PPMAMERICA

US Investment Grade

KEY TAKEAWAY

> Investment grade credit has increasingly become a tale of two markets, hyperscaler financing and then everything else

After widening to begin the year, US investment grade (IG) spreads rebounded in Q2 2026. The spread of the Bloomberg US Credit Index (Index) tightened 14 bps during the quarter to 69 bps and is now 4 bps tighter year-to-date.[1] Both excess and total returns were positive as well.

However, IG credit has increasingly become a tale of two markets, hyperscaler financing and then everything else. As noted in the CIO Letter, hyperscaler credit spreads have underperformed the broader IG market by roughly 70 bps over the past five quarters.[2] From our observation, investors have had difficulty digesting the sheer size and cadence of hyperscaler-related issuance. In the last year alone, the percent share of hyperscaler bonds in the IG market has nearly doubled from 2.2% to 4.2%.[3] Similar increases can be seen in the US high yield and UK IG markets.

Concurrently, tight spreads, an increasingly hawkish tone from the Fed as inflation strengthens and geopolitical uncertainty further muddle the investment environment. These concerns seem somewhat offset by strong corporate earnings and positive economic growth. So how does this inform the positioning of PPM's strategies?

In Investment Grade Credit, we added a modest amount of risk in June, identifying attractive securities that were concentrated in the Utility and Midstream sectors. We also rebuilt our risk budget over the quarter through Treasury holdings as we wait for spread-widening events to occur. Our positioning in the Technology sector (that includes hyperscalers) fluctuated, and we ultimately ended with a slight underweight. As AI risk continues to cascade through the market, we are well positioned to invest in the hyperscalers and other technology credits when we believe the entry points are most attractive.

In Investment Grade Credit Plus and Core Plus, we have kept risk closer to home and await opportunities to deploy capital. As the curve flattened during the quarter, we reduced long-end exposure by selling credit and moving into more short-term structured products. Additional investment opportunities may come from repricing as the impact of AI issuance seeps into other areas of the market. We also anticipate a more aggressive M&A landscape, continued policy uncertainty and weaker areas of fundamentals (e.g., sticky inflation) to present tactical opportunities in the second half of the year.

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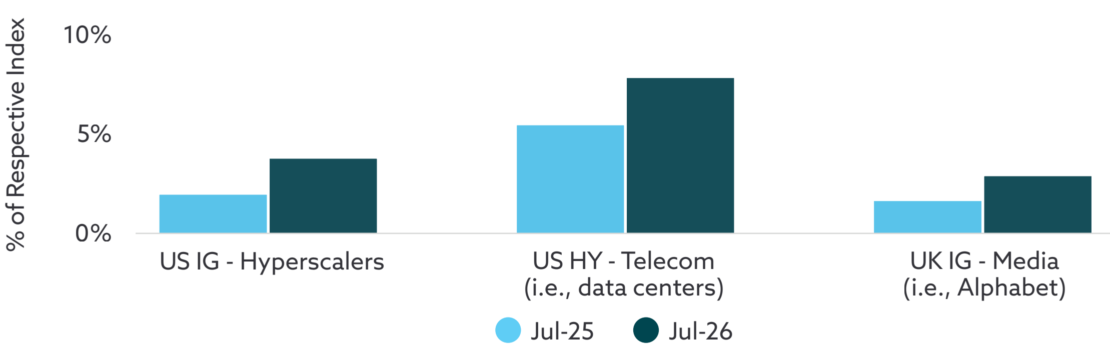
AI HAS BECOME LARGER SHARE OF THE MARKET[3]



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