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Recent Rates Volatility: Risks and Opportunities in Credit

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Outline

1. What is going on in rates?

2. What does higher for longer mean for credit?

Source: Apollo Chief Economist

What is going on in rates?

Why are rates going up?

Strong economy
High sticky inflation
High diesel prices, high gas prices, tariffs and immigration restrictions
AI buildout creating inflation

Upward pressure on rates for reasons unrelated to the business cycle
Worries about fiscal sustainability
Less institutional demand for long duration Treasuries
Less household demand for long duration Treasuries
Initial worries about Fed Chair Warsh's independence
R-star rising
Hyperscalers issuing IG debt, crowding out demand for Treasuries
Hyperscalers holding fewer Treasuries

Source: Apollo Chief Economist

Three engines of growth in 2026

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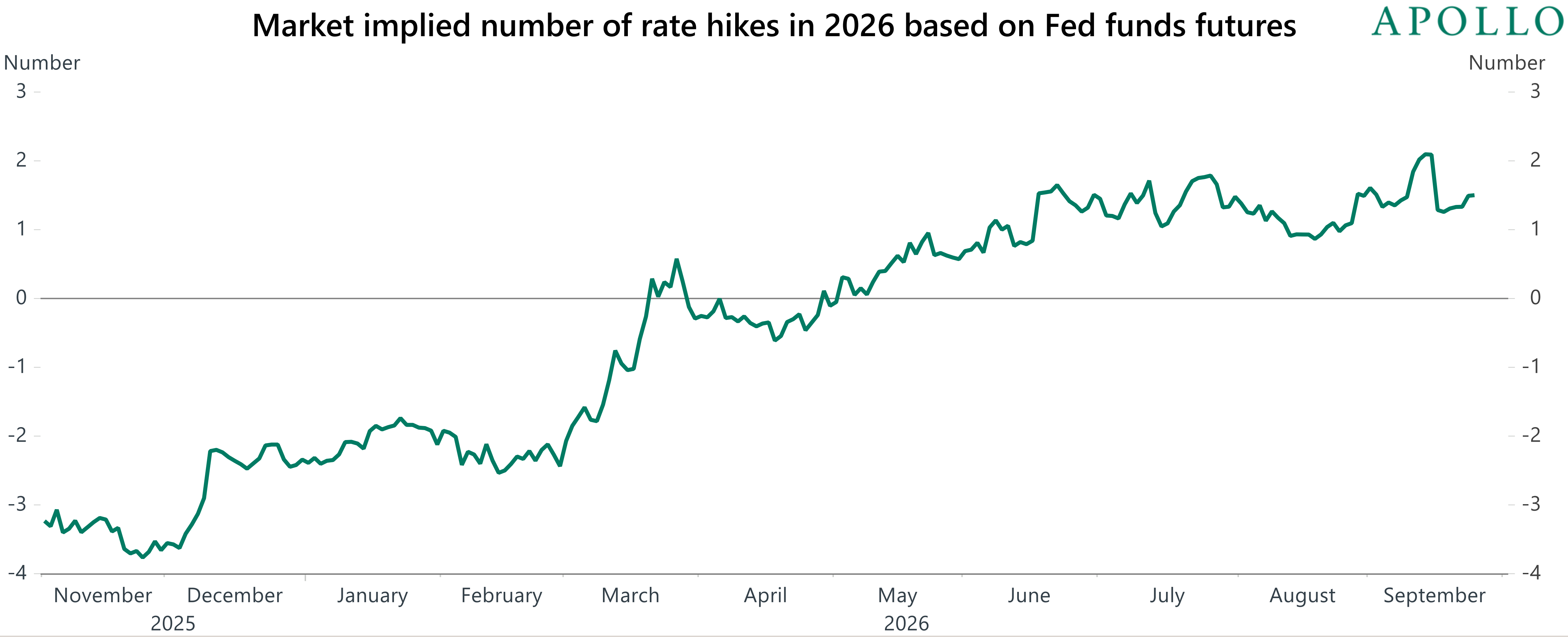
AI spending	Industrial renaissance	One Big Beautiful Bill
1. Datacenter spending 2. AI energy spending 3. Productivity gains from AI	1. Semiconductors 2. Pharmaceuticals 3. Defense	1. Lower household taxes 2. 100% immediate expensing 3. Infrastructure and defense

Source: Apollo Chief Economist

Fed: Market went from expecting four cuts to two hikes



Source: Bloomberg, Macrobond, Apollo Chief Economist

CBO: Under current policies, government debt will grow significantly

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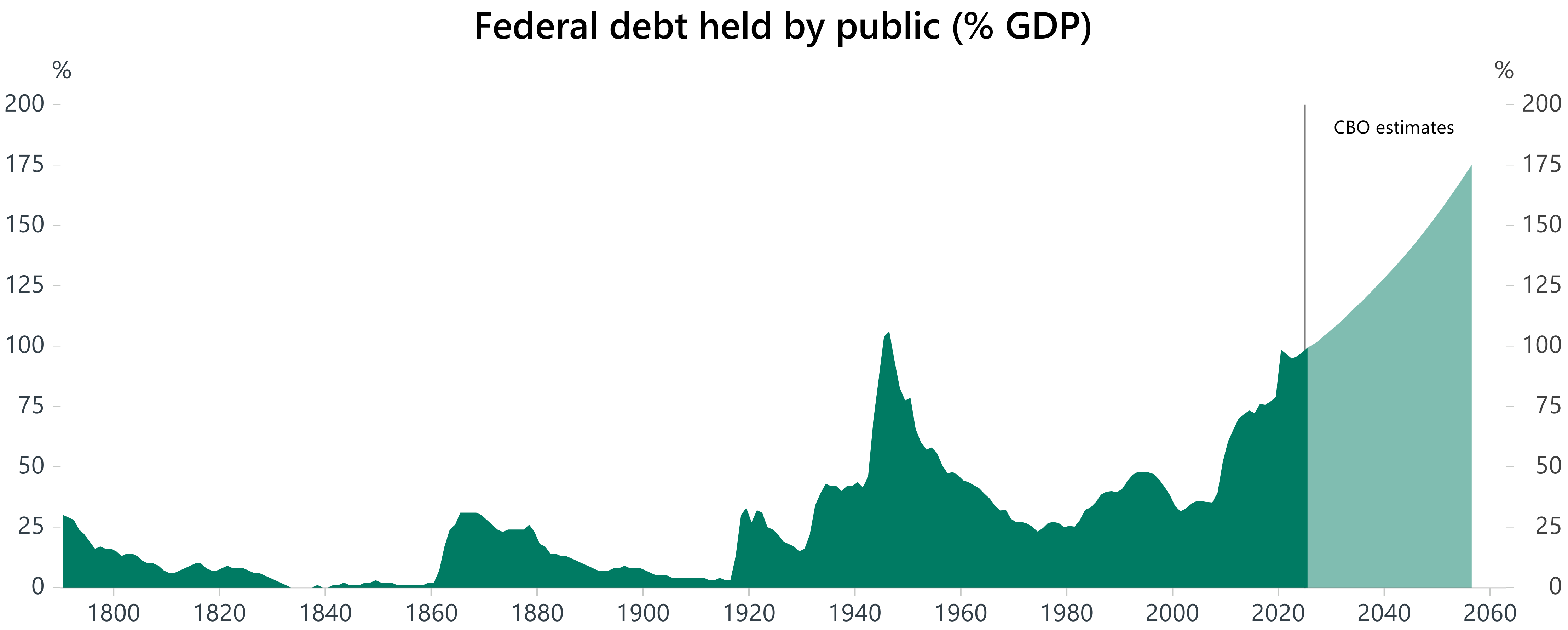

Source: U.S. Congressional Budget Office (CBO), Macrobond, Apollo Chief Economist

Treasury auction sizes increasing across the yield curve

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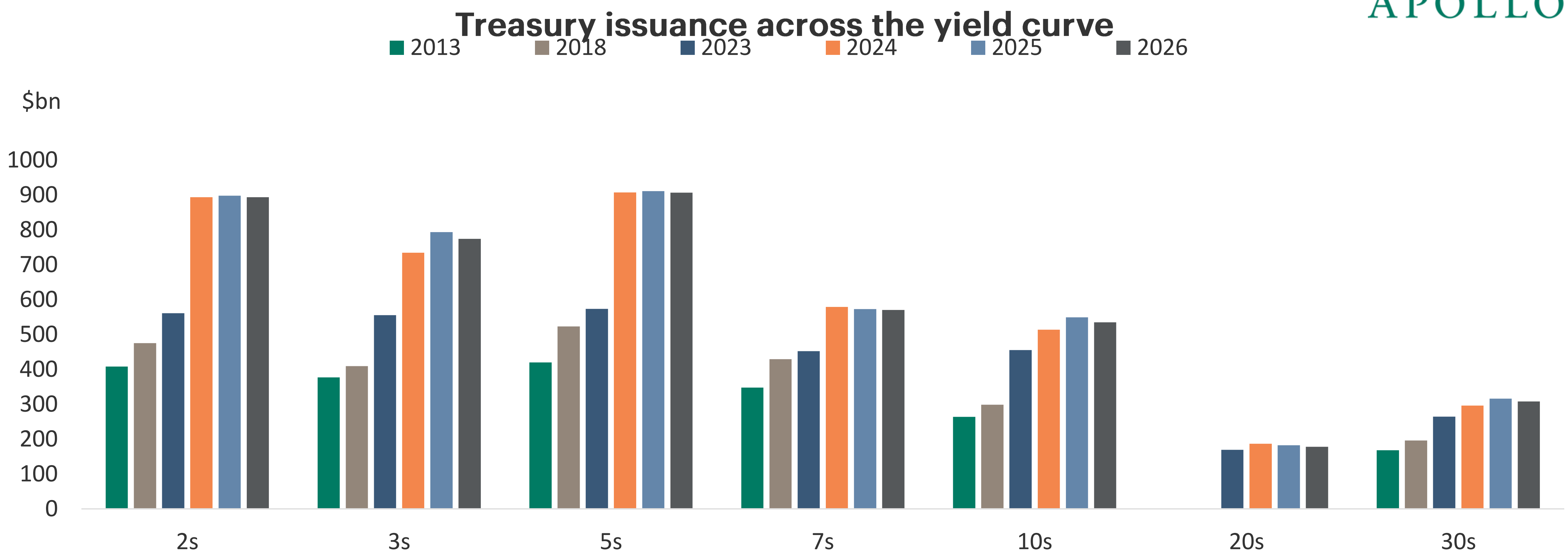
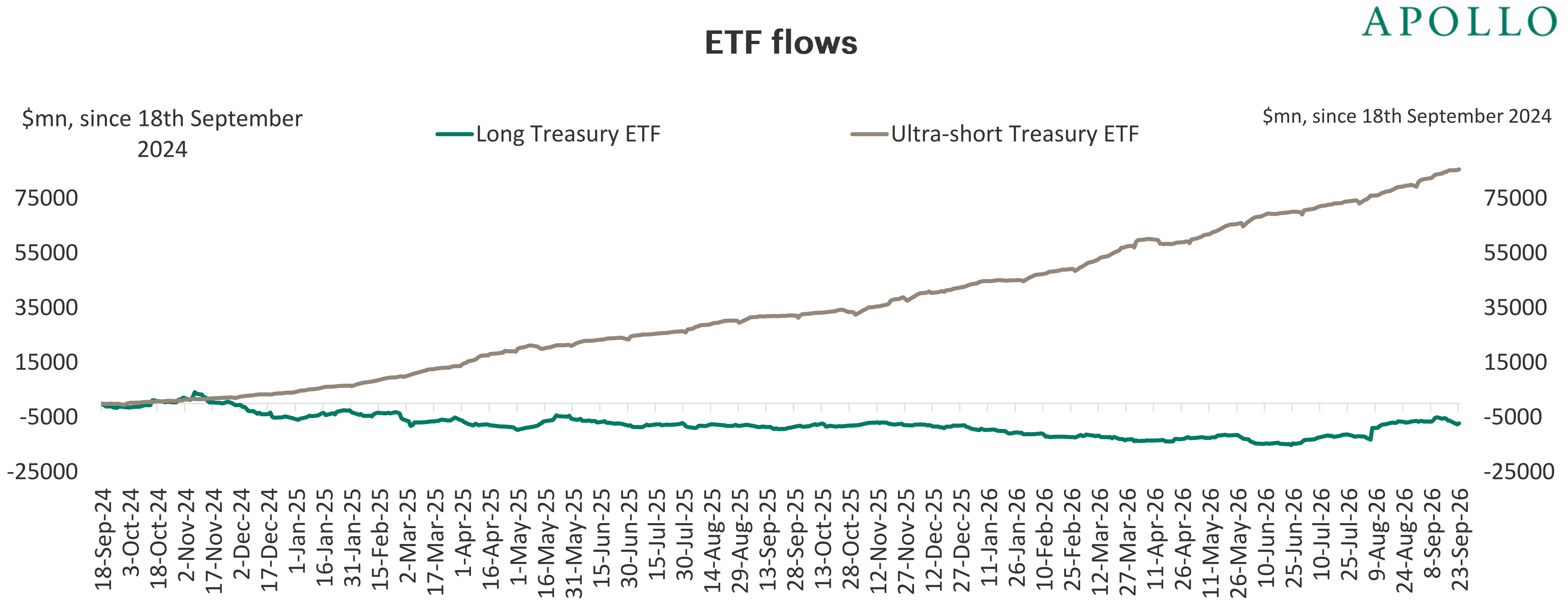


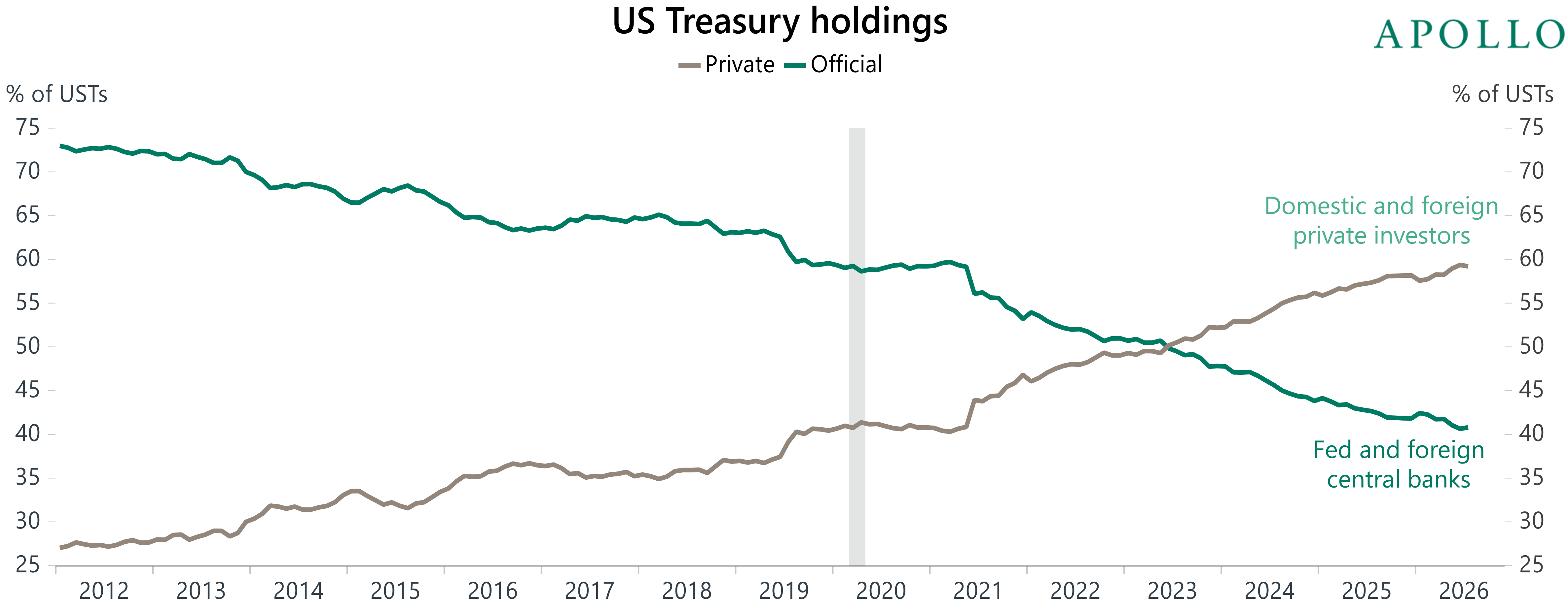
Source: SIFMA, TBAC, Haver Analytics, Apollo Chief Economist. Note: Estimates for 2026 September to December from TBAC

Households don't like the long end of the Treasury curve



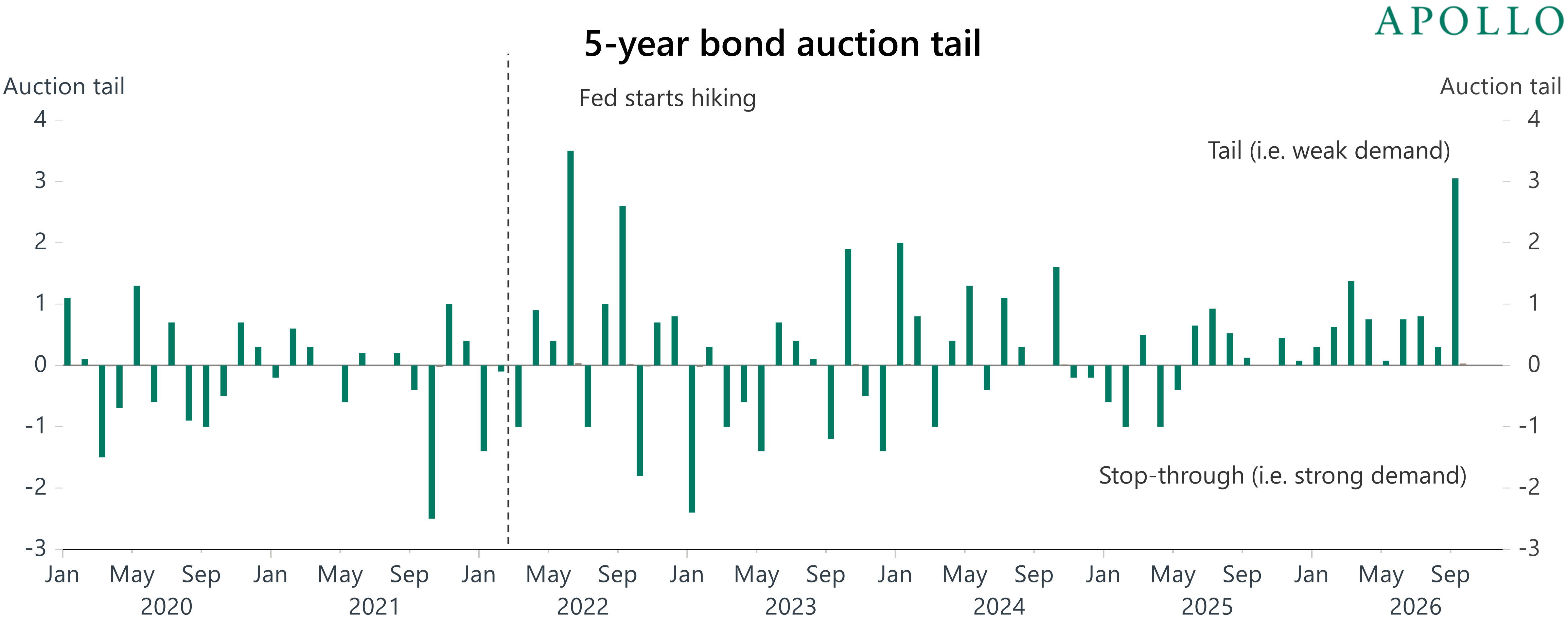
Source: Bloomberg, Apollo Chief Economist. Note: The ETFs used are iShares 20+ Year Treasury Bond ETF and iShares 0-3 Month Treasury Bond ETF

US Treasury buyer base becoming more interest rate sensitive



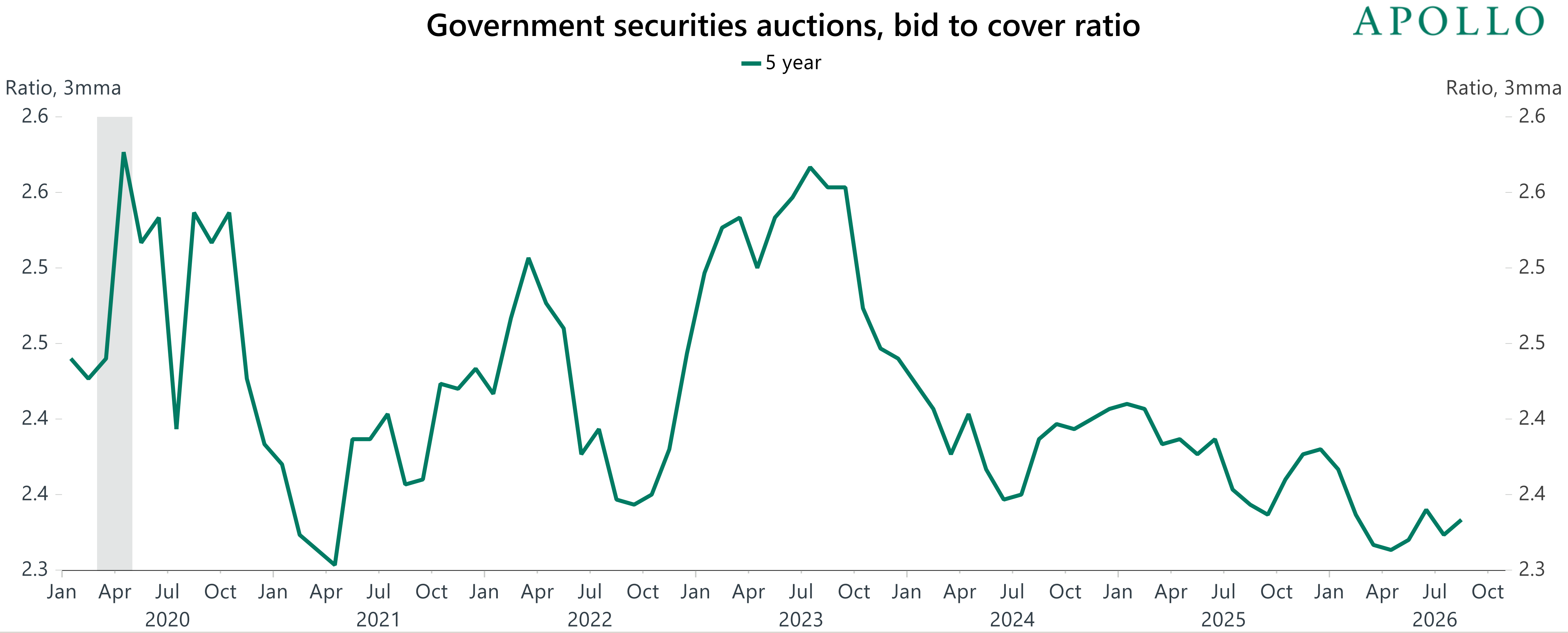
Source: U.S. Department of Treasury, Macrobond, Apollo Chief Economist

5-year bond auction result



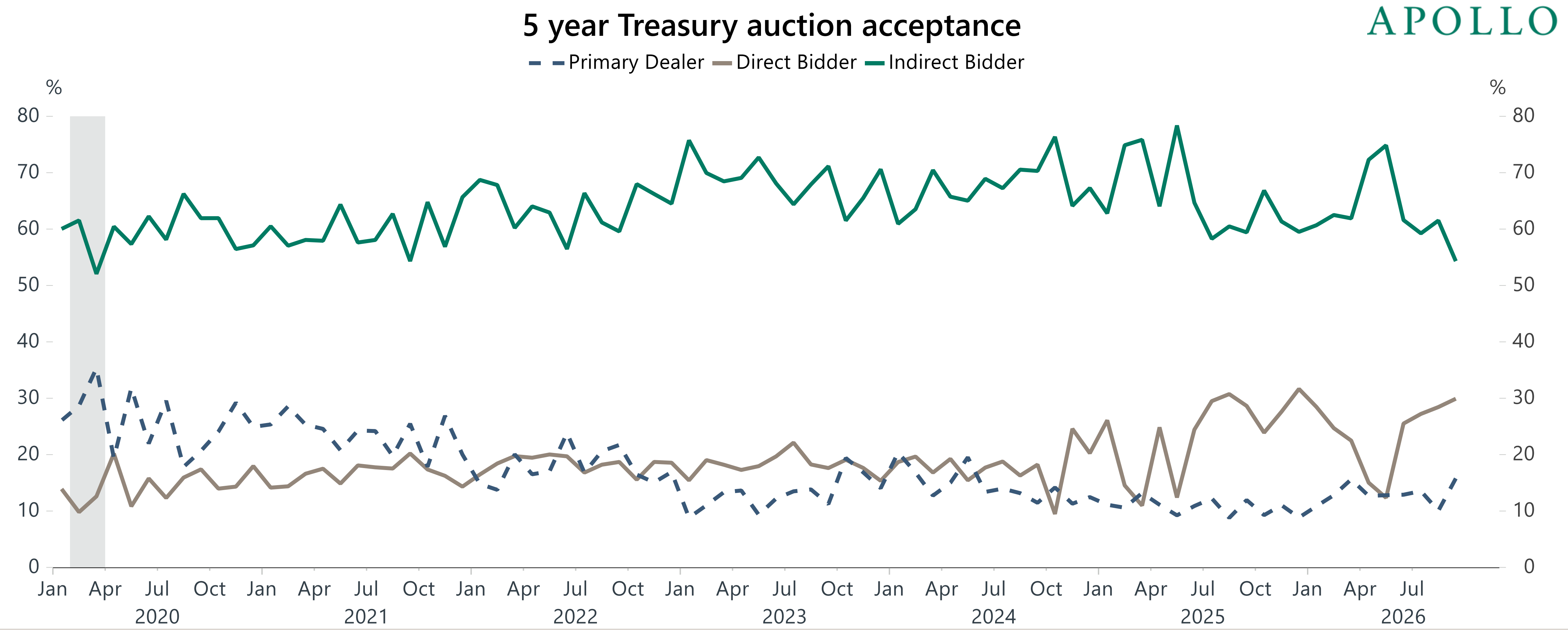
Source: Bloomberg, Macrobond, Apollo Chief Economist

5-year bond auction bid-to-cover ratio



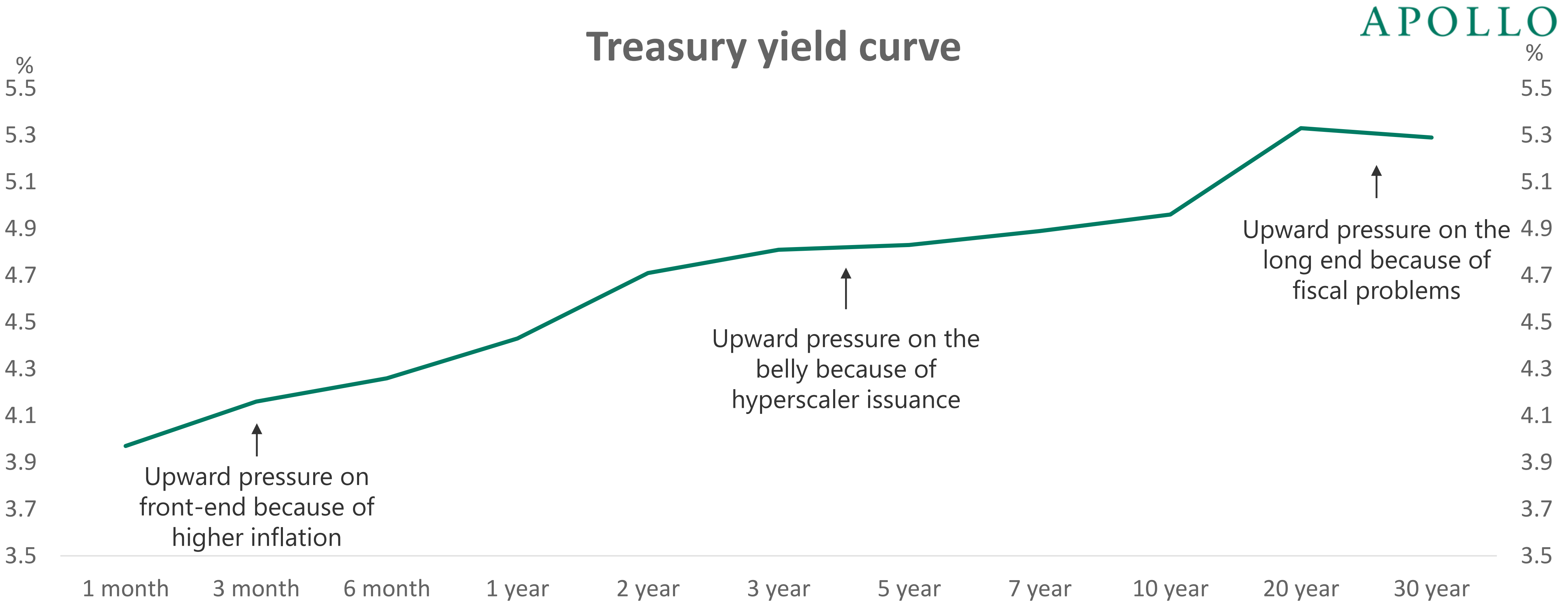
Source: U.S. Department of Treasury, Macrobond, Apollo Chief Economist

5-year bond auction indirect bidding was low



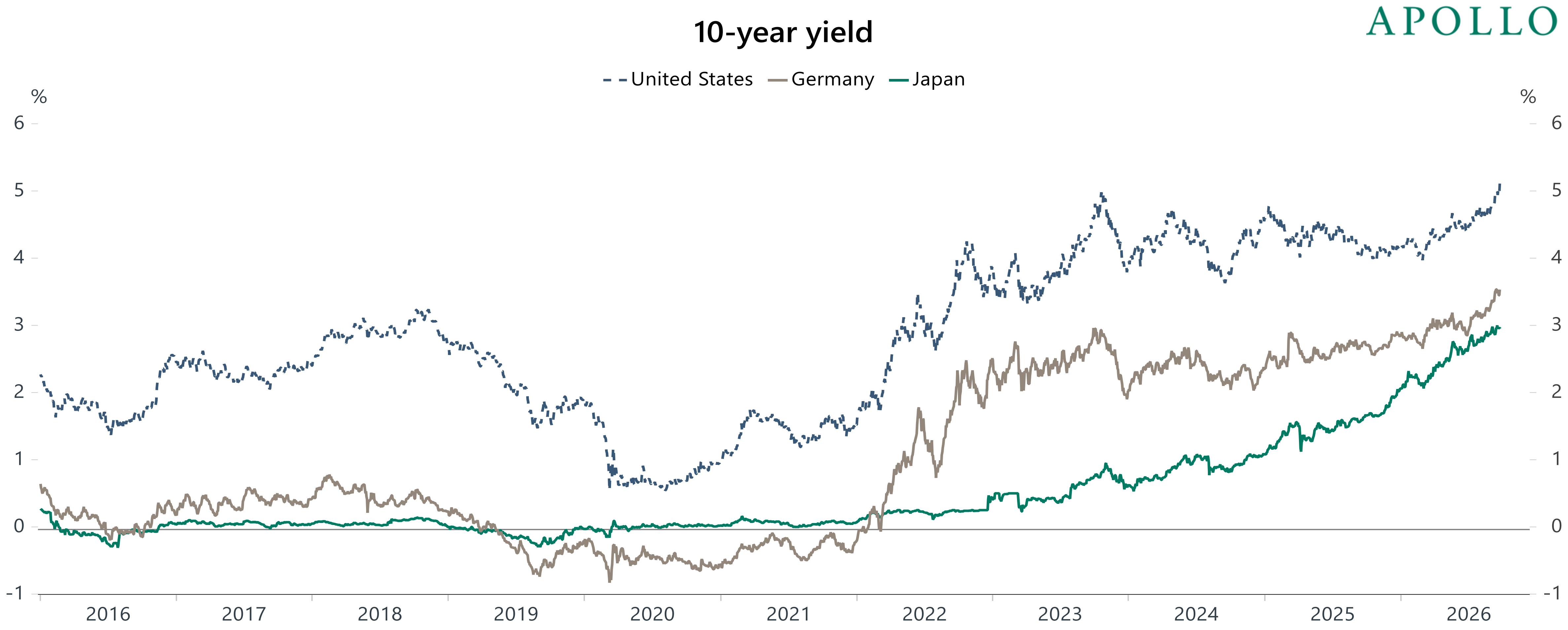
Source: U.S. Department of Treasury, Macrobond, Apollo Chief Economist

Upward pressure on US yields across the curve



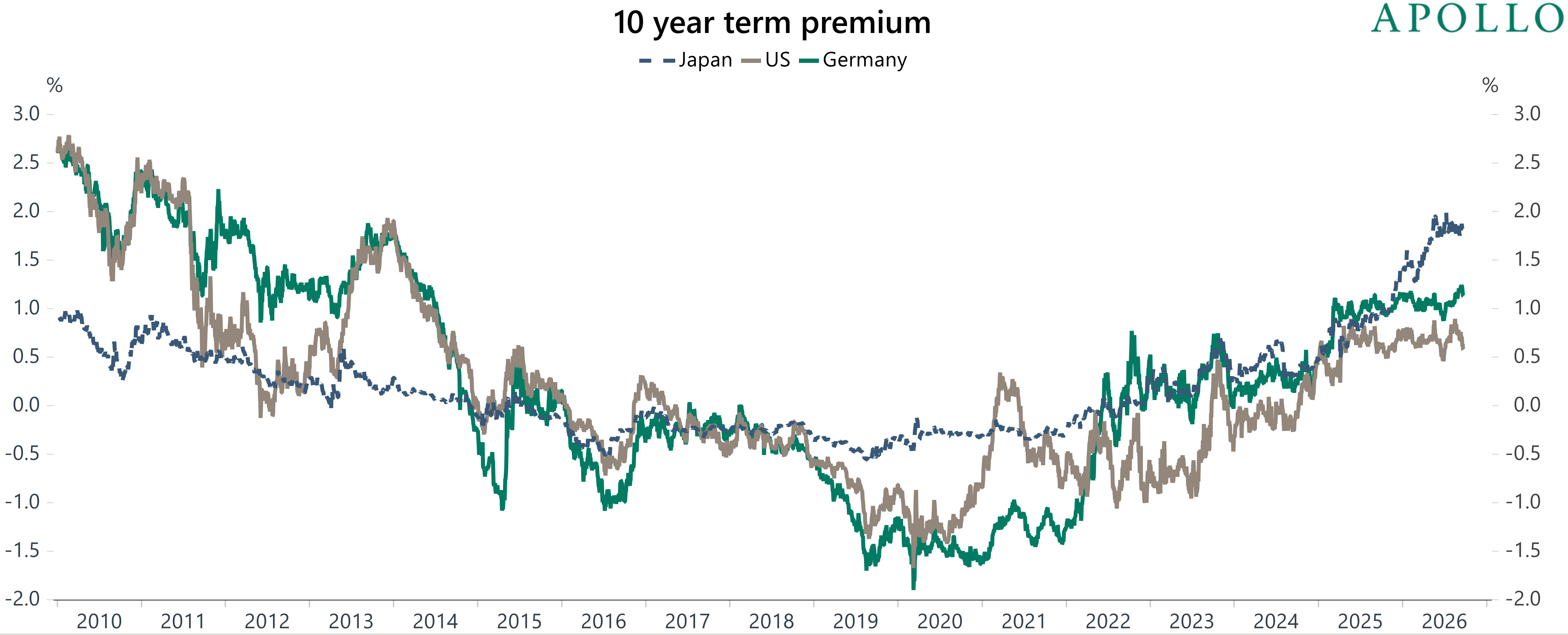
Source: FRB, Haver Analytics, Apollo Chief Economist

10-year government bond yields moving higher in the US, Germany, and Japan



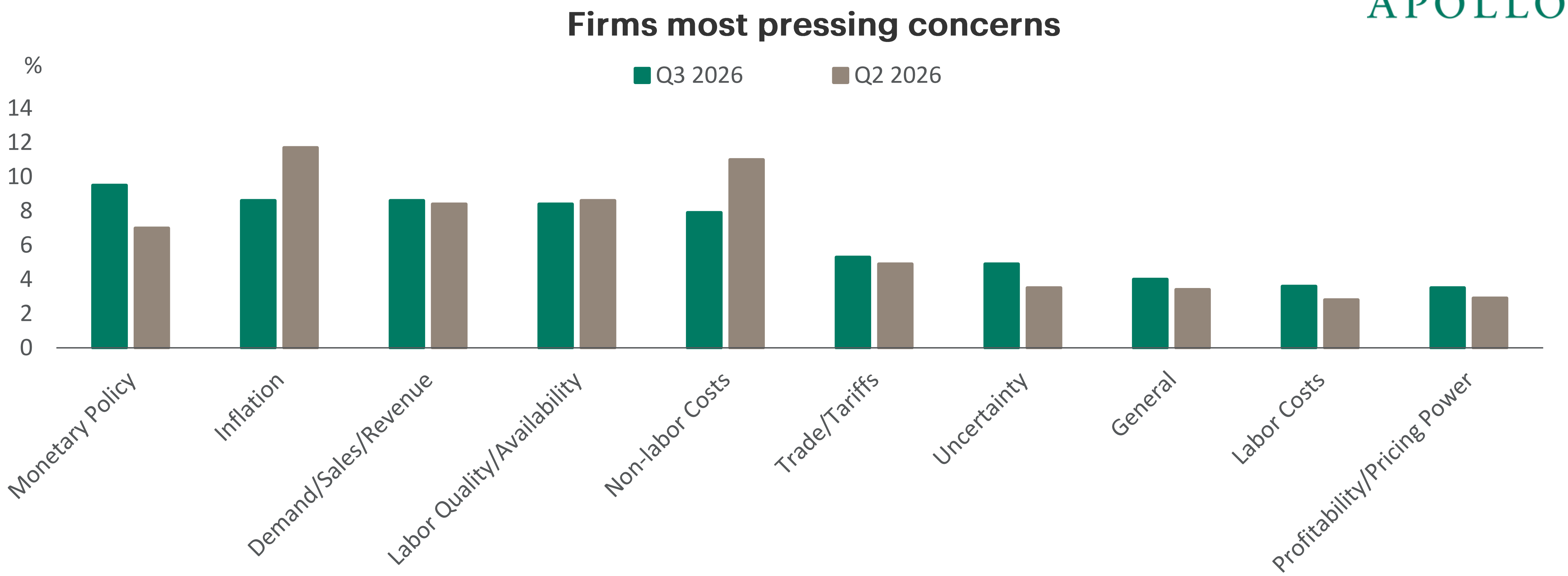
Source: Macrobond Financial AB, U.S. Department of Treasury, Macrobond, Apollo Chief Economist

Comparing the term premium in the US, Germany, and Japan



Source: Bloomberg, Macrobond, Apollo Chief Economist

Fed survey:
What firms say are the most pressing concerns



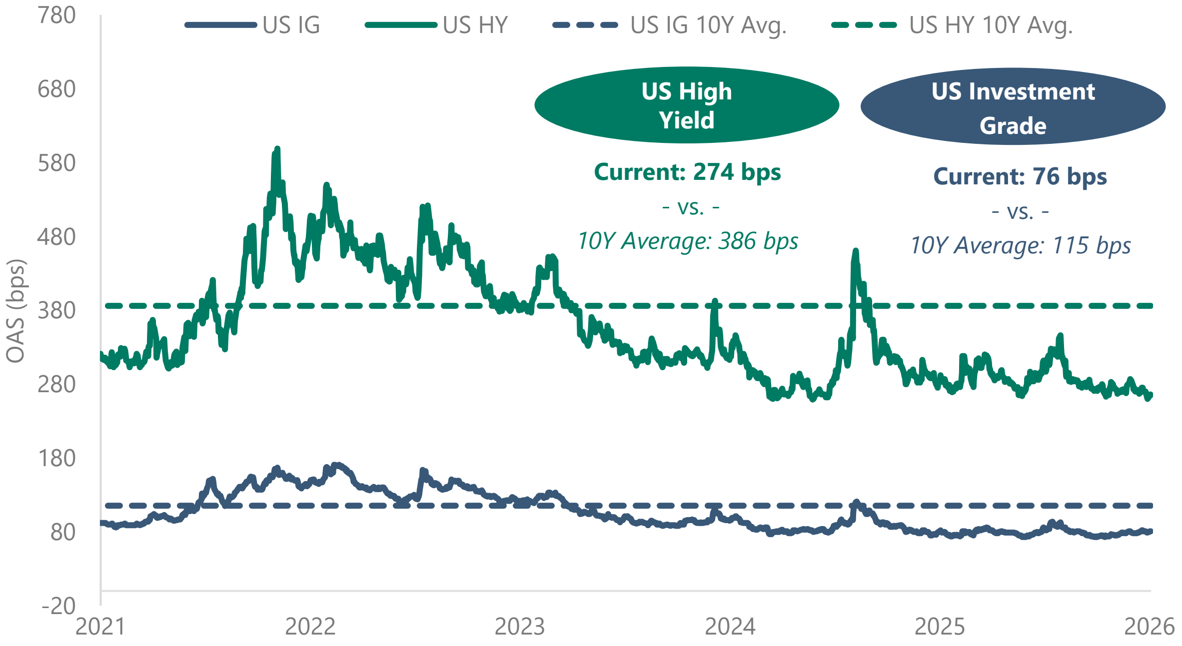
Source: CFO Outlook: Steady Overall but Weaker for Small and Financially Constrained Firms | Richmond Fed, Apollo Chief Economist

What does higher for longer mean for credit?

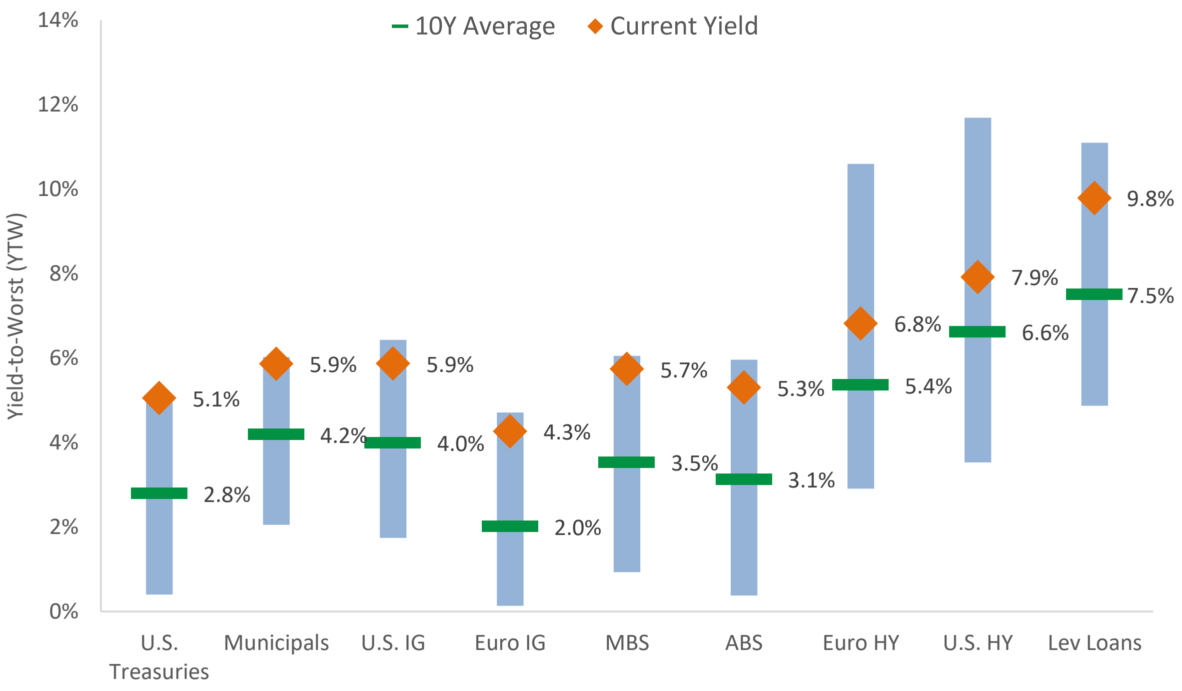
Tight Spreads, Attractive All-In Yields: Credit's Technical Backdrop Holds

Credit spreads sit near all-time tights, making valuations look historically rich on a spread basis alone. But **all-in yields remain attractive across the fixed income complex**. That gap between rich spreads and attractive absolute yields has been a powerful technical support: **yield-driven demand has historically limited how far spreads widen**, even during periods of volatility.

Spreads Have Tightened and Volatility Remains Low



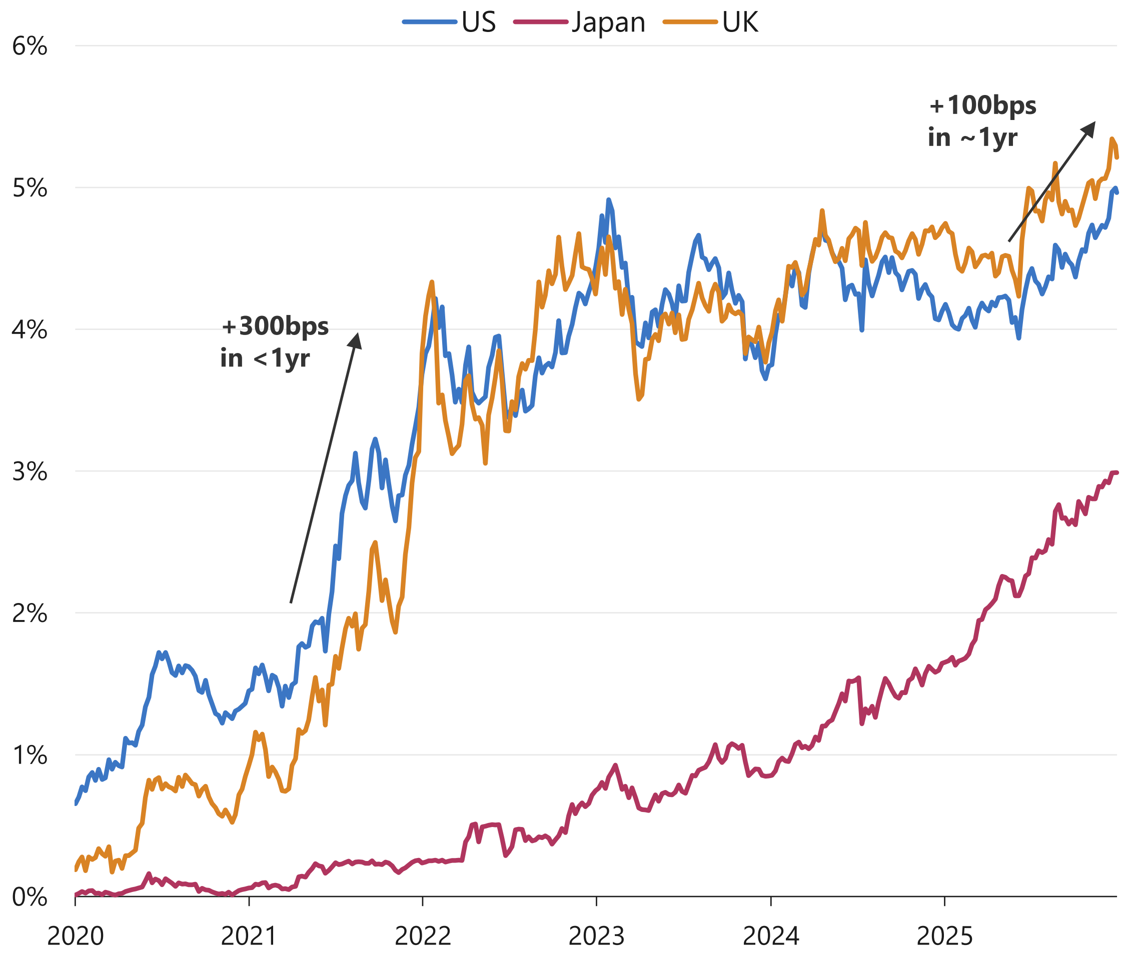
Yields Are Attractive, Even if Spread Valuations Appear Rich



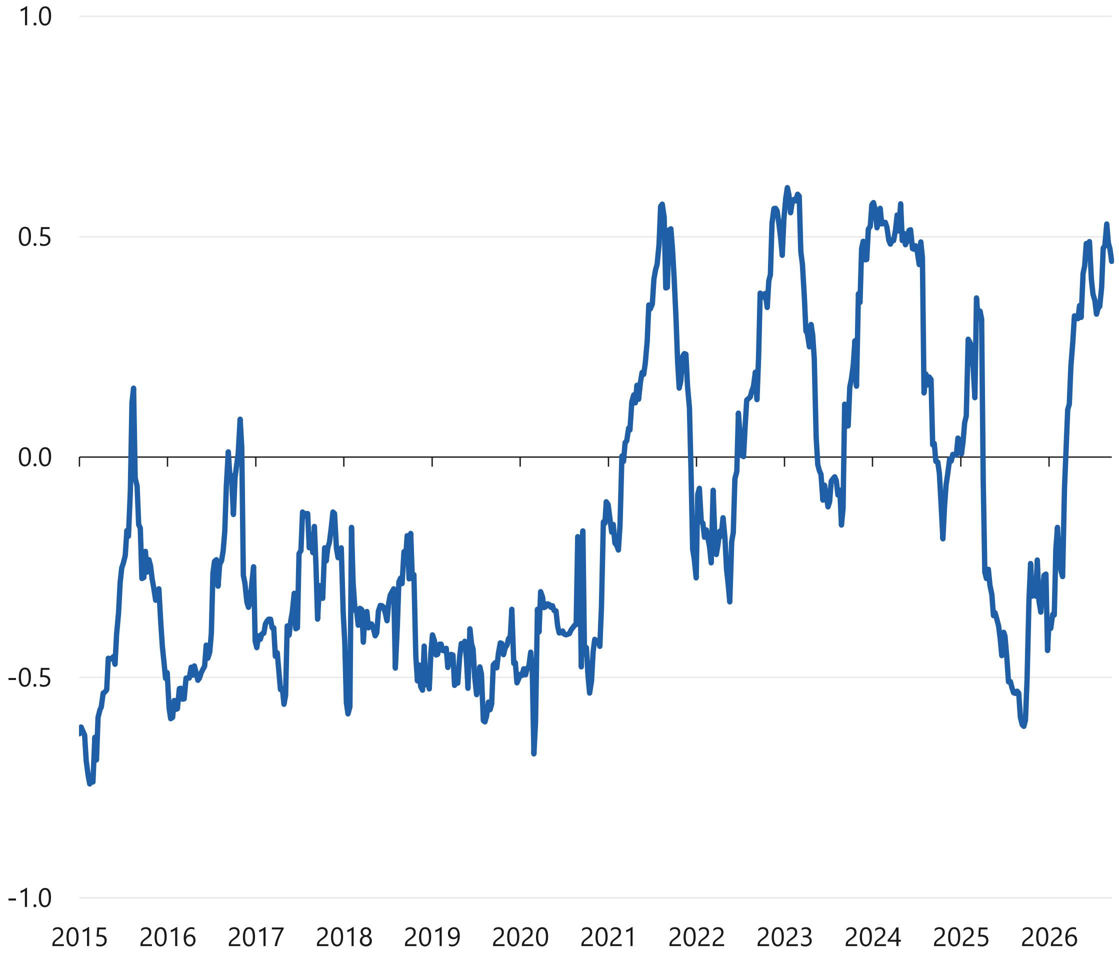
Reflects the views and opinions of Apollo Analysts. Subject to change at any time without notice. For illustrative and discussion purposes only. There can be no assurances that any of the trends described herein will continue or will not reverse. Past events and trends do not imply, predict or guarantee, and are not necessarily indicative of future events or results. *(Left Chart)* Source: Bloomberg. All sectors shown are yield-to-worst except for Municipals, which is based on the tax-equivalent yield-to-worst, and Leveraged Loans, which are based on YTM. Dark brown bar represents min/max yield-to-worst over the trailing ten-year period ending September 4, 2026. The orange diamond represents the current YTW as of September 4, 2026. U.S. Treasuries represented by Bloomberg US Treasury Index (LUATYW). Municipals represented by Bloomberg US Municipal Index (BTXMYW). U.S. IG represented by Bloomberg US Corporate Bond Index (LUACTRUU). Euro IG represented by Bloomberg Euro Aggregate Corporate Index (LECPYW). MBS represented by Bloomberg US MBS Index (LUMSYW). ABS represented by Bloomberg US Agg ABS Index (LUABYW). Euro HY represented by Bloomberg Pan-European High Yield Index (LP01YW). U.S. HY represented by Bloomberg US Corporate High Yield Index (LF98YW). Lev Loans represented by Credit Suisse Leveraged Loan Index (CSLLLTOZ). *(Right Chart)* Source: Bloomberg. Reflects daily OAS of ICE BofA US High Yield Index (H0A0) and ICE BofA US Corporate Index (C0A0) from September 1, 2021 through September 4, 2026.

Bond/Equity Correlation has Risen; Rising Rates and Inflation Pose a Risk to Segments of Credit Market

10yr Yields



SPX-5yr UST 6m Rolling Correlation

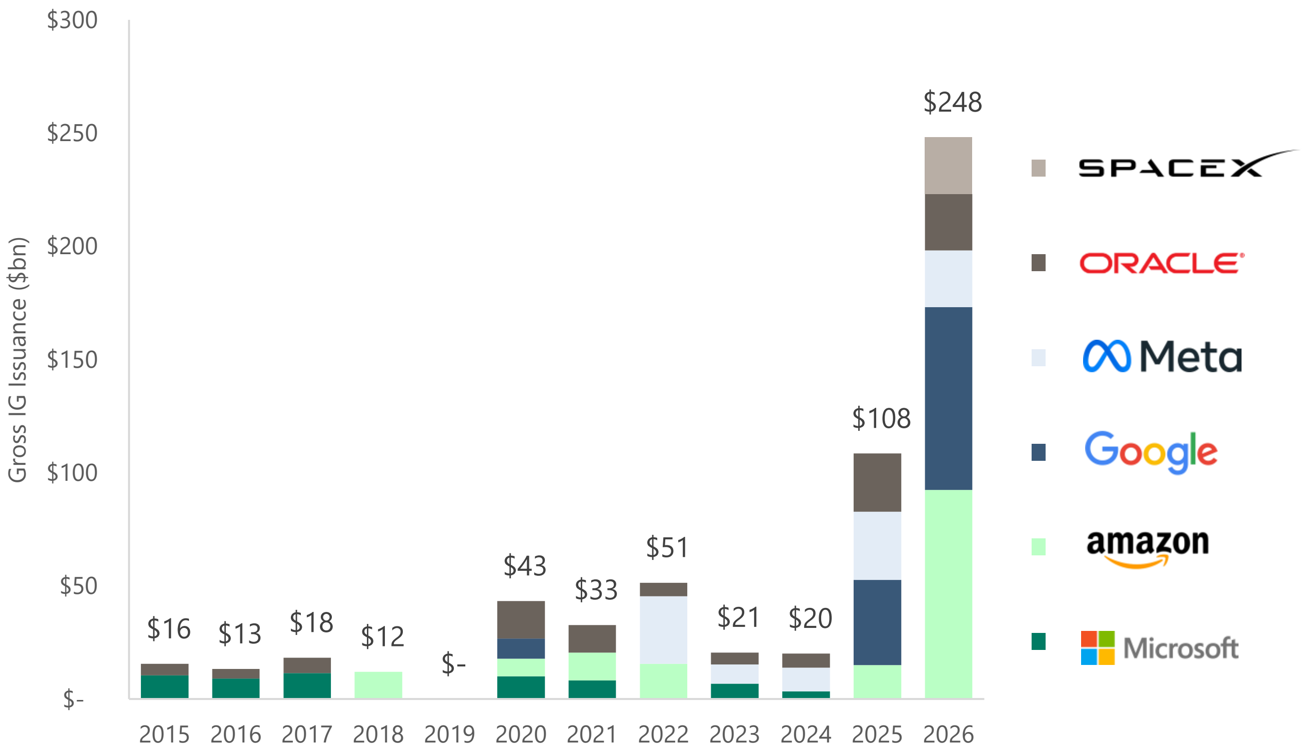


Source: Bloomberg, Apollo Analysts as of Sept 2026.

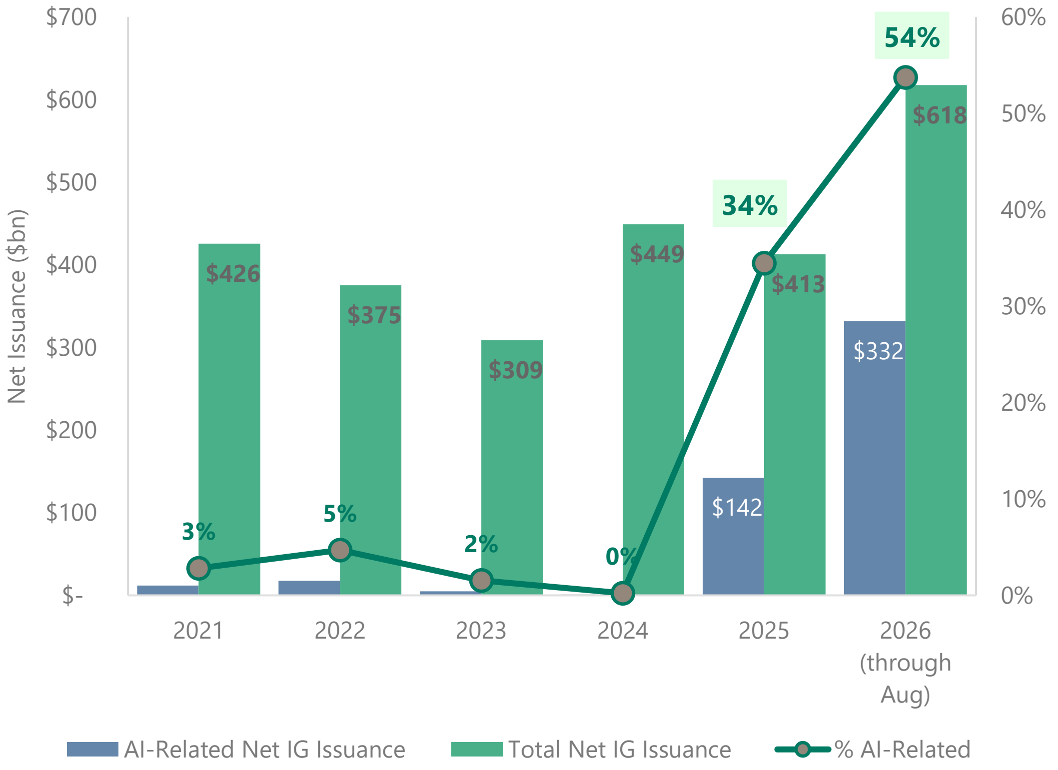
AI-Related Financing Needs Driving Record Volumes and Are Unlikely to Slow

To finance rising capex needs, the **hyperscalers have issued nearly $250bn in IG debt in 2026 so far**, more than the cumulative total of the prior decade.

Hyperscaler IG Issuance in 2026 Has Surprised to the Upside



AI-Related Issuance Accounts for Over 50% of Net IG Issuance This Year



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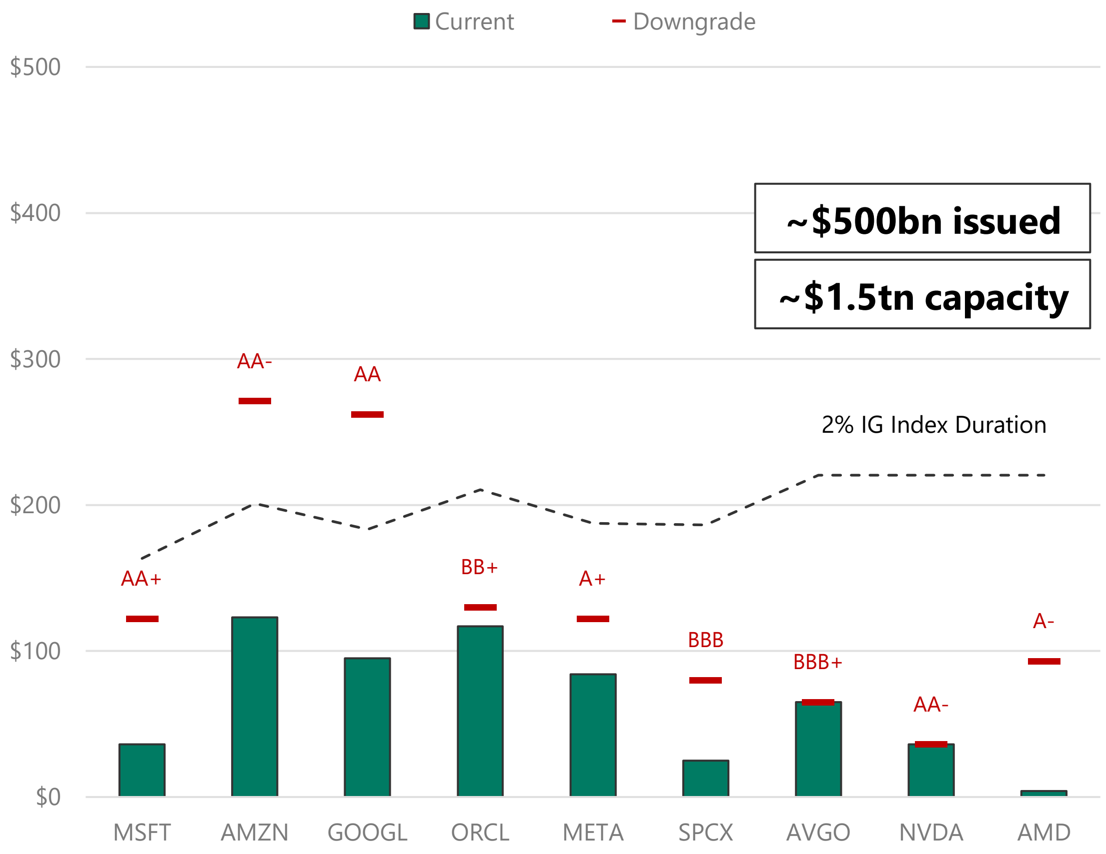
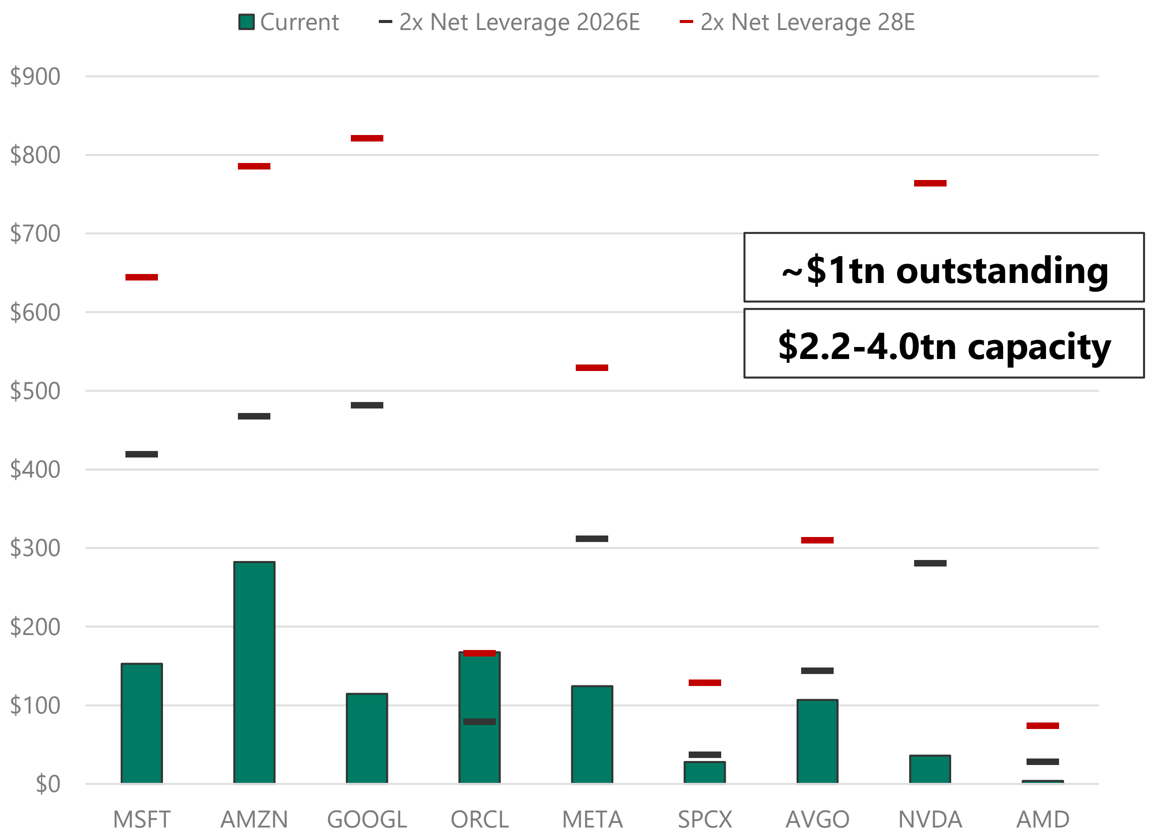
Private Markets will be Required as Public Market Reaches Limits

- Hyperscalers & chipmakers could issue up to ~$1tn more IG index debt
- Strong balance sheets (and earnings growth) could support $1-3tn more off balance sheet backstops while still IG rated (< 2x net leverage)

Public IG Debt Issuance ($bn)



Total IG Debt Issuance ($bn)



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Shobhit Gupta joined Apollo in January 2024 as the Head of Multi-Credit Strategy and is responsible for identifying key themes and opportunities across global credit. He is also a Portfolio Manager on the Multi-Credit team.

Prior to joining Apollo in 2024, Mr. Gupta spent 15 years at Barclays as the head of US credit strategy, covering investment grade, high yield, loans, credit derivatives and securitized products. He also worked at Citadel for two years focusing on opportunities in subordinated capital securities.

Mr. Gupta has a PhD in Operations Research from MIT, and a Bachelor's degree in Mechanical Engineering from IIT Bombay.

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Torsten Slok joined Apollo in August 2020 as Chief Economist and he leads Apollo's macroeconomic and market analysis across the platform.

Prior to joining, Mr. Slok worked for 15 years as Chief Economist at Deutsche Bank where his team was top ranked in the annual Institutional Investor survey for a decade. Prior to joining Deutsche Bank Mr. Slok worked at the IMF in Washington, DC and at the OECD in Paris.

Mr. Slok has a PhD in Economics and has studied at the University of Copenhagen and Princeton University.