Higher yields, healthy balance sheets, and the AI spending boom

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Key takeaways

Despite rising tech company debt, the credit market isn't experiencing the type of concentration seen in the stock market.

Company balance sheets generally look healthy, and yields have rebounded from their low levels.

Dry powder can help our Investment Grade team take advantage of potential investment grade deals in the coming months.

There's a lot happening beneath the surface of today's investment grade bond market, from hyperscaler spending to healthy corporate balance sheets to higher yields. Matt Brill, Head of North America Investment Grade, breaks down what it all means for credit investors — and why fixed income may be more dynamic than many people realize.

Listen to the full conversation and read highlights from Matt below.

Transcript

Hello. I'm Danielle Singer, head of wealth management platforms for Invesco, and this is Rethink Portfolios, a series from the Greater Possibilities Podcast. This show brings you inside the decision-making process of portfolio managers through in-depth conversations that explore how our experts manage risks, identify opportunities, and navigate changing markets.

Our guest today is Matt Brill. He's the head of North America investment-grade credit and senior portfolio manager at Invesco. Getting Matt's perspective on credit markets could not be more timely. All eyes are on the Fed ahead of its September meeting. The amount of borrowing from hyperscalers has some wondering if AI concentration risk in equities is going to seep into credit markets. And some investors are waiting for that, quote, "perfect" moment to extend the duration of their cash portfolios. Welcome, Matt.

Of course. Now, Matt, we've worked together for a long time, but let's start off with that title. Can you tell our listeners what you do at Invesco?

Yeah. So as the head of North American investment-grade, basically, what I do is lead portfolio manager for a lot of different strategies that involve high-quality credit, so investment-grade-rated bonds. Now, we do use some high-yields, some emerging markets, but at the base, the large majority of the portfolios that we're going to manage on my team are going to be investment-grade-rated. That doesn't just mean investment-grade corporates though. I think a lot of people immediately think corporate credit. That will be a part of it, but we'll include some structured credit, we'll include some things like agency mortgages.

This is great. So it sounds like we're going to have a lot of different spaces to talk about. Let's dig into some of those areas. So one of the first questions we get a lot when speaking with clients, especially here in the US, is about the state of the US economy, and there's been no shortage of headlines this year. We are thinking about what are the data points the Fed might be looking at, and what do you think might happen to short-term rates here?

Yeah. So the Fed has a dual mandate. They care about the labor markets, and then they care about inflation. And so when we look at the labor market, it continues to do well, and I think that it's been a little bit of a surprise to many investors. They thought AI was going to come in and just put everybody out of work, and that hasn't been the case, at least so far. So so far, encouraging signs there. And the job market, I think it's 4.2%, 4.3% unemployment rate, so it's pretty tight. There's not a lot of unemployment right now. We do call it a no hire, no fire, or a low hire, low fire job market, meaning there's not a lot of activity. Companies are kind of nervous to let go of anybody, but they're also nervous to hire a lot of people. So the labor force is pretty stagnant, but it's good, it's pretty good overall. So the Fed is not in a hurry to do anything one way or another in terms of the job market.

But their other side of their dual mandate is the inflation side. We've gone through periods of inflation. We started back in 2021 and 2022, and the Fed had kind of slayed the inflation beast, and then it's sort of resurfaced here. And we're trying to figure out, is this going to go back to these 2022 levels of 5% inflation, or are we just going to remain in this slightly elevated, a little bit uncomfortable for the Fed zone that we've been in for too long, too long according to Kevin Warsh and the Fed? So they think that this is too much where we are. But what are they going to do about it, and why is it even happening?

So I think the first reason is obviously the war, the conflict in the Middle East has elevated commodity prices. Everybody's aware of that. That's something that had kind of gone away for a little bit with the truce, or the ceasefire over there, but it's come back a little bit and oil prices are elevated again, and we'll see if that flows through the economy and does create more inflation. To date, it's been marginal on the core PCE. It's increased, obviously, oil prices, but in terms of really flowing through into other parts of the economy, it hasn't happened yet.

But overall, the build-out of AI has two parts to it. One is the build-out, and then two is the actual implementation or the use of AI. So the near term is the build-out of it and all the spending that's going into that, and that is inflationary. That's driving up costs in a lot of different places. Think about land prices for data centers. Think about copper being bought for all the wiring. You think about just every dollar for construction equipment around the country that's going into this, that is inflationary. But if you believe that AI will be productive and actually result in positive things, it is going to be deflationary down the road. It's going to save you cost by being massively improving from a productivity standpoint.

So we'll see. And the Fed is going to probably argue, or at least Kevin Warsh is probably going to argue that the productivity is coming, and we just have to live through a little bit of the pain near term, and then we're going to start to see the gains of all this AI investment not too far down the road. But for me, I would say don't worry too much about the inflation from commodity prices and some of the war and the conflict over there. I would worry more about is this a longer term effect from the AI or not? And my general view is that it is not. And so because it is not inflationary longer term, I tend to believe that this is going to be fixed, and we're going to have a very good outlook, and the Fed is not going to have to hike rates.

So we're going to keep talking about macro, and specifically thinking about economic growth being both a function of businesses and the consumer. When I've heard you speak, you talk about, in the past, it's been a K-shaped economy, where there's quite a bit of dispersion among income levels. Is that still the case? And does any of this have impact in the level of interest rates?

Yeah. So I think it's a very challenging question, just simply because the top of the K is absolutely doing well. The top of the K has asset ownership, they own stocks, they own houses, they own other goods or other assets that go up with any inflation and go up with obviously the markets improving. So the top part of the K continues to do well. The AI build-out generally is good for the top part of the K.

The bottom part of the K is a lot more complicated, and I think, as I stated earlier, a lot of investors really thought that AI was just going to be very negative for the bottom end. And I don't want to say that there's not problems on the lower end consumer. There certainly are. There are certain people that continue to struggle to make ends meet. But with the labor market where it is, and at 4.2%, 4.3% unemployment, the bottom end of the economy continues to actually be pretty good. You go to restaurants, they're busy. Low-end restaurants are busy. High-end restaurants are busy. You go travel, first class is busy, the back of the plane is busy. Everywhere, people are spending.

And I think that the consumer confidence remains a little bit tricky because it gets very politically motivated. I think a lot of times, the people do surveys and they ask them how they think their economy is, and they'll base their opinion on a lot of their political views. But overall, the economy is actually really good. So we do think that it's a good spot. We want more people to participate in it. We want more workers, more consumers, more of the population to be benefiting from this AI boom and this overall strong economy. But overall, we do think it's pretty good. So we are not of the opinion that you need to avoid subprime lending, things like that. It's not a huge part of our portfolio, but we're just not really seeing the cracks there that tell us that there's some sort of credit crisis at the low-end consumer that will spill over to the rest. So we feel pretty good there.

But to me, the overall driver of the economy is this AI, and so as long as these hyperscalers are spending at the numbers that they are, it is going to be a rising tide generally for the economy, which is creating this productivity boom, but also just creating a lot of overall economic development. So even if the lower end of the K lags behind a little bit, we think it's not really getting any worse, and we think the top end is doing very well, which produces an overall strong economy.

This is great. And I'm going to let you keep talking about hyperscalers in just a moment. But first, I want to pivot for a moment from macro to the fundamental outlook for the sectors you cover. Let's start with what's the general health of the companies that you invest in right now?

Yeah. So from a company balance sheet standpoint, it's very, very strong. It's probably about as good as we've seen in the last 20 years, in terms of things like debt-to-EBITDA, overall ratings upgrades versus downgrades, lack of what we call fallen angels of companies going from investment-grade to high-yield. So the fundamentals overall we think are very, very strong.

Now, there are subsets of it that are not doing as well. But overall, you're seeing most earnings beat right now. All companies, whether they're a tech company or a healthcare company or an industrial, they generally are doing well. So the fundamentals are good. We feel like we're in a position that we want to be investing in credit because the balance sheets are good, and the overall, as I stated, the trajectory of ratings is very good. So it's not as if there aren't risks right now, but overall, the consumer's healthy, and the balance sheets of large corporations is healthy, which is a good environment to investing in credit.

All right. I'm going to let you get back to the buzzword of hyperscalers. And we've allowed every guest on the show to talk about how it's impacting their various asset classes. We know from an equities perspective that indices remain dominated by hyperscalers, but how does this play into credit markets, and are we starting to see any cracks?

Yeah. So the hyperscalers, it probably wasn't a word that was even in anybody's dictionary not that long ago, right? But hyperscalers have come out of nowhere. And just so everybody knows, hyperscalers are the large tech spenders, the large investors in CapEx out of the tech space. It's going to be Alphabet, Amazon, Meta, Microsoft, and Oracle. Those are the designated five hyperscalers. There are others that have are fringe hyperscalers. SpaceX is entering that conversation. Nvidia might even be entering that conversation. But at the end of the day, most people refer to it as the five big ones, but these other large names are borrowing as well or investing as well, and in order to invest, they're often borrowing.

So when we think about what this is doing, I'll start with the good. It's very good for a lot of other sectors, not just tech. So the good that it is flowing over to is in the banks. If you think about the banking activity, the banks do well when the economy does well. They're essentially derivative of the economy, and the banks are doing very well right now. But the banks also do well when there's IPOs, when there's large debt issuances. They make a cut. They have almost a commission-like structure from the investment banking world that they're doing very well off of all the capital markets activity that's happening, and their earnings are very, very strong, and their balance sheets are very robust as well as the economy continues to do well. So we like the banks, the banks are doing well as a function of what all is happening with the hyperscalers.

Second, if you think about who is benefiting from this outside of technology, the power companies. Power is one of the biggest roadblocks for the build-out of AI. The power companies, we need more power, we need more power, we need more power. You hear every executive... Jensen Huang was on CNBC the other day talking about how much more power we need in this country. And you have all these big infrastructure companies that are building things out, and with that, the demand for power is very, very high, and we continue to believe a lot of the utilities will do well due to this.

But the third area that isn't involved with tech is the classic industrials. So your companies that are building out the data centers, they're moving the dirt, they're constructing the walls, they're putting the copper and they're wiring it throughout the data centers, and they're putting the coolant on all the data centers. All this is happening around the country right now, and it is a massive boom to classic middle America industrials. So your banks, your utilities, and your classic industrials are doing very well as a function of all the AI demand.

In addition, you're getting the early stages of the productivity increases are spilling over to all areas of the economy and all sectors. So companies that are investing and using AI are finding themselves to be more productive, they're getting more profitability, they're expanding their margins, and we're seeing that in earnings report after earnings report, which is very strong to see. So everything looks really good. Now, some people say it's all one big trade, and maybe it is, maybe it isn't. But I think that's the longer term trend that you're going to continue to see, that productivity do well and benefit all corporations regardless of the sector.

But if you look at the technology specifically, the question you asked was, is it too concentrated? Are we seeing this happen in the fixed income market, like we've seen in the equity world? And when you think about equity world construction, a lot of the equity indices are based on market caps, and the bigger the company gets, the bigger they become of the index. The bond market is similar, where the more that you borrow, the larger you are of the index as well. But just because you have a large market cap, doesn't mean that you're going to have a lot of debt, but they often can be correlated.

Until recently, these tech companies did not borrow really at all. They had so much cash, they didn't have anything that they were really spending massive capex budgets on, so they bought back some stock generally, some paid a small dividend, and they did some capex projects, but they weren't massive to the point where they had to be called a hyperscaler. That's changed. So you have the tech business, or tech part of the fixed income indices in the pure corporate world was maybe 2% to 3% just a few years ago. It's still single digits, so it has increased significantly, but it is still single digits. Depending on how you classify some of the key credits, it's somewhere between 6% and 8%. So it's up versus where it was before, but you are still materially more diversified in fixed income than you are in the equity world, where some of these concentrations, depending on the index, can be 35% to 50%.

So overall, there is more tech debt, absolutely. We think that these companies, we'll talk maybe about the credit quality of them in a little bit, but credit quality generally is still very, very strong. But the concentration risk is not quite there in the fixed income world that it is in the equity world, and there's a reason for that. When you buy a stock, you can make an infinite amount on that stock. We have limited upside by owning fixed income. We get our coupon, we get more maturity. We don't have the upside that you get in the equity world, so because of that, we want to stay defensive, we want to stay diversified, and it actually fits our market much better to be less concentrated. And so far, that's been very positive for the fixed income world, and it's something we're monitoring very closely. But you can sleep well at night knowing that your fixed income is not the same concentration level that your equity portfolio is.

That is absolutely fascinating. And it's so important, I think, for our listeners to understand the diversification benefit, and that you can be having tons of concentrated conversations around something like hyperscalers, but when you start to peel back the layers of the onion, there's a lot more to it, especially for credit investors. Maybe we start to think about then the different areas that your team looks at to evaluate different investments. We've talked about fundamentals. I think you gave some things A ratings before. But if we look across those three different areas, fundamentals, technicals, and valuations, how would you rate each of these in your process currently?

Yeah. So if we think about a three-pillar stool, essentially, they're all important, whether it's valuations, technicals, or fundamentals. There are certain times in the market where some are going to be more important than others. We tend to say things like valuation is not a catalyst, so things don't just immediately get better in price because they got cheap. You have to have some reason for them to get better, and that's usually going to be fundamentals, but oftentimes it's technicals. And right now, the technicals, I would say, are generally a negative for the fixed income markets, particularly within the investment-grade space because of the amount of debt being issued. You have debt being issued, obviously, by governments, but you have a lot of debt being issued by these hyperscalers, these large tech companies that is putting some technical pressure on the market. So we are less positive on the credit markets from a technical standpoint, simply because there is so much supply being issued by these large hyperscalers.

The good thing is the demand is generally there and equal in terms of its strength because of the valuations, and the valuations on a yield basis are very attractive. So valuations on a yield basis, you're close to your 20-year-highs in all-in yields on pretty much all fixed income, depending on which part of the curve you look, which part of the credit quality you look at. But all-in yields are pretty close to the highs. In our opinion, they're attractive. And they're bringing in large pension plans, insurance companies, endowments, things like that that are really trying to immunize long-term liabilities by buying high-quality fixed income. So the demand is there, but the technicals are not as good, simply because there is a lot of supply.

The valuations on a yield basis, very attractive. Valuations on a spread basis, not so attractive. So when we talk about spread, that's the additional yield, or the additional incremental pickup you get by owning something other than a Treasury. And right now, that's pretty low in all fixed income asset classes, whether it's investment-grade, high-yield, EM, or structured credit, it is on the lower end. And we think it's justified because the fundamentals are so strong. The technicals are starting to loosen things up a little bit, and we continue to get more issuance out of some of these hyperscalers. That might actually spill over and create a great buying opportunity. We'll have to see.

But overall, we look at things on the three-pillar basis, and the fundamentals are very, very good. The technicals are not as good because of the amount of issuance that's being done to fund this CapEx growth. And then, the valuations are twofold, on spread, not so attractive, on yield, which is what most investors care about, most investors really only care about the all-in yield, that yield is attractive, in our opinion.

So you've got these three pillars, they're not always all telling you the same thing. My guess is that risk management then becomes very important. So let's make that this next natural topic. If you think about how you're taking risk today compared to, let's say, last summer, how might that look?

Yeah. So I think a lot of people have been calling for a recession for five years now, basically. So a lot of people have been saying, "A recession's coming, a recession's coming." And we've taken the other side of that for pretty much the entire time, all the way back to 2021 and 2022 when that first came up. So our risk profile was a little bit more risk-seeking, because we continued to believe that the US economy was more resilient than most investors thought. That was more like 2022 and 2023.

And then, we looked at '24 and '25 and we started to see the build-out that was happening in AI, and we said this is going to be what propels the economy from here. The fundamentals are going to be very good because of the AI build-out, and this is going to be a good thing for the US economy. Therefore, we want to own high-yield, we want to own US-centric investment-grade credit, and we'll own a little bit of EM, depending on whether it's commodity-related and how it's positioned in the global markets. But overall, that gave us a positive trend and a positive feeling for owning fixed income, what we call spready assets or more risky assets than Treasuries. So that was good.

We entered this year, and all of a sudden, we've seen the market... Spreads got a little bit tighter early in the year. We did reduce risk down into this a little bit. So we took some risk off the table on valuations, and we said, "Look, valuations have gotten to the point where maybe they're not pricing in perfection, but they are pricing in things to be a little bit on the rosy side of things." And while we do think the economy's going to do very well, we did see some negatives that were potentially on the horizon. And then, sure enough, you had this conflict over in Iran, and spreads did go wider. We used that as an opportunity to add risk back. And then, spreads, sure enough, kind of came right back, and the market kind of said, "You know what? There isn't going to be a recession after all." So we've been wrong in predicting the recession for five straight years. The market conceded that, and we were on the right side of that, and so we took down risk again.

So I would say right now, I wish that spreads were a little wider so we could have more risk on, but the spreads are softened up a little bit. But overall, our view is that the economy is very, very strong, so we want to be overweight credit marginally. But we are still aware that spreads aren't giving us as much as we would like outside of technology. Within technology, it is cheap enough, quite considerably, it is potentially an opportunity here, but the supply keeps coming. I think one of the interesting stats of the year is we've had seven $25-billion deals so far, $25-billion or more deals in the investment-grade market so far in 2026. We had seven for the last seven years combined.

So just one per year in the past. So we used to get an occasional large M&A deal. Now, we're getting these large deals, not even for M&A, they're to fund capex. So from that standpoint, we've reduced our risk, and we're waiting to see if this softens up a little bit. We want to have dry powder to take advantage of some of these opportunities that we think are coming, which should usually happen after Labor Day. There's usually a lot of large investment-grade deals. There should hopefully be some interesting emerging market deals, and we want to have dry powder for that. So that's where we are right now, where it's not negative on the economy, but it's potentially tactical to try to take advantage of some potential weakness from a spread standpoint in the start of September and use that as a chance to get long risk again, because we do feel like this is a multi-year cycle for the economy.

Really dynamic. And what seems really cool is your team's ability to look through the headlines and stay very focused on those key three pillars and how to deploy risk around them. You've probably gotten a lot of our listeners very excited now about all the things they can be touching as bond investors.

Now, in the last few minutes, I want to ask some fun questions, a little bit of a lightning round maybe, if you're game.

Great. So midterm elections are right around the corner. Should we expect elevated volatility or simply consistent with the September to November time of the year?

You should always expect some volatility around the midterm elections. I think longer term, they don't really matter a whole lot, but over the near term, they will matter from a headline standpoint. The two things that we are going to be watching, does anybody have, on either side of the aisle, some views on the budget deficit, trying to keep the budget deficit lower, tighter? That is good for fixed income if anybody wants to do that.

The second thing we're looking at is really the data centers, and it's an interesting topic because there's so much capex around it. But historically, some investors may have been in favor of it, some investors may be against it. Right now, it's become a political hot button. So I'm not going to have an opinion one way or another, but it is going to impact the capital markets by, if voters are in favor of having more data centers, that's going to lead to more capex. If voters are against it and there's somewhat of a moratorium on it, that actually could lead to a lot less capex. So there's some interesting things that can come from a budget deficitary standpoint, but also from the data center build-out standpoint.

Very interesting. Now, we're audio only today, but a lot of times, you're on video, on TV. What's the best thing you've ever worn on TV?

Well, I try to be interesting sometimes. During the summer of soccer, I did wear a US jersey the day after the Flo Balogun red card and I gave out a red card on air. But I liked one time, I'm a baseball fan, and back in 2021, the Braves went on to win the World Series. And this guy by the name of Joc Pederson, a player for the Braves, he wore this pearl necklace throughout the run, and I went on one of the TV shows and I wore the pearl necklace, and it was quite empowering to wear that pearl necklace. He led us, the Braves winning the World Series, and it felt like a great market for fixed income there for a little while as well. So that was fun because I'm not normally a jewelry-wearing guy.

It's great to see people that can have fun at work. So maybe staying on that thread, what's one of your favorite things about being a fixed income portfolio manager?

So I think what we've talked about a little bit today, and maybe I didn't hit on it so much, but what I love about it is literally everything that I see on a day-to-day basis is fueled by debt. You look at cars, there's generally loans on them. Houses, there's generally a loan on them. Corporations are borrowing to build factories to put people to work. So everything that we're doing, we feel like is helping companies and helping people get access to capital to buy things and do things that they wouldn't be able to otherwise, and I think that's great. I like to turn on the TVs in the morning, and I hear about all these different companies and what's happening in the world, and everything, whether it's a positive or negative, that the news is talking about that day is going to impact our portfolio in one shape or form. I love that.

And then, I just love seeing the capital markets at work and being a part of it. And right now is one of the most exciting times that we've seen in terms of CapEx being spent in this country, the build-out of all this AI. And I'm hopeful that it's going to be in a very positive way, creating a lot of jobs for this country and for the world. And to be any part of it is a lot of fun for us, and we get to see it on a day-to-day basis. And I just enjoy coming into work every day and seeing what things are going to be brought from all over the world. And we invest in every which way and in a lot of different asset classes, and I just love being a part of it.

That's very cool. Thank you for sharing. And as a final takeaway, if there's one thing you want listeners to remember about today's episode, what would it be?

Yeah. So I think the one thing, or maybe two, is that bonds can be fun, bonds can be interesting. Hopefully, this has come across as somewhat interesting, what we do on a day-to-day basis. But bonds can be fun, bonds can be interesting. But last would be there are yields in fixed income right now. So for years, it was really hard to get above 2% or 3% in high-quality fixed income. You had to take massive risk in order to get those types of yield or you had to do other parts of the market.

But overall, right now, yields are very high. The path to get here was a little painful for investors. I get it. But overall, yields are pretty attractive, and investing in fixed income could be pretty interesting because you're supporting a lot of different ways. And it's not all about the 10-year and it's not all about the Fed. Those are key things we're going to talk about, but fixed income is so much more three-dimensional and more interesting than that.

Very cool. And what I learned today is portfolio managers can do more than sometimes think about a boring blue suit. So thanks, Matt. And as for the rest of you, catch you next time.

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Past performance does not guarantee future results.

Investments cannot be made directly in an index.

References to specific companies aren’t buy/sell recommendations.

Diversification does not guarantee a profit or eliminate the risk of loss.

Unemployment statistics sourced from the US Bureau of Labor Statistics, as of June 2026.

2022 inflation levels based on the core Personal Consumption Expenditures (or PCE) Index, which measures price changes in consumer goods and services, excluding food and energy prices.

Oil price information sourced from Invesco and Bloomberg, based on Brent crude prices as of August 18, 2026.

Comments on consumer spending sourced from the Bureau of Economic Analysis.

Comments on US economic strength based on the ISM Manufacturing and Services Purchasing Managers Indexes, which were 55.6 and 54.1, respectively as of August 2026. Above 50 is expansionary.

Comments about strong earnings and company balance sheet strength sourced from Bloomberg Intelligence, based on factors including earnings per share growth, revenue growth, and operating and net margins.

Comments about the strength of banks reflect that JPMorgan Chase, Goldman Sachs, Bank of America, Citigroup, and Wells Fargo collectively earned more than $49 billion in the second quarter of 2026, a 39% jump from a year ago, as reported by the Wall Street Journal as of July 14, 2026.

Comments about the boom in industrials reflect that 31 out of 48 large industrials companies (with market cap of more than $32 billion) have seen upward earnings revisions since the start of 2026, according to Bloomberg.

The six major hyperscalers (Amazon, Apple, Alphabet, Meta, Microsoft, and Oracle) collectively represent 4.73% of the Bloomberg US Credit Index, with the entire technology sector allocation roughly 7%. In contrast, the technology allocation of the S&P 500 Index and the Russell 1000 Growth Index is 37% and 54%, respectively. Sourced from Bloomberg as of August 11, 2026.

The Bloomberg US Credit Index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate, and government-related bond markets.

The Russell 1000® Growth Index, a trademark/service mark of the Frank Russell Co.®, is an unmanaged index considered representative of large-cap growth stocks.

Comments about all-in yields sourced from the US Treasury and Bloomberg as of August 18, 2026. 10-year yields across all major markets sit materially above their 10- and 20-year averages.

Comments on $25 billion-plus deals in the investment grade market sourced from Bloomberg News and the Dow Jones Institutional News Feed.

Fixed income investments are subject to credit risk of the issuer and the effects of changing interest rates. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

Many products and services offered in technology-related industries are subject to rapid obsolescence, which may lower the value of the issuers.

Artificial intelligence (AI) technology companies are sensitive to specific risks such as small markets, business cycle changes, economic growth, technological progress, obsolescence, and regulation. These companies may have limited products, markets, resources, or personnel, making their securities more volatile, especially for smaller start-ups. Rapid technological changes can adversely affect their results. AI companies often rely on patents, copyrights, trademarks, and trade secrets to protect their technology, but there's no guarantee these protections will be sufficient. Significant research and development (R&D) spending doesn't ensure product or service success.

Investment in infrastructure-related companies may be subject to high interest costs in connection with capital construction programs, costs associated with environmental and other regulations, the effects of economic slowdown and surplus capacity, the effects of energy conservation policies, governmental regulation and other factors.

Investments focused on a particular industry or sector are subject to greater risk and can be more impacted by market volatility than more diversified investments.

Capital expenditures (or capex) is the use of company funds to acquire or upgrade physical assets such as property, industrial buildings, or equipment.

A coupon is the annual interest rate paid on a bond, expressed as a percentage of the face value.

Duration is a measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates.

Earnings per share (EPS) refers to a company's total earnings divided by the number of outstanding shares.

EBITDA is the acronym for earnings before interest, taxes, depreciation, and amortization.

Hyperscalers are large cloud service providers that can provide services such as computing and storage at enterprise scale.

A K-shaped economy is one where recovery or growth splits into two opposite paths at the same time. One group benefits and expands, while another stagnates or falls behind.

A spread in finance is the difference between two related values, such as prices, rates, or yields.

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From hyperscaler borrowing to higher yields, there's a lot happening beneath the surface of today's bond markets. Matt Brill breaks down what it all means for credit investors — and why fixed income may be more dynamic than many people realize. (Invesco Distributors, Inc.)

Despite rising tech company debt, concentration risk isn't a concern

The tech part of the fixed income indices in the pure corporate world was maybe 2% to 3% just a few years ago. It has increased significantly, but it's still single digits. Depending on how you classify some of the key credits, it's somewhere between 6% and 8%. So it's up versus where it was before, but you are still materially more diversified in fixed income than you are in the equity world, where some of these concentrations, depending on the index, can be 35% to 50%.

When you buy a stock, you can make an infinite amount on that stock. We have limited upside by owning fixed income. We get our coupon, we get more maturity. We don't have the upside that you get in the equity world. So because of that, we want to stay defensive, we want to stay diversified, and it actually fits our market much better to be less concentrated.

Hyperscaler spending can benefit companies beyond the tech sector

Hyperscalers are the large tech spenders, the large investors in capex out of the tech space. In order to invest, they're often borrowing. It's very good for a lot of other sectors, not just tech. Your banks, your utilities, and your classic industrials are doing very well as a function of all the AI demand.

In addition, you're getting the early stages of the productivity increases spilling over to all areas of the economy and all sectors. Companies that are investing and using AI are finding themselves to be more productive, they're getting more profitability, they're expanding their margins, and we're seeing that in earnings report after earnings report, which is very strong to see.

Now, some people say it's all one big trade, and maybe it is, maybe it isn't. But I think that's the longer term trend that you're going to continue to see, that productivity does well and benefits corporations regardless of the sector.

Large corporations generally have healthy balance sheets

From a company balance sheet standpoint, it's probably about as good as we've seen in the last 20 years, in terms of things like debt-to-EBITDA, overall ratings upgrades versus downgrades, lack of what we call fallen angels of companies going from investment-grade to high-yield. Now, there are subsets of it that are not doing as well. But overall, you're seeing most earnings beat right now. We feel like we're in a position that we want to be investing in credit because the balance sheets are good, and the overall trajectory of ratings is very good. So it's not as if there aren't risks right now, but overall, the consumer's healthy, and the balance sheets of large corporations are healthy, which is a good environment to be investing in credit.

Building up dry powder to take advantage of potential large deals

Overall, our view is that the economy is very, very strong, so we want to be overweight credit marginally. But we are still aware that spreads aren't giving us as much as we would like outside of technology.

I think one of the interesting stats of the year is we've had seven deals of $25 billion or more in the investment grade market so far in 2026. We had seven for the last seven years combined. So just one per year in the past. We used to get an occasional large M&A deal. Now, we're getting these large deals, not even for M&A, they're to fund capex. So from that standpoint, we've reduced our risk and we're waiting to see if this softens up a little bit.

We want to have dry powder to take advantage of some of these opportunities that we think are coming, which should usually happen after Labor Day. There's usually a lot of large investment-grade deals. There should hopefully be some interesting emerging market deals, and we want to have dry powder for that.

So that's where we are right now, where it's not negative on the economy, but it's potentially tactical to try to take advantage of some potential weakness from a spread standpoint in the start of September and use that as a chance to get long risk again, because we do feel like this is a multi-year cycle for the economy.

Yields have rebounded

There are yields in fixed income right now. For years, it was really hard to get above 2% or 3% in high-quality fixed income. You had to take massive risk in order to get those types of yields, or you had to do other parts of the market. The path to get here was a little painful for investors. I get it. But overall, yields are pretty attractive. And it's not all about the 10-year (Treasury yield), and it's not all about the Fed. Those are key things, but fixed income is so much more three-dimensional and more interesting than that.

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Past performance does not guarantee future results.

Investments cannot be made directly in an index.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

Comments about strong earnings and company balance sheet strength are sourced from Bloomberg Intelligence, based on factors including earnings per share growth, revenue growth, and operating and net margins.

Comments on $25 billion-plus deals in the investment grade market are sourced from Bloomberg News and the Dow Jones Institutional News Feed.

The six major hyperscalers (Amazon, Apple, Alphabet, Meta, Microsoft, and Oracle) collectively represent 4.73% of the Bloomberg US Credit Index, with the entire technology sector allocation roughly 7%. By contrast, the technology allocation of the S&P 500 Index and the Russell 1000 Growth Index is 37% and 54%, respectively. Sourced from Bloomberg as of Aug. 11, 2026.

Artificial intelligence (AI) technology companies are sensitive to specific risks such as small markets, business cycle changes, economic growth, technological progress, obsolescence, and regulation. These companies may have limited products, markets, resources, or personnel, making their securities more volatile, especially for smaller start-ups. Rapid technological changes can adversely affect their results. AI companies often rely on patents, copyrights, trademarks, and trade secrets to protect their technology, but there's no guarantee these protections will be sufficient. Significant research and development (R&D) spending doesn’t ensure product or service success.

The Bloomberg US Credit Index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate, and government-related bond markets.

Capital expenditures (or capex) is the use of company funds to acquire or upgrade physical assets such as property, industrial buildings, or equipment.

A coupon is the annual interest rate paid on a bond, expressed as a percentage of the face value.

Credit spread is the difference in yield between bonds of similar maturity but with different credit quality.

Diversification does not guarantee a profit or eliminate the risk of loss.

EBITDA is the acronym for earnings before interest, taxes, depreciation, and amortization.

Fixed income investments are subject to credit risk of the issuer and the effects of changing interest rates. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

Hyperscalers are large cloud service providers that can provide services such as computing and storage at enterprise scale.

Investment in infrastructure-related companies may be subject to high interest costs in connection with capital construction programs, costs associated with environmental and other regulations, the effects of economic slowdown and surplus capacity, the effects of energy conservation policies, governmental regulation and other factors.

Investments focused on a particular industry or sector are subject to greater risk and can be more impacted by market volatility than more diversified investments.

Many products and services offered in technology-related industries are subject to rapid obsolescence, which may lower the value of the issuers.

The Russell 1000® Growth Index, a trademark/service mark of the Frank Russell Co.®, is an unmanaged index considered representative of large-cap growth stocks.

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