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Corporate Bond Market Insight | April 2026

War-Shocked Markets Mark an Uptick in Uncertainty

Key takeaways

- The International Energy Agency described the energy conflict stemming from attacks on energy infrastructure and the near closure of the Strait of Hormuz as the "largest supply disruption in the history of the global oil market."
- Though the U.S. has become less dependent on imported energy in the last decade, the longer the conflict persists means the resulting economic slowdown will be larger.
- The Fed faces a dilemma between raising rates and avoiding tightening credit, adopting a neutral, data-dependent stance while considering energy shocks as mostly headline inflation drivers.
- Q1 GDP growth is expected between 2.0% and 3.0%, with weather and strikes affecting employment data.

Recap

The first quarter of 2026 was extremely eventful. Uncertainty increased while energy prices rose sharply in response to the U.S.–Iran war, the Supreme Court ruled that tariffs created under the International Emergency Economic Powers Act (IEEPA) were illegal and worries around private credit increased. Fears that artificial intelligence will prove disruptive to the software industry weakened some equity and corporate bond sectors. Economic growth was uneven and inflation was modestly higher than expected. The Federal Reserve (Fed) left the federal funds rate unchanged, 10-year Treasury rates rose sharply and corporate credit spreads widened modestly.

Markets turned their focus from the economy to the war in the Middle East in March. Attacks on energy infrastructure and the near closure of the Strait of Hormuz resulted in sharply higher energy prices. The International Energy Agency described the conflict as the "largest supply disruption in the history of the global oil market."

Energy shocks, depending upon their length, are generally viewed as stagflationary. They initially create a supply shock, pushing energy prices higher and boosting inflation. Eventually, consumers and businesses shift their buying patterns to compensate for the higher energy prices, and the resulting demand destruction slows the economy. The length of the disruption will be important. The longer the conflict persists, the higher the energy price, the greater the inflation and the larger the resulting economic slowdown.

Fortunately, over the last several decades the U.S. has grown far less dependent on imported energy. It now uses about half the energy to produce a single unit of Gross Domestic Product (GDP) than it did during the energy shock in the 1970s. The Energy Information Administration estimates that renewables, nuclear and natural gas currently provide 84% of the fuel used for domestic power generation. And unlike the 70's, the U.S. is a net exporter of energy. The unwelcome news is that the U.S. is still a part of a larger global economic ecosystem. Global economic slowdowns affect domestic growth, and since oil is traded globally, higher global prices translate into domestic increases in gasoline prices. This is particularly problematic for those in the more vulnerable economic cohorts.

The energy shock creates a policy dilemma for the dual mandate Fed. If it raises policy rates in response to higher energy, it may be tightening credit into a weakening economy. On the other hand, if it reduces policy rates while inflation is rising, it risks encouraging even higher inflation. As a result, the Fed appears to be moving to a neutral, data dependent, stance while it assesses the overall impact. Historically, the Fed has tended to view energy shocks, like tariffs, as a one-time step up in price that is difficult to address with traditional monetary policy. Energy and food shocks translate mostly to headline inflation and only increase core inflation modestly.

At its March meeting, the Fed left rates unchanged, updated its summary of economic projections (the dot plot) to suggest fewer projected cuts and modestly increased its expectations for growth and inflation. The minutes from the January meeting made it clear that, amid the uncertainty, Fed members have shifted from favoring additional cuts to a wait-and-see posture. With the next meeting not until the end of April, the Fed will have an added month of data to process before making its next rate decision.

Private credit, particularly business development companies, faced growing withdrawal requests. Several firms restricted withdrawals and lowered the value of some of their portfolio loans as a result. It's still our view that the private credit risks are idiosyncratic rather than systemic. In our view, the withdrawals have more to do with investor unease and low liquidity in the asset class than with credit quality. U.S. banks have roughly $300 billion of direct exposure to these funds. While the exposure isn't huge, it has resulted in modest banking sector underperformance.

First-quarter investment-grade (IG) issuance was high at $645 billion, the fourth largest first-quarter issuance ever. The hyperscalers primarily drove the issuance again, but increased merger and acquisition activity also played a significant role. The new supply was well received and while fund flows have moderated somewhat from last year, they remained strong. We expect fund flows to remain solid while investors react favorably to the combination of higher rates and wider spreads that created higher all-in yields.

Against this backdrop, the 10-year Treasury yield rose 38 basis points (bps) for the month and 15 bps for the quarter. 1–10 year IG credit spreads widened by seven bps for the month and 12 bps for the quarter. As a result, the ICE BofA/Merrill Lynch 1–10 Year US Corporate Index returned -1.40% for the month, -0.17% for the quarter and 5.29% over the trailing one year. For the month, sector performance was mixed. The best performing sectors were media and services while the worst performing sectors were consumer automotive and leisure. There is clear evidence of a migration toward higher quality.

Q1 GDP growth is expected to be between 2.0% and 3.0%. The Atlanta Federal Reserve's GDPNow estimate is clearly trending lower, but it still projects reasonable Q1 growth of 1.6% with roughly two-thirds of the quarter's economic data in place. It's estimated that Winter Storm Fern reduced Q1 growth from 0.5% to 1.5%, suggesting that growth would have been solid had it not been for the weather. It's worth noting that the GDPNow data doesn't yet incorporate the March data, which the increase in energy prices and uncertainty may marginally affect.

The employment economy was mixed. January nonfarm payrolls added 160,000 new jobs, but February lost 133,000 jobs, leaving a two-month net gain of only 27,000. The unemployment rate rose from 4.3% to 4.4%. There were complicating factors, including a major strike and the impact of Winter Storm Fern. March should give a much cleaner view of what is actually occurring.

February inflation was modestly higher than expected. The 0.3% monthly gain in the headline consumer price index (CPI) and 0.2% increase in core were both higher than expected. The increase leaves the year-over-year rise in headline inflation at 2.4% and core at 2.5%. More troubling is the evidence of early-stage pricing pressures. The sharp 0.7% month-over-month increase in headline producer prices is particularly worrisome. The pricing pressures can also be seen in the Institute of Supply Managements Manufacturing Prices Paid report where 70.5% of manufacturers reported higher prices. This was the highest level since June of 2022. It's notable that these price increases occurred before the outbreak of hostilities.

Looking forward

Economic uncertainty is building, but we are still constructive on IG corporate investment. There is significant fiscal stimulus in the pipeline and economic momentum is still solid. Rising yields and widening corporate spreads combined with solid IG balance sheets, low default rates and good earnings continue to make IG investments attractive. The reinvestment mechanics of held-to-maturity IG ladders continue to offer a solid hedge against the growing uncertainty.

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