
Sub-Investment Grade Credit: How has it fared in the current climate?

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March 2026

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Executive Summary

Sub-investment grade credit markets have remained broadly resilient despite rising geopolitical uncertainty and volatility in energy markets. While some pockets of the market have come under pressure (such as software), wider spreads in loans have improved forward-looking yields for investors. At the same time, private credit has faced increased scrutiny following redemption pressures and isolated write-downs in certain funds. We believe the current environment is increasingly rewarding active managers who can navigate dispersion and seek to capture higher forward yields while managing downside risk.

Geopolitical uncertainty spooks markets, with shocks to energy markets causing central banks to re-think their growth and inflation forecasts

Credit markets have experienced increased volatility in recent weeks as geopolitical tensions in the Middle East have raised concerns about potential energy supply disruptions and renewed inflation pressures. This has complicated the outlook for central banks as they balance slowing growth with the risk of inflation re-accelerating. This has increased volatility in credit spreads and reduced visibility on default cycles, particularly in lower-quality credit.

Despite this uncertainty, sub-investment grade credit markets have remained broadly resilient. As shown in the table below, most segments of the credit universe have experienced modest negative returns year-to-date, with US and EUR fixed and floating rate credit down slightly. Given the heightened volatility of the broader macroeconomic environment, these areas of the market have performed relatively well.

Credit Index	Return	Credit Spread	
	YTD*	Current	Change
US Investment Grade Bonds	-0.70%	0.90%	0.12%
US High Yield Bonds	-0.14%	2.98%	0.32%
US High Yield CCC Bonds	-0.83%	6.37%	0.22%
US Bank Loans	-0.59%	5.03%	0.48%
EUR High Yield Bonds	-0.09%	3.19%	0.37%
EUR Bank Loans	-0.62%	5.71%	0.61%
EM (USD) High Yield Bonds	0.35%	3.43%	0.04%
EM (USD) Asia High Yield Bonds	1.44%	3.46%	-0.09%
Public BDCs	-11.32%	7.52%	1.13%

As at 10/03/2026. Source: Bloomberg, Apostle Funds Management.

*Year-to-date returns (AUD-hedged).

With that said, it's important to highlight that the key takeaway is not just broad market resilience but increasing dispersion across credit quality and instruments.

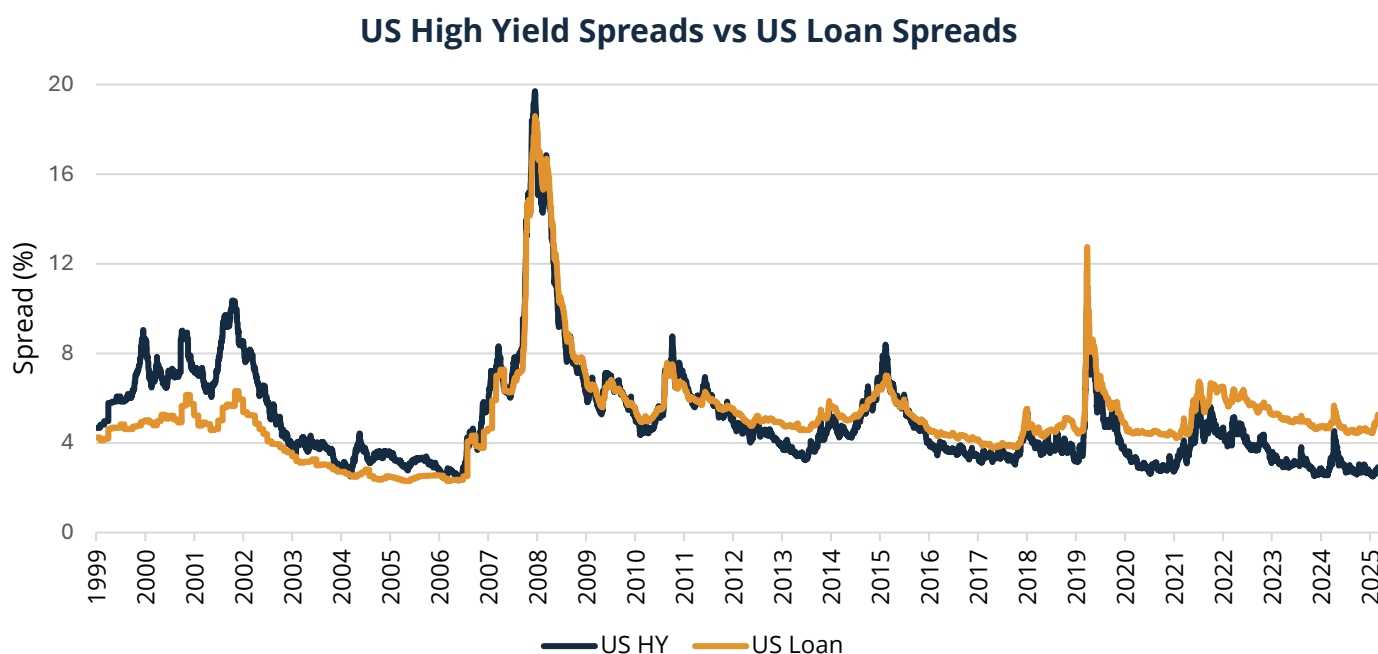
Within high yield credit, performance has broadly held up despite widening spreads. Lower quality CCC-rated bonds have lagged the broader market, albeit modestly. Even with the widening observed this year, spreads between high yield and investment grade credit remain historically tight.

Loans have experienced a more pronounced widening in spreads, particularly in both the US and European markets. This widening has resulted in modest negative returns year to date, but it also implies higher forward-looking yields for investors entering the asset class today.

Is now a good time to invest in loans? What are some considerations?

Relative to fixed-rate credit instruments such as high yield bonds, floating-rate investments like loans – also known as broadly syndicated loans or bank loans – provide credit exposure with limited interest rate duration risk. This makes them particularly relevant in environments where interest rates remain elevated or uncertain.

From a relative value perspective, spreads on loans are currently more attractive than those on fixed-rate bonds of similar credit quality, suggesting improved compensation for credit risk across this segment of the market. While this creates a more attractive entry point, it also increases dispersion across issuers and structures.



As at 28/02/2026. Source: Bloomberg, Apostle Funds Management.

However, several important considerations remain:

- **Diversification:** Credit investments exhibit asymmetric return profiles – limited upside but potentially significant downside – making diversification across issuers, industries and geographies essential. For this reason, diversification across issuers, industries and geographies is particularly important to ensure that individual defaults have a limited impact on the overall portfolio.
- **Active management:** In our view, dispersion across issuers and sectors is now sufficiently elevated that manager selection is becoming a meaningful driver of outcomes. Actively managed strategies may be more appealing to investors compared to passive exposure to the full universe of loans, because the asset class is inherently inefficient and highly heterogenous. Skilled managers aim to avoid weaker issuers, minimise losses when defaults occur and maintain appropriate diversification within portfolios.

Much of the recent stress has been concentrated in software and lower-quality segments of the market, reinforcing the importance of selective credit exposure. At Apostle, we currently favour active managers that are underweight exposure to software companies relative to the index, particularly those with CCC credit ratings, which have been a primary source of stress in the market this year. In addition, sectors such as chemicals, services and leisure have experienced more downgrades than upgrades. This indicates emerging pressure within parts of the loan market, highlighting the importance of active credit selection.

More broadly, we prefer managers that emphasise higher quality credits such as BB rated issuers rather than lower quality CCC borrowers.

Private credit under the spotlight, and not for the right reasons – but is it overblown?

Private credit has come under increased scrutiny in recent months. Several private credit vehicles, particularly business development companies (BDCs), have faced elevated redemption pressure, with some funds introducing gating mechanisms to manage liquidity.

Publicly listed BDCs have been particularly weak, with prices falling sharply as investor sentiment deteriorated. However, weaker sentiment does not necessarily indicate that the underlying fundamentals of the asset class are broken.

There have been isolated instances of write-downs within certain private credit funds, including situations where individual loans have been written down to zero. Funds with significant exposure to software companies have generally been among the most affected, reflecting higher leverage and earnings pressure within parts of the sector.

At Apostle, we favour core mid-market private credit strategies that focus on companies with strong EBITDA generation and more conservative leverage profiles. Importantly, we lean towards managers with diversified portfolios across different sectors of the economy, mitigating risks of sector-specific events. We also prefer managers with limited exposure to software, specifically, as these companies

can carry higher operational and financial risk without necessarily offering higher yields to compensate credit investors.

Overall, recent developments reinforce the importance of disciplined underwriting and sector allocation within private credit portfolios.

Conclusion

Sub-investment grade credit markets remain broadly resilient, but dispersion across sectors, instruments and credit quality is increasing. In this environment, we believe outcomes will be increasingly driven by manager selection, sector positioning and disciplined underwriting, rather than broad market exposure alone.

Sources

- Bloomberg Intelligence, research and estimates, January–March 2026.
- Apostle Funds Management

Disclaimer

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