

The Credit Market Lens: U.S. Corporate Issuers Can Digest Higher Refinancing Costs

Most U.S. investment grade and high yield borrowers appear positioned to withstand refinancing costs, but CCC rated issuers face greater pressure as elevated yields meet weaker balance sheets.



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Key takeaways:

- ▶ **Concerns about higher yields aren't limited to U.S. policymakers.** While the U.S. Treasury announced a buyback expansion amid rising U.S. borrowing costs, credit investors have started questioning whether higher yields will affect corporate borrowers' capacity to service

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interest coverage ratios are based on accounting data, they are backward looking. Thus, the real uncertainty is how large the marginal costs might be to refinance maturing bonds in the future.

Figure 1: Although down from their highs, median net interest coverage ratios are still healthy

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Figure 2: At the index level, current yields-to-worst are only marginally higher than average coupons in both USD IG and HY

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Figure 3: Longer average maturities-at-issuance mean that USD IG borrowers face rising average near-term refinancing coupon costs

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Source: Bloomberg, ICE-BAML, PIMCO as of 26 August 2026. Based on Bloomberg US Corporate High Yield Total Return Index Value Unhedged USD. Current coupon is the coupon on the existing bonds. Current yield is the current yield to worst at the index level for that rating.

Interestingly, these figures show that IG issuers with bonds maturing in 2027 and 2028 tend to face larger average marginal coupon increases than their BB rated peers. This may seem unintuitive, but the underlying reason is mechanical. HY firms generally issue at shorter maturity profiles

relative to their IG-rated peers, whose investor base is far more comfortable with maturities across the entire curve, including long-dated bonds.

Therefore, given that we are six years past the July 2020 trough in U.S. Treasury five-year yields, most HY issuers have already had to refinance at higher market interest rates. By comparison, IG issuers that have longer-dated bonds maturing in 2027 and 2028 haven't yet refinanced them in the current higher rate environment.

There is one pocket of the market, however, where pressures are more acute: CCC rated issuers. We estimate that current face-value weighted coupons for bonds maturing in 2027 and 2028 could double from current levels, if these issuers refinanced their maturing bonds at today's index yields, as shown in Figure 4. Therefore, if growth continues to slow and late-cycle headwinds create a further drag on earnings growth, higher refinancing costs for these CCC firms present an acute pain point given their weaker balance sheets.

Michael Puempel and Gabriel Cazaubieilh contributed to this report.

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