



A Note from the AB Fixed Income Trading Desk

Thoughts from Our Senior Portfolio Managers

Credit and the Cockroaches

"I probably shouldn't say this, but when you see one cockroach, there are probably more. Everyone should be forewarned on this one."— Jamie Dimon

Markets are flirting with all-time highs, but volatility is rising, and isolated credit cracks are starting to show. That is a signal to slow down and focus on underwriting quality, not to chase beta. With the macro backdrop broadly neutral and risks two-sided, this is a moment to right-size risk, let carry take most of the load and let security selection do the rest.

When you spot a cockroach, you hire pest control. In portfolio terms, stay active, keep allocations near neutral, and work with managers who avoid the weakest credits through underwriting, structure and liquidity. In this note, we cover what spooked markets over the last two weeks, what actually changed (very little), and how we are positioning.

Key Takeaways

- Bank earnings were strong; volatility rose; one high-profile default, but broader credit stayed steady
- Public credit is healthy but dispersion is rising—let carry do the work and favor selection over reach
- Stay neutral and go active: rebalance, add duration and implement with quality managers

Recent Market Events and Data Releases (October 6, 2025–October 17, 2025)

Over the window, three themes drove the tape: stronger bank earnings, a high-profile public default, and a modest return of volatility. The government shutdown also kept some official releases delayed, so markets leaned more on earnings and secondary indicators.

Bank earnings: Large US banks opened on solid footing. Record wealth management profits, a pickup in investment banking activity, and steady fixed income trading supported results. Balance sheets looked healthy and credit quality stable. Management tone was constructive overall, with Jamie Dimon the notable outlier on potential pressure in commercial and consumer credit.

First Brands fallout: The late-September bankruptcy of First Brands Group remained a focal point for public credit. Opaque financing and large undisclosed liabilities raised questions about underwriting standards and where the next cracks could appear.

Regional-bank stress: Credit jitters reached regionals after a notable charge-off disclosure. The [KBW Nasdaq Regional Bank Index](#) weakened into mid-October (*Display 1*), and softness spilled into the alternatives complex, where several large [managers traded lower](#) on the quarter (*Display 2*).

Volatility resurfaced: Equity volatility jumped, with the [VIX peaking near 29](#) before retreating, as fresh US and China trade headlines and regional banks rattled sentiment (*Display 3*).

Valuations: The debasement trade advanced, with [gold setting another record](#) above 4,200 dollars per ounce (*Display 4*). Equities whipsawed and posted the sharpest one-day drop since April on tariff headlines on October 10. Treasury yields drifted lower, with the [10-year breaking below 4.0 percent](#) during the window (*Display 5*). Credit was mixed: investment-grade spreads stayed near cycle tights, while high yield briefly widened above 300 basis points before tightening again.

Data timing note: The Bureau of Labor Statistics rescheduled the September CPI release to October 24 to accommodate Social Security's COLA timeline, while other releases remain on hold during the shutdown

Portfolio Manager Perspectives

First things first, we had **no exposure to First Brands**. That was not luck; it's our process. We run pest control by design and follow a simple philosophy: win by not losing. We underwrite every credit across multiple scenarios and pass when the spread does not pay for complexity or downside. In credit, alpha comes from avoiding permanent capital losses and resisting the urge to reach for yield when

markets feel frothy. For now, let carry do the work and let selection do the heavy lifting. For clients, that means steadier income, smaller drawdowns, and fewer surprises.

With public-market defaults back in the headlines and banks flagging pockets of strain in private credit, the finger-pointing has begun. Our lens is simpler: where are standards and structures solid, and where are they not?

In public high yield, there will always be challenged business models that need attention. That said, the overall backdrop remains sound. Fundamentals are softening at the margin, but leverage is lower than in prior cycles, interest coverage is healthier, and the index mix has improved as weaker issuers migrated out (thanks in part to private credit). The universe is broadly healthy, yet dispersion is rising. That puts the burden on fundamental work. Managers should focus on what is money good, and pass where structure, transparency, or cash flow durability do not compensate the risk.

Private credit is not this desk's mandate, and AB has dedicated teams focused on it. Even so, the megatrend is clear. Capital has flowed in faster than the deal pipeline. More money is being put to work simply because it is available, not always because the deal merits it. Deal terms have loosened only at the margin; the larger issue is manager discipline and selectivity. Compared with public high yield and the broadly syndicated loan market, borrowers are smaller, disclosure is thinner, price discovery is narrower, and secondary liquidity is lighter. We have also seen public to private takeouts of names that would have struggled to clear traditional high yield pricing. None of this condemns the asset class; it raises the bar for investors. Strategy, collateral quality, leverage, and manager discipline matter. Manager selection matters as much here. It is simply harder to execute given the lack of transparency.

Who holds the risk? Both sides have a case, and we will not pick one. Big picture, banks look solid—especially the national champions. The one area to watch is the link between banks and private credit, especially capital call and NAV lending to large managers. If the cycle turns, losses could show up there first. We are watching funding costs, interest coverage, and these exposures. For now, it is a watch item, not a systemic alarm. The reaction to Zion's seems overstated—it was a \$50 million write-down on a \$90 billion balance sheet.

Bottom line: there is noise, but we believe public credit remains in good shape. This environment still rewards carry and selection. That said, investors still look to credit as the “early warning sign.” Equity markets can continue to sing on for some time but eventually credit stresses lead to significant equity volatility. Not only should credit investors be on alert (especially private credit), but equity investors as well. If credit seizes up, that will make the slowdown happen much faster.

Investment Implications

When you see one cockroach, you do not turn up the lights. You call pest control. In portfolios we believe that means to stay active, right-size risk, and work with managers who avoid the avoidable. Investors should consider the following:

- **Stay Neutral but Go Active:** Rebalance back to strategic targets. Trim equity overweights and add back duration. Let selection, not beta, drive results. Favor managers who underwrite rigorously, rotate across sectors, manage the curve and liquidity and sidestep potential impairments as dispersion rises
- **Short Duration High Yield:** Leverage Short Duration High Yield to harvest carry while limiting both spread sensitivity and interest rate sensitivity. Shorter maturities reduce price volatility and have tended to capture less downside than broad high yield and equities in selloffs. Keep flexibility to upgrade quality as conditions evolve.
- **Core-Plus Bond:** Pair rates and credit in one core sleeve. Duration helps if growth softens; credit helps if growth holds; both can contribute as policy normalizes. Core Plus provides high, diversified income and restores meaningful ballast to multi-asset portfolios while preserving the flexibility to adjust curve and sector exposures as the data come in.

We will keep the lights on and the spray handy, so your clients do not have to.

On behalf of the team,

Scott DiMaggio, Gershon Distenfeld, Matt Sheridan, Fahd Malik, Will Smith, John Taylor, Serena Zhou, Tim Kurpis, Christian DiClementi, Sonam Dorji and AJ Rivers

To learn more about AB's fixed-income solutions and access other market insights, visit [Fixed-Income Investments | AB](#).

European Tariff Scenarios

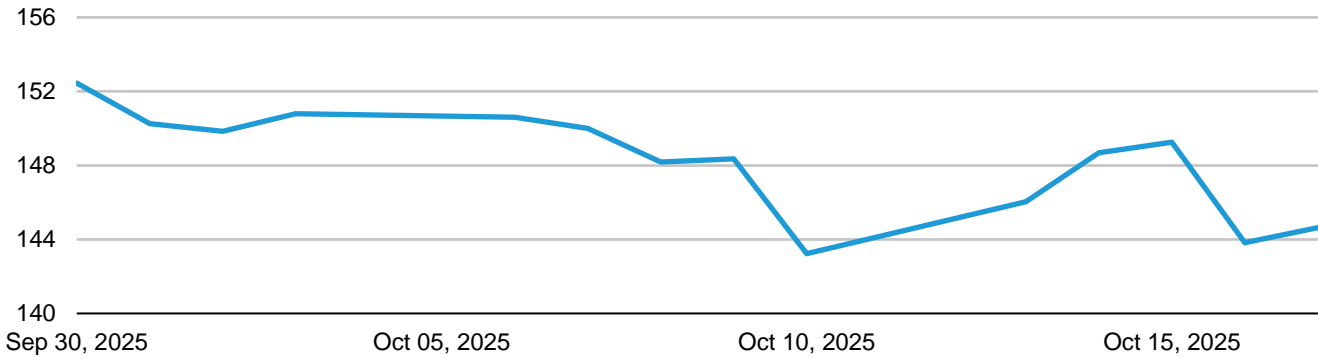
2025 Forecasts	Counterfactual No Tariffs at All (Percent)	Upside No Universal Tariffs (Percent)	Current Situation 10% Universal Tariffs (Percent)	April 2–9 20% Universal Tariffs (Percent)	Downside 30% Universal Tariffs (Percent)
Growth (YoY)	1.10	0.80	0.06	0.30	–0.60
Inflation (Annual)	2.00	1.80	1.60	1.70	1.40
ECB Deposit Rate (Year-End 2025)	2.00	1.75	1.75	1.75	1.00
Recession Probability	30.00	40.00	60.00	70.00	90.00

US Economic Scenarios

Economic Outcome	Description	Probability (Percent)
Hard Landing/Deep Contraction	Either an external shock occurs, or business-cycle dynamics deteriorate sharply. Growth slows rapidly and central banks have to act aggressively to support growth.	20
Soft Landing/Mild Contraction	Growth slows, labor markets weaken and central banks hurry to get back to neutral. The magnitude of the slowdown defines the terminal rate and inflation expectations determine the speed with which it is reached.	35
Rebalancing	Both inflation and growth approach trend levels slowly, leaving the Fed comfortable easing policy slowly and remaining restrictive well into 2025, with cuts of 25 basis points at some, but not all, meetings until the policy hits neutral in late 2025 or 2026.	35
Stagflation	The economy slows, but inflation expectations rise, trapping the Fed between a rock and a hard place.	5
No Landing	The economy performs despite headwinds, and inflation stays elevated enough to keep the Fed on hold for some time to come.	5

Display 1: Banks Dropped on Regional Concerns

KBW Nasdaq Regional Bank Index

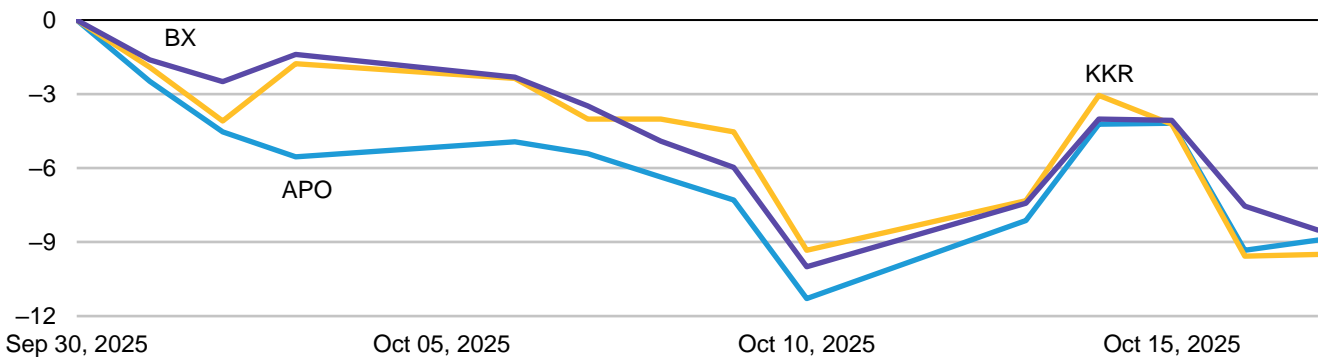


As of October 17, 2025

Source: Bloomberg

Display 2: Private Credit Concerns Are Weighing on the Alternative Managers

Total Return (Sep 30-Oct 17, 2025; Percent)



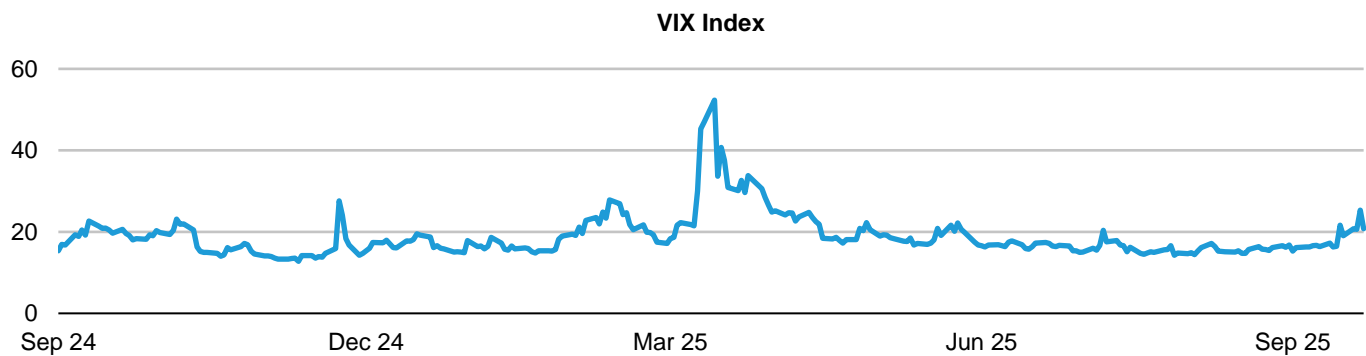
As of October 17, 2025

BX - Blackstone Inc; APO - Apollo Global Management; KKR - KKR & Co

Source: Bloomberg

Display 3: Equity Volatility Spikes to Highest Level Since Liberation Day

Cboe Volatility Index

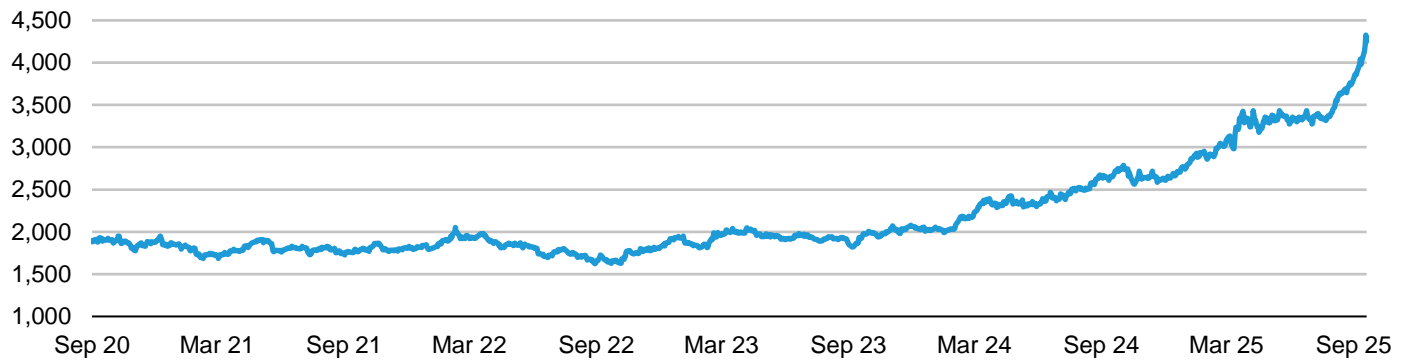


Through October 17, 2025

Source: Bloomberg

Display 4: The “Debasement Trade” Sent Gold to All-Time Highs

Gold Price—Dollars per Ounce

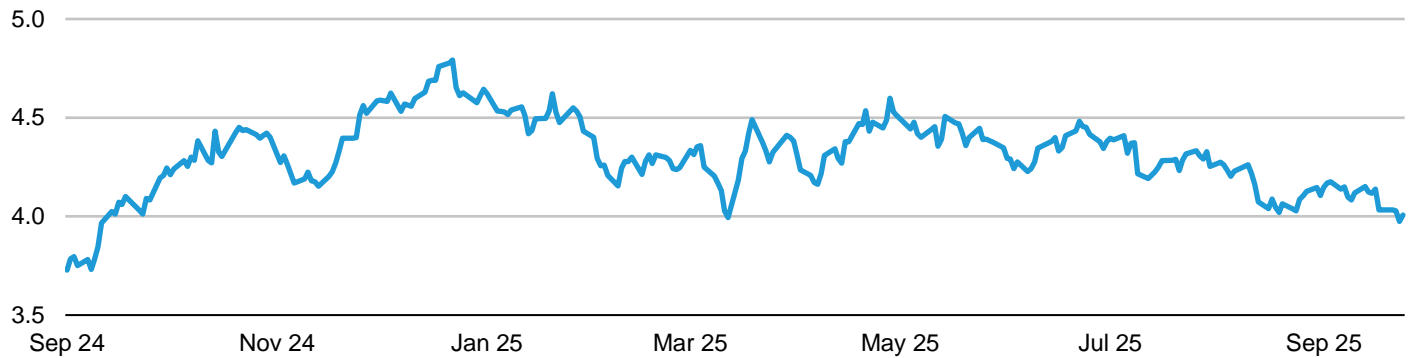


Through October 17, 2025

Source: Bloomberg

Display 5: 10-Year Treasury Yield Testing Resistance

10-Year Treasury Yield (Percent)



As of October 17, 2025

Source: Bloomberg

Investment Risks to Consider

The value of an investment can go down as well as up, and investors may not get back the full amount they invested. Capital is at risk. Past performance does not guarantee future results.

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