The Investment Institute
by UniCredit

Coffee Break

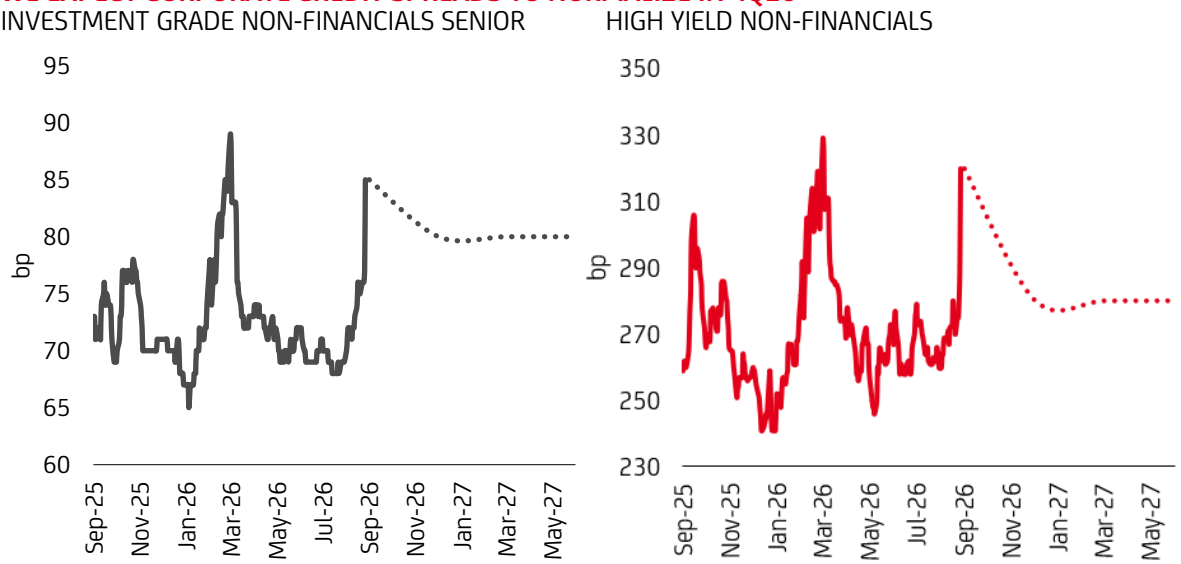
Coffee Break is our daily publication, offering topical insights as an intellectual ingot to start the day.

Credit spread volatility to remain contained

30 September 2026

We expect the latest increase in credit spread volatility to be only temporary and rather moderate, as corporate credit remains supported by healthy fundamentals.

WE EXPECT CORPORATE CREDIT SPREADS TO NORMALIZE IN 4Q26



Source: Bloomberg, The Investment Institute by UniCredit

THE CONTEXT

Amid increased volatility in oil and government bond markets, European credit risk premiums have widened over the past few days, albeit only moderately. The investment grade senior and high yield non-financials indices have widened by 10bp and 30bp, respectively, this month, and current spread levels – at 85bp and 320bp, respectively – are close to our year-end target levels. The key driver of the widening was the renewed escalation of the US-Iran conflict, which is affecting shipping routes via the Strait of Hormuz and the Bab al-Mandab Strait, two critical global maritime chokepoints that are vital for the global economy, and Europe in particular. However, we think several factors argue in favour of only moderate and temporary upside risk to credit risk premiums going forward.



THE DATA

European credit risk premiums have so far weathered the volatility in government bond markets and rising oil prices pretty well. Our charts show the spread history of non-financials investment grade senior and non-financials high yield credit indices over the past 12 months, and our spread forecast until the middle of next year. In our base case, we see corporate credit spreads moving back to our year-end targets in the coming weeks, as European credit remains supported by fundamental and technical factors.



OUR VIEW

We see a number of reasons for a contained and temporary spread widening in European corporate credit.

First, in an environment characterised by moderate but positive economic growth, albeit with low visibility, corporates are sticking to subdued capex activity, usually reduced to maintenance capex. This does not apply to sectors related to rearmament, data centres or infrastructure, but these are the exception; elsewhere, capex remains contained. Also, M&A activity remains subdued. Against this backdrop, the balance sheets of corporates are characterised by stable to moderately increasing leverage, which contrasts with the rising leverage on government balance sheets amid surging infrastructure and defence spending. Moreover, given their market position – usually large corporates with strong market positions – European issuers are able to defend their margins even in an environment of rising prices.

Second, European corporates continue their corporate policies of cash preservation. M&A activities are rare, as are share buybacks, while dividend payments remain moderate, leading to persistently high cash reserves on corporate balance sheets, supporting smooth debt servicing.

Third, from a technical point of view, at almost EUR 320bn, new-bond supply YTD is very close to the prior-year volume. While volumes are robust, overall demand for new issues suggests strong investor interest in assuming credit risk.

Bottom line, an escalation in the Strait of Hormuz and the Bab al-Mandab Strait could increase volatility in the European credit market. However, spread widening will likely be only temporary and rather moderate, limited by the above-mentioned factors. Should the situation worsen, leading to substantially higher oil prices for a prolonged period and adversely affecting the economic growth outlook, in particular when turning into a recessionary scenario, we would revise our view on wider spreads. However, at this stage, this is not our base case.

TODAY'S DATA RELEASES

Time (CET)	Country	Data	Period	UniCredit	Consensus	Previous
11:00	IT	Consumer price index (% yoy)	Sep	3.7	-	3.3
14:00	GE	Consumer price index (% yoy)	Sep	3.2	3.1	2.9
14:30	US	Personal income (% mom)	Aug	0.5	0.5	0.4
14:30	US	Personal expenditures (% mom)	Aug	0.9	0.9	0.2
14:30	US	PCE inflation (% mom)	Aug	0.3	0.4	0.2
14:30	US	PCE inflation (% yoy)	Aug	3.7	3.7	3.7
14:30	US	PCE core inflation (% mom)	Aug	0.2	0.4	0.2
14:30	US	PCE core inflation (% yoy)	Aug	3.3	3.3	3.3

Source: Bloomberg, The Investment Institute by UniCredit

Author
Stefan Kolek, Senior Credit Strategist – Non-financials (UniCredit, Munich), stefan.kolek@unicredit.de

Editors
Edoardo Campanella, Director and Editor-in-Chief of The Investment Institute (UniCredit, Milan)
edoardo.campanella@unicredit.eu
Francesco Maria Di Bella, FI Strategist (UniCredit, Milan), francescomaria.dibella@unicredit.eu

UniCredit S.p.A
The Investment Institute by UniCredit, Piazza Gae Aulenti, 4, I-20154 Milan

www.the-investment-institute.unicredit.eu

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