

Quarterly Money Market

CREDIT TRENDS BY SECTOR

October 2026

In the second quarter of 2026, the credit environment for high-grade money market issuers remained resilient and stable across sectors. Credit fundamentals improved even as some pressure points emerged. For U.S. high-grade issuers, second quarter revenue and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) growth were exceptionally strong year over year. This allowed gross leverage to edge down and interest coverage to remain stable, despite continued debt growth and higher interest expenses. Amid heightened geopolitical risks, inflationary pressures, commodity price volatility, and a higher policy rate environment, high-grade issuers employed conservative financial policies. Disciplined shareholder payouts and expense management supported strong balance sheets and ample liquidity.

Sector performance was broadly resilient but increasingly differentiated. Across global banks, insurance, and corporates, credit fundamentals remained sound, though results varied by region and end market. Global banks continued to benefit from strong capital, liquidity, diversified earnings, and sound asset quality, with U.S. banks showing the strongest momentum. Insurers remained well capitalized overall, supported by investment income and underwriting discipline, while health insurers faced more pressure from elevated medical costs and government program challenges. On the corporate side, pharmaceuticals and technology, media and telecommunications (TMT) benefited from innovation, artificial intelligence (AI), cloud, and new product cycles, while industrials, consumer, energy, and automotive issuers were more exposed to tariffs, commodity volatility, geopolitical risk, end-market demand, and elevated investment needs.

While the large technology and hyperscaler segment remained structurally less levered than the broader high-grade market, significant debt growth tied to AI investment was narrowing the fundamental advantage.

Given the more uneven macro and geopolitical backdrop, careful credit selection remained essential to preserving minimal credit risk. The evolving policy environment required continued vigilance and disciplined risk assessment, with an emphasis on issuers that have durable liquidity, conservative balance sheets, and resilient cash flow. Rigorous fundamental analysis, forward-looking surveillance, and proactive monitoring remained central to balancing yield opportunities with principal preservation and liquidity objectives.

GLOBAL BANKS

Bank credit fundamentals remained firmly supportive across regions. Earnings were resilient, supported by stable to improving net interest income and a strong rebound in fee-based businesses, particularly capital markets and wealth management, as banks shifted from peak rate-driven earnings toward more diversified revenue. Capital ratios remained comfortably above regulatory requirements, while large, stable deposit

franchises and ample liquidity buffers continued to provide funding strength. Asset quality is normalizing from strong levels rather than deteriorating, with contained credit costs and substantial reserve coverage. Key watchpoints include commercial real estate, pressure on households from higher-for-longer rates, and the second-order effects of trade disruption on growth and employment.

U.S. Banks

Results for the large U.S. banks supported the sector view of continued earnings strength and resilient balance sheets. Profitability benefited from healthy net interest income growth, driven by lower deposit costs, asset repricing and stronger commercial loan growth, and a significant rebound in fee-based businesses. Capital markets activity was a major tailwind, with trading, investment banking, and wealth management revenues particularly strong at money center and capital markets-focused banks.

Revenue growth generally outpaced expense growth, producing positive operating leverage despite continued investment in technology, AI, controls, and front-office capabilities. Asset quality remained broadly sound, as consumer credit continued to normalize and pressures showed signs of stabilizing rather than worsening. Credit card delinquency and loss trends were stable to improving at several banks, while wholesale credit remained benign despite faster commercial and corporate loan growth. Pockets of risk persist in commercial real estate and select idiosyncratic corporate exposures, but provisions and reserve builds remained manageable, with little evidence of broad-based credit stress.

Management commentary was generally constructive on consumer and business activity, while acknowledging uncertainty around inflation, geopolitical developments, energy prices, and the pace of Federal Reserve (Fed) policy adjustment. Funding and liquidity remained key strengths: deposits were stable to growing, deposit pricing pressure continued to ease, and large liquidity buffers provided ample capacity to support loan growth and market activity. Capital remained robust, with common equity tier-1 (CET1) ratios comfortably above regulatory minimums despite sizeable dividends and share repurchases. Regulatory visibility improved as the Fed maintained existing stress capital buffer requirements until 2027 and refined its stress-testing framework. Its 2026 stress test showed the banks remained well capitalized under the severely adverse scenario.

Canadian Banks

Canadian banks delivered strong results, with broad-based earnings growth supported by higher net interest income, resilient margins, solid loan growth and particularly strong Capital Markets and Wealth Management activity. Revenue growth generally outpaced expense growth, supporting positive operating leverage and improving returns. Capital Markets were a notable sector-wide tailwind, as stronger trading, underwriting, and advisory activity helped offset a still-mixed domestic economic backdrop.

Asset quality continued to normalize but remained manageable. Consumer losses and impaired balances remained above earlier-cycle lows, with some pressure in Canadian retail portfolios and selected wholesale sectors, but there was no evidence of broad-based deterioration. Provisions for credit losses stabilized at several banks, reserve coverage remained substantial, and U.S. commercial real estate trends improved for most institutions. The main downside risk could stem from a weaker labor market or renewed trade-related weakness translating into higher consumer and commercial losses.

The macro environment remained mixed, with Canadian economic activity proving resilient despite softer employment, elevated household leverage, and ongoing Canada-U.S. tariff uncertainty. The key concern is the second-order impact of trade disruption on business investment, employment, and credit quality rather than direct sector exposure, while higher energy prices and renewed inflation pressure could keep rates elevated for longer. Offsetting these risks are resilient domestic activity, improving deposit margins, strong capital markets revenues and some borrower relief from prior policy-rate easing. Banks generally maintained 2026 guidance and appear well prepared for downside scenarios, supported by stress testing and reserve buffers. Funding and liquidity remain clear strengths, supported by large, diversified deposit franchises and regulatory liquidity ratios comfortably above minimums. Capital remained robust with Common Equity Tier 1 (CET1) ratios comfortably above the Office of the Superintendent of Financial Institution's slightly reduced domestic stability buffer and CET1 requirements, providing additional capital flexibility.

European Banks

European banks delivered another solid set of second-quarter results, with sector trends remaining credit-supportive. Profitability stayed strong, underpinned by resilient net interest income, higher fee and trading revenues, and generally controlled cost growth. Although the benefit from higher rates is no longer growing at the same pace, earnings remain healthy, and continue to provide a strong buffer.

Asset quality was stable, with credit costs low to normalized and non-performing loan trends largely benign. Management teams flagged selected pressure points in commercial real estate, medium-sized enterprise (SME) books and weaker consumer segments, but there was little evidence of broader deterioration. Provisioning trends remain consistent with a stable credit environment rather than a turn in the cycle.

Balance sheet trends were modestly constructive. Loan growth remained subdued but improved in corporate lending, while retail demand stayed softer in several markets. Deposit franchises remained resilient and funding profiles stable, although migration into higher-yielding products continued to weigh on margins. Capitalization remained a clear strength with CET1 ratios comfortably above requirements, stable leverage ratios and minimum requirement for own funds and eligible liabilities (MREL) positions managed with sufficient buffers. Liquidity metrics such as liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) stayed strong, with no meaningful signs of funding stress or wholesale market disruption.

The primary sector theme for European banks centered around the transition from peak rate-driven earnings to a more balanced model supported by fee income, capital markets activity, selective loan growth, and cost discipline. Management commentary was generally constructive for fiscal year 2026 with several guidance upgrades tempered by macro uncertainty, weaker European growth, and geopolitical risks. The second-quarter results reinforced the view that European banks remain fundamentally sound, with strong capital, ample liquidity and stable asset quality, even as the earnings backdrop becomes incrementally less favorable. Key watchpoints into the second half of 2026 will be margin resilience, delayed asset quality weakening, and the pace of loan growth recovery.

Australian Banks

Results across the largest Australian banks remained credit-supportive, with resilient earnings, solid loan and deposit growth and strong capital and liquidity. Profitability benefited from solid business lending, higher deposit hedging gains and generally stable underlying margins, although competitive asset pricing and elevated investment and technology costs remained constraints.

Asset quality softened modestly from very strong levels but stayed sound. Consumer arrears and selected watchlist exposures increased as higher interest rates pressured household cash flows, though credit losses remained low and all four major Australian banks stayed provisioning buffers well above modeled losses. Funding and liquidity remained key strengths, supported by large customer-deposit franchises, LCRs and NSFRs comfortably above regulatory minimums and good wholesale market access. Deposit growth was strong and ahead of lending growth. Capital ratios remained well above regulatory requirements despite continued balance sheet growth and capital deployment.

The operating backdrop became more challenging, with higher rates weighing on housing demand and household debt-servicing capacity, while business credit demand continued to be comparatively resilient. The banks enter fiscal year 2027 from a position of strength. Strong deposit franchises, conservative provisioning, and robust capital generation provide meaningful offsets to higher-for-longer rates, softer housing demand, and ongoing lending competition.

Japanese Banks

Major Japanese banks began the fiscal year ending March 2027 on a strong footing, with first-quarter net profit rising significantly year over year, supporting expectations for another solid full-year performance. Net interest income continued to expand as Bank of Japan rate normalization widened domestic lending spreads, while corporate loan demand held firm, including in data center development, and energy transition investment.

Fee income improved on solid client activity across advisory, capital markets, transaction banking, and wealth management. Sizable year-over-year gains on share sales further supported profitability, while a strong domestic equity market aided securities trading and wealth management results. Asset quality remained sound, with contained credit costs, low non-performing loan ratios and adequate reserve coverage. Balance sheets were backed by strong deposit funding and ample liquidity, although capital management stayed in focus amid loan growth, regulatory requirements and ongoing shareholder distributions.

Major Japanese banks continued to reduce cross-shareholdings, rebalance securities books, and invest in strategic and technology priorities. Sector credit fundamentals remain favorable, supported by stronger core profitability, disciplined risk management, and a more constructive domestic rate backdrop.

Singaporean Banks

Singapore's leading banks delivered solid second-quarter results, as stronger fee income offset lower net interest income. Wealth management led the way with stronger client activity driving higher net new money inflows and record wealth fees. Trading and investment income benefited from strong customer flows, while insurance and loan-related fees also contributed. Stronger loan growth, led by corporate lending, drove a sequential increase in net interest income, partly offsetting continued pressure on net interest margins.

With benchmark rates showing signs of bottoming, management expects margins to stabilize in the second half of the year. Asset quality stayed sound, with low problem loan ratios. Greater China commercial real estate exposures warrant monitoring. Capital ratios moderated from prior highs on shareholder distributions and balance sheet growth but remain strong alongside robust liquidity.

Macroeconomic uncertainty, weak external demand, and market volatility remain key risks, but solid balance sheets, conservative underwriting, and diversified earnings should help preserve sector resilience.

INSURANCE

The insurance sector delivered solid second-quarter results. The sector remains well capitalized, with strong investment income, generally favorable underwriting and conservative reserving supporting stable credit profiles. Higher reinvestment yields continue to lift portfolio earnings, and solid balance sheets provide a meaningful buffer against market volatility. Performance varied across subsectors. The property and casualty pricing cycle appeared to have peaked. Health insurer recovery relied more on corrective pricing than on easing medical cost trends. Growing allocations to private credit and other less-liquid assets need a closer look.

Life Insurance

Life insurers delivered solid-second quarter earnings, supported by favorable equity markets, elevated interest rates, and continued benign mortality trends. Strength was broad-based across group life, individual life, and asset management. Fee-based earnings benefited from stronger equity markets and higher assets under management. Net investment income continued to improve as higher new-money yields and reinvestment rates supported portfolio earnings, though weaker private equity returns made alternative investment income a modest headwind. Demand for life insurance and annuity products remained healthy, with retirement product sales and annuity volumes remaining strong.

Credit themes remained focused on growing allocations to private credit and broader exposure to commercial real estate and other less-liquid assets. Management commentary remained constructive, emphasizing disciplined growth, expense efficiencies, and prudent risk management. Capitalization remained strong, with solid statutory capital generation, healthy risk-based capital ratios, good liquidity, and generally conservative balance sheet leverage.

Health Insurance

Health insurers reported better-than-expected second-quarter results. Most large carriers posted higher earnings and raised full-year estimates as pricing discipline, benefit redesign, and portfolio repositioning took effect. Improvement was driven mainly by premium rate increases, benefit changes, tighter utilization

management, and selective market exits rather than easing in underlying medical cost trends. Management commentary still pointed to elevated utilization, higher acuity in Medicare Advantage, Medicaid and Affordable Care Act (ACA) exchange books, and continued unit-cost pressure, although several issuers also benefited from favorable reserve development, improved mix and stronger investment income.

Government program enrollment declined further as carriers prioritized margin over growth. States tightened Medicaid eligibility, while commercial group trends were comparatively stable. Most investment-grade issuers maintained sound balance sheets with adequate capital, liquidity and reserves, but the sector faces above-average ratings pressure until earnings recovery broadens beyond corrective pricing actions and medical cost trends become more predictable.

Property and Casualty Insurance

Property and casualty insurers posted strong second-quarter results, underpinned by excellent underwriting profitability, comparatively light catastrophe activity, and ongoing favorable reserve development. Reserve releases supported underwriting results, particularly in property and personal lines, while general liability and commercial auto remained pressured by social inflation and rising litigation costs.

The pricing cycle appeared to have peaked, with softer pricing and slower premium growth amid intensifying competition across personal and commercial lines. Net investment income remained a meaningful earnings contributor as insurers reinvested at higher yields within conservatively managed, high-quality fixed-income portfolios. Balance sheets remained resilient, with growing shareholders' equity, solid statutory capital, and strong reserve positions supporting stable ratings.

CORPORATES

Investment-grade corporate credit remained stable, supported by solid cash generation, pricing discipline, cost efficiencies, and manageable leverage. Structural growth themes, including AI and data center infrastructure, electrification, and newer pharmaceutical products, drove strong demand in select areas, while lower tariff costs and elevated energy prices provided largely temporary earnings support.

Dispersion across issuers is widening. Unprecedented AI-related capital spending is pressuring free cash flow and adding off-balance-sheet commitments, debt-financed acquisitions are raising leverage at some issuers, and trade policy, Chinese competition, input cost inflation, and a value-conscious consumer continued to weigh on margins in more exposed sectors.

Pharmaceuticals

Large pharmaceutical companies delivered a strong second-quarter, with most reporting results ahead of expectations and many raising full-year guidance. Growth was led by newer products in metabolic disease, immunology, oncology, cardiovascular and rare disease, offsetting erosion in mature brands from loss of exclusivity, biosimilar entry and pricing pressure. Adjusted earnings growth often outpaced revenue growth, reflecting favorable product mix, manufacturing efficiencies, and cost discipline. Reported results were more mixed, as acquisition-related charges and intangible impairments weighed on generally accepted accounting principles (GAAP) earnings, though underlying cash generation remained intact.

Headwinds include U.S. drug pricing policy, notably Inflation Reduction Act implementation, along with competitive pressure, and pipeline setbacks. Companies continued to pursue debt-financed acquisitions to replenish pipelines ahead of patent expiries, raising leverage at some issuers. Sector credit quality remains strong, supported by robust cash flow and solid balance sheets. Key considerations are financial discipline in business development, pipeline delivery and management of upcoming patent cliffs.

Industrials

Investment-grade industrial issuers reported generally favorable second-quarter results, led by companies exposed to electrification, power generation, commercial HVAC, aerospace and AI-driven data center infrastructure. These issuers posted solid organic growth, strong bookings, and further backlog expansion, reflecting sustained investment in grid modernization, cooling and other critical infrastructure.

Cyclical markets were mixed: agricultural equipment demand remained soft but appears to be stabilizing, residential HVAC improved, and China commentary was more balanced than earlier in the year. North America and infrastructure-linked end markets continued to lead. Profitability was generally resilient, supported by pricing, productivity and favorable mix, although inflation in copper, electronics, labor and logistics weighed on margins at several issuers. Tariff-related cost pressures moderated, though trade policy remained a source of uncertainty.

The Middle East conflict added pressure through transportation disruption and higher energy-related costs, but direct operational impacts were limited for most companies. Sector credit quality remained stable, as most issuers maintained sound liquidity, manageable leverage and sufficient financial flexibility to fund capital investment, strategic acquisitions and shareholder returns.

Energy

Major integrated energy companies reported strong second-quarter results, as the sharp rise in crude and refined product prices driven by conflict in the Middle East provided a substantial earnings tailwind. Results varied by business mix: companies with larger trading and downstream operations were generally better positioned to capture market dislocation, while others were more affected by maintenance and regional operating issues. Refining margins were very strong, and oil trading and marketing results were supportive. Middle East supply disruptions curtailed production and liquefied natural gas (LNG) volumes, partly offset by growth from advantaged assets in the Americas and recent acquisitions.

Structural cost programs continued to deliver, in some cases ahead of plan. Strong cash generation supported further debt reduction, with net debt declining across the group, alongside substantial shareholder returns through dividend increases and share buybacks. Capital spending remained disciplined and focused on high-return upstream and LNG projects. Results reinforced the resilience of the integrated majors' credit profiles, supported by diversified operations, conservative financial policies, and ample liquidity. However, much of the improvement reflected a price environment driven by geopolitical disruption, leaving earnings and cash flow exposed to normalization as regional supply recovers.

Consumer

The second-quarter 2026 consumer earnings showed year-over-year volume improvement, but continued pricing normalization drove a sequential slowdown in top-line growth. Pricing is increasingly used to defend margins rather than drive growth, with management teams emphasizing affordability and price-pack architecture. The absence of a clear sequential volume inflection suggests recovery is driven more by execution and market share gains than by a broad category rebound.

Value, off-price, and other high-frequency categories outperformed, while spirits and housing-related demand remained weak. Underlying margin improvement was modest, with reported earnings materially supported by non-recurring tariff refunds. Excluding those benefits, margins were flat to down as inflation and reinvestment absorbed much of the productivity savings.

The U.S. consumer remains resilient but increasingly bifurcated and value-conscious rather than outright weak. Investment-grade consumer credit fundamentals remain sound, though the fiscal year 2027 margins will depend on sustaining productivity gains and managing pricing elasticity amid renewed commodity, energy and logistics inflation.

Automotive

In the second quarter, the investment-grade automotive sector delivered better-than-feared results, supported by a materially lower net tariff burden, disciplined incentives and U.S. hybrid demand that continued to exceed expectations. U.S. automakers reported improving underlying performance and raised full-year guidance, while European original equipment manufacturers continued to face significant profitability pressure from collapsing China volumes, a rising battery electric vehicle mix, euro strength and restructuring costs.

China remained the sector's most significant structural challenge. According to the China Passenger Car Association, retail sales contracted roughly 20% in the first half of 2026, while domestic brands increased their

passenger-car market share to approximately 70%. As the domestic market shrinks, excess Chinese capacity is increasingly redirected toward exports, intensifying competitive and pricing pressure in Europe. In the U.S., the EV reset is largely complete, and regulatory relief is providing greater strategic flexibility and meaningful savings from relaxed emissions requirements. In Europe, restructuring remains the primary lever to protect margins; however, with charges running ahead of savings, it remains a near-term free cash flow headwind for German issuers before becoming a tailwind.

Renewed trade uncertainty tempers the improved outlook. Washington's decision not to renew United States-Mexico-Canada Agreement, coupled with the announced 50% tariff on Canadian vehicles and parts from January 2027, introduces a material risk not reflected in fiscal year 2026 guidance. It could reverse much of this year's tariff relief, particularly for U.S. and Japanese automakers.

Technology, Media & Telecom (TMT)

Second-quarter results were broadly strong across investment-grade TMT but reinforced an increasingly bifurcated credit backdrop. Technology and semiconductor issuers continued to benefit from robust demand and, in some cases, meaningful pricing power.

However, the unprecedented scale of AI investment is beginning to reshape sector credit fundamentals as significant hyperscaler capex has resulted in several issuers entering a period of negative or near-zero free cash flow as AI investment absorbs a growing share of operating cash flow. Balance-sheet metrics also understate the sector's emerging financial commitments by way of significant off-balance-sheet obligations, while vendor financing for AI customers is becoming increasingly contractual, raising potential circular-financing risks not yet fully captured in traditional investment-grade credit frameworks. AI profitability remains largely unproven outside the semiconductor layer, and the magnitude and timing of expected benefits vary considerably by issuer.

Tariffs were a net positive this quarter, largely reflecting tariff refunds, while rising memory costs are pressuring margins across the technology supply chain, with limited relief expected before late 2027. Among the other TMT subsectors, telecom remains the clearest credit positive. Cable continues to face structural pressure from broadband subscriber losses, discounting and pricing compression, while media remains in secular transition, with improving streaming economics partly offset by an elevated content-cost cycle.

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