

2026 Outlook: The Only Way Is Up (For Credit Spreads)

The only question is when...

Credit spreads are priced “late-cycle”, very tight, implying benign conditions for the next 5 years. Whilst credit fundamentals in general look reasonable (albeit pockets of concern growing), we see this pricing as dislocated vs the risks ahead.

What’s happening to the Credit Cycle?

The credit cycle feels like a more elusive beast than ever (or perhaps this just means it’s easier to spot in hindsight). There are so many cross-currents in today’s financial markets, not least from policy tools, that can serve to dampen / prolong / upend a natural cycle. This means that investing in credit based on divinations as to where we are in the latest economic cycle is really an activity for a bygone era. You need to start with price, and then triangulate from there.

Pricing – where are we?

Whatever lens is used to examine the myriad of available credit spreads (time period, geography, asset class, quality sector), it’s fair to say that right now **credit spreads are extremely tight** (Figure 1 below).

This doesn’t necessarily mean spreads must spring wider immediately, but it does limit the possible paths from here. Either:

1. They move wider; or
2. They stay tight for a period of time, then they move wider.

There is of course a lot of nuance between 1 & 2, but it illustrates the key point which is the asymmetric position we’re currently in.

Whatever one’s view is on the underlying market conditions, there is little sense in chasing further upside from here – better to be underweight, wait for the pricing cycle to turn, and then place capital at more attractive levels.

More on our recommended approach overleaf. But first a quick look at the macro & micro factors that might influence whether spreads take path 1 or 2.

Figure 1: ICE BofA US Corporate Index Option-Adjusted Spread



Source: ICE Data Indices via FRED

H A V E N

C O V E

Fundamentals – how do these look?

In EUR IG, which is where we specialise, fundamentals are in pretty good health, especially in short-term measures - 12m debt / liquid assets, cash / assets (see Figure 2 below). Longer-term measures like interest coverage are lower than they have been in the past, as higher rates have fed through, but still within a sensible range.

Spreads, particularly in credit derivatives, can take their cue to move wider from contagion risks elsewhere in the Credit landscape. From this perspective we continue to monitor:

- i. distress in isolated high yield European names (we currently see a low risk of contagion risk to the IG space); and
- ii. the potential for cracks in US private credit. This is an asset class which has experienced tremendous growth over the past 5 years and by its nature is more opaque and less liquid. This part of the market scores higher in our general credit concerns, but we are not currently seeing contagion risks to EUR IG.

Technicals

How are market participants currently positioned – lots of dry powder ready to buy the dip, adequately invested, or completely over their skis?...

A mixed picture here. Certain pockets of credit are at extreme overweight (e.g. US CDS derivatives at 100%ile in terms of non-dealer positioning). However, this is tempered with a continuous drumbeat of inflows into real-money credit funds, outweighing issuance in the primary market and leaving high cash balances ready to buy the dip. I.e. there is too much money chasing these assets (primarily a function of the high all-in yield vs last 15 years, due to a higher risk-free rate in USD GBP and EUR).

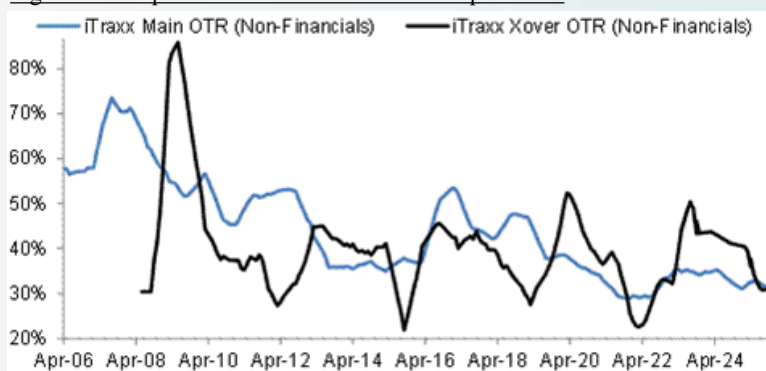
Macroeconomic Situation

The consensus for 2026 has been undeniably bullish, with an almost market-wide group-think certainty for this current cycle to continue, led by AI capex and US policy action pushing a run-it-hot economy. Credit spreads would stay tight for a while in this scenario.

The longer this cocktail of stimulus persists, the greater the danger that these artificially suppressed spreads lead to excesses (possibly we are already there), and eventually a larger sell-off.

The last 20 years of financial markets have had a habit of going through much quicker boom & bust cycles in terms of price action & flows, so we also wouldn't be surprised if there's a new development, not widely flagged currently, that upends the current narrative and triggers volatility sooner.

Figure 2: European Credit: 12m debt / cash + liquid assets



Source: Goldman Sachs

H A V E N

C O V E

So how to position in this Credit environment?

- *At Haven Cove we run two flagship strategies in the European investment grade liquid credit markets with a “multi-cycle” approach.*
- *This allows us to use a “wide-lens” probabilistic method to derive positioning, which is by nature often contrarian & patient, and designed to generate optimal returns through multiple credit pricing cycles.*

Dynamic Long

This can move between 0% invested to +100% risk (i.e. max long). It does not short.

The strategy is currently positioned very underweight: 20% invested in short-dated instruments.

This represents the point we are at in the credit pricing cycle, with spreads at extreme tights. The strategy will wait for the cycle to turn, then add risk & duration at the appropriate time when spreads are wider, in order to target outsized returns.

Active Directional

This can move between -100% risk (i.e. max short) to 100% risk (max long).

The strategy is currently positioned -20% net Short: Neutral/slightly negative carry vs a positive performance profile in a market sell-off.

With spreads at extreme tights the strategy signals for short exposure. If spreads compress further or remain tight the short will increase gradually through time, aiming to minimise cost of holding short vs maximise expected pay-off profile.



Nick Greenwood
Co-Founder
Haven Cove Capital Management



Ashley Hudd
Co-Founder
Haven Cove Capital Management

E: info@havencove.com
W: www.havencove.com



H A V E N

C O V E

DISCLAIMER, DISCLOSURES AND IMPORTANT INFORMATION

This document has been prepared solely for information purposes and is not an offering memorandum nor any other kind of an offer to buy or sell or a solicitation of an offer to buy or sell any security, instrument or investment product (together the “Securities”) or to participate in any particular trading strategy (each a “Strategy” and together the “Strategies”).

It is not intended and should not be taken as any form of advertising, recommendation or investment advice. Nothing contained herein constitutes investment, legal, tax or other advice nor is it to be solely relied on in making an investment or other decision.

This document has been prepared for the information of the person to whom it has been delivered, and may not be reproduced or used for any other purpose.

Recipient understands and acknowledges the following:

- (a) it has such knowledge and experience in financial and business matters that it is capable of evaluating the merits, risks and suitability of the Strategies and Securities mentioned herein for its purposes;
- (b) is solely responsible for evaluating all information provided to it in respect of the Strategies and Securities;
- (c) is solely responsible for deciding to purchase the Securities and pursuing the Strategies, is relying solely on its own advisers to determine the appropriate financial, legal, regulatory, tax and accounting treatment of its investment in the Strategies and Securities and the suitability of the Strategies and Securities for its investment purposes;
- (d) based solely on its own independent review and such professional advice as it has deemed appropriate under the circumstances, has determined that purchase of the Securities is fully consistent with its financial needs, objectives and condition, complies and is fully consistent with all policies, guidelines and restrictions applicable to it, and is fit, proper and suitable for it, notwithstanding the clear and substantial risks inherent in investing in or holding the Strategies and Securities; and
- (e) Haven Cove Capital Limited has not provided or will be deemed to have provided any legal, regulatory, tax or accounting advice, nor accepts any responsibility for the appropriateness of the Securities for the Recipient or for the performance of the Securities

Haven Cove Capital Management Limited.

Authorised and regulated by the FCA. Registered in England No. 12902478 .

Registered office: 23 Berkeley Square, London W1J 6HE UK.

© Haven Cove Capital Management Limited 2026

