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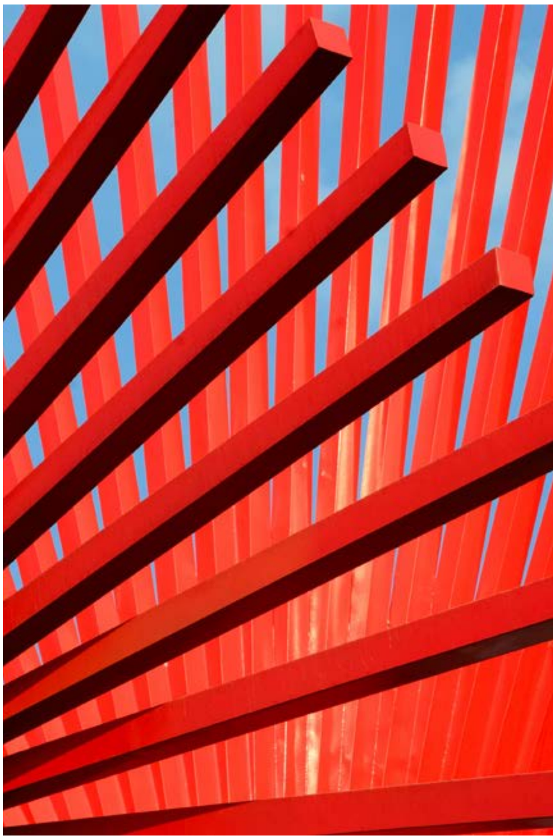
January 2026

# 2026 Fixed Income Default Study

## Our bottom-up default outlook and total return forecasts for January 2026

Our Fixed Income Default Study is based on a proprietary, bond-by-bond analysis conducted by our dedicated team of career credit analysts within the active fixed income team. We outline our bottom-up default outlook and total return forecasts for 2026 within global high yield, Asia and emerging markets. Reference indexes are utilized to form a comprehensive, bottom-up estimate of defaults and distressed exchanges by industry.



**Key Takeaways:**

| **Expected Default Rate - UBS AM 2026** | |
|---|---|
| EUR HY | 2.2% |
| USD HY | 3.8% |
| Asia ex-Japan | 0.3% |
| Asia ex-Japan HY | 2.9% |
| EMD Corporates | 1.3% |
| EMD HY Corporates | 3.2% |

Source: UBS Asset Management, December 2025

The theme for the projected defaults for 2026 is that, while lower than 2025, they are driven by idiosyncratic situations rather than broad sector themes. We expect a continuation of the strong technical backdrop and the more benign rates environment to remain supportive for refinancing.

These projections translate into the following total return forecasts (also taking into account our rates and spreads forecast):
- Asia high yield has the highest potential return with high single-digit returns, with the lower end band just under other forecasts.
- EM corporates base case is aligned with Asia high yield, but with smaller dispersion and with the added benefit of being higher quality.
- EUR high yield appears to be more attractive than USD high yield (even in local currency) and, when hedged, clearly stands ahead of USD high yield.

- Total return forecast for 2026:
  - USD high yield 4%-5%
  - EUR high yield 4%-6%
  - Asia high yield 5%-9%
  - EM corporates 5%-7%

**Default rate methodology**

The fixed income default study is based on a proprietary, bond by bond analysis, conducted by our dedicated team of career credit analysts. The team utilizes reference indexes to form a comprehensive, bottom-up estimate, at the bond level, of defaults and distressed exchanges by industry. The indexes used are EUR HY ICE BofA Euro High Yield Constrained, US HY ICE BofA USD High Yield Constrained, Asia IG JP Morgan Asia Credit Index, Asia HY JP Morgan Asia Credit Non Investment Grade Index, EMD Corporate JPM CEMBI Diversified, EMD HY Corporates JPM CEMBI Diversified high yield.

In order to compute our total return forecasts we use the below inputs:
- UBS-AM 12 month spreads forecasts (high, low, expected)
- UBS-AM 12 month rates forecasts (high, low, expected)
- Recovery rates based on JP Morgan data
- UBS AM defaults forecasts and average price of the candidates based on 31.12.2025 data.

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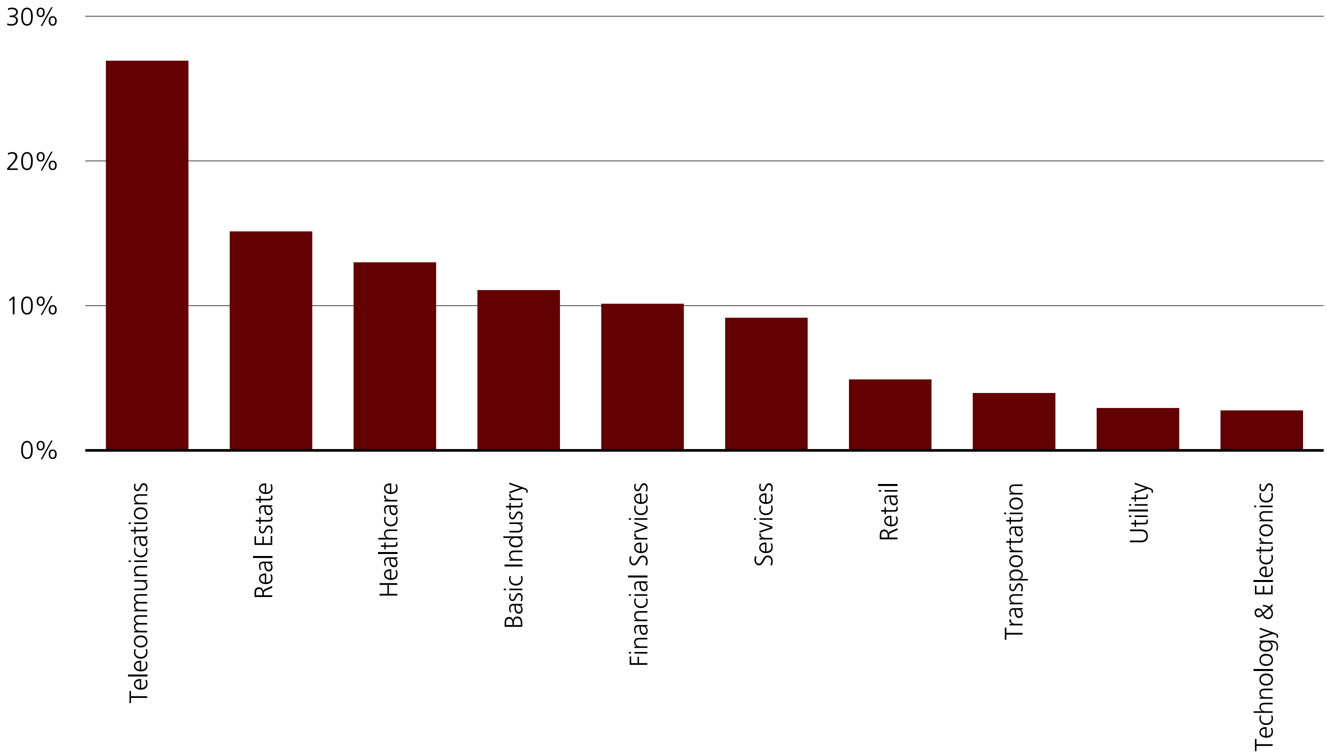
## EUR high yield defaults expected to be 2.2%

We expect a default rate of 2.2% for 2026, which is notably lower than our 2025 forecast of 3.3% and still well below long-term averages. Our 2025 forecast reflected expected distressed exchanges from two sizeable capital structures, both of which ultimately occurred. 2026 forecasts from a selection of sell-side strategists range from 1.5% to 3.5%. This puts us mid-range. No fundamental themes or concerns emerge from the analysis. Instead, we find a series of idiosyncratic situations from a variety of sectors. Importantly, over a third of the expected restructuring/defaults are already trading at distressed levels.

A 'CCC' rating in European leveraged finance has become something of a stigma recently, with many companies going through some sort of debt restructuring. Despite this, we do not envisage a sharp rise in default rates, given the many avenues of liquidity outside of the capital markets – such as sponsor support, non-distressed exchanges and private credit. Another factor that should keep defaults suppressed is the lack of maturities, which is itself a result of healthy demand for yield.

**EUR high yield projected default rates, by sector**



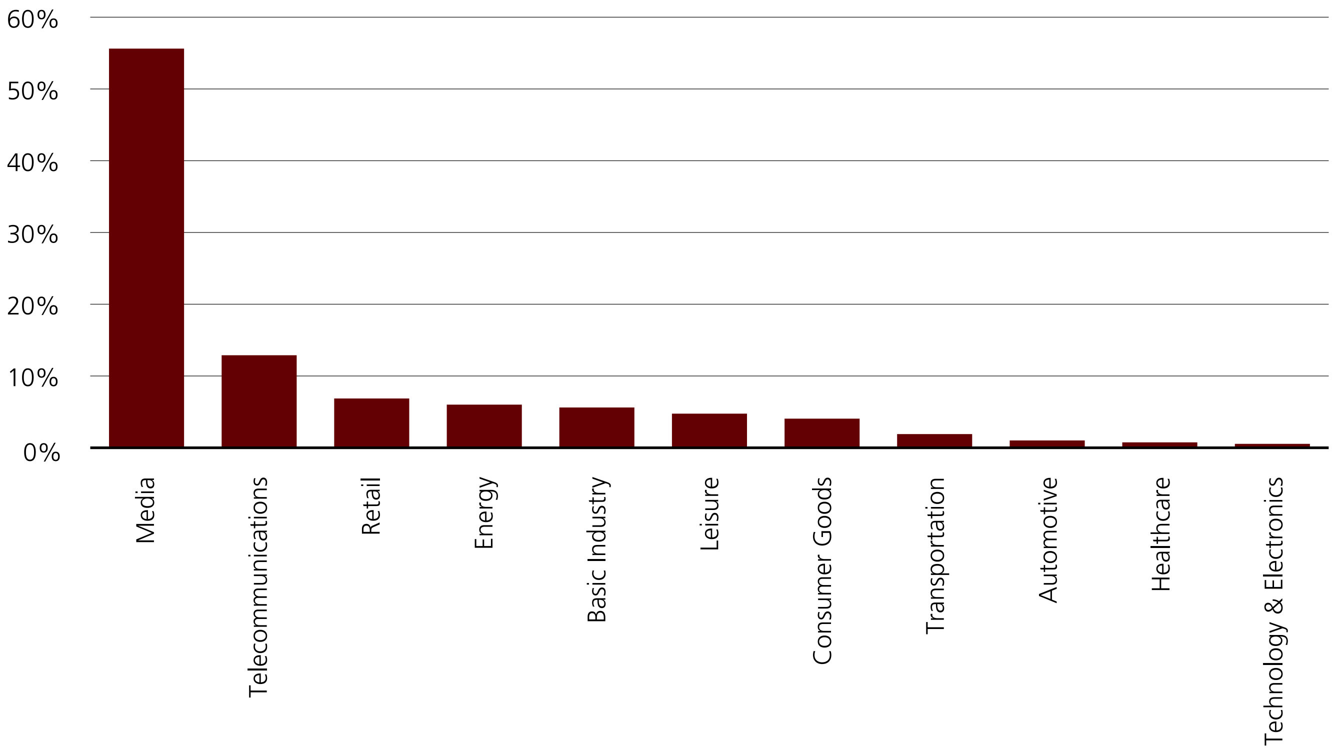

Source: UBS Asset Management, December 2025
The bar shows % of expected defaults as a proportion of total expected defaults.

## USD high yield defaults expected to be 3.8%

We expect the default rate to decline to 3.8% in 2026, an improvement on our 2025 forecast of 4.8%. Forecasts from US sell-side strategists are in the 3%-4.5% range, so we are in the middle of the pack. The overall rate is heavily influenced by the media sector, which is dominated by a single issuer trading at distressed levels. Away from this, default projections are reasonably dispersed by sector, with no particular concerns on fundamentals.

As with the European forecast, the benign environment for defaults is driven primarily by the growth backdrop, with the US anticipated to avoid a recession amid easing lending standards. Other factors include the availability of private credit for the more troubled borrowers, as well as a smaller cohort of issuers trading at distressed levels as compared to previous years.

**USD high yield projected default rates, by sector**

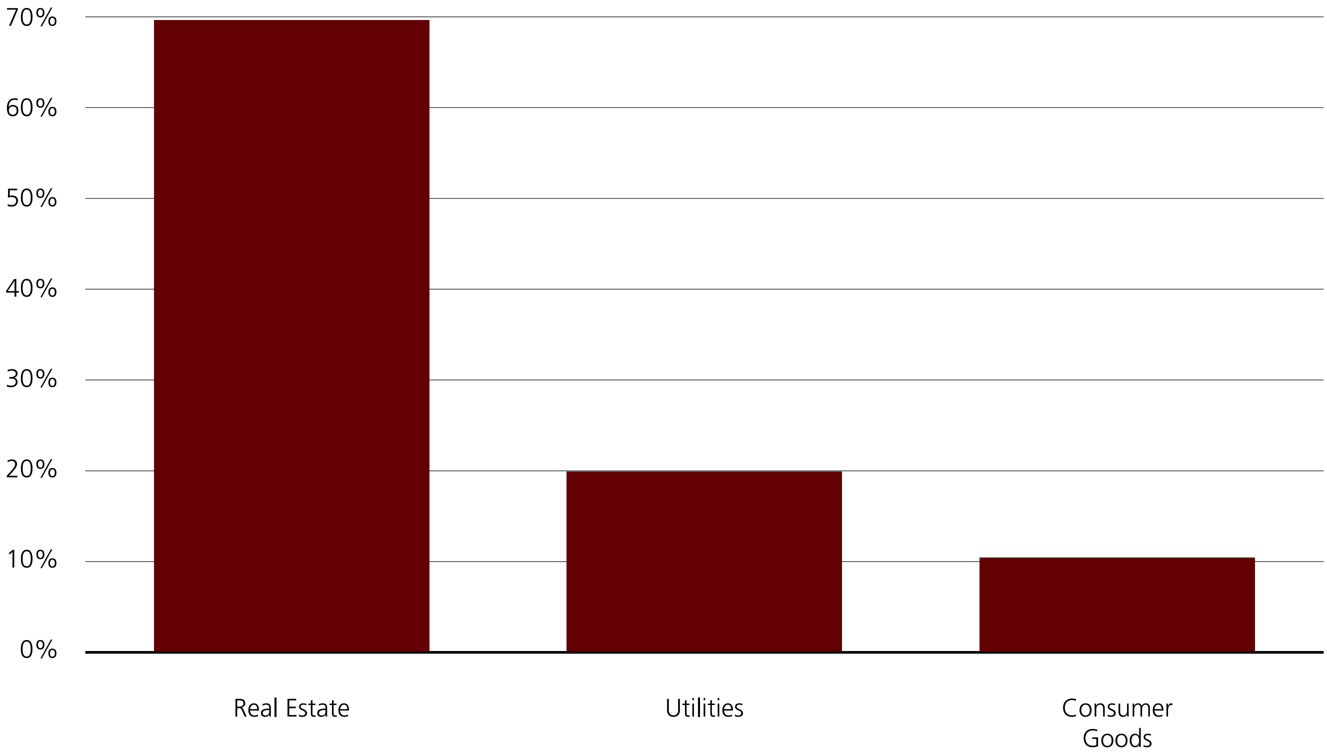



Source: UBS Asset Management, December 2025
The bar shows % of expected defaults as a proportion of total expected defaults.

## Asia ex-Japan high yield defaults expected to be 2.9%

Within Asia ex-Japan high yield, our forecast is lower than last year, as real estate concerns have largely been dealt with. We anticipate less than five issuers have a significant probability of a default or distressed exchange, the largest of which is a Chinese property developer representing over 40% of aggregate face value. Additionally, there are idiosyncratic situations in China high yield industrials and property in the Philippines.

**Asia high yield (JACI ex-Japan) projected default rates, by sector**




Source: UBS Asset Management, December 2025
The bar shows % of expected defaults as a proportion of total expected defaults.

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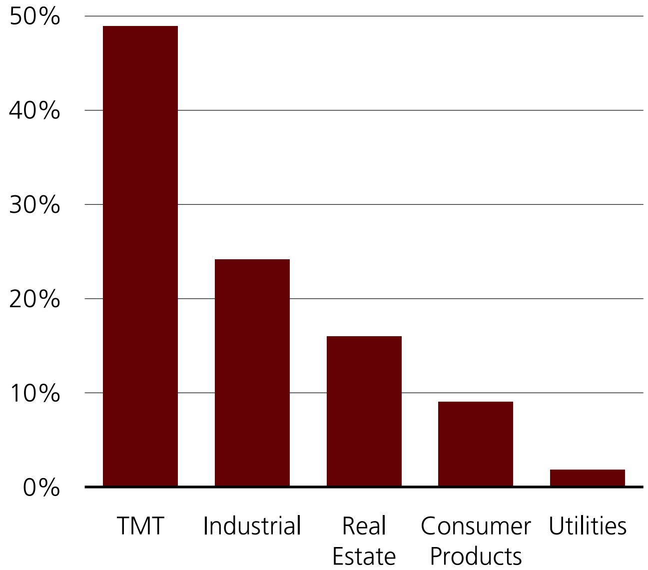
## Emerging market high yield corporate defaults expected to be 3.2%

We expect a default rate of 3.2% for 2026, which is broadly in line with our forecast of 3.0% in 2025 and 3.5% in 2024.

On a country basis, Israel is the largest contributor to these numbers, with 39% primarily coming from the telecommunications sector. Outside of Israel, other key contributing countries include Brazil, driven by industrial/ petrochemicals as well as a consumer issuer, and Philippines with a real estate developer. Factors at the individual issuer level, as opposed to country or industry trends, are likely to drive defaults.

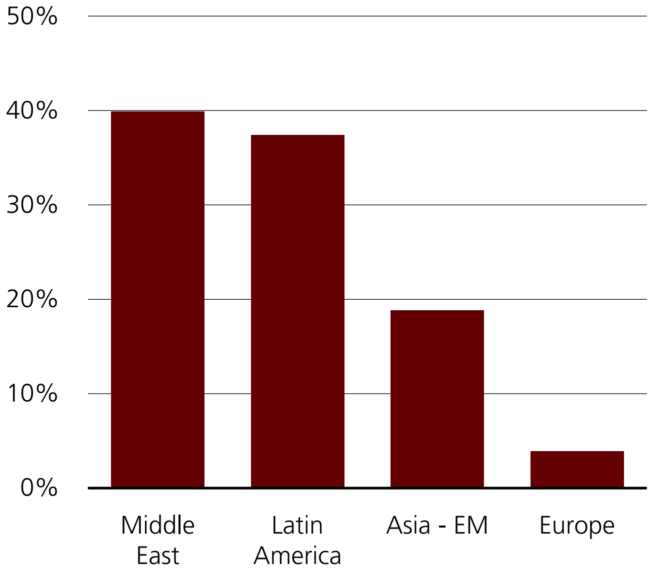
Also, following zero sovereign defaults in 2025, we expect a marginal pick up in the default rate (at 0.58% in 2026), driven by two smaller issuers in Latin America and Africa.

**EM corporates (CEMBI HY) projected default rates,**
by sector




Source: UBS Asset Management, December 2025
The bar shows % of expected defaults as a proportion of total expected defaults.

**EM corporates (CEMBI HY) projected default rates,**
by region




Source: UBS Asset Management, December 2025
The bar shows % of expected defaults as a proportion of total expected defaults.

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## Positive total returns driven by carry

Our Fixed Income Investment Forum remains positive on emerging markets as well as constructive on high yield overall. As such, we forecast expected total returns to be positive for these sectors. This is consistent with a favourable carry environment and we expect technical factors to remain strong. Indeed, investors continue to be attracted by the high all-in yield and the fundamental backdrop remains supportive, with low defaults and low leverage compared to long-term averages.

Our base case is for Asia high yield to generate returns of up to 9%, but with larger dispersion. This is followed by EM corporates at 5%-7% and Euro high yield between 4%-6% (in Euro terms), and lastly US high yield between 4%-5%. The EUR high yield market, when hedged into USD, is more attractive compared to US high yield and benefits from a higher overall credit quality.

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