



**[00:00] [Kevin Minas] [KM]** A year ago, global credit markets were in a good place. Spreads were tight, but our global credit team was leaning conservative and talking about the risks that weren't getting much airtime in the financial press.

12 months later, those same topics, be it AI CapEx, Fed credibility, and fiscal spending, are now front-page news. Two of our global credit analysts, Sandro Morassutti and Marty Lee, join us to revisit those views and give us an update on where the market has moved since then. The focus, as always, is on trying to determine where risk and value sit today.

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**[00:53] [KM]** Sandro and Marty, nice to see you guys today. Thanks for joining.

**[00:57] [Sandro Morassutti] [SM]** How are you doing today, Kevin?

**[00:59] [Marty Lee] [ML]** Thanks for having us, Kevin.

**[01:00] [KM]** Very good. Thank you, guys. Why don't we jump right in? For this episode, we're going to take a bit of a time machine, or a time warp, back to a year ago. The two of you, as well as Brian Carney, the lead PM on the global credit strategy, were on the road speaking to clients about the state of the global credit markets.

The big topics back then were a focus on AI CapEx and the debt that was funding it, the credibility of the Fed and the U.S. government, and geopolitical risk. Let's go through each one of those separately. The team has been flagging the AI data centre build-out and the debt behind it as a credit risk for a while.

It's a mainstream concern today, less so at the time when you guys started talking about it: hyperscaler leverage, circular financing, and then private credit as well funding some of these assets. The question today: if you could state the position you guys had a year ago, and then also today, is the risk bigger, smaller, or different than it was before? Would you frame it differently?

All to say, where do we sit right now with this AI-linked credit risk?

**[02:01] [SM]** Sure, thanks, Kevin. I'll start. I don't know if we'd necessarily define it as an imminent credit risk. I'd say it's definitely been a credit theme for the last year. And the short answer is, it's very differently shaped and, honestly, much bigger than we expected a year ago.



When we were on the road with Brian on the cross-country Mawer Perspectives tour, he referenced a [McKinsey report](#) that projected 5.2 trillion of data centre spend over the next five years. If we assumed half of that would be debt financed, that would translate to about \$500 billion a year of new bond supply. To put that in context, \$500 billion a year is roughly what the entire U.S. corporate market issues on a net basis in an average year.

So this one sector, this one trend, could double net supply overall in the U.S. At the time, it didn't seem like anybody was really modelling those numbers into our expectations. Hyperscalers had all published these enormous CapEx numbers, but none of them had said they would be funding it in the bond market. A lot of market participants assumed cash flow was going to fund a large part of this spending.

This part of the global credit team's thesis played out very closely to what we expected. In early July, we saw Amazon, Alphabet, Meta, and Oracle all come to market and issue about \$194 billion of new bonds. That's versus about \$108 billion in all of 2025. Bank of America had to raise its forecast for the year from \$140 billion to \$175 billion, and we blew straight through that.

Today, we see U.S. corporate supply running at about \$1.7 trillion. That's up 27% year-over-year. For context, 2020's full-year issuance ended at \$1.75 trillion, and that was a record year for the new-issue market. We expect to see a new high watermark set in 2026.

Looking at individual transactions, some of these deals were so large they're difficult to frame. I referenced the Amazon issue earlier. They raised \$37 billion across 11 tranches in a single day in March. In February, Alphabet sold \$1 billion sterling of a 100-year bond as part of a broader \$31 billion debt offering. These are sovereign-sized trades from companies that have not participated in the credit markets anywhere near this scale in prior years.

So we would think that level of supply would push spreads wider, but to date that hasn't happened. Spreads continue to trade at the tights. Investment-grade spreads continue to be around 80 basis points and high-yield spreads are actually 14 basis points tighter year-to-date, even with the \$1.7 trillion of supply we've seen come to market.

So far, the market's been able to digest all of that supply without any major issues. And we've seen benchmark yields widen slightly, so overall yields combined are higher. That may also be driving demand through these waves of supply.

**[05:06] [Marty Lee] [ML]** I'll jump in on what Sandro touched on. On where we sit today, the first thing I would say is that we're still in the very early innings of this build-up. Each earnings season, we're seeing these companies put up record numbers and then reiterate CapEx guidance that's higher than the quarter before.

We're really not seeing any signs of that slowing down. Sandro touched on spreads staying tight. They have held up to this point. What I would say is that held up to date doesn't mean they're going to continue to hold up.

Given how much Treasuries have moved, and how little spread compensation there is from a portfolio perspective, we continue to lean higher-rated credit and we're still shorter in duration. That said, we are seeing value in some areas. We've participated in some of the new deals from Amazon and Alphabet. These are rare



opportunities where you have double-A rated companies pricing wider than single-A companies. That's really just a result of the sheer volume they're bringing to market. We've also added some lower-rated names, but very much on one-off situations where we like the specific story.

But the biggest thing, and this is the same thing Brian was saying a year ago, is that the supply is going to keep coming. And with that kind of volume still ahead of us, we think there's a real opportunity to see spreads widen from here. We would rather be positioned to have the capacity to buy that than be fully invested into that dislocation.

**[06:25] [KM]** Maybe just a follow-up on what you just mentioned there, Marty. So the portfolio in general is a bit shorter duration. A lot of these new issues, though, were longer. Were we participating in the shorter stuff, or where were we participating?

**[06:36] [ML]** In those ones that came to market, we participated in the short end. We have added some duration to the portfolio throughout this. We've seen long ends go up. You saw the 30-year in the U.S. last week touch 5.37. We've opportunistically added some duration, but in those specific issues, we were pricing the short end.

To us, the biggest thing with this AI build-out is that there's a lot happening on the back end. They're issuing a ton in the 10-to-30-year sector. That's competing with a ton of government issuance and sovereign issuance coming in that same sector. There's a lot of pressure on the back end.

The other thing is we just don't really know what the world's going to look like with this AI build-out. We have a lot of these companies who are AA rated today. But with the pace that AI is moving and the build-out that's taking place, in 30 years' time, if you buy a 30-year bond, I don't know if these companies look the same way they do today.

So for us as a portfolio: one, we feel we're being compensated in the short end. We don't think we need to go out the curve. And two, it's a lot to try to underwrite what the future is going to look like when this AI build-out takes place.

**[07:35] [KM]** So the visibility is better in the next few years, but 30 years is definitely harder to handicap. That's fair.

In terms of the second topic, central bank independence, particularly the Fed and the political pressure, that's certainly something that's become much more topical over the last few quarters. If you guys can maybe just walk us briefly through some of that narrative and what's been going on there, and then the implication, whether it be the long end, term premium, how we're thinking about duration, and whether this is a risk or an opportunity or both.

**[08:02] [ML]** Yeah, I'll start on that and then I'll let Sandro add on. This has been certainly a fascinating topic to follow. A year ago, the debate was whether the Fed was going to get pressured into cutting too fast. Instead, a week ago, we saw the Fed hike. That was their first hike since 2023. It was unanimous, and it was under a new chair that President Trump appointed.



On the narrow question we were all focused on about Fed independence, the Fed held the line and maintained its independence. So the answer to that is yes, the Fed is independent, but I don't think the credibility issue went away. That's more of our bigger concern moving forward: the President has been calling for rates to be one percent or less.

He publicly said after the FOMC meeting that he told Warsh, you might as well vote with the board, it's not going to matter. Whatever you make of that, we're in a world now where the Fed chair has to demonstrate independence rather than simply have it. And that's a different institution than the one we've all become accustomed to, and it's certainly something that we're paying attention to.

The other thing we're paying attention to is what's happening with the Treasury. In August, they announced they doubled the size of the long-end buyback operations, from \$2 billion to at least \$4 billion in the 10-to-30-year sector, with reporting that their near-trillion-dollar general account could fund a lot more. The market reaction to that one was interesting. You saw yields fall for about a day, and then that went straight back up.

And when you talk about term premium, I think this is a good segue to that, in that the whole reason investors have historically been willing to hold the long end is that they trusted the institution setting the rate. Once you start questioning who's actually setting the long end, you don't get lower yields from an intervention, you get a higher premium demanded to hold that paper. And on the back of that, that's why you saw the 10-year break through the 5% barrier, and the 30-year, like I said earlier, got as high as 5.37.

**[09:49] [SM]** And in terms of how we react to that, Kevin, these elevated yields create an environment where we can earn a higher return without going down in quality. If you look at the strategy a year ago, the duration was 1.2 years. That's come up a little bit. We're just over 2 right now. So we do feel like we're being paid to take on a little bit more duration risk right now, whereas a year ago we weren't. But I'd emphasize that's only some duration that we've added.

The strategy is just over 2 in duration, measured against a benchmark that's in the mid 5-years. What's keeping us toward the shorter end of the curve is a few factors. First, we continue to see supply come into the market, as we've touched on. Second, credit curves are still flatter than we've seen in a historical context. If we take Amazon's Canadian credit curve as an example, the June 2029s are trading near 50 basis points, and their December 2057s are trading at about 140 basis points.

So as a lender, you're only getting paid an additional 85 to 90 basis points to extend duration an additional 28 years. That doesn't seem like a great risk-return profile for us. That's just one specific example, but you can extend that example across most investment-grade issuers in the market today.

**[11:06] [KM]** And I guess that's one of the benefits of a strategy that can be, by its definition, opportunistic or tactical. You don't have to take on duration risk when you don't want to, but when there's volatility, you can lean into it. So it sounds like we've maybe chipped away a little bit on the duration side, but yields have maybe still got room to run, and we're saving some dry powder. That makes sense.

We talked about central banks. You guys talked a little bit about the Treasury. We haven't talked about fiscal spending yet, but that was certainly a big topic you guys were discussing over the last year, and it certainly hasn't



gone away. Government borrowing, whether it be in the U.S., UK, Japan, or certainly even in Canada, how does the sovereign funding pressure leak into corporate spreads?

We've seen this constant narrative about bigger deficits, but at the same time it's juxtaposed against spreads that haven't really moved all that much. So are we seeing mispricing that's worth harvesting here, whether it be the government or corporate curves? You guys have alluded to this a little already, but maybe you can expand a bit further.

**[11:58] [SM]** That's a good point, Kevin. And over the past year, that's where the biggest moves have taken place, in sovereign spreads. And if you want to understand why our benchmark is posting a negative return year-to-date when spreads are at roughly 20-year highs, the answer isn't in the credit spread part of the equation: it's in the benchmark yield part of the equation, and sovereign yields. And those moves have been pretty meaningful.

The UK 10-year hit the highest level it's seen since 1998. Japan's 10-year went through 3% for the first time since 1996. In August, long-term borrowing costs across every major economy hit multi-decade highs, almost at the same time.

So with regards to funding pressure leaking into corporate credit spreads, we just haven't seen that pressure come into credit spreads just yet. Part of that reason is it hasn't hit the all-in return. Investors are comfortable buying an investment-grade bond at 80 basis points over the benchmark when the spread that it is marked against has moved 100 basis points.

So in absolute terms, you're being paid more than you were, even though the credit spread hasn't moved materially. We'll have to see what breaks that. It could be credit deterioration, widening credit spreads, or simply more supply coming to market than can be absorbed at that given time.

**[13:19] [ML]** Sandro mentioned credit quality deteriorating. I think fundamentally companies have held up really well so far this year, but that's where I'd keep watching. If Treasuries stay at these elevated levels, companies are going to be forced to refinance at meaningfully higher all-in costs. And that could really be what triggers some strain.

On your mispricing question, Kevin, that has been interesting this year. In a few scenarios, we've been able to find really good-quality corporates whose fundamentals have stayed strong, if not improved, and they've been dragged wider just by what the underlying Treasury is doing, not by anything happening with their own cash flows. And those are definitely one-off opportunities that we look to take advantage of when they come up.

**[14:01] [KM]** With respect to geopolitics, there's certainly been a lot of episodes over the last year. That isn't new. That's been the case for a number of years now, unfortunately. The question on that is somewhat similar to the sovereign question: is the market ultimately pricing that risk correctly?

It seems like, again, as you guys have mentioned, overall all-in yields and spreads are somewhat benign, or maybe too benign, relative to the volatility you would expect there to have been. The question is, ultimately, is the market looking through that? Is there some complacency there, or is this par for the course?



**[14:29] [ML]** Yeah, like you said, we've touched on this a bit, but the short answer is that the market's not directly paying for that risk. It may be paying for it in oil prices, and indirectly through the impacts on inflation and rates, but it's certainly not paying for it in credit spreads.

And Sandro mentioned this earlier, but spreads continue to trade at 20-year tights through everything that's happened this year. You have Iran, even Venezuela, which I think we forget about given everything else that's going on. You still have Ukraine and Russia taking place. The fact that spreads have held up is actually a pretty interesting data point, and something we're definitely watching. It also poses a risk that we may be overlooking.

And the European Central Bank (ECB) actually published work on this in June. And what they found is that through this whole Iran conflict, spreads widened to only about half of what the historical relationship would have implied, and then they snapped right back to pre-war levels.

This is my own assumption on what the market is thinking, but I think part of that is driven by the fact that since 2008, any time a credit investor has sold bonds at wider spreads following a geopolitical headline, they've lost money. And that's because for over a decade, we've had pretty quick government or other forms of intervention. It's really the credit-market version of the buy-the-dip investor. Throughout the year, every time spreads started to move wider, there were investors waiting to step in and buy.

And I think the ECB's analysis is something that we should certainly pay attention to. In their words, they said that the limited re-pricing remains striking, and that if this conflict persists, it could expose financial assets to sudden re-pricing and rapid sell-offs. And I think that's a very real risk.

We, as a strategy, have a very similar outlook to the ECB, at least in terms of spread compensation. We don't see ourselves being compensated to go down in credit quality or meaningfully increase duration at these levels. But we're certainly trying to position ourselves to take advantage of any sudden re-pricing or rapid sell-off.

**[16:23] [KM]** One of the benefits of being in the global credit markets, or having an allocation to global credit, is that it's a massive market, tens of trillions in size. Despite the fact that you guys have been talking quite a bit about the general state of the market, spreads being tight, and a more conservative posture, the reality is there are still opportunities you've surfaced through your process, trying to find where the risk is well compensated.

Perhaps we can shift gears a little and talk about where you are finding value now. We've talked a lot about where there's been less value; if you want to highlight that, that's certainly great, but also where some of the opportunities are that you've executed on over the last little while.

**[16:57] [SM]** The best value and best opportunities we're seeing right now, Kevin, are in short-dated, high-quality credit. That's not a default position. It's generally where we think the risk-reward is best for investors, and right now that's where a large part of the portfolio sits. With the move in underlying rates, you're being better compensated for this position. You're getting a real return without taking on outsized credit risk or extended duration risk.

If you look at the prior decade since the financial crisis, you really had to reach way down in credit quality or extend duration to get anywhere near the yield you're able to get now in the front end of the curve, in really good-



quality credits. When we look at what we have to do in order to earn a marginally better return, whether that's reaching down to lower-credit opportunities or extending duration, in our view, you're being asked to take on additional risk without appropriate return. We're just staying in a part of the curve where we think you're being adequately compensated, and we're being patient.

Where that leaves us is that we'd rather own short-term, high-quality paper and remain patient than reach for lower credit quality or extend duration for an additional 50 or 100 basis points. We believe this provides our investors with a good return today, along with access to liquidity, so that we can move quickly should more attractive opportunities present themselves in perhaps a more challenged market.

**[18:29] [ML]** That is the way that the majority of the strategy is set up right now. That's not to touch on the size of our global market and the 5,000 unique issuers that we're looking at on a daily basis. I think we still have found idiosyncratic opportunities. While the whole market hasn't dislocated, and we haven't seen these blowouts across the broader spectrum, we've certainly found one-off names that we find really interesting, where we're like, you know what, those are actually pretty strong underlying credit fundamentals, or we have a really strong conviction in our margin of safety and our downside protection. We've been able to add certain names to the portfolio that we think are giving a decent return for the risk that it provides.

We've talked a lot about duration going from a little over one to two. I think the other thing is that through this whole dislocation this year, and where we've seen some opportunities, our high-yield positions have gone from about 8-9% up to about 15-16% in the portfolio. We continue to find these one-off situations, as part of the team just doing diligence on a ton of names and going out there looking at one-off opportunities. I think that's the benefit of bottom-up fundamental analysis: you can find these really interesting opportunities despite the broader market really not moving in the way that you'd expect it to move.

**[19:39] [KM]** Well, to your point, there's certainly opportunities out there, and you guys have executed on a number of them. There is maybe a more conservative posture right now, because you just think the valuations warrant it and the risks that are out there. Maybe this is a bit of an investor or PM psychology question, to wrap up. In the middle of a market rally, when things are going quite well, when conservatism maybe doesn't pay in the short term, and it's not easy to maintain that stance.

It's usually an event that triggers the dislocation, which ultimately is what the strategy is set up for, to capture those opportunities and validate the initial conservative positioning. The question for you guys would be, how do you tell the difference, or are there markers that you can use to determine when you're early as opposed to being mistaken?

**[20:18] [ML]** I'll say it's a lot easier to answer this question today than when we were trying to answer it a year ago, when we were doing the roadshow across Canada. 2025 was an uncomfortable time to be positioned conservatively, and that's how we were positioned at the end of last year, at a time when credit markets were booming. Every new deal was oversubscribed. Everything was tightening in the secondary market. Every week we were watching spreads grind tighter.

Today, the cracks that we were concerned about, and a lot of the issues that we're talking about, are the same things we were flagging a year ago. Those are showing more broadly, and you're seeing them across news



headlines, so it's nice to see that the ideas we were talking about and the risks we were seeing are being recognized by the market now.

With regards to your question of the difference between being early and being mistaken: if I had to put it into one sentence, to me, early means the argument is still intact and it just hasn't played out yet; wrong means the argument is broken and you're still kind of holding it. In our case, our argument a year ago was that we were looking at a lot of really concerning red flags.

We touched on a lot of them, but between AI debt issuance, Fed independence, fiscal spending, geopolitical unrest, and cracks showing in private credit, we felt like we weren't being compensated for that risk. And frankly, when we look around today, we still think that argument holds. A lot of the concerns we were seeing last year are still there. In some regard they've begun to play out. We've started to see the market react a little bit, whether it's through Treasury yields, but we certainly think some of those risks are still there.

**[21:50] [SM]** It's important to point out that an item we focused on as a team is that our job isn't to predict a specific dislocation or event, or when that will happen. Rather, we've been focused on trying to make sure that we're appropriately positioned to protect our clients' capital in any market, and to have the capacity to buy things when and if bad things do happen. The key thing to remember is that it's very difficult, almost impossible, to mitigate risk in the middle of a crisis when liquidity dries up. We need to do all of this beforehand.

So being conservative last year, and carrying that into our positioning this year, is really about making sure that if there is a market event, we have access to liquidity and we can be the ones taking advantage of opportunities as they become available, rather than being forced sellers in a market that's declining.

**[22:42] [KM]** I think that's a good place to leave it. We've covered a lot of ground, certainly a recap of your perspectives from last year and where things stand today. Marty, Sandro, thanks for joining, and hopefully we have you guys back on soon.

**[22:52] [SM]** Awesome. Thanks, Kevin.

**[22:54] [KM]** Hey everyone, Kevin here again. To subscribe to the Art of Boring podcast, go to [Mawer.com](https://Mawer.com), that's M-A-W-E-R.com, forward slash podcast, or wherever you download your podcasts. If you enjoyed this episode, be sure to leave a review on iTunes, which helps more people discover the Be Boring, Make Money philosophy. Thanks for listening.

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Amazon  
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