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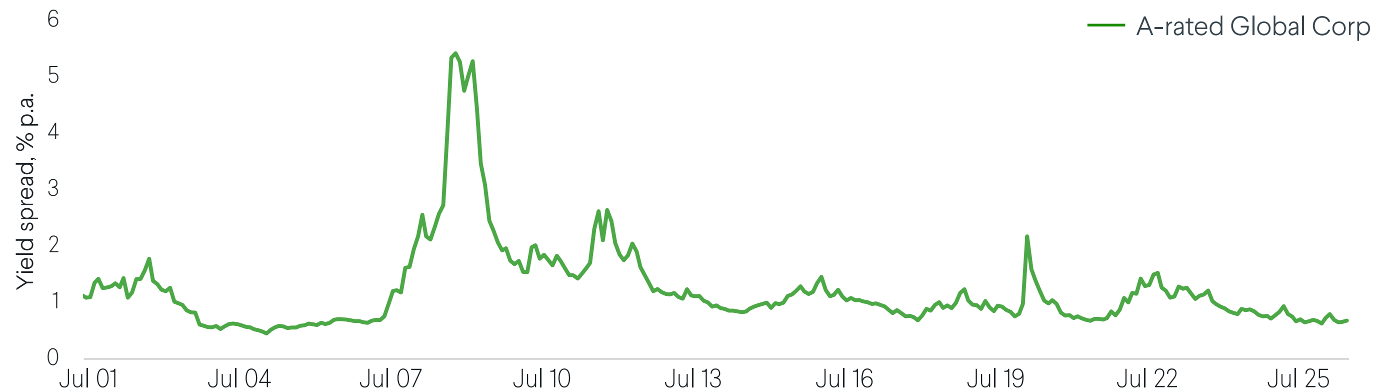
Rethinking global investment-grade credit

Global investment-grade credit has rarely looked so expensive in spread terms. All-in yields appear attractive, particularly relative to the post-financial-crisis period, but most of that income now comes from government bond yields rather than credit compensation. At current levels, investment-grade spreads leave investors a limited margin of error if growth is disappointing, issuance remains elevated or government bond markets are volatile.

Chart 1: Credit spreads to 31 July 2026



Source: Bloomberg

But the issue is not simply valuation: the composition of the market has also changed. The surge in issuance from large technology and AI-related 'hyperscaler' borrowers has increased the technology sector's footprint in investment-grade benchmarks, with a similar effect on global equity indices. These issuers generally have strong balance sheets, but their growing benchmark weight creates a sectoral bias that passive investors may be accepting unintentionally. At the same time, much of this borrowing has been long dated, reflecting the long useful life of data centres, power infrastructure and related capital expenditure.

For example:

- US investment-grade hyperscaler issuance represented 13% of total corporate bond issuance in the first half of 2026[1]
- Hyperscaler debt had grown to almost 5% of the US investment-grade corporate index by the beginning of August 2026[2]
- Approximately 25% of issuance in the first half of this year was associated with AI-related investment[3]

So, while the overall market duration has not materially changed, the source and concentration of supply certainly have.

If liability duration can be obtained efficiently through LDI, should schemes continue to take substantial spread-duration risk through long-dated corporate credit? Or could short-dated investment grade and selected asset-backed securities (ABS) offer a better balance of income, diversification and downside risk?

[1] Vanguard's Active Fixed Income Perspectives Q3 2026 'Finding Higher Ground'
[2] Pimco 'The Credit Market Lens: The AI Split between US Dollar and European Investment Grade'
[3] Vanguard's Active Fixed Income Perspectives Q3 2026 'Finding Higher Ground'

Looking beyond the broad investment-grade index

One alternative is ABS. High-quality ABS can offer a different mix of risks from corporate credit: shorter and more stable duration, structural credit enhancement and lower correlation to corporate spread cycles. But these don't make the asset class risk free – underwriting standards, collateral quality, consumer stress and liquidity all matter. However, for investors seeking yield without adding substantial duration or corporate sector concentration, ABS can be a compelling diversifier, particularly when compared with long-dated investment-grade corporate bonds at tight spreads.

Short-dated investment-grade credit is another option. It retains exposure to high-quality issuers but reduces the portfolio's sensitivity to both interest rates and spread duration. The attraction of short-dated investment grade at current valuations is primarily risk-adjusted yield.

Relative to long-dated corporate credit, short-dated investment grade has several compelling characteristics:

- lower interest-rate sensitivity
- materially lower spread duration
- reduced exposure to long-end hyperscaler supply
- a greater reinvestment flexibility if credit markets eventually reprice.

Clearly, it's difficult to make the case that short-dated investment grade is outright cheap. But it may provide a more attractive asymmetry between yield and downside sensitivity when spreads are already tight.

Also worth consideration are BB-rated high-yield bonds, as they can provide a meaningful yield pick-up while sitting at the higher-quality end of the sub-investment-grade market. However, the trade-off is more complex – BB-rated bonds introduce greater default and downgrade risk, tend to be more cyclical, and can behave more like risk assets during periods of growth-related stress. With high-yield spreads also tight by historical standards, investors may not be paid sufficiently for reducing quality unless they have strong views on issuer fundamentals and the economic cycle. Bonds of this grade may, therefore, be useful selectively, but they're not the cleanest substitute for expensive investment-grade exposure.

Conclusion

Global investment-grade credit still has its place. However, the concentration of hyperscalers has changed the composition of the benchmark. Investors should recognise that the broad investment-grade index now embeds a less attractive combination of tight spreads, heavier technology exposure and longer duration. In that context, short-dated investment grade and high-quality ABS could be efficient ways to preserve income while reducing sensitivity to spread widening and rate volatility. Both can offer similar yield characteristics with less duration risk, and both reduce reliance on a benchmark that's increasingly shaped by a narrow set of large, long-dated issuers. For investors allocating fresh capital, the more defensive option is likely to be shortening the maturity profile and diversifying into securitised credit rather than adding broad, long-duration global investment-grade exposure at historically rich spread levels.

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