Income Opportunities Beneath the Surface: Equity Volatility and Credit Dislocations

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Finding Opportunities Amid Elevated Single-Stock Volatility

Beneath relatively muted index-level volatility, single-stock implied volatility remains high. In today's low-correlation environment, individual stocks are moving more independently, keeping single-name volatility high even as those moves offset at the index level. Sector rotation and company-specific catalysts are contributing to that dispersion, with earnings becoming particularly important as investors look for evidence that significant artificial intelligence (AI) investment is beginning to translate into revenue growth and improved returns.

Muted Index Volatility Masks Increased Single-Stock Volatility

Source: Bloomberg. As of August 20, 2026.

VIX=Cboe Volatility Index. VIXEQ=Cboe S&P 500 Constituent Volatility. Often called the "fear gauge," the VIX measures the market's expectation of 30-day volatility based on S&P 500 index options. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges.

This creates an attractive entry point for generating additional income through equity linked notes (ELNs). Equity linked notes can improve the income opportunity, provide for capital appreciation opportunities, and expand the investment universe giving us selective exposure to market themes, including AI.

Capitalizing on Select Dislocations Across the Investment-Grade (IG) Market

At the same time, a separate opportunity has developed in IG credit as the AI investment cycle reshapes corporate debt financing markets. The rapid expansion of AI-related capital spending by hyperscalers such as Alphabet, Meta, Microsoft, Amazon and Oracle has contributed to a significant increase in corporate debt issuance, including longer-maturity bonds. Heavy issuance has at times outpaced investor demand, pushing spreads wider and requiring issuers to offer higher coupons.

Hyperscaler Debt Issuance Rises Sharply as AI Spending Accelerates

Source: Bloomberg. As of August 20, 2026. Represents aggregate US-dollar denominated investment-grade corporate credit issuance by Amazon, Alphabet (Google), Meta, Microsoft and Oracle.

This repricing appears more technical than fundamental and our focus is on IG hyperscalers that have maintained strong balance sheets, high credit ratings and significant cash-generation capacity. Parts of their long-dated curves are trading at spreads more typical of lower-rated credit. In some areas, IG yields have moved close to high-yield levels despite materially different credit risk, while broader IG spreads and credit volatility remain relatively contained.

Investment-Grade Hyperscaler Yields Outpace Investment-Grade Corporate Yields

Source: Bloomberg. As of August 18, 2026. Hyperscaler blended yield represents an equal-weighted blend of Amazon, Alphabet (Google), Meta, Microsoft and Oracle. For each issuer, one 10-year bond and one 30-year bond are equally weighted. Investment-grade corporate represented by the Bloomberg US Corporate Bond Index. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges.

For income investors, this creates an attractive opportunity to add to high-quality bonds. Short-dated hyperscaler bonds remain relatively tight, while the long end offers more meaningful yield, carry and spread. We therefore have the potential to buy high-quality credit at lower prices and lock in higher coupons—using supply-driven dislocations to add income—without necessarily taking on materially greater fundamental credit risk.

Diversified Across Multiple Sources of Income

We believe the current market environment highlights the value of diversification across asset classes, sectors and securities. A flexible and dynamic approach allows us to pursue income across a broad opportunity set while maintaining a strong focus on capital appreciation and growth. By drawing on multiple sources of income across the portfolio, we can adapt as market conditions evolve while remaining selective in how and where we take risk.

All investments involve risks, including possible loss of principal. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges.

The allocation of assets among different strategies, asset classes and investments may not prove beneficial or produce desired results.

Diversification does not guarantee a profit or protect against a loss.

Equity securities are subject to price fluctuation and possible loss of principal. Investments in equity-linked notes often have risks similar to their underlying securities, which could include management risk, market risk and, as applicable, foreign securities and currency risks.

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Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. Low-rated, high-yield bonds are subject to greater price volatility, illiquidity and possibility of default.

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