fundamentals.

Structured credit

Economic data across both the US and Europe have continued to demonstrate remarkable resilience, with labor markets remaining healthy and consumer spending broadly supportive of growth. Corporate fundamentals also remain broadly stable, supported by solid earnings, healthy balance sheets and continued access to capital markets. Against this backdrop, demand for the asset class has remained robust, driven by both attractive income levels and its defensive characteristics. The predominantly floating-rate nature of the market means investors benefit from any further rate increases. In an environment where longer-dated bond markets remain sensitive to concerns around inflation and fiscal deficits, the asset class potentially offers a relatively insulated means of generating income without taking significant duration risk. Given the strength of investor demand and the favorable financing environment, we would expect primary market activity to pick up into the end of the year. Our focus remains on senior, well-protected parts of the capital structure, prioritizing transactions with robust underwriting, strong servicing and structural protections that preserve cashflows in downside scenarios. We believe this positioning should help insulate portfolios from ongoing macro, inflation and geopolitical uncertainty, while allowing us to pursue attractive income and relative-value opportunities.

Municipal bonds

Municipal market conditions remain challenging. Recent underperformance has driven mutual fund outflows, amplified by tax-loss harvesting, persistent interest-rate volatility and quarter-end positioning, while a heavy supply calendar has added further pressure to valuations. These weak technicals may continue until rates become more stable. However, the asset class is now offering historically attractive taxable-equivalent yields, and we believe what we see as compelling income levels should eventually draw investors back once volatility subsides. Combined with the sector's generally strong credit fundamentals, this could support a meaningful improvement in demand and market technicals over the medium term.

KEY MARKET RISKS

Forecasting is increasingly difficult

A heightened level of policy uncertainty is making forecasting increasingly challenging, with significant implications for both investors and the Fed. Chair Warsh's decision to drop forward guidance could add to challenge and increase volatility at the short end of the yield curve.

Growth softens more meaningfully than expected

Our core scenario remains that the US economy should avoid recession, but there is a risk that growth could decelerate more sharply than expected. This could be driven by a global slowdown, with potentially negative consequences for credit markets.

An unpredictable geopolitical backdrop

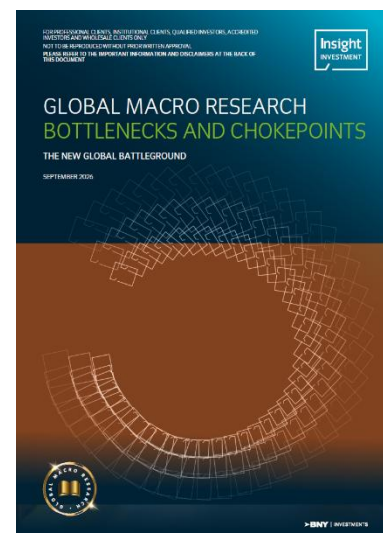
Geopolitical tensions remain elevated around the world, creating an unpredictable backdrop where events can quickly escalate or de-escalate, creating significant market volatility. The conflict in the Middle East is an example of how quickly events can change, while the ongoing rivalry between the United States and China continues to dominate global affairs.

BOTTLENECKS AND CHOKEPOINTS

Geopolitical risk has become a persistent feature of the investment landscape, driven primarily by strategic competition between the US and China and a more fragmented global order.

In this paper ([click here to go to the paper](#))¹⁷ by Gareth Colesmith, Head of Global Macro Research at Insight, we explore how:

- Globalization is giving way to a world of strategic chokepoints, where trade routes, energy infrastructure, critical minerals, semiconductors, payment systems and capital markets are increasingly used as tools of geopolitical influence.
- Supply-chain security is replacing efficiency and cost as a priority, accelerating reshoring, regionalization and investment in strategic industries, with implications for inflation, growth and corporate profitability.
- Low-cost drone technology is reshaping warfare and strategic geography, increasing the vulnerability of infrastructure, lowering the barriers to projecting power and elevating the importance of key trade routes and locations.



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¹⁷ <https://www.insightinvestment.com/united-states/perspectives/global-macro-research-hub/GMR-hub/bottlenecks-and-chokepoints-the-new-global-battleground/>

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The ICE BofA 15-Year+ US Corporate Index measures market performance of USD-denominated investment grade corporate debt publicly issued in the US domestic market with a remaining term to maturity above 15-years.

The Bloomberg US Corporate Investment Grade Index measures market performance of USD-denominated investment grade industrial corporate debt publicly issued in the US domestic market.

The Bloomberg US Long Corporate Bond Index measures market performance of USD-denominated investment grade corporate debt publicly issued in the US domestic market with a remaining term to maturity above 10-years.

The ICE BofA AAA US Corporate Index measures market performance of USD-denominated investment grade corporate debt publicly issued in the US domestic market with AAA ratings.

The ICE BofA AA US Corporate Index measures market performance of USD-denominated investment grade corporate debt publicly issued in the US domestic market with AA ratings.

The ICE BofA A US Corporate Index measures market performance of USD-denominated investment grade corporate debt publicly issued in the US domestic market with A ratings.

The ICE BofA BBB US Corporate Index measures market performance of USD-denominated investment grade corporate debt publicly issued in the US domestic market with BBB ratings.

The ICE BofA BB US High Yield Index measures market performance of USD-denominated high yield corporate debt publicly issued in the US domestic market with BB ratings.

The ICE BofA B US High Yield Index measures market performance of USD-denominated high yield corporate debt publicly issued in the US domestic market with B ratings.

The Bloomberg US Corporate High Yield Index measures market performance of USD-denominated high yield corporate debt publicly issued in the US domestic market.