LORD ABBETT®

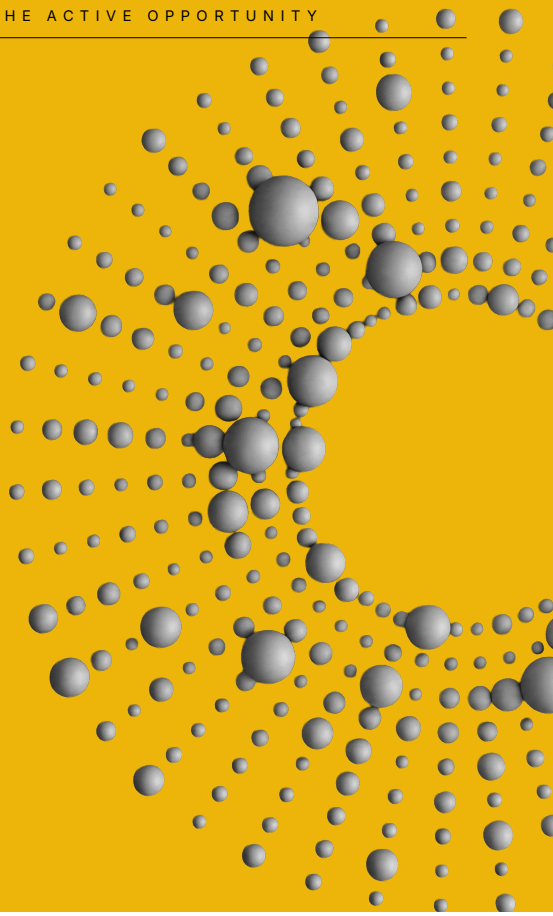
FIXED INCOME

2026 Midyear Investment Outlook

An Active Environment for Fixed Income

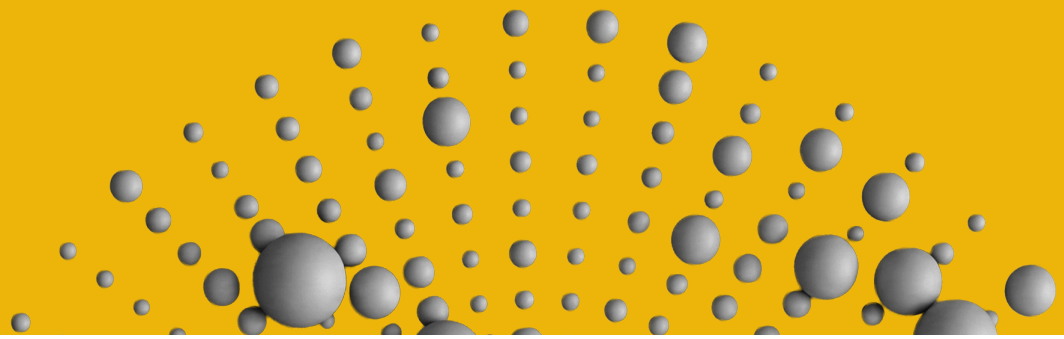
Steven Rocco, CFA®
Partner & Co-Head of Taxable Fixed Income

Robert Lee
Partner & Co-Head of Taxable Fixed Income



Key Takeaways

- A constructive backdrop for fixed income persists, supported by a resilient U.S. economy, despite geopolitical volatility.
- Dispersion continues to widen across fixed-income markets as higher rates, artificial intelligence (AI)-related disruption, and shifting sector leadership increase the importance of active security selection and issuer fundamentals.
- Elevated carry, AI-driven infrastructure investment, and relatively low default rates continue to support opportunities across investment-grade and leveraged credit markets.



Dispersion Emerges as the Defining Theme for the Second Half of 2026

Midway through 2026, the U.S. economy remains on solid ground. While markets have absorbed geopolitical shocks and ongoing uncertainty about the impact of AI and higher oil and gas prices feeding inflationary impulses, the underlying economic backdrop remains relatively steady.

U.S. nominal gross domestic product (GDP) growth remained strong at 6% year over year in the first quarter, despite quarter-to-quarter fluctuations tied to government shutdowns. Since the end of 2025, consumer spending has remained healthy, with retail sales increasing 4.9% year over year, while the unemployment rate declined to 4.3%.

Dispersion has become the defining market theme for the second half of 2026, increasing the importance of security selection, sector allocation, and issuer fundamentals.

Against this supportive macroeconomic backdrop, dispersion has become the defining market theme for the second half of 2026. Normalized interest rates, AI disruption fears, geopolitical and inflation uncertainty, and shifting sector leadership have widened the gap between companies that can adapt and potentially benefit from this new regime and more vulnerable issuers that may struggle to adjust to a more demanding operating environment. Higher financing costs are reinforcing this trend, driving greater differentiation across sectors and issuers, even as higher nominal growth continues to support carry and many cyclical areas of the market. As dispersion widens, markets have become more focused on distinguishing between issuers positioned to benefit from the current environment and those more vulnerable to higher financing costs, AI disruption, or weaker operating trends.

In turn, this dispersion elevates the role of active management, where rigorous fundamental research and careful security selection are critical to seeking issuers best positioned to navigate these shifts and potentially capture differentiated sources of portfolio alpha.

Selective Positioning for AI CapEx and Elevated Carry

AI-related investments are one of the clearest examples of this dispersion and remain a key theme across both investment grade and leveraged credit markets. In high quality portfolios, the focus is on sectors that can either potentially benefit from the capital spending tied to the AI buildout or are at lower risk of disruption. These include energy, utilities, gencos (power generation companies), industrials, data centers, aerospace, and money center banks. In leveraged credit, positioning is similarly tied to the AI-driven capital expenditure (CapEx) cycle, including copper, aluminum, power infrastructure, and select AI-related issuers that continue to grow within both the investment grade and high yield markets. We avoid seeking out areas more exposed to AI-driven disruption, including certain technology and software issues.

Elevated carry, shorter-duration opportunities, and widening dispersion continue to favor a selective approach across credit markets.

The broader capital spending cycle has helped support earnings growth and corporate fundamentals across many cyclical and capital-intensive sectors. In our view, that remains constructive for credit, but it also requires careful issuer selection as AI disruption, higher financing costs, and shifting sector leadership continue to create potential winners and losers. We also remain cautious on consumer-related cyclicals due to elevated price pressures.

In leveraged credit, carry remains attractive while spreads remain near historically tight levels, which limits the case for broad beta exposure. Defaults across high yield bonds and leveraged loans remain relatively low by historical standards, and we continue to closely monitor refinancing needs and the impact of higher rates across more leveraged issuers.

.

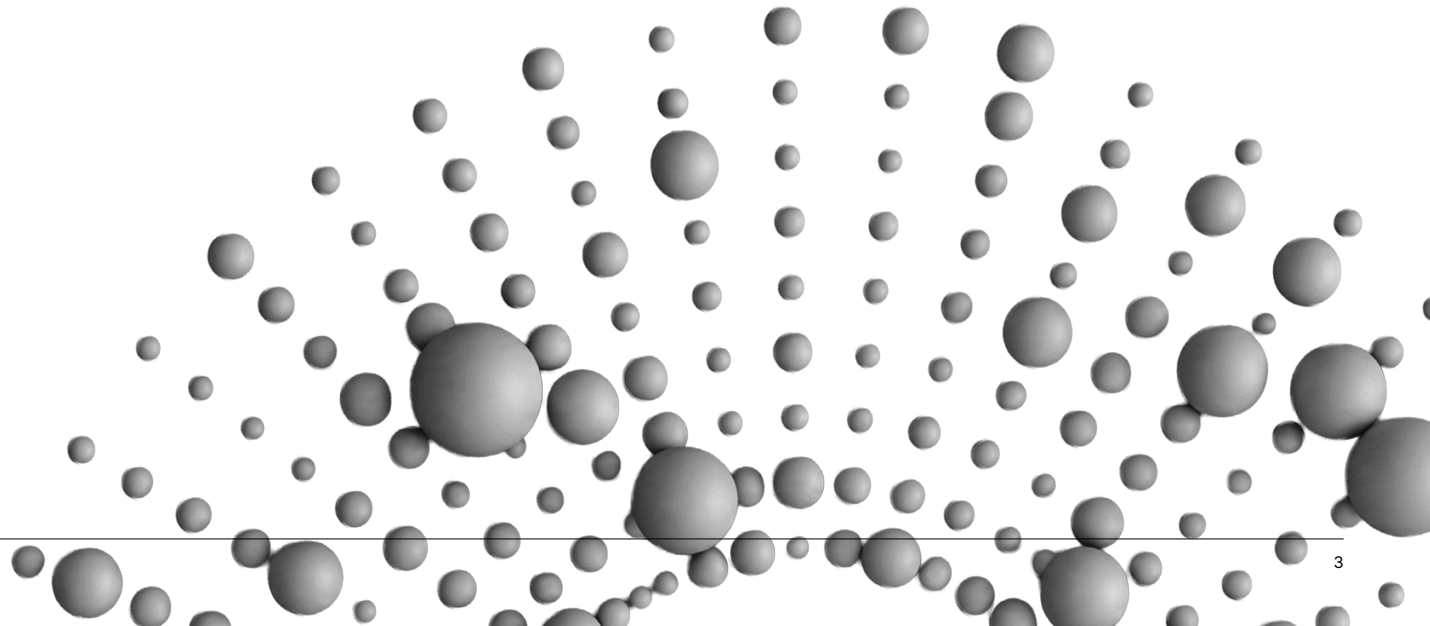
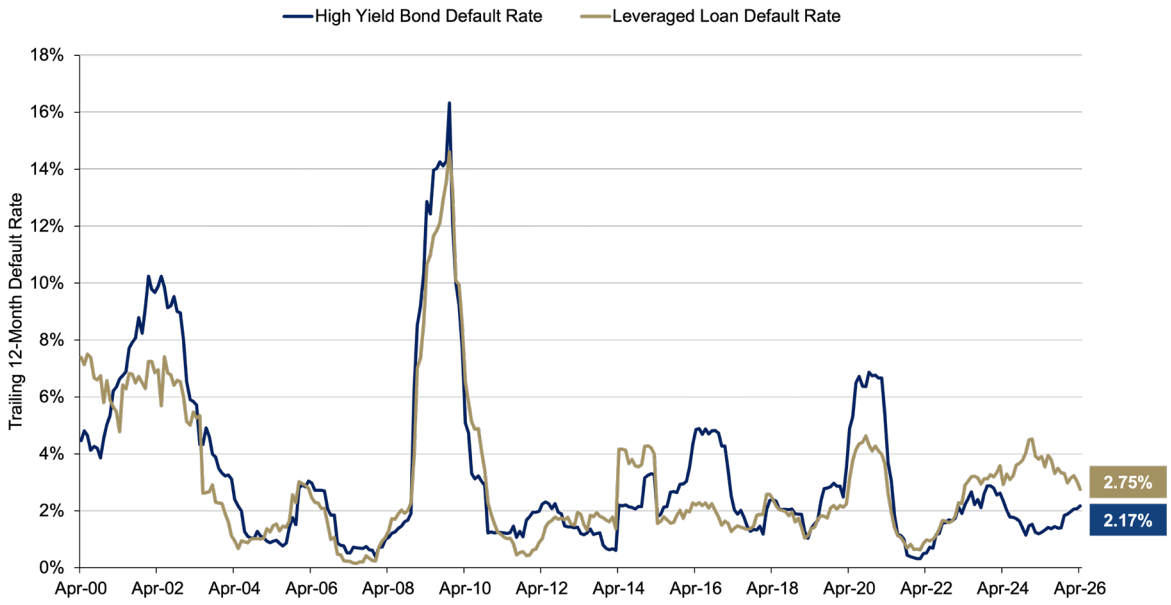


Figure 1.

Spreads Remain Tight While Defaults Close to Historical Lows

ICE BofA U.S. High Yield Index spreads by credit rating, (top panel), high yield bond and leveraged loan trailing-12-month default rate, April 30, 2000—April 30, 2026 (bottom panel)

Spreads (bps)	BB-Rated High Yield	B-Rated High Yield	CCC-Rated High Yield
10-year Average	259	417	872
Current (April 30, 2026)	174	311	934



Source: Bloomberg and J.P. Morgan. Data as of April 30, 2026. BB-rated high yield represented by the ICE BofA U.S. BB High Yield Constrained Index. B-rated high yield represented by the ICE BofA U.S. B High Yield Constrained Index. CCC-rated high yield represented by the ICE BofA U.S. CCC & Lower High Yield Constrained Index. OAS=option-adjusted spread, which is the spread that a bond or credit instrument offers over a risk-free benchmark curve (typically Treasuries), after adjusting for the value of any embedded options. Default rates include distressed exchanges. The high yield bond and leveraged loan market may not perform in a similar manner under similar conditions in the future. The historical data shown in the chart above are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. **Past performance is not a reliable indicator or guarantee of future results.**

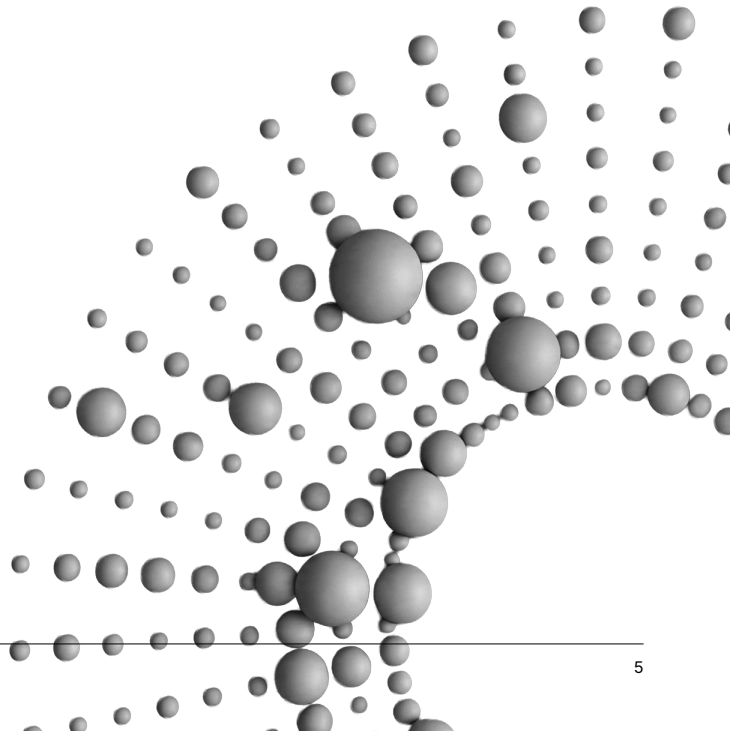
Duration management has also remained a primary focus. Positioning across multi-sector strategies has continued to emphasize shorter-duration, higher-carry opportunities, particularly on the front end of the yield curve where income levels remain attractive relative to spread risk, and short credit offers attractive relative value compared to longer-duration credit in core and short-duration strategies. This approach also reflects an emphasis on staying "closer" to home in terms of credit risk and duration, given the geopolitical tail risks of the Iran conflict. Areas including short-duration high yield, floating-rate credit, collateralized loan obligations (CLO), commercial real estate (CRE) CLOs, and select asset-backed securities (ABS) sectors continue to offer attractive carry opportunities in leveraged credit portfolios without requiring significant duration exposure, in our view. Within high-quality strategies, credit allocations have been focused on ABS, investment-grade and high yield corporate bonds, and non-agency residential mortgage-backed securities (RMBS).

Within high yield strategies, exposure to lower-quality CCC-rated credit has been reduced as tighter spreads leave less room for error in a higher-rate environment. Higher financing costs and refinancing risk remain more challenging for weaker issuers, reinforcing the importance of selectivity, as dispersion across leveraged credit markets continues to widen.

What We're Watching in the Second Half of 2026

Looking ahead, the key questions for fixed income markets center on inflation, interest rates, and whether financial conditions remain supportive. The economy has remained resilient, but higher energy prices, elevated geopolitical uncertainty, and the potential for higher financing costs could create additional volatility across both investment-grade and leveraged credit markets, particularly if the Iran conflict persists, as prolonged disruption could increase the likelihood and magnitude of tail risks.

At the same time, ongoing AI-related infrastructure spending, fiscal support, and solid corporate fundamentals continue to provide support. In our view, the combination of elevated carry, relatively stable growth, and widening dispersion continues to create a constructive backdrop for active fixed income management, disciplined security selection, and a focus on companies and sectors with resilient business models, healthy balance sheets, and the ability to navigate a higher-rate environment.



Glossary & Index Definitions

A basis point is one one-hundredth of a percentage point.

Artificial intelligence (AI) refers to computer systems designed to perform tasks that typically require human intelligence, such as learning from data, recognizing patterns, understanding language, making decisions, and solving problems.

Asset-backed security (ABS) is a type of financial instrument whose income payments and value are derived from and collateralized by a pool of underlying assets. These assets typically generate cash flows, such as auto loans, credit card receivables, leases, or other types of debt obligations.

Beta exposure refers to exposure to broad market movements rather than returns driven by individual security selection.

Capex (capital expenditures) refers to money a company spends to buy, build, maintain, or improve long-term assets, such as property, equipment, technology systems, factories, data centers, vehicles, or other infrastructure.

Carry is the expected return from holding a bond, assuming its price doesn't change, and is primarily driven by its coupon payments. It's calculated by comparing the income generated by the bond's coupon payments to the cost of financing the position.

Collateralized Loan Obligation (CLO) refers to a structured investment vehicle that pools a portfolio of corporate loans and issues securities to investors, dividing the risk and return into different layers (tranches).

Commercial Real Estate (CRE) CLO is a securitized pool of commercial real estate loans—typically backed by income-producing properties—packaged into multiple risk tiers and sold to investors.

Commercial Mortgage-Backed Security (CMBS) are a type of mortgage-backed security backed by commercial and multifamily mortgages or mortgages on commercial properties. The underlying loans that are securitized into CMBS include loans for properties such as apartment buildings and complexes, factories, hotels, office buildings, office parks, and shopping malls.

Conduit CMBS are commercial mortgage-backed securities backed by a pool of many commercial real estate loans from different borrowers and property types, such as office, retail, multifamily, industrial, hotel, or mixed-use properties.

Dispersion in finance means the degree of difference among returns, valuations, spreads, or credit quality across individual securities, sectors, managers, or asset classes.

Duration is a measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates.

The Federal Reserve (Fed) is the central bank of the United States. The federal funds (fed funds) rate is the target interest rate set by the Fed at which commercial banks borrow and lend their excess reserves to each other overnight.

A **floating-rate security** is a debt instrument whose interest payments adjust periodically based usually on a short-term benchmark rate, like U.S. Treasury bill rates.

Leveraged loan is a loan made to a company with higher levels of debt or lower credit quality, typically carrying a floating interest rate and often used to finance acquisitions, buyouts, or other capital needs.

Nominal Gross domestic product (GDP) is the total dollar value of all final goods and services produced within a country over a given period, measured at current market prices.

Mortgage-Backed Security (MBS) are debt obligations that represent claims to the cash flows from pools of mortgage loans, most commonly on residential property.

Multi-tranche debt refers to a financing structure where a single debt issuance or loan facility is divided into multiple tranches (segments), each with distinct characteristics, such as risk level, interest rate, maturity, or repayment priority.

A **securitized investment** refers to a financial instrument created through securitization, which is the process of pooling various illiquid financial assets, such as mortgages, auto loans, credit card receivables, or other debts and converting them into tradable securities.

Spread is the percentage difference in current yields of various classes of fixed-income securities versus Treasury bonds or another benchmark bond measure. A bond spread is often expressed as a difference in percentage points or basis points (which equal one-one hundredth of a percentage point). The option-adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option. Typically, an analyst uses the Treasury securities yield for the risk-free rate.

Yield is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value, or face value.

The ICE BofA US High Yield Index tracks the performance of U.S. dollar-denominated, below-investment-grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have a below-investment-grade rating (based on an average of Moody's, S&P, and Fitch), at least 18 months to final maturity at the time of issuance, and at least one-year remaining term to final maturity.

ICE BofA BB-Rated U.S. High Yield Index is an unmanaged index that tracks the performance of U.S. dollar-denominated, below-investment-grade corporate bonds publicly issued in the U.S. domestic market that are rated BB (based on an average of Moody's, S&P, and Fitch). It is a subset of the broader ICE BofA U.S. High Yield Index and includes only securities within the highest quality tier of the high yield market.

ICE BofA B-Rated U.S. High Yield Index is an unmanaged index that tracks the performance of U.S. dollar-denominated, below-investment-grade corporate bonds publicly issued in the U.S. domestic market that are rated B (based on an average of Moody's, S&P, and Fitch). It represents the mid-tier segment of the high yield market, carrying higher credit risk than BB-rated securities but lower risk than CCC-rated debt, and is also a subset of the broader ICE BofA U.S. High Yield Index.

ICE BofA CCC & Lower U.S. High Yield Index is an unmanaged index that tracks the performance of U.S. dollar-denominated, below-investment-grade corporate bonds publicly issued in the U.S. domestic market that are rated CCC or below (based on an average of Moody's, S&P, and Fitch). It represents the lowest-quality and highest-risk segment of the high yield market, and is likewise a subset of the broader ICE BofA U.S. High Yield Index.

ICE BofA Index Information:
Source: ICE Data Indices, LLC ("ICE"), used with permission. ICE PERMITS USE OF THE ICE BofA INDICES AND RELATED DATA ON AN "AS IS" BASIS, MAKES NO WARRANTIES REGARDING SAME, DOES NOT GUARANTEE THE SUITABILITY, QUALITY, ACCURACY, TIMELINESS, AND/OR COMPLETENESS OF THE ICE BofA INDICES OR ANY DATA INCLUDED IN, RELATED TO, OR DERIVED THEREFROM, ASSUMES NO LIABILITY IN CONNECTION WITH THE USE OF THE FOREGOING, AND DOES NOT SPONSOR, ENDORSE, OR RECOMMEND LORD ABBETT, OR ANY OF ITS PRODUCTS OR SERVICES.

Bloomberg Index Information
Source: Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). Bloomberg owns all proprietary rights in the Bloomberg Indices. Bloomberg does not approve or endorse this material or guarantee the accuracy or completeness of any information herein, or make any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, shall not have any liability or responsibility for injury or damages arising in connection therewith.

Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

Important Information

The information contained herein is provided by Lord, Abbett & Co. LLC ("Lord Abbett"). Lord Abbett is a registered investment adviser under the U.S. Investment Advisers Act of 1940 (the "Advisers Act"), as amended, and is subject to the Advisers Act rules and regulations adopted by the U.S. Securities and Exchange Commission ('SEC"). Registration with the SEC does not imply a particular ability or training. Lord Abbett is a global asset manager with headquarters in Jersey City, New Jersey.

Certain information provided in the material has been obtained from third party sources and such information has not been independently verified by Lord Abbett. No representation, warranty, or undertaking, expressed or implied, is given to the accuracy or completeness of such information by Lord Abbett or any other person. While such sources are believed to be reliable, Lord Abbett does not assume any responsibility for the accuracy or completeness of such information. Lord Abbett does not undertake any obligation to update the information contained herein as of any future date.

Certain information contained in the material constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events, results or actual performance may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained in the material may be relied upon as a guarantee, promise, assurance or a representation as to the future.

Market forecasts and projections are based on current market conditions and are subject to change without notice. Projections should not be considered a guarantee.

Past performance is not a reliable indicator or guarantee of future results. All investments involve risk, including the loss of capital.

The views and opinions expressed are those of the Lord Abbett author as of the date of the material, and do not necessarily represent the views of the firm as a whole. Any such views are subject to change at any time based upon market or other conditions and Lord Abbett disclaims any responsibility to update such views. References to specific asset classes and financial markets are for illustrative purposes only. This material is not intended to be relied upon as a forecast, research or investment advice. Neither Lord Abbett nor the Lord Abbett author can be responsible for any direct or incidental loss incurred by applying any of the information offered.

The information in this material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation in any jurisdiction. This material has not been reviewed or approved by any regulatory authority in any jurisdiction.

None of the information provided should be regarded as a suggestion to engage in or refrain from any investment-related course of action as neither Lord Abbett nor its affiliates are undertaking to provide impartial investment advice, act as an impartial adviser, or give advice in a fiduciary capacity.

Mentions of specific companies are for reference purposes only and are not meant to describe the investment merits of, or potential or actual portfolio changes related to, securities of those companies.

Unless otherwise noted, all discussions are based on U.S. markets and U.S. monetary and fiscal policies.

This material may not be reproduced in whole or in part or any form without the permission of Lord Abbett.

Data on U.S. nominal GDP growth, U.S retail sales, and U.S. unemployment rate sourced from the Bureau of Economic Analysis, the U.S. Census Bureau, and the U.S. Bureau of Labor Statistics, respectively, as of April 30, 2026. U.S. GDP data as of March 31, 2026.

The credit quality of fixed-income securities in a portfolio is assigned by a nationally recognized statistical rating organization (NRSRO), such as Standard & Poor's, Moody's, or Fitch, as an indication of an issuer's creditworthiness. Ratings range from 'AAA' (highest) to 'D' (lowest). Bonds rated 'BBB' or above are considered investment grade. Credit ratings 'BB' and below are lower-rated securities (junk bonds). High-yielding, non-investment-grade bonds (junk bonds) involve higher risks than investment-grade bonds. Adverse conditions may affect the issuer's ability to pay interest and principal on these securities. Please consult your investment professional for additional information concerning your specific situation.

Copyright © 2026 by Lord, Abbett & Co. LLC. All rights reserved.

Lord, Abbett & Co. LLC | 30 Hudson Street | Jersey City, NJ 07302-4804 | T 1.888.522.2388 | lordabbett.com

Copyright © 2025 by Lord, Abbett & Co. LLC/Lord Abbett Distributor LLC. All rights reserved.

NOT FDIC INSURED–NO BANK GUARANTEE–MAY LOSE VALUE

MIDYEAROUT-US_TFI
06/26