FIXED INCOME
IN FOCUS

SEPTEMBER 2026 WEBCAST

Fed Actions Speak Louder Than Words

In brief

- **Following the recent rate hike, reduced Federal Reserve communication means investors must judge policy through the Fed's actions rather than its words**
- **US credit fundamentals remain strong and valuations are tight, which supports a high-conviction preference for carry**
- **The dispersion created by AI-related debt issuance provides an opportunity for selective investors as much as it also presents a risk**

Fixed income investors are navigating a Federal Reserve that has not only raised rates but has deliberately chosen to say less, even as it faces one of the most complex policy backdrops in years. Credit markets, meanwhile, continue to be shaped by resilient corporate fundamentals, tight valuations, and a rapidly evolving AI investment cycle. We believe understanding how these forces interact, and where they create genuine dispersion rather than simply tight spreads, is essential to finding the most attractive opportunities in US credit today.

Reduced communication puts the emphasis on the Fed's actions

The Fed's deliberate shift toward less communication means its track record will increasingly have to be proven through actions rather than words. Nonetheless, the annual Jackson Hole Economic Symposium in August offered welcome clarity: the Fed's dual mandate remains intact, with employment in a good position but still work to do on inflation. Additionally, the Fed funds rate was confirmed as the primary monetary policy tool. With energy prices, rising fiscal deficits, and AI-related capital spend all adding to inflationary pressure, we believe this argues for the Fed to act, which it did at the September FOMC meeting. Overall, we believe the Fed's choice to move rates moderately higher, and moderately sooner, makes sense.

FEATURING

Alex Mackey, CFA
Co-CIO of Fixed Income, Portfolio Manager

Benoit Anne
Senior Managing Director, Head of Market Insights

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Strong fundamentals continue to underpin US credit

Corporate earnings have been exceptionally strong this year. Earnings growth stands out even outside a typical post-recession rebound, and our integrated equity and credit research supports a constructive view on its durability. Current spread levels are supported by consistent cashflows and the confidence that we are not entering a credit cycle. Valuations remain elevated, with spreads tight and risk premia low not only in US credit but globally. We see this as a reflection of genuine fundamental strength rather than complacency, giving us conviction to build and maintain carry rather than reduce risk in anticipation of a correction.

AI financing is creating dispersion and with it opportunity

The capital required to fund AI infrastructure has outpaced the cash generation of even the largest hyperscalers, making debt capital markets an increasingly important funding channel. We have seen a marked acceleration in issuance alongside a diversification into structured financing for datacenters and, more recently, chips. These structures contain complex lease terms, guarantees, and varying levels of transparency, which makes deep, research-led underwriting essential, in our view. Although headline index spreads have been little changed this year, that stability masks meaningful dispersion beneath the surface, with technology and communications issuers underperforming. We expect this dispersion to persist as AI-related issuance grows. To us, this provides fertile ground for identifying winners and losers through rigorous, fundamentals-based selection.

Where we see risks and opportunities today

Our conviction remains centered on earning carry rather than reducing risk in the face of compressed premia, a stance we have held for most of the year despite occasional bouts of market volatility. We therefore favor investment-grade corporates and higher-quality high yield, where compensation for risk is more reasonable, while we stay selective around lower-quality, more AI-exposed segments. Separately, we still find securitized credit attractive: its structural features, paired with careful underwriting, can deliver spreads comparable to corporates alongside valuable structural protections. We believe that combining quality corporate carry with securitized credit offers a balanced way to participate in today's constructive backdrop without over-extending into areas that offer little valuation cushion.

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Conclusion

We remain constructive on the outlook for US credit, supported by resilient fundamentals and an income backdrop that rewards patient, carry-oriented positioning. Two developments, however, warrant close monitoring. The first is the condition of consumer balance sheets, which have steadily improved since the global financial crisis in 2008. A broadening deterioration here, tracked closely alongside our securitized credit and financials research, would be an early signal of a genuine credit cycle. The second is the durability of AI-related debt financing. A breakdown in individual projects, or in confidence that this build-out will convert to cashflow, could also mark the start of a more challenging environment. We see no evidence of either today. For investors, combining quality carry with the integrated research needed to navigate market dispersion can provide a robust approach to identifying tomorrow's winners while managing today's narrower margin for error.