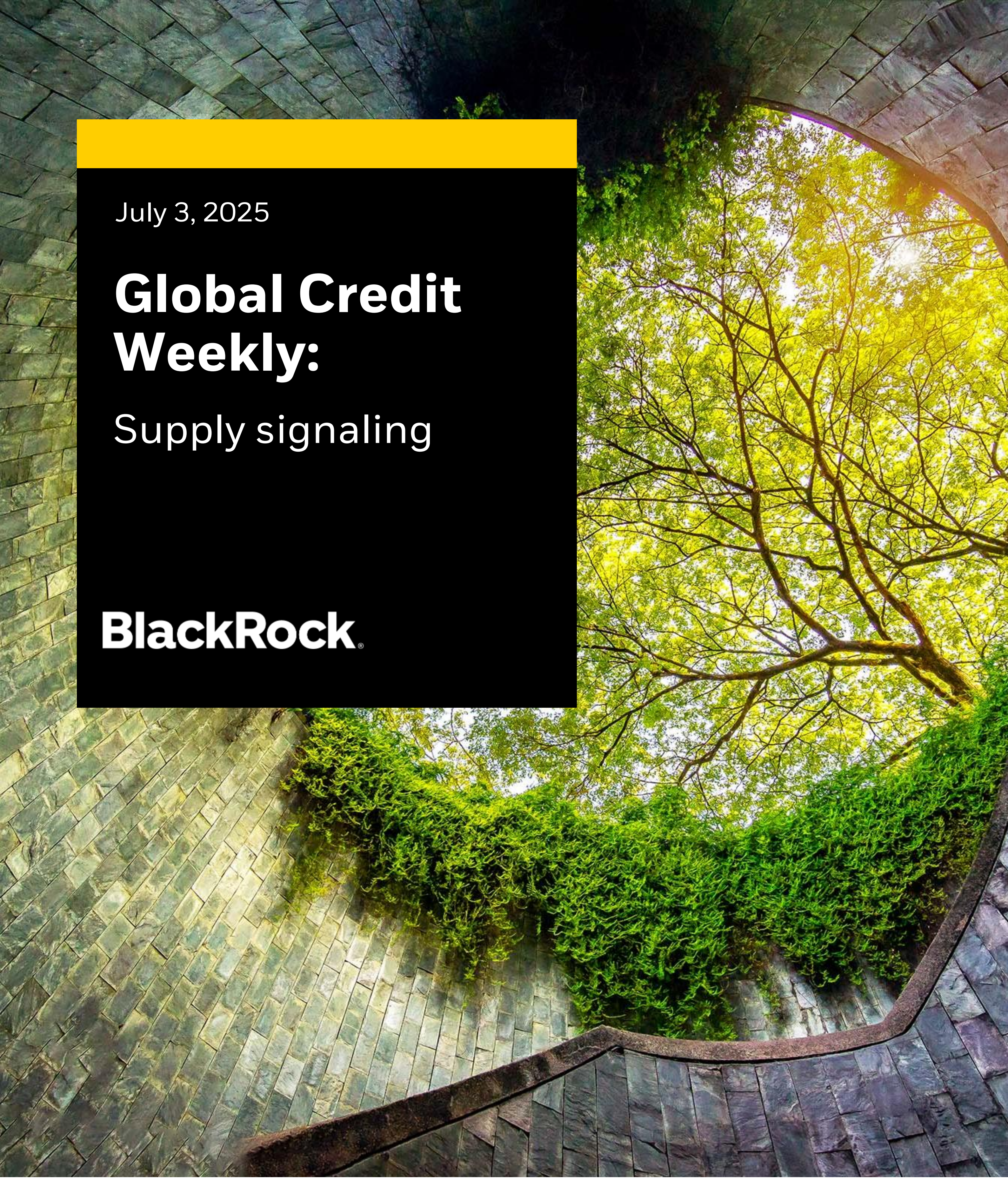

July 3, 2025

Global Credit Weekly:

Supply signaling

BlackRock.

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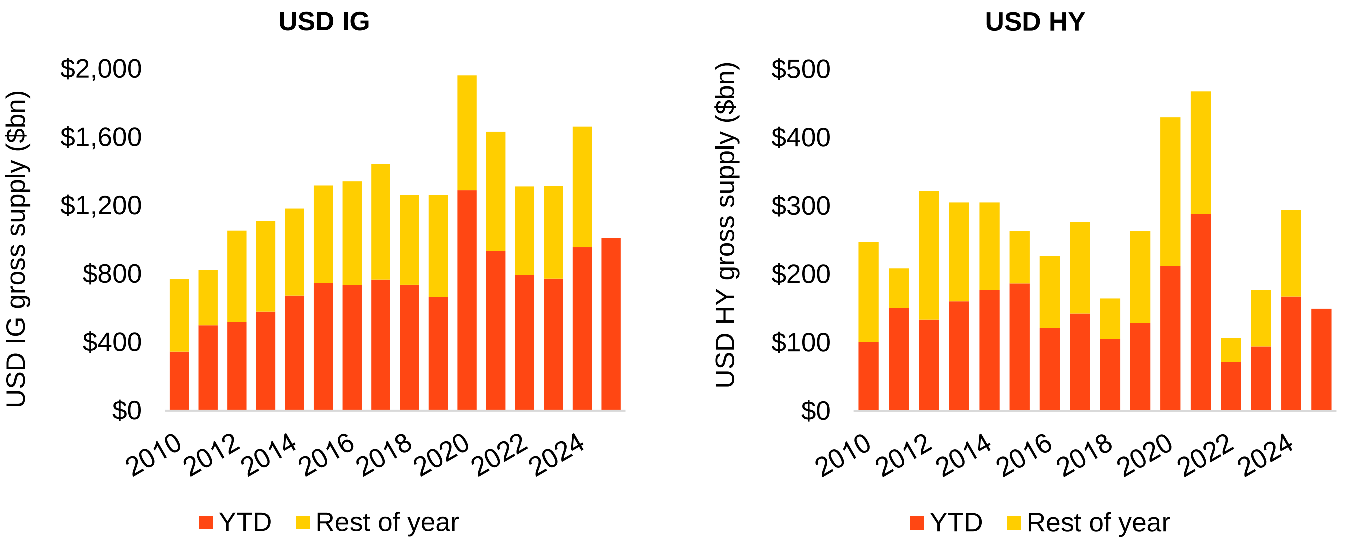
Key takeaways

- 2Q2025 was a tale of two cities: significant market volatility in the beginning of the quarter eventually gave way to a more benign market backdrop. As we outlined in our *3Q2025 Global Credit Outlook*, we expect episodes of macro volatility will likely remain a prominent feature of the investing landscape over the medium term, as we navigate *two-sided* risks.
- Many market participants have been focused on how this dynamic backdrop is influencing a wide range of corporate actions. Two weeks ago, we took stock of the signals from M&A activity, and flagged that elevated volumes suggest corporates are moving ahead with their strategic needs – despite residual uncertainty. This week, we focus on debt capital markets issuance.
- As Exhibit 1 shows, USD IG year-to-date gross supply has set a new post-pandemic record, and USD HY issuance is tracking just behind 2024 (which was an active year by historical standards). We believe management teams are retaining a version of the conservative approach they used during the pandemic, pre-funding well in advance of scheduled maturities and taking advantage of open 'windows' to raise liquidity. And while interest rates are elevated by historical standards, spreads are back toward the bottom of the longer-term range – which has likely encouraged management teams to move forward with issuance needs (with some maturity preferences).
- As indicated by resilient index level spread performance, this gross issuance has not been disruptive to market valuations. USD IG spread concessions have been very modest, at 3.3bp on average, so far this year (per Bloomberg data). And in USD HY, the share of debt issuance earmarked for debt repayment or refinancing is still hovering at a record 72%.
- Dispersion has been a consistent theme across corporate credit over the past several quarters. Our analysis of total return performance for USD IG and HY highlights how sector leadership shifted this year, in response to macroeconomic developments. Anecdotally, we also see evidence of dispersion *within* sectors, which underscores a 'back to basics' approach to credit selection.

Exhibit 1: Debt capital markets issuance has been active so far in 2025
USD IG and HY gross supply ($bn)



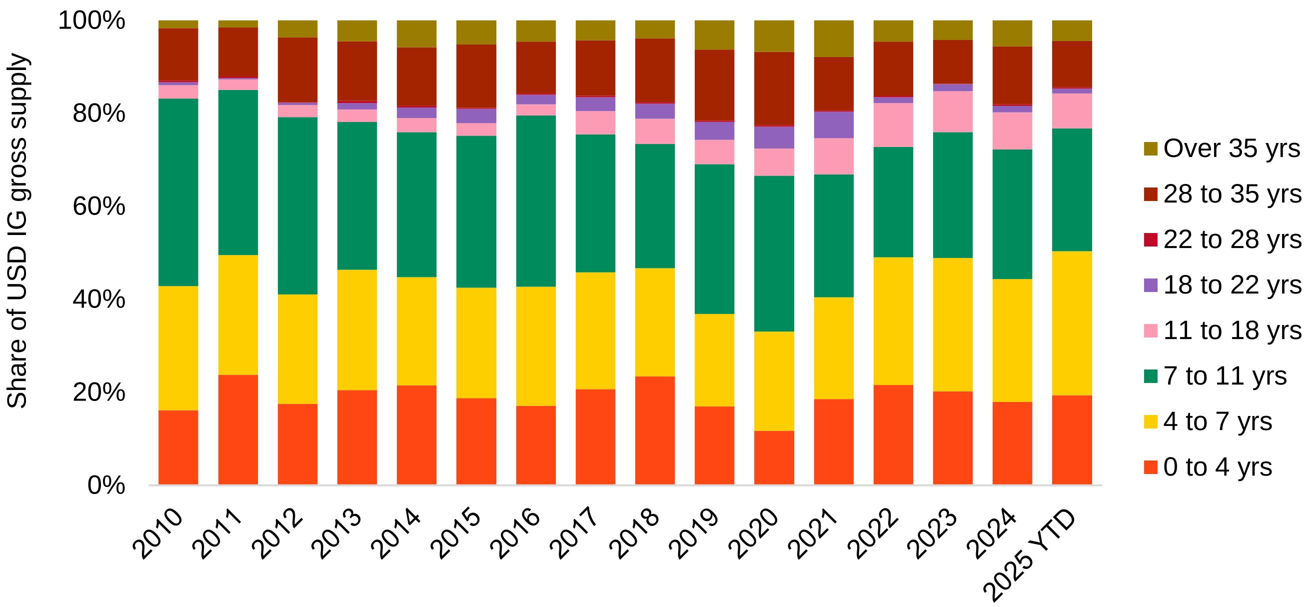
Source: Dealogic (ION Analytics), BlackRock. As of July 2, 2025.

USD IG supply: a continued skew towards the short end

As Exhibit 1 highlights, USD IG gross issuance has surpassed $1.0 trillion as of July 2, 2025, and has set a new post-pandemic record for supply. Given the episodic market volatility, we believe corporates are focused on capitalizing on open 'windows' to access liquidity from primary debt markets – even if the refinancing is occurring well in advance of scheduled maturities (like the pandemic-era approach, albeit to a more modest extent). And while interest rates are elevated by historical standards, credit spreads are back at the low end of the range, as episodes of spread widening have ultimately proved short lived.

Exhibit 2: 50% of 2025 year-to-date USD IG supply has a maturity of 7 years or shorter

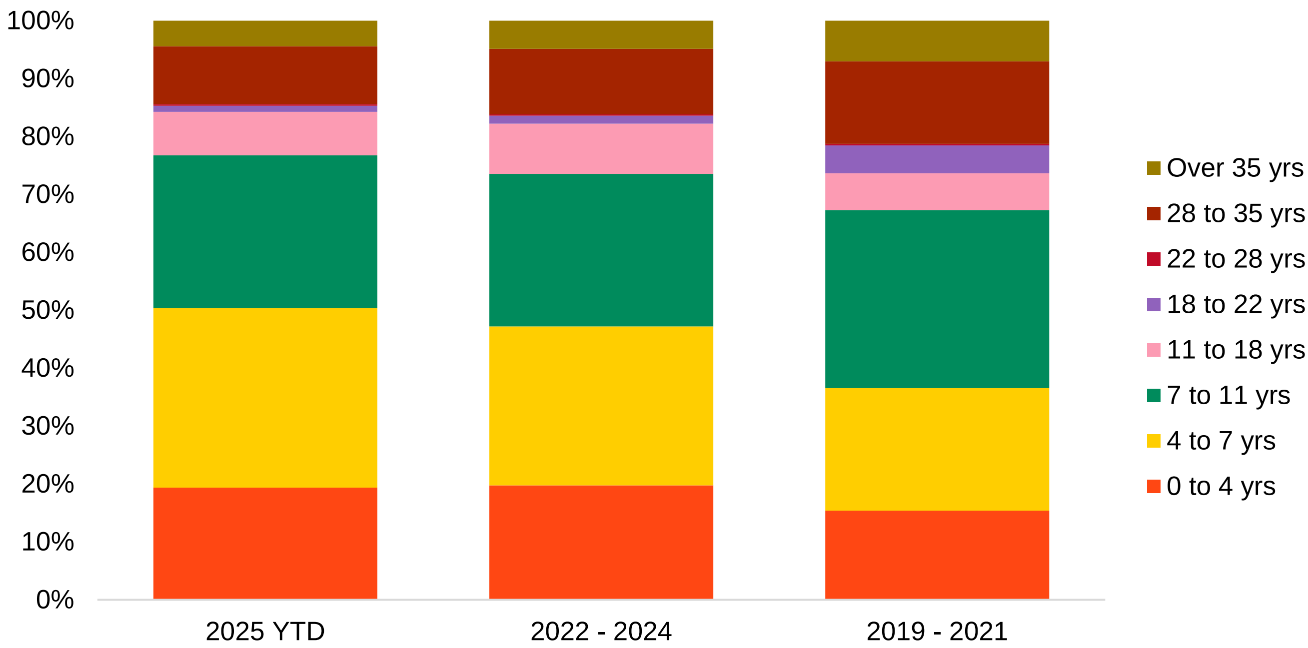
Historical USD IG gross supply, by maturity bucket



Source: Dealogic (ION Analytics), BlackRock. As of July 2, 2025.

Exhibit 3: As interest rates have moved higher vs. the 2019-2021 period, corporate debt issuance has shifted towards shorter-dated maturities

Historical USD IG gross supply by maturity bucket

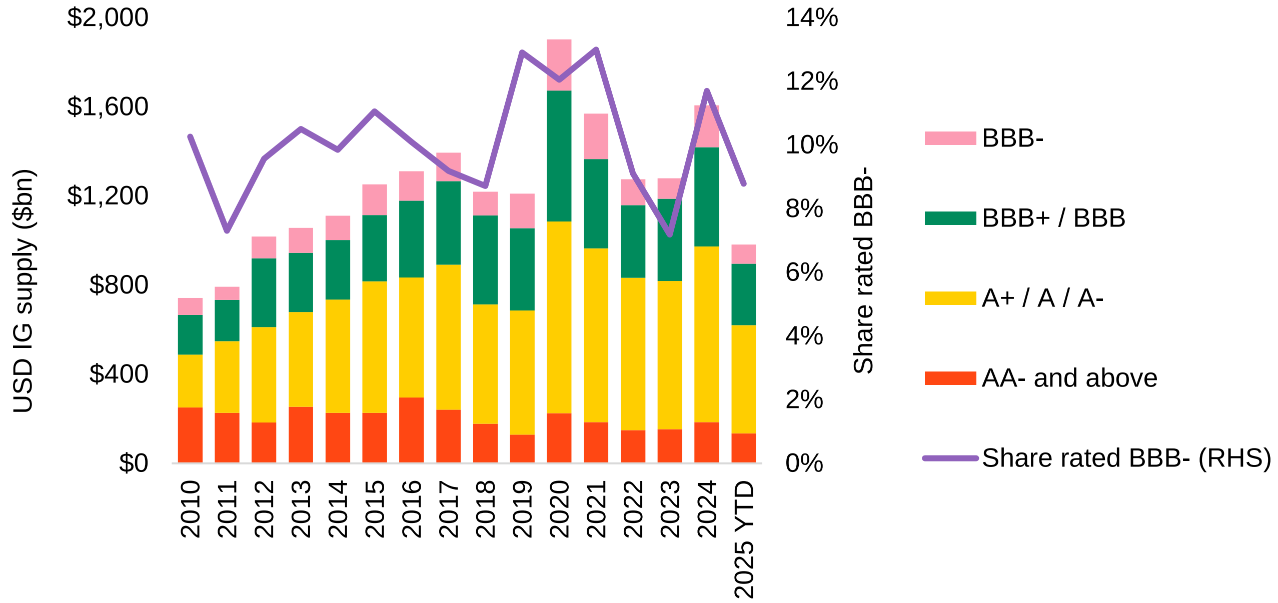


Source: Dealogic (ION Analytics), BlackRock. As of July 2, 2025.

We believe this backdrop has given management teams both the urgency and confidence to move forward with refinancing in this (elevated) all-in cost of capital environment. That said, it does have implications for curve preferences. Exhibits 2 and 3 highlight this, showing that since the Federal Reserve initiated its rate hiking cycle in 2022, the share of issuance skewed towards shorter-dated maturities has increased.

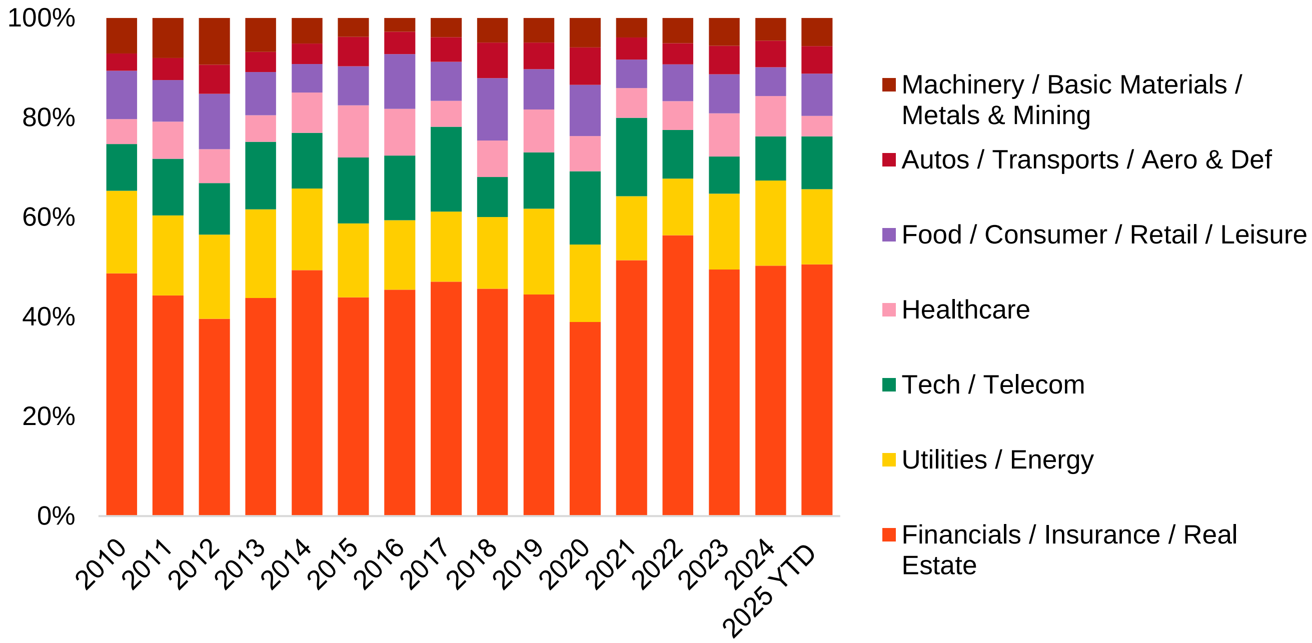
Elevated gross issuance has not been disruptive to market valuations, however. Data complied by Bloomberg estimates USD IG new issue concessions were just 3.3bp, on average, for 1H2025 (through June 26th). Books were 3.7x covered, and spread tightening was 27bp (again, on average) – all of which speaks to a supportive demand technical.

Exhibit 4: 9% of USD IG supply in 2025 has been at the lowest rating category of BBB-
USD IG supply, by rating cohort



Source: Dealogic (ION Analytics), BlackRock. As of July 2, 2025.

Exhibit 5: The Financials sector is the largest for USD IG issuance, by far
USD IG gross supply, by sector cohort



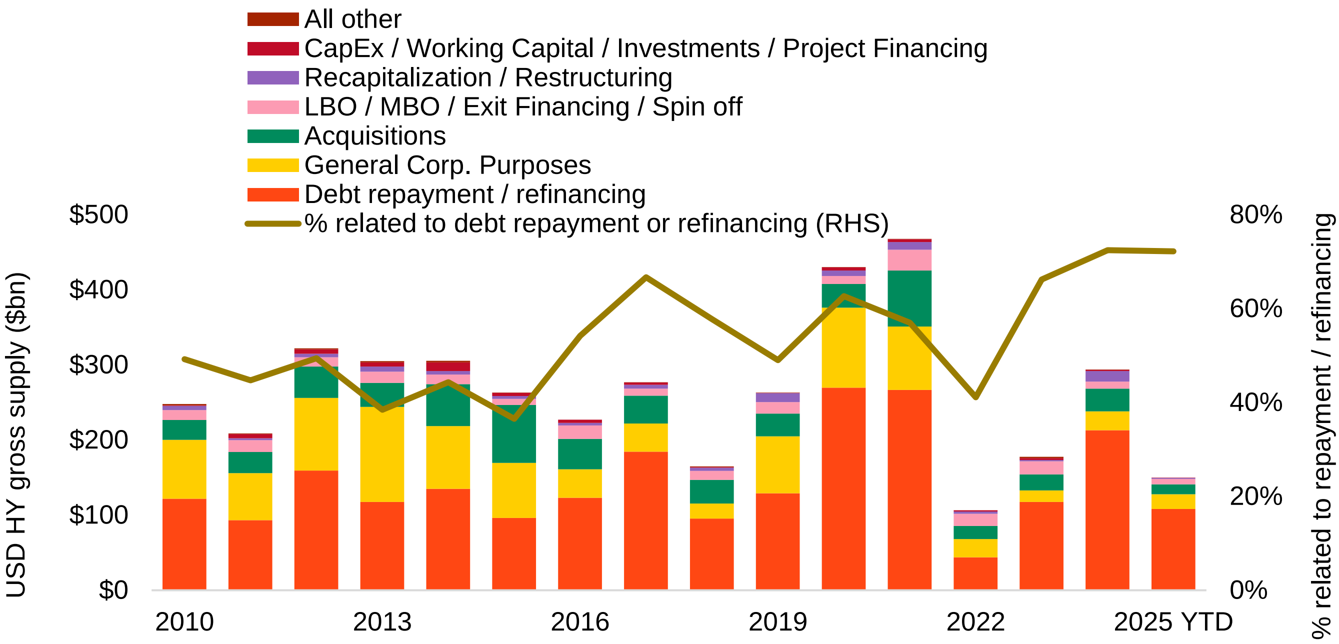
Source: Dealogic (ION Analytics), BlackRock. As of July 2, 2025.

USD HY supply: the focus on debt repayment and refinancing persists

One of the most notable patterns related to USD HY supply has been the ongoing focus on debt repayment and refinancing, which has limited the amount of net "new money" entering the market. Indeed, the share of gross supply earmarked for debt repayment or refinancing continues to hover at a record level of 72% - consistent with 2024. This technical tailwind is a key contributor to the ongoing resilience of USD HY spreads, in our view, alongside the fundamental factors we have previously highlighted.

Exhibit 6: 72% of year-to-date USD HY supply has been earmarked for debt repayment or refinancing – a record level, first set in 2024

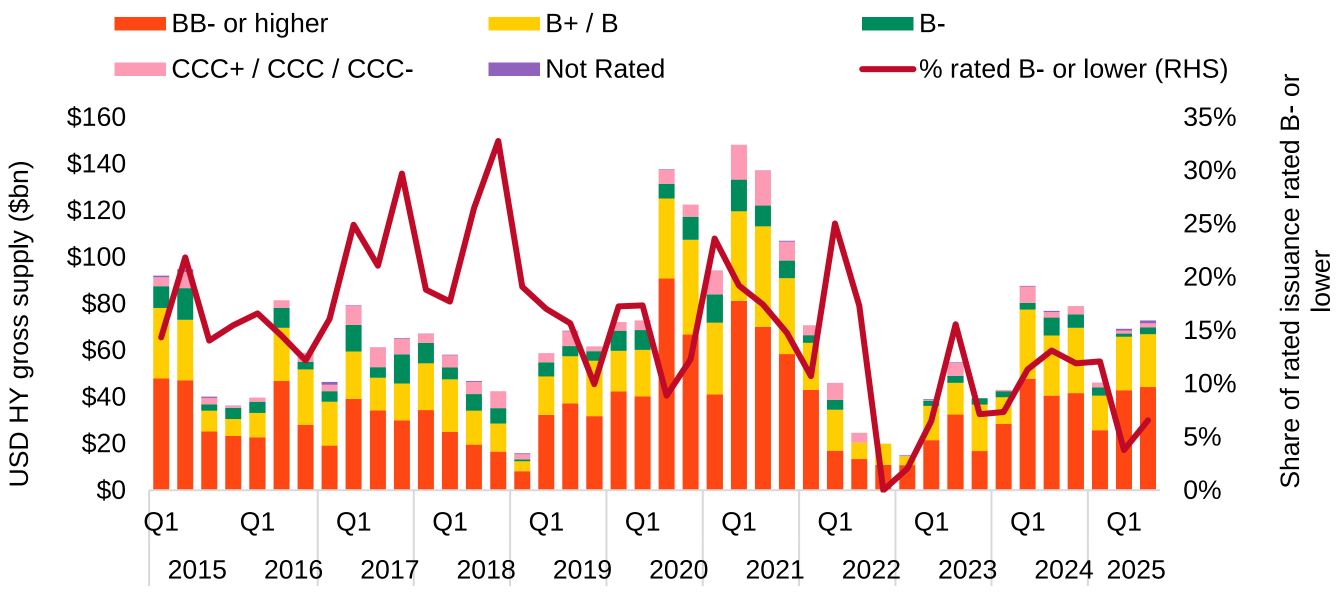
Historical USD HY gross supply by use of proceeds



Source: Dealogic (ION Analytics), BlackRock. As of July 2, 2025.

Exhibit 7: After rebounding somewhat in 2024, the share of lower-rated USD HY issuance has been more modest in recent quarters

Historical USD HY gross supply by rating and quarter, and the share of lower rated supply as a percentage of all rated supply



Source: Dealogic (ION Analytics), BlackRock. As of July 1, 2025.

Sector performance snapshots

Dispersion has been a consistent theme across corporate credit performance over the past few years. Exhibits 8 and 9 (next page) demonstrate sector-level dispersion using total return performance for the Bloomberg USD IG and HY Corporate indices over the last two months, last three months, and year-to-date. There are a few notable takeaways, in our view.

- **Sector leadership has shifted throughout the year.** For example, over the last two months, IG and HY Healthcare borrowers have performed generally in line with index levels on a total return basis. This represents a slowdown from outperformance earlier this year, as is evident in the YTD total return outperformance. This, in our view, suggests shifting sentiment in the sector's outlook, potentially related to progress on potential U.S. policy shifts and idiosyncratic developments. Similarly, certain Energy subsectors have more noticeably outperformed the broader market, as of late.
- **Sectors are not created equal, across markets.** Some sectors, such as Consumer Cyclical Services and Media and Entertainment, have demonstrated different performance trends across markets (i.e., underperforming in IG and outperforming in HY, for example). This dispersion underscores the variation that can exist among underlying borrowers in different markets, even within the same sector. Further, related to the Media and Entertainment sector, a look under the surface reveals that one IG issuer has driven the bulk of this sector's underperformance. This shows the importance of 'back to basics' fundamental underwriting and active credit selection, in our view.
- **Macroeconomic uncertainty has dampened performance of certain consumer-exposed sectors.** Amid well-telegraphed macroeconomic uncertainty, consumer discretionary-exposed IG and HY sectors - such as Consumer Products, Airlines, Retailers, Leisure, and Restaurants - have generally underperformed broader indices YTD. That said, some sectors have exhibited *stronger* performance over the last two months, suggesting that incremental clarity regarding the macroeconomic and policy backdrop may have boosted investor sentiment towards certain industries.

Exhibit 8: Discretionary consumer sectors have somewhat lagged the broader USD IG index over the last two months, and year to date

Sector total return, in percentages, (last two months, last three months, and year-to-date) for the Bloomberg USD IG Corporate index as of July 1, 2025

	Last two months	Last three months	Year-to-date
Bloomberg USD IG Index Total Return	**2.29**	**1.63**	**4.23**
Independent - Energy	4.05	1.02	3.76
Cable Satellite	4.01	3.02	6.01
Oil Field Services	4.01	0.65	3.10
Refining - Energy	4.00	1.80	4.14
Midstream - Energy	3.56	1.61	4.08
Office REITs	3.05	2.50	4.88
Gaming	3.00	2.19	4.37
Chemicals	2.97	1.29	3.65
Transportation Services	2.84	1.56	2.86
Supermarkets	2.81	1.67	4.41
Integrated - Energy	2.77	1.32	4.19
Metals and Mining	2.75	2.05	4.77
Life Insurance	2.68	1.81	4.33
Natural Gas	2.67	1.74	3.74
Paper	2.61	1.94	4.55
Building Materials	2.61	1.79	4.29
Lodging	2.60	2.25	4.24
Tobacco	2.59	2.12	4.90
Railroads	2.58	1.24	4.20
Aerospace/Defense	2.54	1.87	4.84
Property and Casualty Insurance	2.52	1.69	4.43
Other Utility	2.49	1.88	4.62
Automotive	2.43	2.13	3.55
Electric	2.40	1.47	3.81
Brokerage/Asset Managers	2.33	1.90	4.49
Wirelines	2.32	1.62	4.44
Healthcare REITs	2.32	1.90	4.39
Wireless	2.32	1.86	4.36
Retail REITs	2.31	2.06	4.43
Pharmaceuticals	2.30	1.41	4.52
Healthcare	2.27	1.52	4.76
Technology	2.26	1.58	4.24
Finance Companies	2.24	1.98	3.89
Packaging	2.23	1.98	4.69
Restaurants	2.15	1.28	3.94
Consumer Cyclical Services	2.11	1.67	4.05
Apartment REITs	2.09	2.04	4.65
Health Insurance	2.09	1.19	4.32
Other REITs	2.07	1.97	4.59
Diversified Manufacturing	2.07	1.63	4.28
Other Industrial	2.07	0.49	2.88
Banking	2.00	1.97	4.49
Retailers	1.99	1.35	4.06
Food and Beverage	1.94	1.42	4.29
Airlines	1.94	1.53	3.11
Consumer Products	1.87	1.41	4.04
Environmental	1.77	1.84	5.03
Other Financial	1.67	1.70	4.43
Home Construction	1.66	1.29	3.04
Construction Machinery	1.31	1.42	3.85
Media Entertainment	-0.88	-2.27	-0.01

Source: Bloomberg, BlackRock. As of July 1, 2025. **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

Exhibit 9: Sector leadership has shifted throughout the year, suggesting that recent macroeconomic events may have influenced performance

Sector total return, in percentages, (last two months, last three months, and year-to-date) for the Bloomberg USD HY Corporate index on July 1, 2025

	Last two months	Last three months	Year-to-date
Bloomberg USD HY Index Total Return	**3.43**	**3.46**	**4.65**
Refining - Energy	10.01	6.17	4.76
Office REITs	7.73	5.66	6.36
Independent - Energy	6.78	2.29	4.23
Oil Field Services	6.24	0.77	2.36
Transportation Services	6.08	7.54	4.50
Media Entertainment	5.72	5.24	6.29
Healthcare REITs	5.33	5.71	11.83
Airlines	5.25	4.09	3.75
Pharmaceuticals	4.94	4.25	7.98
Consumer Products	4.34	2.49	2.44
Chemicals	3.66	3.05	3.97
Other REITs	3.64	4.13	6.92
Construction Machinery	3.61	3.80	5.92
Home Construction	3.58	3.80	4.66
Technology	3.53	4.36	4.95
Wirelines	3.50	4.71	5.46
Consumer Cyclical Services	3.48	3.95	5.17
Life Insurance	3.45	2.68	4.23
Healthcare	3.44	4.96	5.80
Building Materials	3.42	4.38	4.57
Health Insurance	3.38	4.39	6.68
Metals and Mining	3.34	2.95	3.38
Midstream - Energy	3.26	1.79	2.71
Paper	3.26	1.72	2.44
Packaging	3.23	4.60	3.89
Retailers	3.14	1.80	2.56
Gaming	3.12	2.75	3.99
Finance Companies	3.08	3.63	5.44
Automotive	3.05	2.88	3.78
Other Financial	2.92	3.22	4.64
Restaurants	2.87	3.89	5.48
Natural Gas	2.87	1.63	3.66
Lodging	2.81	3.69	5.48
Wireless	2.65	4.67	9.18
Banking	2.64	1.96	4.29
Leisure	2.60	3.09	4.11
Brokerage/Asset Managers	2.59	3.26	4.39
Property and Casualty Insurance	2.52	3.56	5.36
Diversified Manufacturing	2.32	3.16	4.73
Cable Satellite	2.31	3.27	5.26
Supermarkets	2.27	3.03	5.00
Other Industrial	2.24	3.04	3.99
Food and Beverage	2.21	3.05	5.52
Environmental	2.15	3.42	5.26
Electric	2.01	2.70	3.38
Aerospace/Defense	1.99	3.34	5.28
Tobacco	1.76	2.59	5.10
Retail REITs	1.37	1.78	4.09
Railroads	-1.62	-3.37	-5.22

Source: Bloomberg, BlackRock. As of July 1, 2025. **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

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