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Quarterly Money Market

CREDIT TRENDS BY SECTOR

April 2026

The credit environment for high-grade money market issuers continued to demonstrate notable resiliency and stability across sectors in the fourth quarter of 2025, with sound credit fundamentals supported by strong capital positions, disciplined expense management, and robust earnings. While geopolitical unrest (e.g., the situation in the Middle East) and macroeconomic uncertainty pose risks, institutions have shown adaptability through proactive risk management and strategic portfolio adjustments. This stability is underpinned by solid balance sheets and diversified revenue streams, which provide meaningful buffers against potential economic stress and market volatility.

Global banks reported solid-to-strong results, driven by stable or improving credit quality, robust fee income, and supportive net interest income trends. Some global banks reported moderate private credit losses, but we believe these were isolated events and not indicative of stress across the wider sector. Insurance companies also delivered strong earnings, benefiting from favorable underwriting and investment income, though health insurers faced ongoing sectoral pressures from higher medical costs. Corporate credit trends reflected mixed sector dynamics. Pharmaceutical and technology, media, and telecommunications (TMT) issuers provided solid performance, while sectors such as automotive, consumer, and energy experienced more challenging conditions with varying impacts from tariffs, restructuring costs, softer demand in some segments, and commodity price volatility.

As credit conditions remain fundamentally stable and sectors show encouraging signs of resilience, we believe that careful credit selection is paramount to preserve minimal credit risk. The evolving macroeconomic and geopolitical landscape requires ongoing vigilance and a disciplined approach to risk assessment, particularly in sectors exposed to regulatory shifts, market volatility, and geopolitical disruptions. Our credit research process continues to emphasize rigorous analysis and proactive monitoring to identify opportunities that balance yield with strong credit fundamentals, ensuring we remain well positioned to withstand potential resistance while potentially capturing growth where appropriate.

GLOBAL BANKS

Global banking sectors across North America, Europe, and the Asia-Pacific region demonstrated continued resilience in the most recent reporting period, supported by solid earnings, stable credit quality, and disciplined expense management. Profitability benefited from strong capital markets and trading income while net interest margins were largely stable to modestly better in most geographies, with Europe showing reduced margin pressure. Asset quality was largely benign despite isolated losses associated with private credit, which appear idiosyncratic in nature and not indicative of broad sector-related stress. In addition,

global banks common to money markets had limited exposure to the Middle East. Global banks continued to exhibit robust levels of capital and liquidity despite increased returns to shareholders as banks adopted a cautious yet constructive outlook for 2026 despite geopolitical tensions and macroeconomic uncertainty.

US Banks

Large US banks reported solid results in the fourth quarter, driven by broad strength in lending and fee businesses. Revenue growth was supported by healthy loan demand, lower rates, and firmer asset valuations, boosting transaction volumes, asset management fees, and underwriting activity. Non-interest income increased on strong equity trading and a rebound in mergers and acquisitions (M&A) and investment banking. Net interest income (NII) improved due to repricing of fixed-rate assets, a steeper yield curve, and lower deposit costs, enabling modest net interest margin (NIM) expansion despite lower short-term rates. Expense discipline delivered positive operating leverage amid ongoing technology and growth investments. Credit quality remained resilient with lower charge-offs and stable or improving delinquencies. Office commercial real estate (CRE) exposures showed progress through workouts and portfolio reductions. Consumer credit trends aligned with expectations, though proposed rate and interchange caps could constrain credit availability for lower-FICO borrowers. Capital levels stayed strong, with accelerated buybacks reflecting a shift toward active capital return. Banks appear to expect a supportive 2026 environment but remain cautious of macro headwinds.

Canadian Banks

Canadian banks posted solid quarterly results, supported by resilient performance and a cautiously optimistic outlook amid ongoing geopolitical and trade uncertainties. Revenue grew solidly year over year, driven by stable net interest margins, modest loan growth, and strong capital markets and wealth management results. Cost discipline and efficiency gains offset investments in technology and digital capabilities, delivering positive operating leverage. Credit quality remained solid with banks prudently setting aside incremental reserves for mortgage and commercial exposure to account for macro uncertainty. Mortgage growth was subdued, reflecting a slow housing market, but repayment trends supported gradual improvement prospects. Funding was stable with flat deposits and a shift toward lower-cost demand balances while liquidity and capital ratios remained comfortably above regulatory minimums. With a cautious yet constructive outlook, Canadian banks expect to remain well capitalized, with a more measured risk-taking approach to support the Canadian economy in 2026.

European Banks

European banks delivered strong fourth-quarter results, which concluded a solid fiscal year 2025. Key trends included increased revenue diversification toward fees and commissions, disciplined cost control, increased artificial intelligence (AI) and technology investments, normalizing credit costs, and ongoing capital returns. Performance varied by European regions. Nordic banks maintained strong double-digit return on equity (ROE), despite net income declining due to margin pressure and subdued lending. UK banks benefited from structural hedge income supporting net interest income. Spanish banks saw faster-than-expected lending rebounds. French mutual banks reported a rebound in profitability on higher revenues, despite a moderate increase in credit costs. Dutch banks profited from a robust housing market offsetting margin compression. For the larger European-bank segment, asset quality remained a notable strength, with nonperforming loan (NPL) ratios generally stable across regions, while credit costs rose slightly from historically low levels. Exposure to private credit was manageable with limited atypical losses and no tangible signs of sector-wide stress, while exposure to the Middle East was negligible. Overall, European banks maintained historically strong credit fundamentals with strong capital and liquidity metrics with banks looking to gradually return some of the surplus to shareholders.

Australian Banks

Australia’s largest banks showed persistence in a slower-growth environment. Earnings increased on solid lending growth, a supportive funding mix, and lower-than-expected credit costs reflecting sound credit quality and customer resilience amid moderated interest rates and low unemployment. Profitability was driven by housing and business lending momentum, though margin expansion was modest due to mortgage and deposit competition. Revenue growth benefited from markets and treasury performance amid persistent rate

and foreign exchange (FX) volatility. Higher expenses stemmed from technology investments, especially digital transformation and generative AI, and wage inflation. Capital positions remained strong and comfortably above regulatory requirements, despite ongoing capital returns.

Japanese Banks

Japanese banks posted solid earnings for their fiscal nine months ending December 2025, supported by higher NII from increased loan yields and strong corporate loan demand. NIM is expected to improve further with continued Bank of Japan rate hikes. While credit provisions for global corporates increased recently, asset quality remains sound with manageable non-performing loans. Risk appetite is rising as banks pursue international expansion. Capitalization and funding remain stable, positioning banks well to navigate geopolitical and macroeconomic uncertainties.

Singapore Banks

Singapore's leading banks reported steady fourth-quarter results, supported by growth in non-interest income driven by higher wealth management fees and commissions. NIM continued to compress as benchmark rates declined. NII was mixed, reflecting lower asset yields and deposit repricing, while loan growth remained disciplined. Asset quality stayed firm, with stable NPLs and strong reserves, including adequate coverage for commercial real estate exposures. Looking ahead, geopolitical tensions and macroeconomic volatility are key risks to earnings and asset quality. Balance sheets remain strong, with solid capital and liquidity positions underpinning sustained shareholder distributions.

INSURANCE

The insurance sector reported strong underwriting results and investment income, particularly in property and casualty and life insurance, supported by favorable pricing and diversified portfolios. Health insurers faced margin pressures from elevated medical costs and regulatory challenges, leading to cautious capital management amid membership declines. Overall, insurers maintain solid balance sheets and liquidity, positioning them to absorb economic stress despite sector-specific challenges.

Life Insurance

US life insurers reported solid fourth-quarter profitability, driven by strong sales, higher fees, and robust investment income supported by favorable equity markets and high reinvestment yields. Retirement and asset management businesses benefited from climbing account balances. Indexed annuities remained strong, and pension risk transfer activity increased. Growth was modest in life insurance sales, with strong annuity sales and increased pension risk transfer activity. While investment portfolios were well diversified, exposure to private credit, less-liquid assets, and commercial real estate loans remains a focus amid potential earnings pressure from volatile interest rates and equity markets. Insurers leveraged AI to improve efficiency and maintained disciplined shareholder returns with strong capital and liquidity.

Health Insurance

Health insurers faced weak earnings in the fourth quarter due to lower government reimbursement rates and elevated medical costs. Earnings recovery is expected to be gradual amid multi-year repricing challenges, competitive pressures, regulatory constraints, and high medical costs. Membership declines are anticipated across Medicare Advantage, Medicaid, and Marketplace segments due to policy uncertainty and funding cuts. The commercial segment remains relatively stable. Capital preservation may be a growing priority as earnings weakness and shareholder distributions strain leverage and capitalization.

Property and Casualty Insurance

Property and casualty insurers delivered strong fourth-quarter results, supported by minimal catastrophe losses, favorable underwriting, and steady reserve releases. Personal lines margins expanded on robust pricing and improved loss ratios in auto and homeowner insurance. Commercial lines remained profitable, though pricing momentum moderated amid rising competition. Net investment income rose on larger asset bases and supportive yields. Portfolios remain well diversified and high quality. Key risks include macroeconomic uncertainty, rising economic and social inflation, and severe weather. Balance sheets are sound with healthy reserves, capital buffers, and conservative leverage.

CORPORATES

The corporate sector showed mixed but generally steady credit health across major industries in the fourth quarter of 2025. Pharmaceuticals had strong demand and cash flow, though increased acquisitions raise integration and debt risks. Industrials performed unevenly, with growth in data centers, aerospace, and power generation but weakness in agriculture and housing. Energy earnings were pressured by lower commodity prices and margin squeezes but supported by production growth, cost discipline, and diversified operations. Consumer companies faced uneven profits due to tariffs and inflation, with cost cutting and portfolio changes expected to help more in the medium term. The automotive sector struggled with US tariffs, electric vehicle (EV) losses, and competition, leading to lower profits. However, some operational gains and tariff stability are expected in 2026. The TMT sector grew strongly from AI and cloud services, with better profits and higher capital spending, but export controls on advanced chips create uncertainty for hardware firms. Overall, credit stability in the corporate sector was supported by robust cash flow generation, financial discipline, overall sound balance sheets, and adaptability to evolving market conditions.

Pharmaceuticals

Large pharmaceutical companies reported solid fourth-quarter results, driven by strong demand in oncology, immunology, cardiovascular medicine, and diabetes, while managing revenue erosion from patent cliffs and biosimilar competition on legacy products. Agreements with the US administration to lower prices on select medicines and increase domestic manufacturing and research and development provided greater certainty over drug pricing and three-year tariff relief. Acquisition activity accelerated in the second half of 2025, as companies worked to bolster pipelines ahead of a large wave of patent expirations. The pace and scale of dealmaking heighten integration risk and potential balance sheet strain as leverage metrics come under pressure. The sector remains defensively positioned, with stable ratings and strong credit profiles supported by robust profitability and strong free cash flow generation. Sustained financial discipline and successful conversion of acquired assets into revenue will be essential as the industry navigates patent cliff headwinds amid an active dealmaking environment.

Industrials

Fourth-quarter results for the industrial sector were mixed. Companies serving data centers, aerospace and defense, and power generation end-markets reported strong revenue growth and record backlogs, with accelerating demand for power generation and electrical infrastructure tied to AI data centers. In contrast, agricultural equipment makers and residential construction companies continued to face weak end-market demand as farmers delayed purchases and housing softness persisted. Geographically, sales to China declined on weaker new equipment orders. Many diversified industrials are mitigating tariff impacts through pricing and supply-chain adjustments; however, tariffs remain a significant impediment for machinery manufacturers, weighing on margins and profit guidance. Geopolitical pressure and macroeconomic uncertainty persist, and a prolonged Middle East conflict could further elevate energy prices and disrupt supply chains. Despite these challenges, large industrial companies generally maintain healthy balance sheets with manageable leverage and strong financial flexibility.

Energy

The energy sector faced a challenging fourth quarter, with a downturn in earnings driven by softer crude realizations and compressed chemical margins. These hurdles were partially offset by continued production growth and structural cost reductions, which helped mitigate weaker commodity prices. Companies continued to generate robust cash flows and emphasized disciplined capital allocation to preserve resilient balance sheets. While overall shareholder distributions remained strong, several firms scaled back share repurchase programs in favor of accelerating debt reduction. The prolonged conflict in the Middle East is expected to sustain elevated and volatile oil prices, with some regional asset shutdowns temporarily affecting production. Disruption to production and transportation in the region is likely to be offset by higher crude and liquefied natural gas prices. The impact on oil majors should be manageable given their strong credit profiles and geographically diversified operations.

Consumer

The consumer sector delivered mixed but largely resilient fourth-quarter results. Consumer staples modestly exceeded or generally met earnings, despite slowing revenue growth and a shift to low single-digit pricing gains. Retail performance diverged, with value formats outperforming discretionary and home improvement amid housing headwinds. Luxury demand showed early stabilization, while alcoholic beverages, especially spirits, remained pressured. Tariffs weighed on margins in fiscal year 2025 and will continue to drag in fiscal year 2026, with mitigation varying by subsector. A key uncertainty is the Supreme Court's February 2026 ruling on tariff authority under the International Emergency Economic Powers Act (IEEPA). Profitability was uneven, with US-based producers and diversified retailers outperforming, while commodity-exposed firms lagged. Cost cutting and restructuring accelerated but will yield meaningful impact mainly in the second half of 2026 and beyond. We expect organic growth to remain challenged amid inflation and value-conscious consumers, supported by strong balance sheets and productivity initiatives.

Automotive

The global automobile original equipment manufacturers (OEM) sector faced a difficult year in 2025, culminating in a challenging fourth quarter. While most companies saw broadly stable to modestly higher top-line revenues, profitability compressed meaningfully versus fiscal year 2024. The dominant obstacles were the US tariffs that took effect in April 2025, persistent EV-related losses and write-downs, and intensifying competitive pressure in China. Several OEMs recorded multibillion-dollar noncash charges linked to EV strategy pivots, restructuring, and impairments, further weighing on reported earnings. Even so, the year ended on a more constructive note. The impact of tariffs, while significant, proved far less severe than initially feared, largely because the Trump administration ultimately adopted a softer stance toward OEMs than first signaled. Operationally, many companies showed sequential improvement in the fourth quarter versus earlier periods in 2025. North American volumes were resilient, demand for hybrids surged, and cost-discipline programs began delivering tangible savings. Automakers were able to absorb some of the tariff pressures in 2025 and should capture incremental offsets in 2026 as the industry normalizes. Most management teams guided to an earnings recovery in 2026, underpinned by tariff stabilization, richer product mix, and ongoing cost reductions.

Technology, Media & Telecom

The TMT sector delivered largely strong fourth-quarter results, led by AI and cloud infrastructure growth, while mature segments such as on-premise software, legacy hardware, and wireline provided stable but slower growth. Cloud growth rates re-accelerated sequentially, confirming strong demand and rapid monetization of incremental capacity. Profitability improved, with cloud operating margins materially exceeding consensus, evidencing margin-accretive returns from AI infrastructure investments. Capital allocation increasingly favored infrastructure, with hyperscaler capex guidance for 2026 revised upward; the largest cloud provider expects annual capex to modestly exceed operating cash flow, supported by large, contracted revenue backlogs. Enterprise software fundamentals remained solid, despite equity selloffs driven by AI business model disruption fears, and credit metrics remain intact, with medium-term transition risks. Tariff exposure was manageable, though export controls on advanced AI semiconductors introduced planning uncertainty for hardware-exposed firms. Telecom trends were steady, with convergence-led revenue growth, stable-to-improving EBITDA margins, and disciplined capital allocation focused on fiber and spectrum deployment. All major US carriers met or exceeded subscriber and financial expectations.

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