PCS ADVISORS

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Credit Spreads Analysis 2026

Key Takeaways

- Spreads today are below average across credit asset classes. Total yield on credit remains attractive – base rates are high and carry is real

- Fixed rate High Yield Bonds are the preferred vehicle – higher quality duration is a tailwind in a spread widening/rate falling scenario

- Patience on entry is key – upside is significant past +1 standard deviation; we're not there yet

Average 1YR Forward Returns

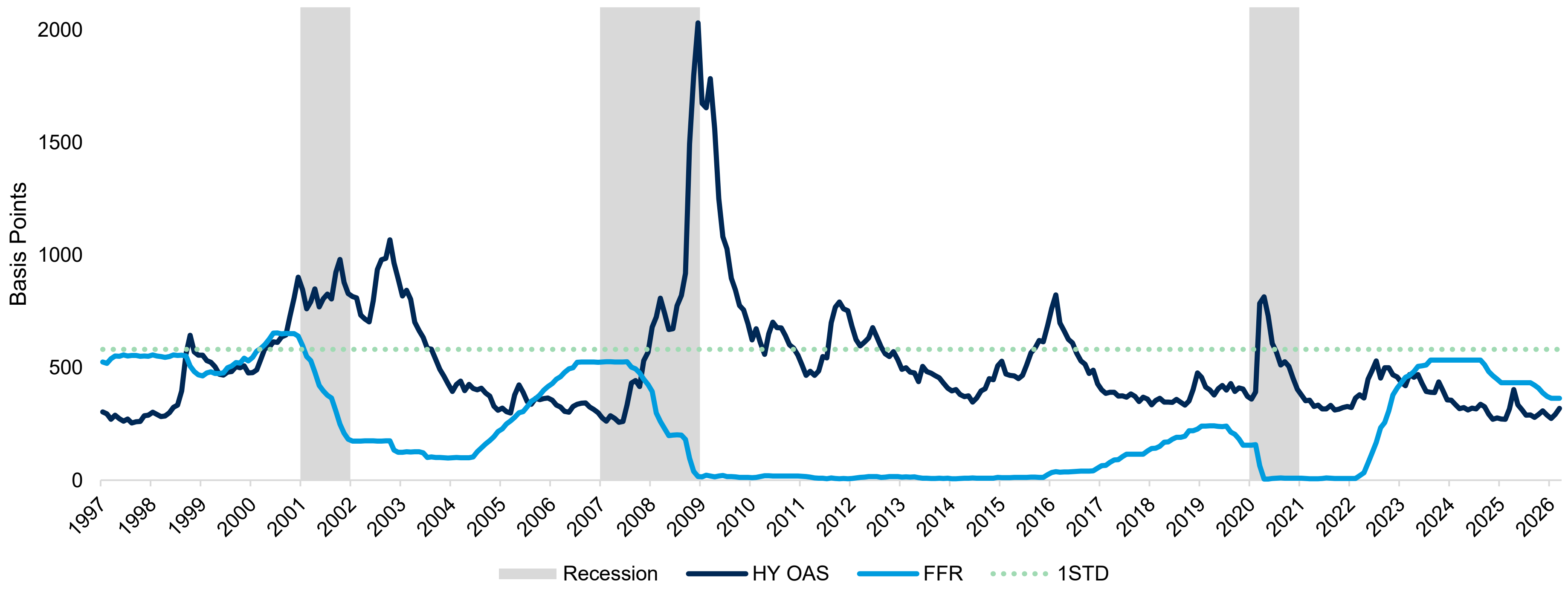
Spread Level	High Yield Bonds	Leveraged Loans	High Yield Muni
> Average	9.6%	7.7%	6.8%
> 1 Std Dev	13.8%	10.2%	11.4%
> 2 Std Dev	20.6%	14.3%	14.2%
> 3 Std Dev	NA	19.7%	NA

Source: Factset and Morningstar Direct, as of February 28, 2026.

Credit Spreads vs. Base Rates

- Credit spreads intuitively widen during economic stress
- Falling rates can accompany spreads wider than one standard deviation
- Base rates today are higher which gives the Federal Reserve room to cut in the next downturn

Historical Base Rates and Spreads

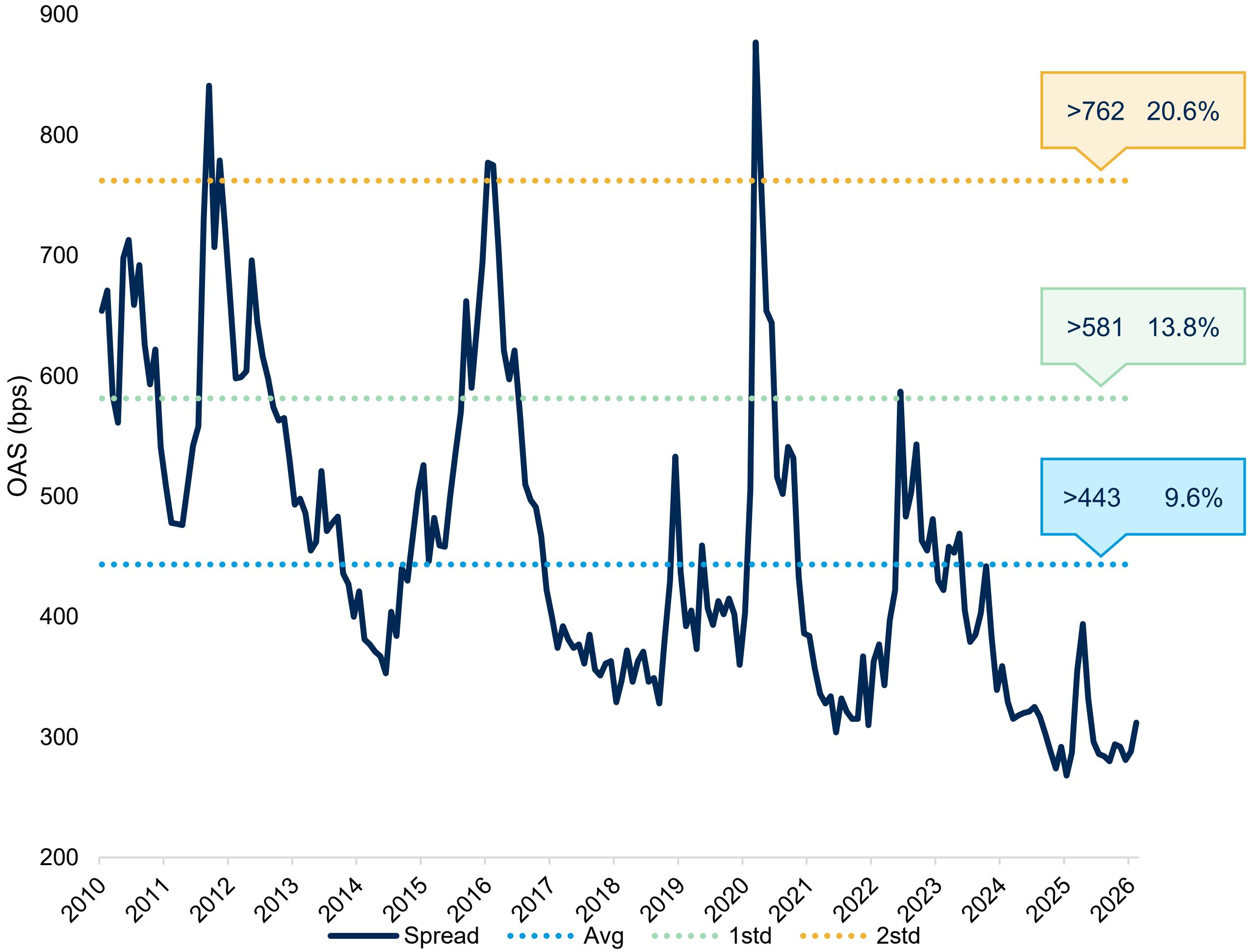


Source: FRED, as of February 28, 2026.

High Yield Bonds

- Over the past 15 years, credit spreads have ranged 300 – 900bps
- On average, credit spreads have remained below average for 15 consecutive months. Currently, they have been below average for 33 months
- The duration exposure in fixed rate high yield can benefit returns when spreads widen. During such periods economic policy is often becoming more accommodative and rates may fall benefiting price return

HY Average 1-Year Forward Returns

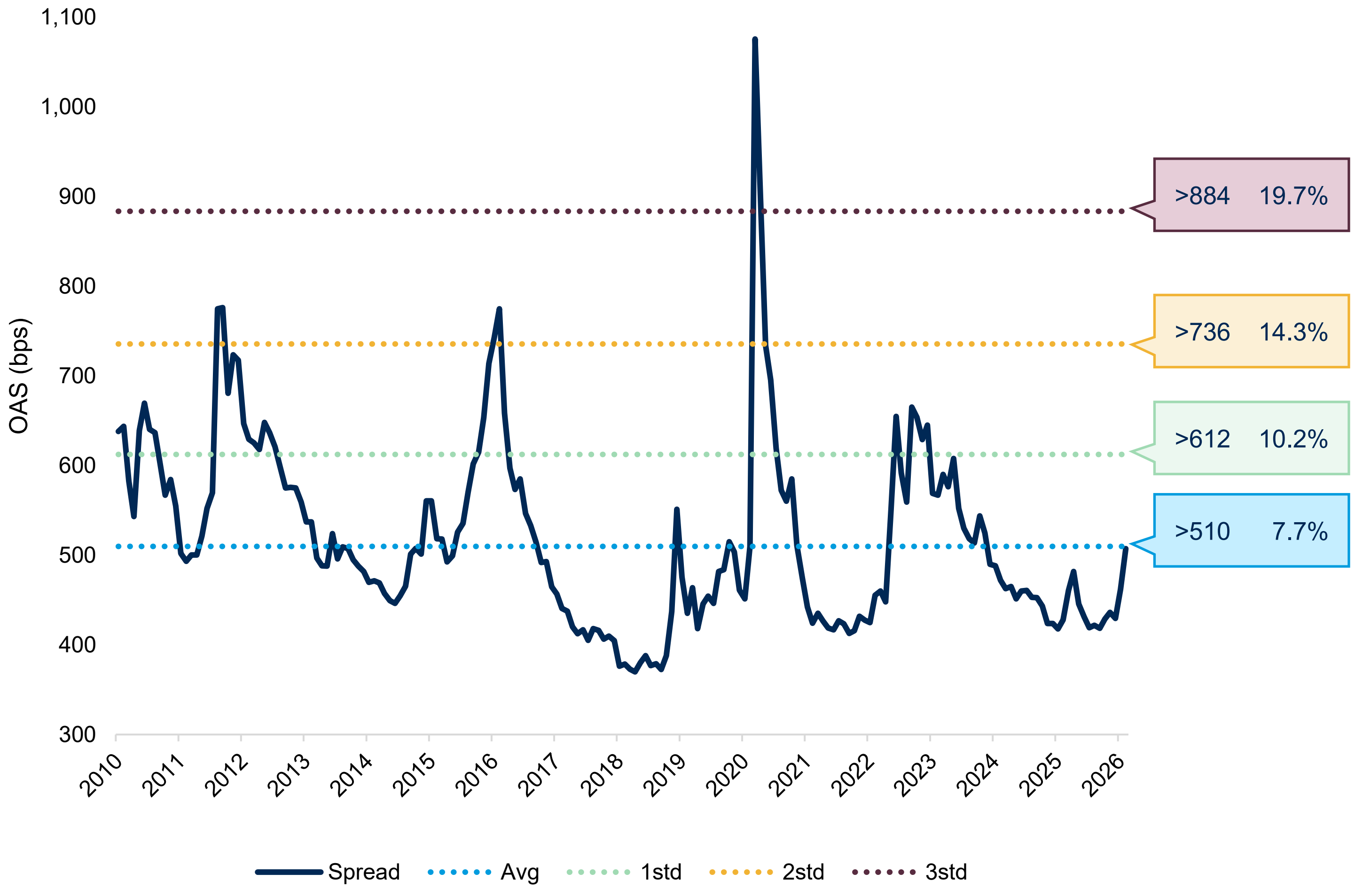


Source: Factset, Morningstar Direct, as of February 28, 2026.

Leveraged Loans

- Over the past 15 years, credit spreads have ranged 375 – 1,100bps
- On average, credit spreads have remained below average for 14 consecutive months. Currently, they have been below average for 27 months
- The lower quality of the loan asset class has recently produced wider peak spreads. The asset class has close to zero duration due to floating base rates
- Falling base rates may partially offset yield increase from spread widening

BSL Average 1-Year Forward Returns

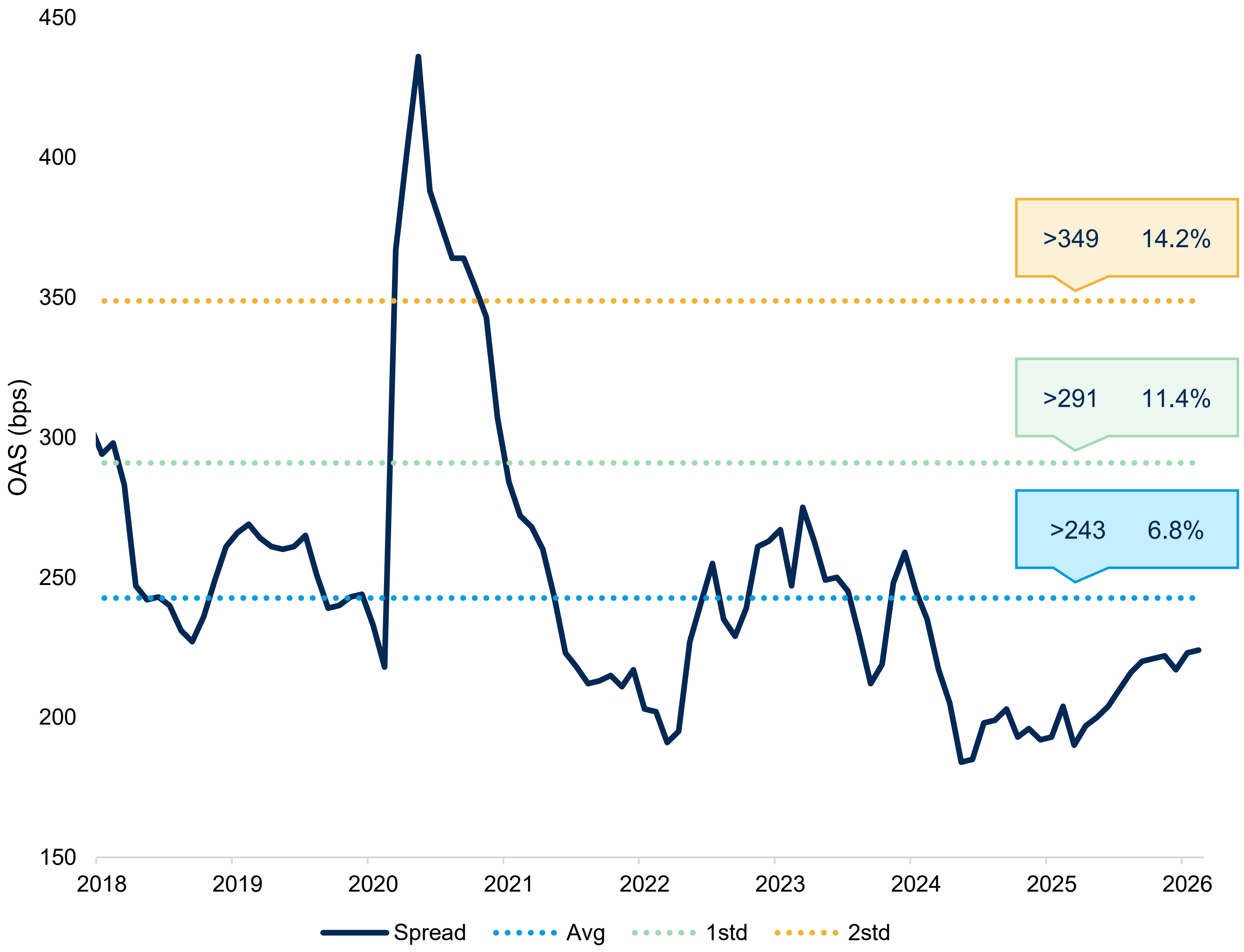


Source: Factset, Morningstar Direct, as of February 28, 2026.

High Yield Muni

- Since 2018, credit spreads have ranged 200 – 450bps
- On average, credit spreads have remained below average for 11 consecutive months. Currently, they have been below average for 25 months
- Spreads are historically tight, but tax-equivalent yield of 8.4%* warrants continued ownership

HYM Average 1-Year Forward Returns



Source: Factset, Morningstar Direct, as of February 28, 2026.

*Tax equivalent yield assumes a 37% tax bracket.