The Extra Credit Review

June 2026 | Issue 1

MAWER

A Note From Brian

What a difference a few months makes. Worries tied to the inflationary impact of the Middle East conflict shifted market predictions of central bank rate cuts at the start of the year, to expectations of likely rate hikes. Altered inflation expectations also shifted global government curves with yields higher, and curves flatter. The challenge of "what next" now rests squarely on the shoulders of politicians and global central bankers, including the newly confirmed Fed Chair, Kevin Warsh.

Other risks remain largely discounted, or in the case of private credit, contained at present. The First Brands, MFS, and Tricolor bankruptcies tagged some of Wall Streets biggest firms with losses. Snakebit lenders argued fraudulent activity by issuers doesn't invalidate the entire private lending model. Keeping with private credit, concerns tied to technology exposure, rise in payment in kind, and weak underwriting standards sparked substantial redemptions across funds. Cross lending in private credit markets between banks, insurance, and private credit funds sparked heightened interest by regulators and lawmakers.

Leverage in the system grew with prime brokerage borrowing exceeding $2.5 trillion according to S&P, double the amount of four years ago. Sovereign credit quality concerns added to inflation concerns, and with increasing frequency G7 countries including France, Japan, the United Kingdom and the United States are being cited for fiscal profligacy. Hank Paulson, U.S. Treasury Secretary during the Great Financial Crisis, warned the U.S. should prepare for a vicious bond crash.

Against this backdrop, credit spreads proved resilient. Global investment grade and high yield spreads at 48 and 243bps through long-term averages are slightly tighter than the start of the year and remain expensive in our view. Credit markets remain tilted in favour of borrowers over lenders. Companies, notably better quality companies, retain ample access to capital. We see less and less differentiation between issuers with dramatically different credit profiles. We see select opportunities in high yield, but overall the environment warrants a conservative credit posture as investors are not compensated for assuming risk in lower quality, or long duration, credit.

Brian Carney, CIM

Portfolio Manager, Fixed Income

In This Issue:

04 NEW ISSUE CONCESSIONS (OR LACK THEREOF)

05 "HEY GOOGLE, HOW MUCH CAN I BORROW BEFORE I BREAK THE BOND MARKET?"

07 MEGA-DEALS, AI CAPEX, AND THE LIMITS OF BANK BALANCE SHEETS

09 SLOW PUNCTURE: THE AIR COMING OUT OF PRIVATE CREDIT

11 CONCLUSION

12 CONTRIBUTORS

New Issue Concessions (Or Lack Thereof)

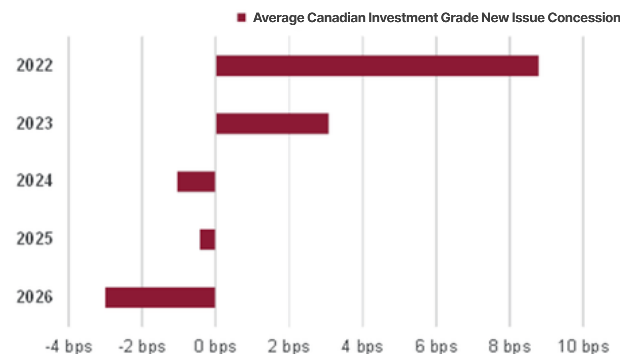
New issues play a vital role in fixed income markets. Even low turnover bond portfolios need to reinvest cash generated by coupon payments and maturities. Bond portfolios also face a reduction in portfolio duration as individual bonds move towards their maturity date. Secondary bond market purchases can resolve cash flows and duration "decay". Alternatively, the new issue market provides investors with the ability to add positions at scale which addresses portfolio cash flow, duration, and, possibly, diversification issues if an issuer is new to the bond market.

Unlike existing bonds with a quoted market price, new issue bonds have no trading history. Investors, issuers, and underwriters face uncertainty as to where the new issue will clear the market. New issue concessions (NICs) compensate investors for the risk related to a new bond transaction.

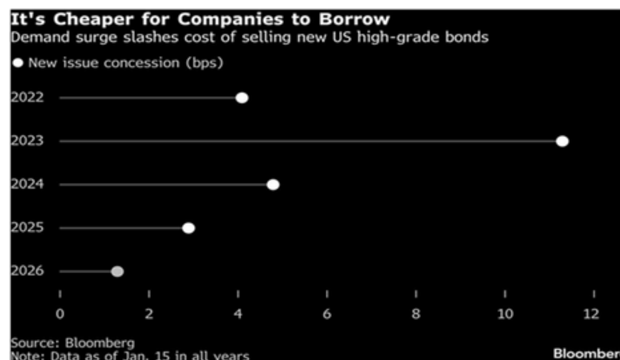
NICs serve as an incentive for investors to absorb the new supply of bonds. NIC is expressed in incremental basis points above comparable existing bonds in the secondary market. The concession compensates investors for assuming risks of the new issue and for potentially committing larger dollar values versus the smaller trading volumes in secondary markets.

NICs vary based on characteristics of the issuer or security issued, including but not limited to: term to maturity; issue size; structural or subordination features; credit rating; industry or subsector; market of issue; how seasoned or frequent the issuer is; and, how much liquidity/investor appetite there is in the market.

Narrowing NICs in the bond market are a concerning trend for investors. According to CIBC, NIC's for investment grade in Canada were ~9bps in 2022, declining to ~3bps in 2023, before turning negative in 2024 and 2025. To date in 2026, average investment grade NICs in Canada exceed negative 2bps, according to CIBC. Data compiled by Bloomberg shows NICs in the US high grade bond market just barely positive and at their lowest levels in 5 years.



Source: CIBC World Markets
Note: Data as of May 25 in all years.



A deal with no NIC is the definition of "priced to perfection" leaving no margin for error for any market correction or adjustment once a new issue begins trading. The lack of NICs is yet another example of credit markets tilted in favour of borrowers over lenders.

“Hey Google, how much can I borrow before I break the bond market?”

Hyperscalers Alphabet, Amazon, Meta, Microsoft, and Oracle, are testing the capacity of global bond markets. In 2025, these issuers were responsible for the year’s largest U.S. investment grade bond deals. In September, Oracle sold $18 billion bonds. In October Meta sold $30 billion, the largest non-M&A related bond deal ever. In November Alphabet followed with $17.5 and Amazon with $15 billion, respectively.

The pace of hyperscaler issuance is accelerating in 2026 as combined capital expenditure plans for the five largest hyperscalers continue to grow, aggregating to an estimated $750 billion for the full year. On February 2nd Oracle (Baa2/BBB) priced $25 billion across eight senior unsecured tranches.

On February 10th Alphabet (Aa2/AA+), coordinated issuance across different currencies and investor bases including $20 billion across seven tranches, £5.5 billion across five tranches including a £1.0 billion 100-year bond, and a CHF 3.1 billion Swiss-franc sale.

Alphabet was not done. On May 5th the company priced its first Canadian issue, which also happened to be the first Canadian deal by a hyperscaler, and the largest ever Canadian corporate bond issue. The four-part offering of 5-, 7-, 10-and 30-year maturities raised C$8.5 billion. The transaction surpassed Coastal GasLink's C$7.15 billion multi-tranche issue in June 2024 and dwarfed the next largest Maple bond, Apple’s C$2.5 billion single tranche offering completed in August 2017.

On the same day Alphabet also priced a €9 billion, six-part Euro offering, bringing the combined proceeds raised to $19 billion equivalent without tapping the USD market.

The week after the Canadian and Euro financings, Alphabet raised $3.6 billion equivalent in a 7-part Yen-denominated offering. The company’s $60 billion four-month, multi-currency borrowing spree ranks as one of the greatest corporate borrowing binges ever. So far, the ability to issue in multiple denominations, across varied markets, has minimized pressure on spreads in any individual currency or market.

The Alphabet Playbook: Multi-Currency, Multi-Market

Alphabet’s financings provide a textbook example of global market capacity arbitrage. Tap multiple currencies to diversify buyers and avoid saturating a single market. The ability to issue across multiple currencies, set records for issue size in the sterling and Canadian corporate market, and place a century bond, reflects the substantial market depth that can be surfaced when supply is strategically segmented.

We offer several observations. Liquidity was available and markets held. Across issuers, order books were oversubscribed. The deals priced and cleared at spreads consistent with strong interest. Alphabet’s USD tranches priced at spreads to Treasuries of +27 bps to +95 bps while lower rated Oracle required wider spreads of +95 bps to +195 bps on fixed-rate tranches. The ability for these issuers to repeatedly place very long duration risk (Alphabet’s 2126 sterling tranche and 2075 USD tranche in November, Oracle’s recent 2066 tranche and Amazon’s (A1/AA) 2065 tranche this past November) further indicates market depth for issuers whose quality is perceived to be high.

If these transactions were the sum total of issuance from the sector, it would be an impressive volume of funding. But these deals are just a harbinger of the coming wave of supply. Reuters highlights forecasts from dealers that U.S. corporate bond issuance could reach historically high levels (Barclays is projecting $2.46 trillion in 2026 and net issuance of $945 billion), with AI hyperscaler issuance a key driver. Reuters also notes the five most active hyperscalers issued $121 billion in aggregate during 2025, far above their $28 billion annual average in the 2020 to 2024 period.

The sheer volume of bond issuance expected to come from the hyperscalers was bound to drive them toward non-USD markets. Alphabet's precedent setting issue provides a live example of how this can be done on an economically reasonable basis for the issuer, which is bound to attract attention from the other hyperscalers. It is a question of *when*, not *if* others will access the Maple bond and other non-USD markets.

A concern around market vulnerability is the concentration and cadence of issuers coming to market, not "global market size." Should additional hyperscaler financings come to market in the near term (e.g., multiple $30 to $60+ billion deals within weeks) and/or extend duration materially (40–100 years), the marginal clearing level could shift. Wider new-issue concessions, heavier use of CDS hedges, and more credit spread volatility could result and impact the broader market. Both Reuters and the Financial Times have reported investor unease around AI capex payoff timelines, with increased hedging and modest spread widening linked to AI-related bond supply.

In addition to the sheer volume of potential supply, one must consider the structural considerations that affect market capacity. It is not only *how much* but *what kind* of bonds are issued.

- First, credit quality matters. Alphabet issued 32-year and 100-year sterling tranches at attractive spread levels (+60 bps and +120 bps respectively) but for lower-rated issuers, the incremental long duration capacity is more price sensitive, as indicated by Oracle's widening curve into 30-year+ maturities. Alphabet's 30-year USD bonds had an incremental 12 bps spread compared to their 10-year bonds, whereas Oracle's new issue curve was steeper with the 30-year tranche needing an incremental 25 bps over the 10-year tranche.

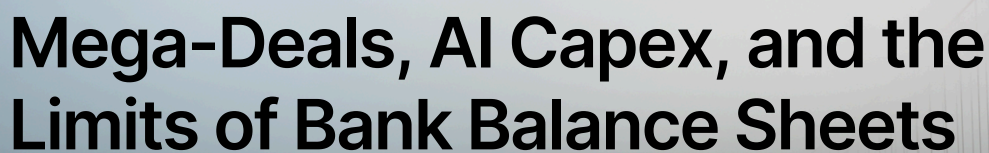
- Second, currency and market segmentation can be effective tools in unlocking additional demand. Alphabet's sequencing across USD, CAD, CHF, GBP, and JPY markets is a capacity management technique: it reduces reliance on any single marginal buyer pool and can lower all-in cost if certain markets are more attractive at the time of issuance. A similar approach by Amazon/Meta/Microsoft could mitigate market impact, especially if issuance calendars are staggered.

- Finally, issuers need to consider dealer balance sheet and liquidity conditions. Even if investor demand exists, dealer syndicates intermediate allocations and facilitate secondary trading. The syndicate listed for Alphabet's USD financing was very large with three dealers acting as "Global Coordinators", 17 (!) Joint Lead Managers supported by another 17 Co-Managers, with 20 of the underwriters participating on an inaugural basis.

How Much Can Markets Actually Absorb?

The key question is: *How much capacity remains at current spread levels before issuers need to start paying up with wider spreads (NICs) to access liquidity?* Global fixed income markets are enormous. The ICE fixed income index tracks more than $100 trillion in government and corporate bonds across 43 currencies. In that context, AI hyperscaler issuance does not seem like a showstopper. The recent successful financings serve as evidence that there is ample liquidity in the current market. As to when the market's appetite for this issuance ends is not obvious…but we will likely see several additional attempts to test what the market can digest in the coming months.

Mega-Deals, AI Capex, and the Limits of Bank Balance Sheets



As hyperscalers embark on one of the largest coordinated infrastructure buildouts in modern history we turn to another development unfolding simultaneously: the return of fully underwritten mega-acquisition financing. The confluence of record AI issuance and aggressive M&A underwriting raises an important question about overall credit market capacity and syndication risk as we progress through 2026.

According to Bloomberg, banks entered 2026 working on roughly $100 billion of leveraged buyout debt, with approximately three quarters already underwritten and in the process of being sold to investors. After several muted years following 2022's market dislocation, the leveraged finance departments are once again operating at scale.

The take private of Electronic Arts is emblematic. The $55 billion transaction is reportedly backed by roughly $36 billion of equity and $20 billion of committed debt from JPMorgan Chase, with approximately $18 billion expected to be funded at closing. JPMorgan has already begun selling down portions of the financing, including a $3 billion Term Loan A, ahead of a broader syndication of dual currency Term Loan B and high yield bonds. While the equity cheque is meaningful, a $20 billion single-bank commitment still represents substantial underwriting exposure. That debt must ultimately be placed into leveraged loan and/or high yield markets at levels that clear institutional demand. If markets remain stable and the syndication is orderly, JPMorgan makes a tidy profit. If spreads widen meaningfully betweencommitment and takeout, underwriting economics compress quickly and could evaporate completely.

The difference this cycle is the competitive backdrop. Private credit providers have spent the past several years marketing themselves as a faster, more certain alternative to the syndicated loan market. Essentially a one-stop solution with less syndication risk. In response, large banks appear increasingly willing to demonstrate that the traditional bank-led model can provide the same certainty at scale. Bloomberg notes that banks have been ultra competitive on both pricing and documentation to win mandates, effectively outmaneuvering private credit on most large deals. Fully underwritten bridges of $20 to $60 billion are as much strategic statements as financing commitments. They signal to boards and sponsors that the syndicated market remains capable of delivering size and certainty within a short timeframe.

However, financing certainty to the issuer translates into warehousing risk for the bank. When a bank commits the full bridge, it accepts the timing risk between signing and syndication. Banks are eager to shift exposure quickly—in some cases selling down debt well before the deal closes—because the margin for error is very narrow. If spreads remain tight and investor demand is robust, the model works as intended.

But if spreads gap wider, even modestly, the bank must either flex pricing materially or temporarily hold risk on the balance sheet. The experience of 2022 demonstrated how quickly underwriting economics can deteriorate when market sentiment shifts. Several large LBO financings became “hung deals” as rates rose and liquidity dried up, forcing banks to syndicate at discounted levels and absorb losses. The lesson was not about weak credits, it was about the fragility of distribution assumptions.

Layer onto this the AI capex super cycle. Even if partially funded through operating cash flow, the proposed spending implies sustained and significant debt issuance from the largest issuers in the market. Investment grade investors will have substantial AI related supply to digest at the same time that M&A driven bond financings and bridge takeouts are hitting the market. Bloomberg reports that bankers are confident markets can absorb even larger deals, including rumored financings north of $25 billion, but it is important to note that confidence does not always translate to capacity.

The key risk, therefore, may not necessarily be recession, or credit deterioration, but market congestion. When structural AI issuance, strategic M&A bonds, leveraged loans, and bridge refinancings all compete for investor capital, clearing spreads become more sensitive to marginal demand. In that environment, underwriting assumptions made in a tight-spread world can prove optimistic. A 100 to 150 bps widening between commitment and pricing does not require a macro shock. It can result from only a temporary imbalance between supply and demand.

Bank balance sheets are stronger than in prior cycles, and today’s markets are functioning well. The willingness to underwrite $20 billion for an LBO or $59 billion for an IG bridge signals the banking sector’s collective confidence and a desire to defend market share against private credit. But the combination of aggressive underwriting and a generational capex boom increases supply concentration risk and narrows the margin for error. For credit investors, the key question in 2026 may not be whether these deals make strategic sense, but whether markets can absorb the volume of paper without meaningful repricing.

Slow Puncture: The Air Coming Out of Private Credit

For the past two years, we have maintained a cautious stance on private credit. This caution has not been rooted in a macro prediction or an imminent recession forecast. It has been more structural. Simply put, too much capital has been chasing a finite opportunity set.

Large and persistent inflows into private credit have pushed lenders into the same deals, which has in turn compressed spreads and gradually weakened underwriting standards. As competition intensified, documentation standards loosened and covenant terms were softened, EBITDA adjustments grew more generous and return per unit of risk declined. None of this looked alarming in isolation, but collectively, it created a market that functioned best in an environment of steady inflows, benign credit conditions, and limited price discovery.

Private credit has consistently been marketed as "low volatility". Technically, that is true. Reported marks tend to move gradually and drawdowns appear modest compared to public market alternatives. But that stability is often a function of appraisal frequency rather than economic reality. If home prices in your neighborhood are falling but you never check the value of your house, the asset does not become less volatile. You simply defer the moment of price discovery. Private credit works similarly. Valuations are stable until credit events occur or transactions test them.

Recent developments have begun to provide those tests. Consider Blue Owl's retail-focused private credit vehicle, which was marketed as "semi-liquid" with quarterly redemption features. While the fund documents disclosed a quarterly redemption gate of up to 5% of NAV, many investors understandably focused on the headline promise of periodic liquidity rather than the mechanics of fund gating. Structures like this function smoothly when redemption requests are modest and portfolio assets can be sold near par. The model becomes more fragile when redemptions rise or portfolio asset valuations decline.

Blue Owl recently disclosed selling several assets "essentially at par" in order to meet redemption requests. On its face, this disclosure was meant to reassure investors that the underlying portfolio remains sound and that loans can be monetized without meaningful losses. That may well be true, but it is also worth remembering how liquidity events typically unfold. In periods of stress, managers generally sell their strongest and most liquid positions first. Those loans become the currency used to meet withdrawals. Over time, that dynamic can leave behind a portfolio that is less liquid and potentially higher risk.

A second data point comes from New Mountain's BDC, which recently sold approximately $477 million of loans at roughly 94 cents on the dollar. Management framed the transaction as a portfolio optimization: an opportunity to improve diversification, reduce PIK exposure and enhance financial flexibility. Yet the clearing price is notable. A 6% discount on a sizable, diversified pool of loans suggests that private credit marks are not immune to discounting when tested in actual transactions. As more volume trades in secondary markets, there is room for further convergence between reported NAVs and executable prices.

This is why the information investors gather from BDCs are particularly useful in the current environment. Unlike much of the broader private credit universe, BDCs provide a relative measure of transparency: company-level holdings, periodic fair-value marks, and disclosure around capital activity.

Across BDCs and non-traded private credit vehicles, we are observing several consistent themes. Valuations are drifting lower at the margin. NAVs are edging down rather than collapsing, but the direction has been steadily negative. Sector exposure remains heavily tilted toward sponsor-backed software and technology businesses, areas where public market investors are increasingly debating growth durability and AI-driven disruption risks. At the same time, redemption requests in non-traded vehicles have risen.

None of these developments suggest a systemic crisis. Banks remain well capitalized, default rates are not spiking dramatically, and the broader economy continues to grow. However, the mechanics of the private credit ecosystem are beginning to change. After years defined by record fundraising, narrowing spreads, and strong realized returns, the industry is facing a more balanced environment, one in which fund flows matter and price discovery is emerging.

If inflows slow while redemptions remain elevated, private credit's capacity to fund new loans will naturally contract. Should the syndicated loan market also soften simultaneously, the overall credit market contracts. The "credit wheel" turns more slowly. Funding large, highly leveraged transactions becomes more difficult. In that scenario, spreads likely need to reset to more conservative levels to attract fresh capital.

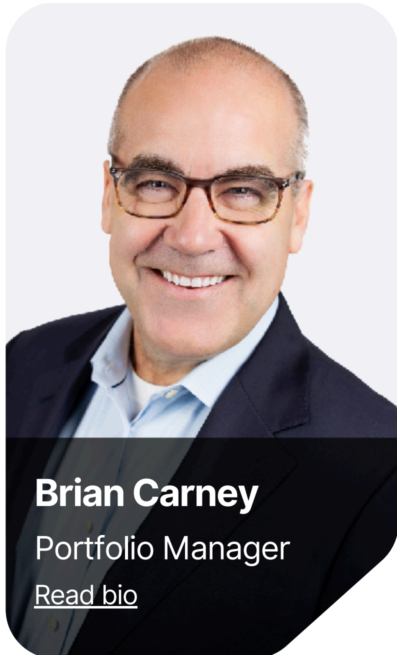
In our opinion, what is unfolding is not the bursting of a bubble; rather it's like the air gradually escaping from a car's tire. The past decade has offered unusually supportive conditions of low interest rates, abundant capital, limited defaults, and strong sponsor activity. The next phase of credit investing may be characterized by more dispersion, more selectivity and genuine fundamental credit work. For investors, in a world where price discovery is returning and liquidity is no longer taken for granted, underwriting discipline and structural protections matter more than ever.

Conclusion

Jamie Dimon, the CEO of J.P. Morgan recently stated “I do believe that when we have a credit cycle… losses on all leveraged lending in general will be higher than expected, relative to the environment. This is because credit standards have been modestly weakening pretty much across the board…It has always been true that not everyone providing credit is necessarily good at it… We have not had a credit recession in a long time, and it seems that some people assume it will never happen.”

No individual on the planet has a better window on all corners of the credit market than Jamie Dimon. The retail consumer, the commercial customer, public markets, private markets…sitting atop the U.S.’ biggest bank, Mr. Dimon sees it all. When he suggests we should expect issues in credit markets, people should tune in. While he’s not predicting Armageddon, he’s far from predicting smooth sailing either.

Contributors

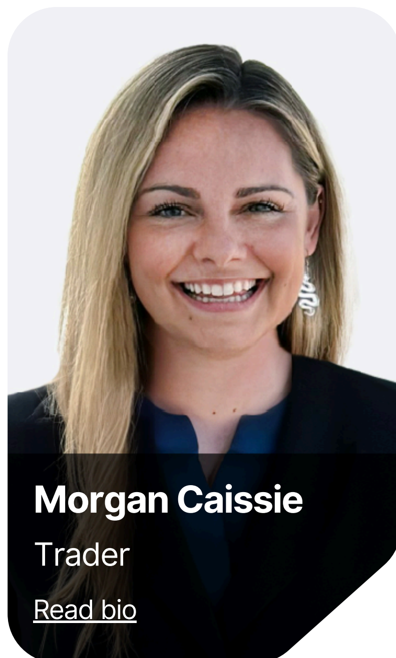


Brian Carney
Portfolio Manager
Read bio

Sandro Morassutti
Credit Analyst
Read bio

Curtis Elkington
Credit Analyst
Read bio

Marty Lee
Credit Analyst
Read bio



Morgan Caissie
Trader
Read bio

Disclaimers

Mawer Investment Management Ltd. provides this publication for informational purposes only and it is not and should not be construed as professional advice. The information contained in this publication is based on material believed to be reliable at the time of publication and Mawer Investment Management Ltd. cannot guarantee that the information is accurate or complete. Individuals should contact their account representative for professional advice regarding their personal circumstances and/or financial position. This publication does not address tax or trust and estate considerations that may be applicable to an individual's particular situation. The comments are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances.

All statements, other than statements of historical fact, included in this report that address activities, events or developments that Mawer expects or anticipates will or may occur in the future, including such things as anticipated financial performance, are forward looking statements. The words "may", "could", "would", "should", "believe", "plan", "anticipate", "expect", "intend", "forecast", "objective" and similar expressions are intended to identify forward looking statements. All opinions contained in forward looking statements are subject to change without notice and are provided in good faith but without legal responsibility. Mawer has no intention of updating any forward looking statements whether as a result of new information, future events or otherwise, except as required by securities legislation.

Past performance does not guarantee or indicate future results. All financial investments involve an element of risk. The value of investments may rise and fall so you may get back less than originally invested. Investors should consider the risks, including lower returns, related to currency movements between their investing currency and the portfolio's base currency, if different. Investors should be aware that forward-looking statements and forecasts may not be realized.

MAWER