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Global Strategy

2026 US Credit Outlook: Navigating Tight Spreads and Lingering Risks

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Executive Summary

We mark to market our 2026 outlook, highlighting changes in our spread forecasts, portfolio positioning, and underlying credit fundamentals.

Spreads: Less Widening Early, Though Risks Remain

We now expect less spread widening in Q1 (targets: IG 90, HY 325, LL 500bp), reflecting strong performance into year-end '25, a milder growth slowdown, and resilient corporate credit metrics. However, January's seasonal rally typically fades, and we still anticipate material widening in February and March. We believe that current tight spreads underprice growth risks tied to a weak labor market, sluggish consumer trends, and private credit fragilities.

Portfolio Positioning: Incrementally Longer Credit Risk

Our year-end spread forecasts are unchanged (IG 85, HY 300, LL 480bp); updated excess return forecasts continue to favor US leveraged loans (3.8%) and high yield (1.4%) over investment grade (0.3%) for 2026. The US model portfolio moves close to neutral on duration given uncertainty/ offsetting catalysts tactically for the rates outlook, but shifts incrementally longer credit risk as we close two trades: short HY Retail vs. Index (the view played out into year-end) and long BBs vs. HY Index (moderated US growth risk in H1, which makes us less defensive). Core longs remain in IG Tobacco and HY Industrials, while core shorts stay in IG Tech and private credit-exposed Financials.

Macro & Fundamentals: Growth Risks Easing

Our economists raised 2026 US real GDP growth to 2.1% (+0.3pp) and forecast a shallower labor market slowdown in H1. Credit-based recession risk has fallen to 23%, driven by stronger corporate profits and improved credit health scores, led by high yield. Offsetting this in part, the timeline for Fed cuts is now expected in Q3, delaying further policy support.

Private Credit: Risks Persist But No Near-Term Shock

Private credit concerns remain, but the near-term outlook is not deteriorating sharply. Positives include lower leveraged loan default rates into year-end and debt-weighted private bankruptcy filings below average. However, this doesn't mean that we are out of the woods: distressed ratios ticked higher in December, and count-weighted private filings are still rising. Additionally, sector trends show renewed stress in services and tech even as healthcare filings eased. We expect a modest rise in HY and LL default rates to 1.0% and 2.5%, respectively, for FY26.

Consumer Credit: K-Shaped Economy

Consumer indicators remain mixed. December payrolls was weaker than expected, with growth in employment narrow. UBS Evidence Lab's December Consumer Finances survey suggested that the income outlook for consumers is stable, and cash flow pressures are near average, but more consumers are expecting to miss payments due to job losses. This aligns with the Fed's CES survey noting job loss beliefs worsened and job finding prospects hit a series low. Lastly, consumer loan application data suggests households are embellishing their financial status. We assume a slightly better outlook in early Q1 amid tax refund season if the labor market stabilizes, but these effects will be transitory.

Supply & Technicals: Issuance Rising

We raise our 2026 issuance forecasts on stronger AI-driven CapEx and a building M&A pipeline. Within the tech sector specifically, we see IG Tech at $300B, HY Tech at $60B, LL Tech at $140B, and Private Credit & Project Finance at $400B. Total IG gross issuance is now $1.725T (+17% YoY); HY issuance $365B (+13%); loans $450B. While we do not think that higher supply is a long-run spread driver, tactically it could cause indigestion and widening on risk-off moves.

Positioning & Seasonality: Closer to home, but valuations matter

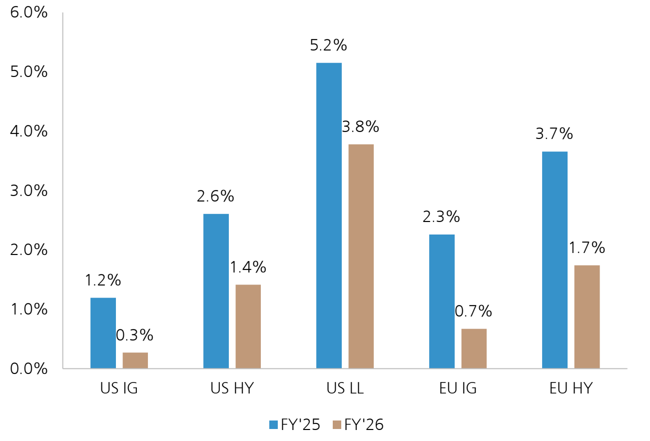
Global credit fund beta shows flat to slightly higher exposure in quality US mandates, lower exposure in leveraged loans, and falling exposure in Europe as more of the EU market shifts to hybrids. Seasonally, January rallies are muted when valuations are tight, and spreads typically reverse in February and widen into March - a playbook that we expect to repeat in 2026.

Figure 1: US credit markets and revised quarterly spread forecasts: less widening in Q1 on the back of a stronger Q4 finish and a moderation in economic/credit risks in H1

	Q4'25	Current	Q1'26	Q2'26	Q3'26	Q4'26
US IG	78	78	90	85	85	85
US HY	266	258	325	310	310	300
US LL	455	446	500	490	490	480

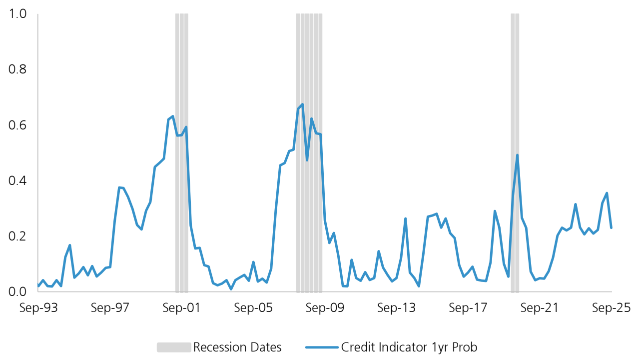
Source: Bloomberg Barclays Indices, UBS

Figure 2: Updated 2025 and 2026 projected excess returns for US and EU credit markets



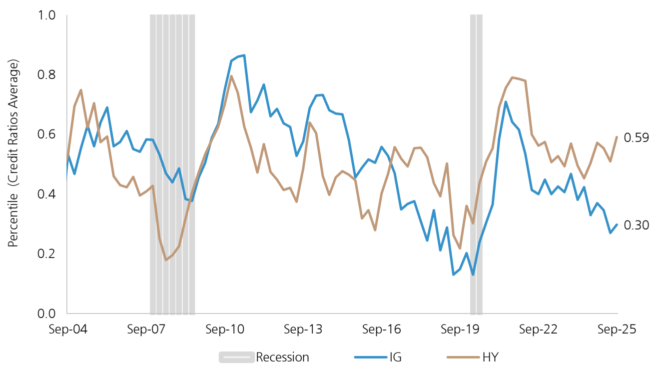
Source: Bloomberg Barclays Indices, UBS

Figure 3: Stronger corporate profit growth through Q3 helping to ease recession risks



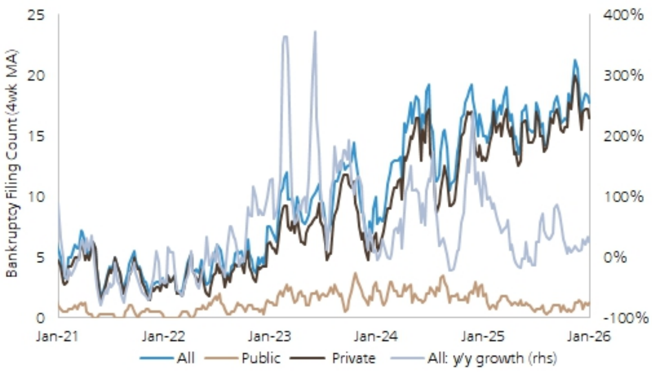
Source: Bloomberg, FDIC, BEA, UBS

Figure 4: US Credit Ratios: Some improvement through Q3 2025, led by HY (higher %ile is healthier



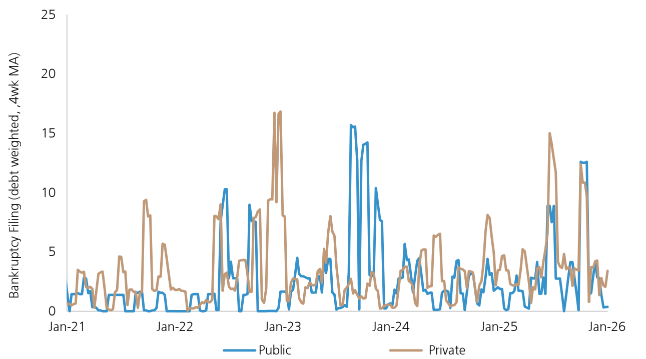
Source: WSC, UBS

Figure 5: UBS Evidence Lab Corporate Bankruptcy Monitor and public vs. private company filings (count weighted): filings for private firms remains elevated with y/y growth ticking up



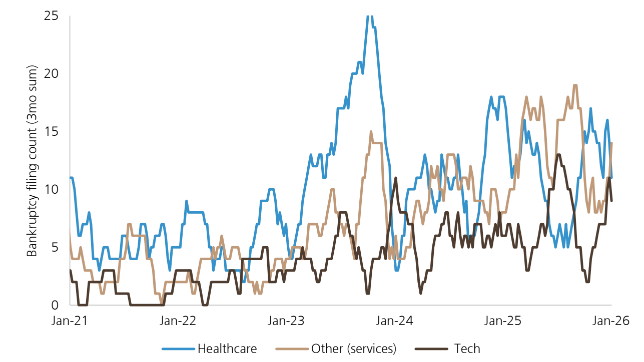
Source: UBS Evidence Lab

Figure 6: UBS Evidence Lab Corporate Bankruptcy Monitor and filings (liability weighted): little evidence of large scale cockroaches heading into Q4 earnings season



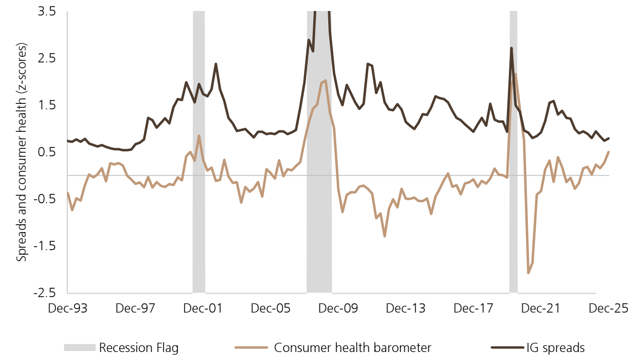
Source: UBS Evidence Lab

Figure 7: UBS Evidence Lab Corporate Bankruptcy Monitor: filings in services and tech rising even as healthcare eases



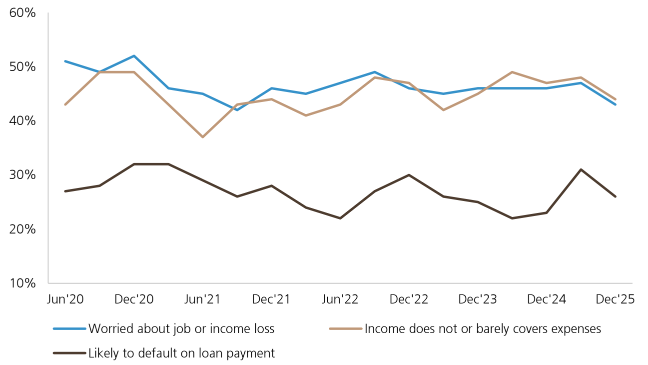
Source: UBS Evidence Lab

Figure 8: UBS consumer credit cycle indicator shows signs of weakness due to softer sentiment, durables demand and labor market



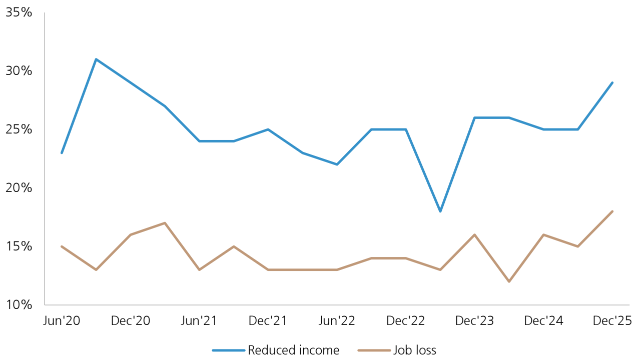
Source: Bloomberg, UBS

Figure 9: Household survey data on consumer finance questions: responses are mixed, but overall across surveys there is more anxiety around job prospects and loan delinquency status



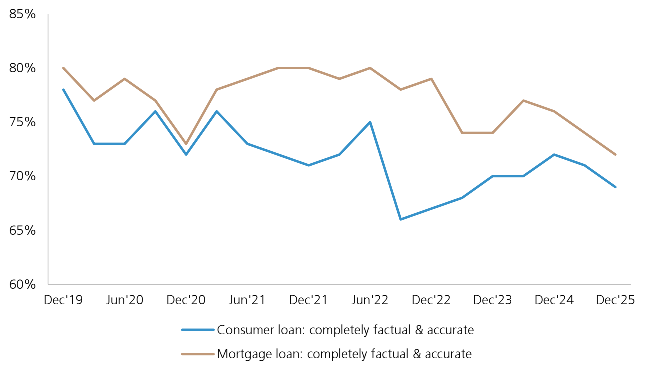
Source: UBS Evidence Lab

Figure 10: Household survey data on why consumers may default on a loan payment: job loss and reduced income are rising concerns



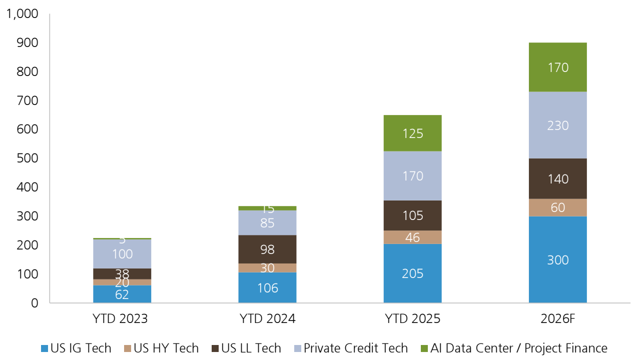
Source: UBS Evidence Lab

Figure 11: Household survey data on loan applications: marginal borrowers showing signs of exaggerating financial status when applying for credit



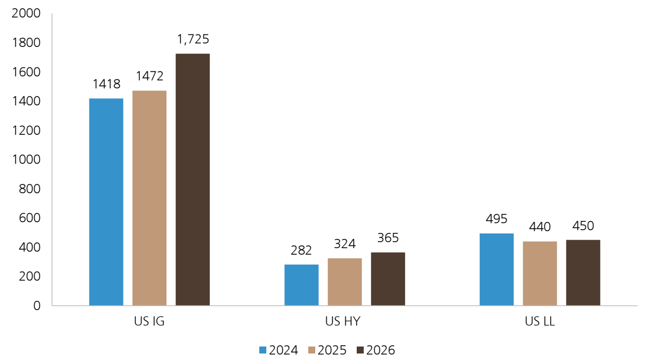
Source: UBS Evidence Lab

Figure 12: US Tech Issuance Split by Public and Private Markets: from $650bn in 2025 to $900bn in 2026



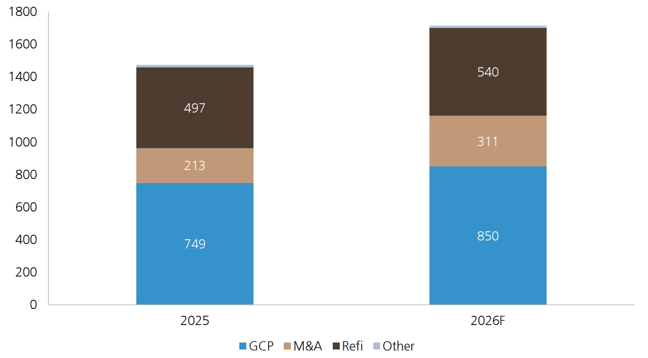
Source: Pitchbook LCD, UBS

Figure 13: Gross Issuance in 2025 and Forecasts for 2026: IG, HY and LL up 17%, 13% and 2%, respectively



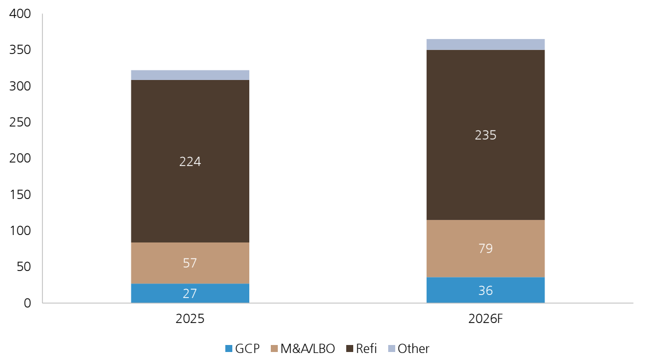
Source: Pitchbook LCD, UBS

Figure 14: US IG Gross Issuance forecast: breakdown by use of proceeds highlights strong expectations for M&A and AI-related activity



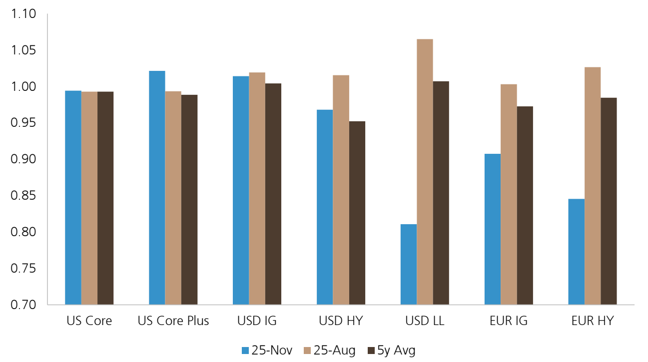
Source: Pitchbook LCD, UBS

Figure 15: US HY Gross Issuance forecast: breakdown by use of proceeds: solid expectations for M&A and LBO volumes



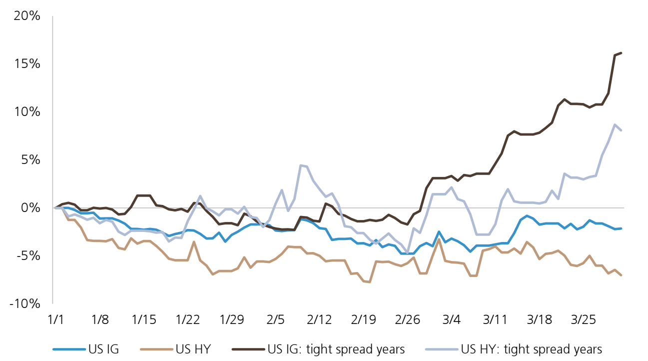
Source: Pitchbook LCD, UBS

Figure 16: Global credit market fund manager betas: through end-25 exposure remained overweight in high-quality US funds and dropped in low-quality US and EU funds



Source: eVestment, UBS

Figure 17: Median US credit spread performance since 2000 and for tight spread years (% chg): Q1 is challenging when valuations are elevated



Source: Bloomberg Barclays Indices, UBS

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