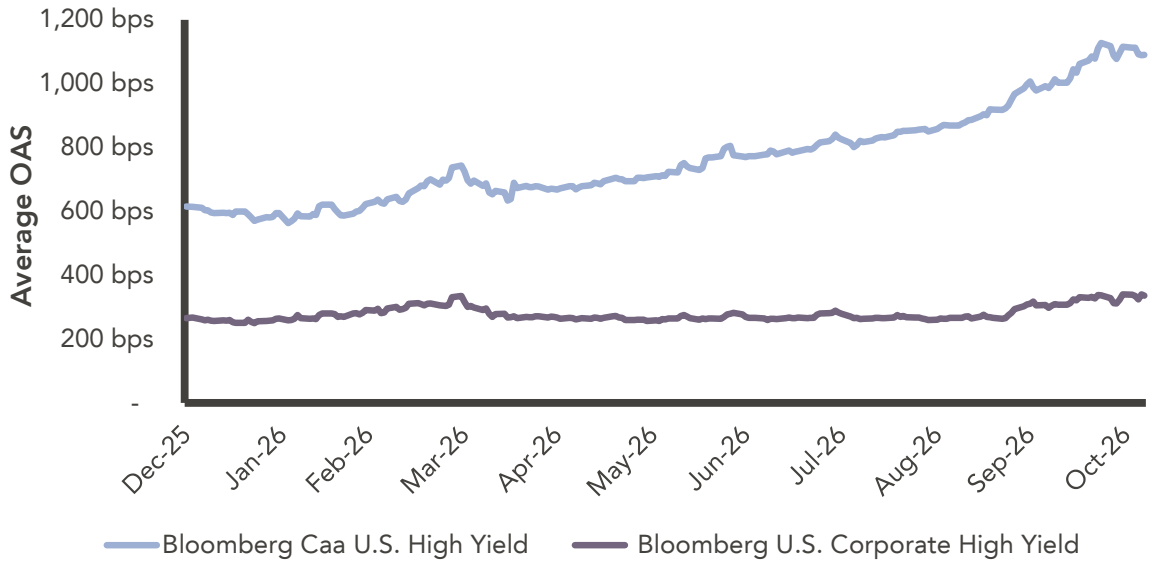
Chart of the Week

November 9, 2026

C's Get Degrees (of Pain)

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Spreads on the riskiest cohort of U.S. corporate bonds have climbed to their highest levels in nearly four years



Source: Bloomberg as of November 6, 2026

The U.S. distressed debt market is showing increasingly pronounced signs of stress. As of this writing, option-adjusted spreads on CCC-rated U.S. high yield bonds, the riskiest segment of the speculative-grade market, sat above 1,000 basis points, which represents the most extreme level this cohort has exhibited since the March 2023 regional banking crisis. The CCC segment of the high yield market has returned -5.4% since the end of June, compared to -1.1% for the Bloomberg U.S. High Yield Index. It is worth noting that this deterioration extends beyond publicly traded bonds, as the volume of leveraged loans trading at distressed prices (i.e., below 80 cents on the dollar) climbed to approximately $140 billion in October, nearly 90% higher than a year earlier and approaching levels last seen during the COVID-19 pandemic. More severely impaired loans, or those trading below 60 cents on the dollar, totaled approximately $65 billion last month, which represents the highest level since March 2020.

Several factors are likely contributing to these dynamics. First, elevated interest rates are putting pressure on highly leveraged companies, particularly those with floating-rate debt or significant refinancing requirements. These borrowing costs are increasingly difficult to absorb for businesses with limited free cash flow, and a more cautious lending environment has made the refinancing of existing obligations more challenging. Recent market

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stress could also be a function of adversarial dynamics between borrowers and creditors. Companies with viable refinancing options continue to benefit from strong technical demand for traditional high yield debt and are supported by institutional investors (e.g., insurance companies and pension funds) seeking attractive yields. However, issuers with more limited refinancing options face a much more challenging environment, as creditors increasingly fear borrower-led liability management exercises that could disadvantage certain creditor groups through maturity extensions, selective repayments, or other restructuring tactics. Additionally, investors are increasingly questioning whether technology-oriented businesses can maintain competitive positions and cash flows as artificial intelligence adoption accelerates. Estimates indicate technology companies account for nearly 40% of distressed leveraged loan volume, with software borrowers facing particular scrutiny given the potential for AI-driven disruption and more than $100 billion in upcoming debt maturities. At the same time, the rapid expansion of AI infrastructure has raised concerns about the sustainability of debt-financed capital expenditures. Finally, broader market conditions have added to the pressures within the distressed space, with persistent inflation and a surge in corporate borrowing (including several exceptionally large debt transactions) contributing to greater investor selectivity and wider credit risk premiums.

For investors, the developments detailed above present both a warning about deteriorating credit conditions and a potential source of opportunity. Companies that accumulated substantial leverage when financing was inexpensive may face increasingly difficult choices as debt matures, including refinancing at materially higher rates, asset sales, liability management exercises, or, ultimately, restructuring and bankruptcy. Importantly, the widening in CCC spreads should not necessarily be interpreted as evidence of an imminent broad-based credit crisis, as deterioration remains relatively concentrated among weaker issuers and industries facing structural challenges. To that point, estimates indicate that roughly 20% of the CCC bond index was trading below 60 cents on the dollar in early October, while the remaining, more fundamentally sound portion of the CCC market exhibited considerably more normal spread levels. This distinction is important for investors. While broad exposure to the lowest-rated credit segments carries meaningful downside risk, dispersion across issuers creates opportunities for asset managers with the resources to underwrite individual capital structures, assess recovery prospects, and distinguish temporary headwinds from permanent impairments. For distressed and opportunistic credit strategies, an expanding universe of dislocated securities could create attractive entry points, particularly where market pricing discounts a more severe restructuring outcome than ultimately materializes. However, investors must remain cognizant of potentially lower recovery values, increasingly complex creditor negotiations, and the possibility that current challenges could develop into a more pronounced default cycle.

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