October 17, 2025

Global Credit Weekly:

Episodic volatility returns

BlackRock

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Market insights contributors

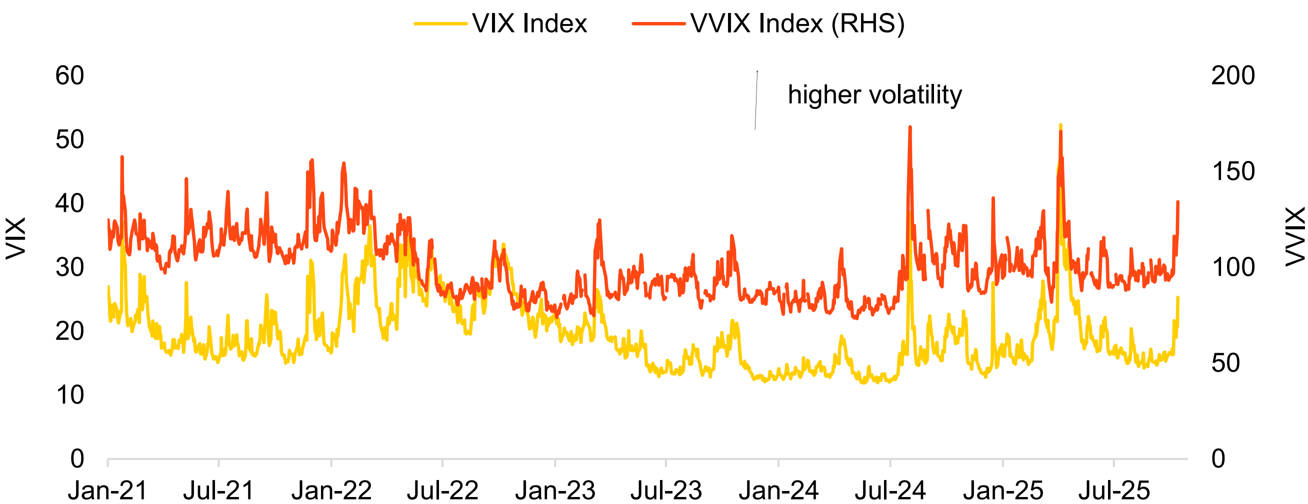
Amanda Lynam, CPA
Head of Macro Credit Research

Dominique Bly
Macro Credit Research Strategist

Key takeaways

- 3Q2025 earnings commentary from large cap U.S. banks signaled “resilient” consumer and small business credit quality, alongside “better than expected” – and in some cases, *declining* – delinquency rates. Optimism around continued strength in capital markets activity was also a common theme. This positive messaging from the large caps was quickly overshadowed, however, by disclosures from two regional banks of losses within their lending books (a pair of related commercial and industrial loans and a revolver for commercial real estate) which weighed on sentiment and price action in the sector on October 16th.
- As 3Q2025 earnings season progresses with regional banks and consumer finance firms, we expect market participants will be focused on commentary regarding lending and underwriting standards. The 8-Ks filed by the two affected regional banks cited “apparent misrepresentations” and “a lawsuit alleging fraud.” We remain comfortable with our view that the peak in default activity in the corporate credit market is likely behind us. That said, a sentiment overhang over the broader financials sector looks likely to persist, at least until the 3Q2025 earnings season is complete. This is likely to warrant an additional rebuild of risk premia in the credit market.
- Some measures of market volatility have risen to the highest levels since April (Exhibit 1). As we outlined in July, episodic market volatility is likely to remain a prominent feature of the investing landscape. Such volatility underscores the value of certainty on financing execution and terms – something private credit seeks to provide to a wide range of companies, even when public debt markets may become dislocated, or when bank lending standards may become restrictive.
- Performance dispersion across *and within* sectors has also been evident in 2H2025, and we expect this to persist. In our view, over-leveraged issuers and sectors exposed to the most challenged areas of the economy – such as younger and lower-income consumers with limited discretionary income, as one example – may face the most pronounced performance headwinds.

Exhibit 1: Closely watched measures of volatility have risen to the highest levels since April
Daily values of the CBOE VIX Index (a proxy for U.S. equity market volatility), and the CBOE VVIX Index (which measures volatility of the VIX)



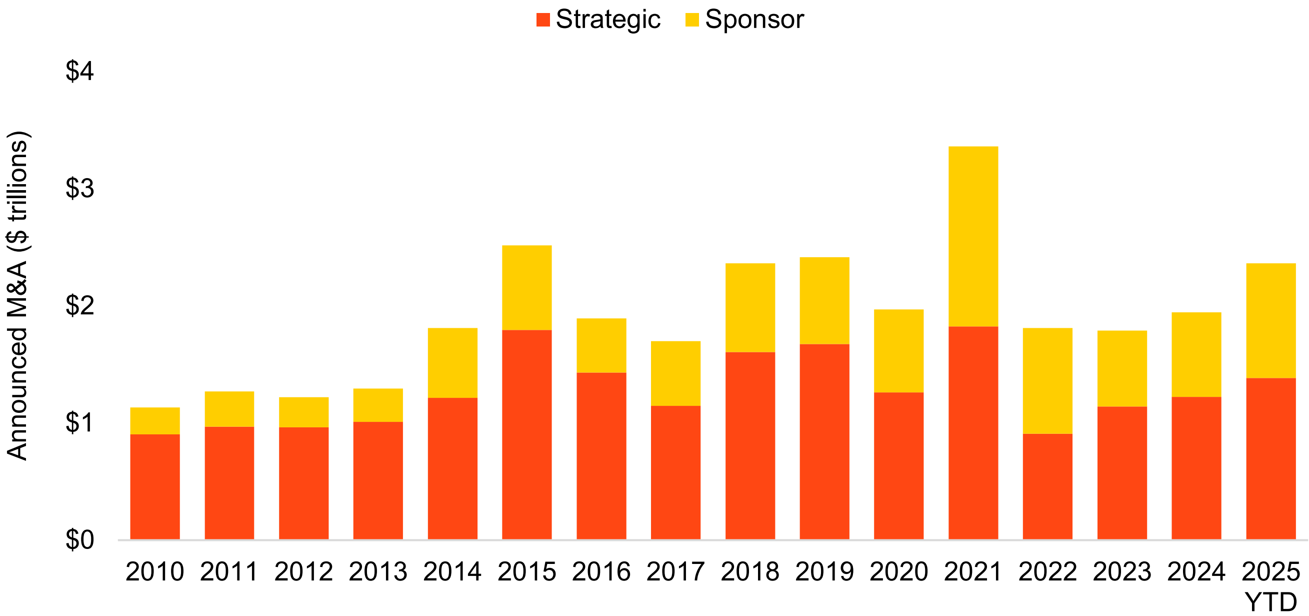
Source: ICE-BofA, CBOE, Bloomberg, BlackRock. As of October 16, 2025.

Episodic market volatility returns

3Q2025 earnings commentary from large cap U.S. banks signaled "resilient" consumer and small business credit quality, alongside "better than expected" – and in some cases, *declining* – delinquency rates. Optimism around continued strength in capital markets activity was also a common theme (Exhibit 2), citing an "upbeat" tone, a building "queue" of transactions, and "a more supportive regulatory environment." The importance of scale and investing for growth were also highlighted as drivers of strategic deal-making, in particular.

Exhibit 2: YTD M&A volumes are already higher than *full-year* 2022-2024 levels

Announced strategic and sponsor-related M&A, by firms located in North America, Europe, Japan and the Middle East. Captures deals valued at $1 billion or more. Excludes cancelled and withdrawn deals



Source: Dealogic (ION Analytics), BlackRock. As of October 16, 2025.

This positive messaging from the large cap U.S. banks was quickly overshadowed, however, by disclosures from two regional banks of losses within their lending books (specifically, a pair of related commercial and industrial loans and a revolver for commercial real estate) which weighed on sentiment in the sector.

As the 3Q2025 earnings season progresses with the regional banks and consumer finance firms, we expect market participants will be focused on banks' commentary regarding lending and underwriting standards. The 8-Ks filed by the two affected regional banks cited "apparent misrepresentations" and "a lawsuit alleging fraud."

We remain comfortable with our view that the peak in default activity in the corporate credit market (i.e., syndicated leveraged loans and high yield bonds), is likely behind us. That said, a sentiment overhang over the broader banking and consumer finance sector looks likely to persist, at least until the 3Q2025 earnings season is complete. This is likely to warrant an additional rebuild of risk premia in the credit market, in our view – although we ultimately expect this to be modest and relatively short-lived, given the backdrop of supportive macroeconomic, fundamental and technical factors that we highlighted in our *4Q2025 Global Credit Outlook*.

Related to these recent developments, some measures of market volatility have risen to the highest levels since April (Exhibit 1). As we outlined in July, episodic market volatility – while inherently difficult to time – is likely to remain a prominent feature of the investing landscape. Such volatility underscores the value of certainty on financing execution and terms – something private credit seeks to provide to a wide range of companies, even when public debt markets may become dislocated, or when bank lending standards may become restrictive. This may further expand private credit's addressable market of borrowers, in our view.

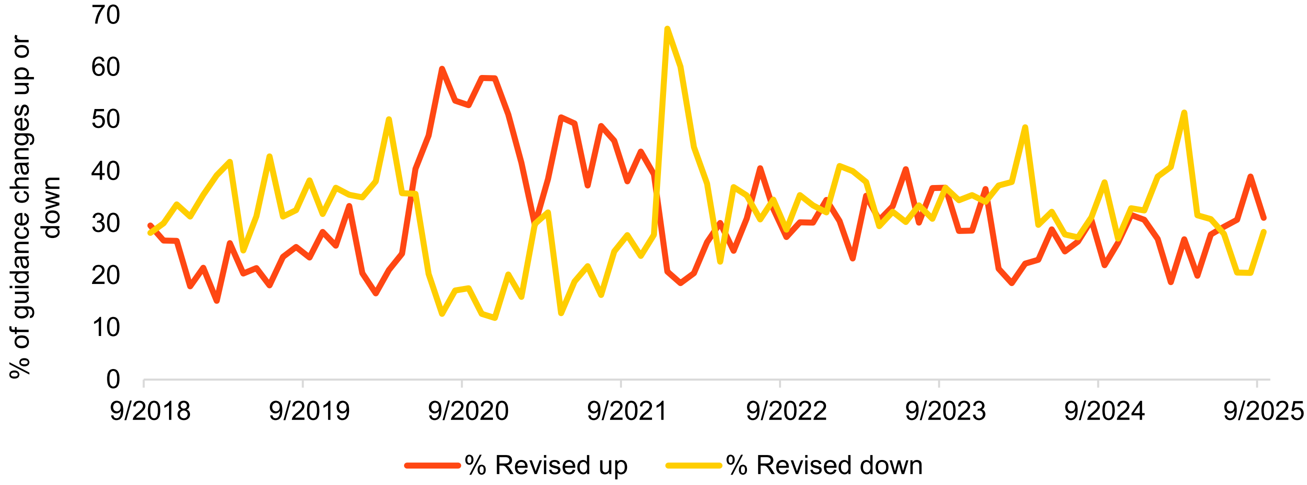
Monitoring the trends around guidance

The trends around guidance will also be important to monitor as 3Q2025 earnings season progresses. As Exhibit 3 illustrates, August 2025 was notable as it represented a positive inflection in the earnings guidance revisions provided by U.S. companies. During the month, 39% of firms raised their earnings guidance – the highest level since June 2023. Similarly, only 20% of firms lowered guidance during the month – a level at the low end of the range of the past several years (again, Exhibit 3). And while the sample set of companies providing guidance in September was smaller (likely due to earnings blackout period restrictions), the positive trend moderated somewhat. We will be monitoring this closely over the course of October, for confirmation that the trend of corporate resilience – at least in aggregate – remains intact.

Given this backdrop, we expect performance dispersion across *and within* sectors to persist. We expect over-leveraged issuers and sectors exposed to the most challenged areas of the economy – such as younger and lower-income consumers with limited discretionary income, as one example – may face the most pronounced performance headwind. This highlights the importance of granular credit selection, underwriting and due diligence, in our view. Exhibits 5 through 8 highlight the sector performance dispersion across the USD and EUR credit markets, so far in 2H2025.

Exhibit 3: Management guidance was balanced in September, vs. August's positive signaling

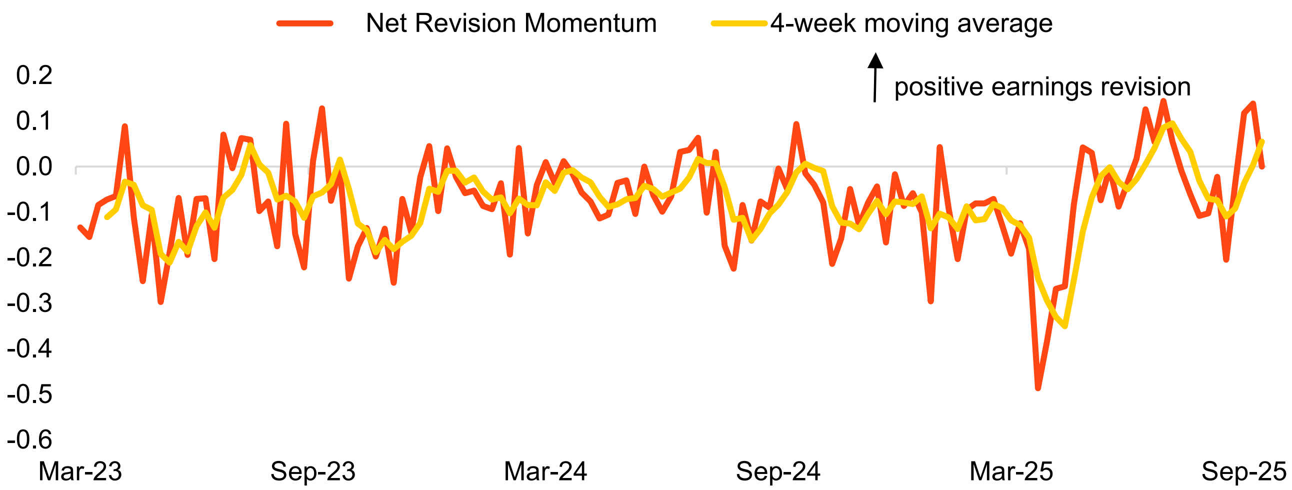
Monthly earnings guidance revisions provided by U.S. corporates (as of each month end)



Source: Bloomberg Intelligence, BlackRock. Captures data through September 30, 2025 (most recent available as of October 16, 2025). Excludes neutral guidance revisions. Captures guidance for all companies listed on a U.S. stock exchange (as the primary and active exchange). There is no guarantee any forecasts may come to pass.

Exhibit 4: Analysts' earnings revision momentum has turned less positive, as of late

Net Revision Momentum: 12-month forward EPS, for the S&P 500



Source: Bloomberg Intelligence, BlackRock. As of October 3, 2025 (most recent update as of October 16, 2025). Net Revision Momentum = (Positive Revisions – Negative Revisions) / Total Revisions.

Exhibit 5: USD IG sector performance dispersion

Aggregate and sector-level option adjusted spreads (OAS, bps) on 6/30/2025 (end of 1H2025) and now (10/15/2025) for the Bloomberg USD IG Corporate Index, and percentage change in the 2H2025 to date

	OAS		% change
	06/30/2025	10/15/2025	2H2025 to date
US Investment Grade OAS	**84**	**76**	**-9%**
Media Entertainment	163	81	-50%
Airlines	118	99	-16%
Automotive	113	96	-16%
Aerospace/Defense	82	71	-13%
Other Industrial	73	63	-13%
Building Materials	87	76	-12%
Transportation Services	89	78	-12%
Construction Machinery	47	41	-12%
Supermarkets	91	80	-12%
Diversified Manufacturing	68	61	-11%
Natural Gas	103	92	-10%
Restaurants	70	63	-10%
Electric	91	82	-10%
Tobacco	88	79	-10%
Banking	79	71	-10%
Wireless	86	78	-10%
Metals and Mining	87	78	-10%
Retailers	57	51	-10%
REITs	84	76	-10%
Packaging	88	80	-9%
Consumer Products	54	49	-9%
Lodging	86	78	-9%
Healthcare	84	77	-9%
Energy	101	92	-9%
Consumer Cycical Services	76	69	-9%
Pharmaceuticals	65	59	-9%
Environmental	54	50	-8%
Railroads	72	66	-8%
Home Construction	89	82	-8%
Gaming	124	115	-8%
Health Insurance	95	89	-7%
Paper	99	93	-6%
Property & Casualty	83	79	-5%
Life Insurance	109	104	-5%
Chemicals	96	93	-4%
Brokerage/Asset Managers	81	78	-4%
Wirelines	86	83	-3%
Technology	67	64	-3%
Leisure	104	101	-3%
Food and Beverage	71	69	-3%
Finance Companies	133	138	4%
Cable Satellite	110	114	4%
Other Financial	101	108	7%

Source: BlackRock, Bloomberg. As of October 15, 2025.

Exhibit 6: USD HY sector performance dispersion

Aggregate and sector-level option adjusted spreads (OAS, bps) on 6/30/2025 (end of 1H2025) and now (10/15/2025) for the Bloomberg USD HY Corporate Index, and percentage change in the 2H2025 to date

	OAS		% change
	06/30/2025	10/15/2025	2H2025 to date
US High Yield OAS	**288**	**277**	**-4%**
Wireless	641	144	-78%
Cable Satellite	517	364	-30%
Metals and Mining	276	224	-19%
Media Entertainment	451	372	-17%
Pharmaceuticals	541	471	-13%
Natural Gas	379	343	-9%
Electric	176	161	-9%
Airlines	355	327	-8%
Banking	218	204	-6%
Energy	308	289	-6%
Building Materials	268	254	-5%
Tobacco	210	201	-5%
Supermarkets	155	150	-3%
Consumer Cyclical Services	281	276	-2%
Retailers	353	346	-2%
Healthcare	225	221	-2%
Food and Beverage	187	184	-1%
Life Insurance	254	256	1%
Transportation Services	353	359	2%
REITs	291	297	2%
Home Construction	194	201	3%
Consumer Products	289	300	4%
Restaurants	184	193	5%
Other Financial	311	331	7%
Other Industrial	235	251	7%
Technology	261	281	8%
Construction Machinery	156	168	8%
Leisure	174	189	9%
Lodging	119	130	9%
Property & Casualty	161	178	10%
Finance Companies	208	231	11%
Aerospace/Defense	114	128	12%
Diversified Manufacturing	192	218	13%
Automotive	261	300	15%
Gaming	226	269	19%
Brokerage/Asset Managers	176	213	20%
Paper	385	470	22%
Wirelines	242	299	23%
Chemicals	251	318	27%
Health Insurance	139	177	27%
Environmental	134	175	30%
Packaging	427	579	35%
Railroads	644	1010	57%

Source: BlackRock, Bloomberg. As of October 15, 2025.

Exhibit 7: Pan-European IG sector performance dispersion

Aggregate and sector-level option adjusted spreads (OAS, bps) on 6/30/2025 (end of 1H2025) and now (10/15/2025) for the Bloomberg Pan-European IG Corporate Index, and percentage change in the 2H2025 to date

	OAS		% change
	06/30/2025	10/15/2025	2H2025 to date
Pan-European Investment Grade	**91**	**80**	**-12%**
Supermarkets	98	76	-22%
Leisure	139	110	-21%
Technology	84	68	-19%
Home Construction	164	134	-18%
Retailers	86	70	-18%
Environmental	104	86	-18%
Media Entertainment	104	86	-17%
Health Insurance	128	107	-16%
Lodging	112	95	-15%
Banking	91	78	-15%
Brokerage/Asset Managers	93	80	-15%
REITs	104	89	-14%
Diversified Manufacturing	69	59	-14%
Property & Casualty Insurance	110	95	-14%
Airlines	88	76	-13%
Other Financial	113	98	-13%
Life Insurance	120	104	-13%
Consumer Products	67	59	-12%
Natural Gas	99	87	-12%
Restaurants	77	68	-12%
Other Utility	119	105	-12%
Energy	100	88	-12%
Building Materials	77	68	-11%
Wireless	92	81	-11%
Aerospace/Defense	65	58	-11%
Electric	94	83	-11%
Tobacco	111	99	-11%
Transportation Services	87	78	-11%
Metals and Mining	100	89	-10%
Railroads	88	79	-10%
Healthcare	78	70	-10%
Pharmaceuticals	68	61	-10%
Food and Beverage	72	65	-9%
Consumer Cyclical Services	88	80	-9%
Construction Machinery	69	63	-9%
Wirelines	86	78	-9%
Automotive	101	94	-7%
Chemicals	77	74	-4%
Paper	86	83	-3%
Cable Satellite	87	86	-2%
Other Industrial	86	85	-1%
Finance Companies	117	122	4%
Gaming	122	126	4%
Packaging	86	97	13%

Source: BlackRock, Bloomberg. As of October 15, 2025.

Exhibit 8: Pan-European HY sector performance dispersion

Aggregate and sector-level option adjusted spreads (OAS, bps) on 6/30/2025 (end of 1H2025) and now (10/15/2025) for the Bloomberg Pan-European HY Corporate Index, and percentage change in the 2H2025 to date

	OAS		% change
	06/30/2025	10/15/2025	2H2025 to date
Pan-European High Yield	**324**	**303**	**-7%**
Wireless	475	179	-62%
Finance Companies	330	212	-36%
Property & Casualty	357	230	-36%
Retailers	379	285	-25%
REITs	462	353	-24%
Natural Gas	201	156	-23%
Other Utility	539	447	-17%
Wirelines	333	282	-15%
Packaging	459	395	-14%
Banking	171	148	-14%
Airlines	211	183	-13%
Diversified Manufacturing	190	169	-11%
Paper	270	243	-10%
Technology	425	384	-10%
Electric	173	158	-9%
Consumer Products	238	220	-8%
Transportation Services	228	212	-7%
Automotive	284	267	-6%
Energy	340	321	-6%
Leisure	303	288	-5%
Cable Satellite	366	359	-2%
Railroads	134	132	-2%
Lodging	283	279	-2%
Construction Machinery	196	194	-1%
Pharmaceuticals	257	256	-1%
Consumer Cyclical Services	291	294	1%
Supermarkets	401	407	2%
Home Construction	265	270	2%
Metals and Mining	331	350	6%
Media Entertainment	244	259	6%
Healthcare	417	446	7%
Other Financial	485	525	8%
Building Materials	569	656	15%
Food and Beverage	279	334	20%
Other Industrial	287	347	21%
Chemicals	394	477	21%
Gaming	249	304	22%
Brokerage/Asset Managers	293	465	58%
Environmental	160	273	71%
Restaurants	332	578	74%

Source: BlackRock, Bloomberg. As of October 15, 2025.

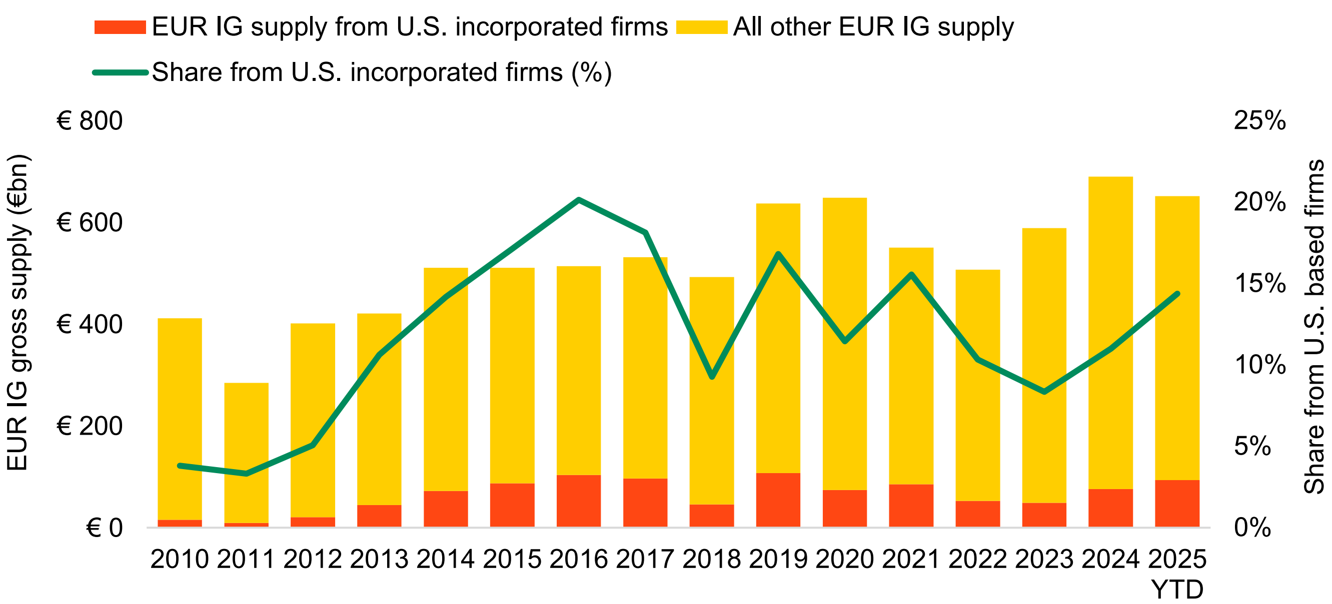
And while Exhibits 5 through 8 parse sector performance across the USD and EUR markets, the country level exposures are not *entirely* siloed. For example, there has been a considerable amount of so-called 'reverse Yankee' issuance in the European IG and HY primary markets over the last few years.

Exhibits 9 and 10 illustrate this by showing the share of EUR IG and EUR HY gross issuance generated by firms with a parent company incorporated in the U.S. In the EUR IG market, U.S. firms have generated 14% of the year-to-date gross supply, and 11%, on average, since 2020. This figure is even higher in the EUR HY market: U.S. firms generated 24% of year-to-date gross supply (the highest since 2018) and 16%, on average, since 2020.

This, alongside other compositional, size-related, and company-specific factors, will often play a role in sector performance within and across markets (i.e., a given sector's performance in IG vs. HY, USD vs. EUR).

Exhibit 9: U.S.-based firms generated 11% of EUR IG gross issuance since 2020

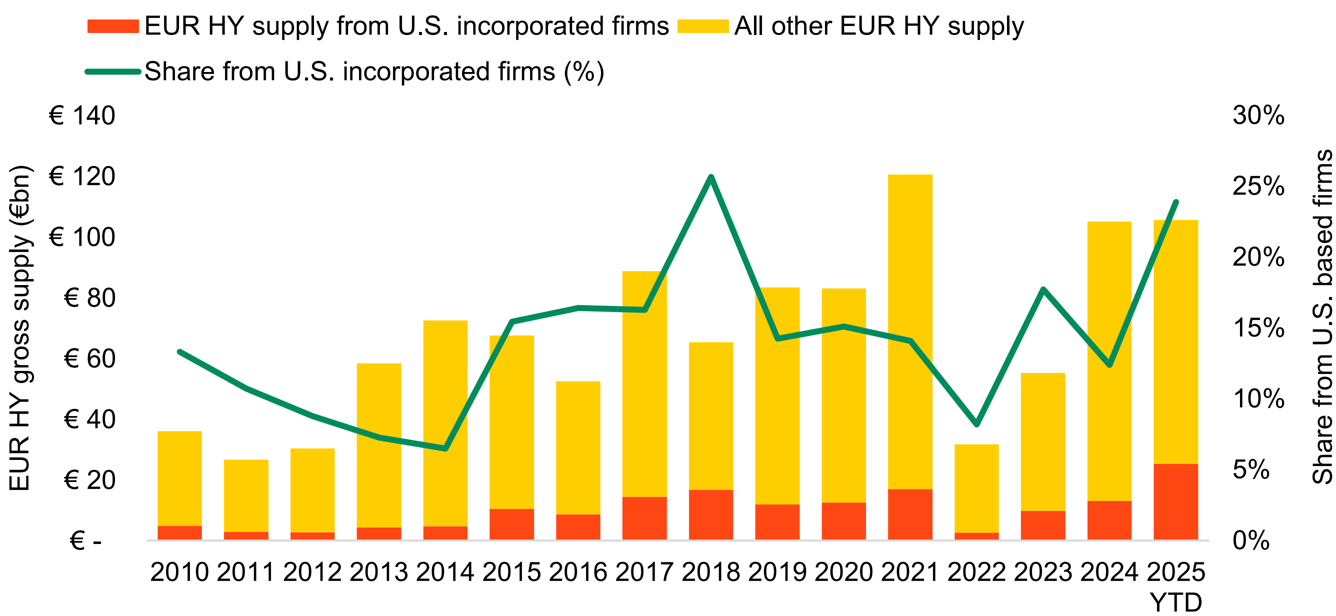
EUR IG gross issuance, and the share generated by firms with a parent incorporated in the U.S. (RHS)



Source: Dealogic (ION Analytics), BlackRock. As of October 15, 2025.

Exhibit 10: U.S.-based firms generated 16% of EUR HY issuance since 2020

EUR HY gross issuance, and the share generated by firms with a parent incorporated in the U.S. (RHS)



Source: Dealogic (ION Analytics), BlackRock. As of October 15, 2025.

Unless otherwise stated, all reference to $ are in USD.

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