

Quarterly Money Market

CREDIT TRENDS BY SECTOR

January 2026

Stability and resiliency underpinned global credit conditions in the most recent quarter as high-grade financial, insurance and corporate issuers produced solid earnings while maintaining strong balance sheets. This performance was achieved despite heightened geopolitical tensions, evolving trade policies and ongoing policy rate adjustments by most major central banks toward a more neutral setting. While these headwinds present downside risk, they have yet to deter macroeconomic conditions as global economic growth continued to be steady, albeit less robust, while consumers remained healthy with solid private-sector balance sheets.

Global banks continued to demonstrate resilience supported by diversified revenue streams with rising fee and commission income offsetting margin pressures, stable asset quality aided by lower policy rates, robust capital buffers, and ample liquidity. Insurance sectors maintained stable credit profiles, benefiting from steady underwriting results and investment income, though they face challenges from lower interest rates and evolving regulatory requirements. Corporate quality remained stable amid macroeconomic uncertainties with mixed trends across sectors. The pharmaceuticals and technology, media and telecom (TMT) sectors benefited from innovation-driven growth and resilient demand. Industrial and energy sectors faced moderate headwinds from supply chain disruptions and transition risks, respectively. Consumer and automotive sectors were pressured by inflationary costs and shifting consumer behavior.

Overall, the global credit environment has been characterized by stability as high-grade issuers begin the year with strong capital and liquidity positions, supportive monetary policy conditions and prospects for moderate economic expansion. Given the geopolitical tensions, regulatory shifts, and sector-specific challenges, careful credit selection and active surveillance will likely remain paramount to our process to ensure continued resilience commensurate with minimal credit risk.

GLOBAL BANKS

Major global banks across North America, Europe, and the Asia-Pacific region shared several common credit trends. Profitability was steady, with net interest margin compression largely offset by higher fees and commissions. Asset quality was broadly stable, supported by lower policy rates that eased debt servicing, despite localized stress in commercial real estate and exposures to nonbank financial institutions. Capital buffers remained strong, with many institutions nearing or having reached peak capital ratios, though U.S. banks are expected to see modest declines due to regulatory easing. Liquidity positions were robust. Global banks continued to invest in technology and digital transformation amid rising competition from private credit and fintech. Geopolitical risks and evolving regulatory frameworks remain key considerations.

U.S. Banks

Large U.S. banks demonstrated resilience and scale in the quarter, driven by a strong rebound in capital markets activity, with record trading income and robust investment banking results. Trading growth was broad-based across fixed income, commodities and currency, and equities, supported by shifting federal funds rate expectations and macroeconomic uncertainty that spurred client hedging and repositioning. Wealth and asset management also contributed significantly through higher assets under management and fee income, aided by strong equity markets and net inflows. Net interest income (NII) grew modestly due to loan growth, lower deposit funding costs, and repricing of maturing fixed-rate assets. Asset quality remained strong with low nonperforming loan ratios and modest net charge-offs despite isolated stress in certain segments, including idiosyncratic losses to select non-bank financials. Provision expenses declined, benefiting from stabilization in commercial real estate, including reduced balances, stabilizing office values, and resolution of problem loans. Balance sheets remained robust, with prudent liquidity and capital buffers well above regulatory requirements. U.S. banks appear well positioned for evolving prudential regulations, with further clarity expected in 2026.

Canadian Banks

Large Canadian banks reported strong quarterly results with double-digit revenue growth, driven by solid volume growth, modest margin expansion, and robust capital markets and wealth management income. Elevated trading activity and increased underwriting and advisory fees boosted capital markets, while wealth and asset management benefited from rising equity markets and net inflows. Personal and commercial banking saw solid loan and deposit growth alongside margin improvement. Recent Bank of Canada rate cuts supported higher mortgage volumes and related fees, although commercial lending remained soft. Revenue growth generally outpaced expenses despite increased technology investments, integration costs, and higher market-driven compensation. Credit performance improved with lower credit costs and impaired loans, though provisions were moderately increased due to macroeconomic headwinds linked to geopolitical risks. Capital levels remained very strong, with sizeable buffers maintained above regulatory requirements, reflecting prudent positioning in the current economic environment.

European Banks

European banks showed solid quarterly performance, continuing trends from the first half of 2025. Despite policy rate cuts by the European Central Bank, Bank of England, and Nordic central banks that pressured margins, revenue remained resilient with mixed NII offset by growth in fee-based income, particularly in investment banking, wealth management, and trading. UK banks led NII growth due to structural hedges, followed by Dutch banks, benefiting from a housing market rebound. Nordic banks saw a yearly NII decline but showed signs of sequential stabilization. French banks demonstrated resilient profitability and asset quality despite fiscal challenges related to budget delays that have exerted pressure on France's still solid sovereign credit ratings. Overall European bank profitability was strong, with some banks forecasting improved results, driven by loan volume growth, rising fee income, disciplined cost control, and a benign credit environment. Asset quality remained robust, with stable non-performing loan ratios and low, normalizing credit costs. Provision releases aided some banks due to improved economic outlooks and reduced U.S. trade policy uncertainty. Capital levels stayed strong, with average common equity Tier-1 (CET1)¹ ratios well above regulatory minimums, supporting continued capital buffers despite increased share buybacks and dividends.

Australian Banks

Australian banks reported mixed but generally favorable quarterly earnings, with modest revenue growth driven by improved NII supported by healthy loan growth and margin expansion despite Reserve Bank of Australia rate cuts and competitive lending and deposit pressures. Noninterest income remained flat, with higher credit card fees and increased wealth trading activity offset by lower business lending fees. Expenses increased due to inflation, headcount increases, regulatory compliance, and remediation costs, alongside continued investments in artificial intelligence (AI) and automation for future efficiency. Asset quality stayed healthy, with a manageable increase in nonperforming loans linked to construction and agriculture sectors. Provisions increased moderately in line with loan growth rather than sector-specific risks. Mortgage arrears remained low, supported by low unemployment, resilient housing prices, and strong borrower savings.

Liquidity and capital ratios remained robust, well above regulatory minimums, reflecting strong balance sheet and liquidity positions.

Japanese Banks

Japanese banks posted strong first half 2025 results, driven by rising domestic interest rates and favorable equity markets. The Bank of Japan's exit from negative rates and subsequent hikes boosted net interest margins. Revenue growth was supported by higher NII, increased fee income, and gains from strategic equity sales. Banks raised full-year earnings guidance, expanded share buybacks, and maintained robust dividends, reflecting confidence in profitability and capital strength. Asset quality remained very strong, with some reserve releases and low non-performing loans. However, increased risk-taking was noted through international expansion. Capital and liquidity positions stayed solid and well above regulatory requirements.

Singapore Banks

Singapore's major banks posted resilient quarterly results, driven by strong fee income, particularly from wealth management. A Monetary Authority of Singapore exchange rate adjustment used to control policy rates, led to moderate net interest margin compression and a slight decline in NII. Asset quality remained solid with stable non-performing loan ratios and manageable commercial real estate exposure. Banks proactively increased credit provisions to mitigate potential asset quality risks amid macroeconomic uncertainty. Capital and liquidity positions stayed robust, providing substantial buffers to support ongoing shareholder returns.

INSURANCE

The insurance sector delivered strong third-quarter results. Life as well as property and casualty insurers benefited from solid underwriting performance and robust investment income, while health insurers continued to face profitability pressure from rising medical costs. Insurance companies maintained solid balance sheet fundamentals with strong capital, adequate liquidity and moderate leverage reflected in high credit ratings.

Life Insurance

Life insurers reported strong operating results, driven by robust equity markets and increased investment income despite lower interest rates. Growth was supported by higher investment returns, sales expansion, favorable underwriting, and disciplined expense control. Investment income benefited from solid alternative asset performance and fixed income returns. Account balances and assets under management increased, boosting fee income. Retail annuity sales reached record levels amid strong demand. Actuarial assumption updates were neutral, indicating reserve stability. Investment portfolios maintained high asset quality with manageable exposure to high-yield and commercial mortgage loans. Insurers are increasing allocations to private credit and less-liquid assets to enhance yield, raising investment risk. Strong capital, liquidity, and sound asset-liability management favorably position life insurers to navigate economic uncertainty and market volatility.

Health Insurance

Health insurers faced continued profitability pressure due to rising medical costs, driven by elevated service utilization, higher drug spending, and increased unit costs. Lower government reimbursements increased medical loss ratios in Medicare Advantage and Medicaid plans. To improve margins, insurers are raising prices and redesigning health benefit plans. Marketplace plan premiums are increasing as enhanced subsidies expire, likely reducing membership and concentrating risk in a smaller, higher-acuity pool. Despite earnings pressure, insurers are prioritizing deleveraging, though leverage metrics have increased above long-term targets.

Property and Casualty Insurance

Property and casualty insurers posted solid third-quarter results, supported by a notably quiet catastrophe season, disciplined underwriting, and favorable reserve development. Personal lines profitability continued to improve as rate increases took hold, particularly in auto and homeowners. Commercial lines delivered strong underwriting performance, though pricing trends are moderating. Net investment income increased following asset growth and supportive interest rates despite recent central bank rate cuts. Balance sheets remained robust with adequate reserves, ample capital and modest leverage.

CORPORATES

Corporate credit trends reflect sector-specific dynamics amid a stable but cautious economic backdrop. Pharmaceuticals benefited from sustained innovation and demand resilience, supporting credit strength. Industrials face moderate pressure from supply chain challenges and cost inflation but maintain stable credit profiles. The energy sector navigates transition risks and commodity price volatility, with credit quality varying by sub-sector. Consumer and automotive sectors experience mixed recovery signals, influenced by inflationary pressures and changing consumer preferences, though improving labor markets provide some support. TMT sectors continue to grow, driven by digital adoption and innovation, underpinning solid credit fundamentals. Overall, corporate credit remains stable but requires monitoring of macroeconomic and sector-specific risks.

Pharmaceuticals

Large pharmaceutical companies reported strong third-quarter results, driven by solid revenue growth and disciplined cost management, leading many to raise full-year revenue guidance amid positive demand trends. Growth was primarily fueled by innovative therapies in oncology, immunology, obesity, and diabetes, while legacy products faced generic competition and softer vaccine sales. The sector remained active in acquisitions to bolster pipelines. Regulatory pressures on drug pricing and tariffs eased following agreements to lower prices on select medicines and commitments to expand U.S. manufacturing capacity. Overall, the sector maintains a defensive stance with stable ratings and strong credit profiles supported by robust profitability, solid cash flows, and moderate leverage.

Industrials

Industrials delivered mixed third-quarter results. Strong revenue growth and record backlogs were seen in aerospace, defense, data centers, power generation, and energy-related markets, driven by sustained government spending, AI infrastructure expansion, and grid modernization. Conversely, agricultural equipment and residential construction sectors faced revenue declines due to dealer inventory corrections, weak farmer sentiment amid compressed commodity margins, and deteriorating housing fundamentals, which pressured volumes and pricing. Aerospace and defense manufacturers expanded operating margins through favorable product mix and operational leverage, while agricultural machinery producers experienced margin compression from lower volumes, poor price realization, higher manufacturing costs, and persistent tariff impacts on steel, aluminum, and other inputs. Despite ongoing tariff-related cost pressures, many companies showed resilience via pricing strategies, operational efficiencies, and supply chain adjustments.

Energy

Major integrated energy companies reported lower year-over-year earnings in the third quarter, reflecting softer commodity prices. Nevertheless, companies demonstrated resilience by offsetting much of the commodity price headwinds with record production volumes, cost savings and strong refining margins. Sector acquisition activity was driven by a limited number of large strategic transactions alongside smaller and targeted asset additions by peers. The sector continued to generate solid cash flows that supported robust shareholder returns and allowed companies to maintain strong balance sheets and financial stability through commodity price cycles.

Consumer

The consumer sector's third-quarter results reflected ongoing normalization following pandemic-related price increases. Revenue grew modestly, driven by slower price hikes and stabilized volumes and product mix, especially in staples. U.S. consumer demand remained steady but shifted toward value-oriented purchasing, benefiting discount retailers. Profitability was generally supported by productivity improvements, strict cost controls, and lower input costs, allowing many companies to maintain or slightly improve margins despite weaker revenue. Tariff-related input cost increases had limited immediate impact due to mitigation efforts, with food and beverage companies less affected due to domestic sourcing. Capital allocation was cautious, focusing on dividends, share buybacks, and investments in logistics and automation to enhance supply chain resilience. Mergers and acquisitions activity was limited, emphasizing divestitures and portfolio optimization to drive productivity and margin growth. Overall, the quarter showed a softening but stable U.S. demand, with performance disparities linked to operational efficiency, private-label competition exposure, and tariff management.

Automotive

The automotive sector experienced mixed results in the third quarter given regional disparities. Resilient U.S. demand contrasted with weak European markets, partly due to ongoing intense competition in China. Profitability weakened across the sector, particularly in Europe, where volume and pricing pressures were exacerbated by the impact of tariffs. Meanwhile, automakers in the U.S. and Asia managed cost challenges with varying success. Certain automakers pared back investments in electric vehicles, leading to impairment charges while positively preserving cash. Supply chain diversification efforts are underway to reduce reliance on critical materials from China and address rare earth shortages. Although tariff-related pressures persist, easing trade tensions and ongoing mitigation initiatives are expected to yield significant benefits by 2026. Overall, the sector is navigating near-term profitability challenges effectively, with the most severe tariff impacts anticipated to diminish going forward.

Technology, Media & Telecom

The TMT sector largely met or exceeded expectations, driven by strong demand for AI and cloud infrastructure. Hyperscalers led revenue growth with low- to mid-teen percentage increases, as AI cloud infrastructure demand outpaced supply. AI integration is expected to deepen in 2026, though software companies have yet to see significant AI-driven acceleration. Segments with limited AI exposure experienced slower growth, while telecom revenues remained steady but subdued. Profitability remained robust, with major firms maintaining or expanding margins despite elevated AI and cloud investments, supported by efficiency measures and restructuring, including workforce reductions. Tariff and supply chain challenges persisted but were less impactful this quarter, with companies adapting through diversification and supply agreements. Hardware and semiconductor firms face ongoing uncertainty due to evolving trade restrictions. Overall, the sector benefits from solid fundamentals and strong investment in next-generation technologies.

Disclosure

¹ Tier-1 (CET1) ratio - Tier 1 (Common Equity Tier 1) is a key regulatory metric under the Basel III framework that measures a bank's core equity capital against its risk-weighted assets.

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