



A Note from the AB Fixed Income Trading Desk

Thoughts from Our Senior Portfolio Managers

SaaS-ination Attempt

“People get overexcited when things go well and push prices too high. When things turn, they get too depressed and push prices too low.”—Howard Marks

February may be the shortest month of the year, but the tape didn't get the memo. US data surprised to the upside and forced another rethink of whether we'll get meaningful easing in 2026, with the Fed chair nomination adding a new variable to the reaction function. Abroad, Japan delivered its own jolt as Sanae Takaichi's election win put the country's policy mix back in focus, keeping global duration honest.

But rates weren't the center of the story—risk assets were. A new wave of artificial intelligence (AI) disruption anxiety hit traditional software, sparked a sharp rotation and quickly leaked from equities into credit, especially where tech exposure is concentrated. That spillover pulled tech-heavy private credit into view, with Blue Owl becoming a focal point after a liquidity moment reminded investors that “private” can still come with very public consequences. The move was loud, but the signal was louder: In a market where growth can look fine even as business models are stress tested, where do spreads settle and where might some other risks surprise?

Recent Market Events and Data Releases (February 2026)

SaaS-ination: A sharp rotation hit software and services as investors repriced the durability of traditional software as a service (SaaS) business models in an AI-forward world. The sell-off was notable both in speed and breadth, and it set the tone for risk markets early in the month.

Jobs—payrolls rebound; unemployment down: The January Employment Situation (released in February) showed nonfarm payrolls rising by 130,000 while the unemployment rate fell to 4.3%. The report reinforced the view that the labor market remains resilient, even as the pace of hiring has become more uneven (*Display 1*).

CPI cools further: January CPI pointed to continued progress on disinflation, with headline CPI running at 2.4% year over year, down from 2.7% in the prior month's 12-month pace. Inflation data continued to move in a more favorable direction, but Core PCE remains elevated relative to CPI due to compositional differences (*Display 2*).

Sentiment improves: Survey data also firmed at the margin. The University of Michigan's Consumer Sentiment Index ticked higher, (*Display 3*) while Institute for Supply Management (ISM) indicators pointed to improving business activity, including a rebound in manufacturing and continued expansion in services (*Display 4*).

4Q GDP holds up: The advance estimate of 4Q real GDP showed the economy growing at a 1.4% annualized pace. The data was distorted from the two-month-long government shutdown, reflecting a 1.2% drag on growth that is likely to reverse next quarter. Due to the distortions, a better proxy for growth is Final Demand, which was reported at a healthy 2.4% rate.

Blue Owl: Blue Owl became a focal point in private credit after the firm disclosed a \$1.4 billion secondary sale of private loans and a return of capital tied to one of its credit vehicles alongside changes to its share repurchase approach. The announcement drew attention given the size of the transaction and the visibility of the platform. This was followed through with a tender offer from Saba Capital Management and Cox Capital Partners to purchase shares across three of Blue Owl's business development companies (BDCs) at ~25%–30% discounts to NAV. The discounts continue to fuel speculation on valuations in private credit markets.

Tariffs: The US Supreme Court ruled that the International Emergency Economic Powers Act does not authorize the president to impose tariffs, striking down the challenged actions. The decision was a key late-month policy headline and became another input into the market's trade policy outlook.

Portfolio Manager Perspectives

February was a reminder that markets can price two stories at once: resilient growth and real disruption risk.

Fed Implications

The macro mix was constructive—growth held up, inflation kept improving and the labor market looked steadier at the margin. That pulls the Fed’s focus back toward inflation and raises the bar for aggressive easing. Base case: **one to two cuts this year**, and only if inflation keeps cooperating. With the policy rate within its neutral range, the probability of rate hikes may also increase relative to rate cuts throughout the year. The Fed and markets will remain data dependent when assessing the policy path from here.

SaaS/AI Implications

Software credit did not sell off because the market suddenly reached a clean fundamental conclusion. It sold off because sentiment shifted risk-off, equities got volatile and investors tried to price an uncertain AI shock in real time. Disruption risk is real for parts of the complex, but the credit impact is still unproven. Until we see it in client renewals, net retention, customer budgets and free cash flow, volatility is likely to stay elevated.

Moreover, public credit can treat software as a footnote as it is a relatively small part of the market—it is only ~3% of the investment-grade and high-yield indices. However, private credit cannot do the same. Software is a meaningful slice of direct lending, with BDCs having over 20% on average, and there can be meaningful overlap in large issues (*Display 5*).

That said, volatility is not a verdict on destination. For many of these issuers this is still a business model debate, not an immediate solvency event, so we are keeping it simple when evaluating the impact across the sector.

We look for **commercially durable** platforms where AI gets embedded, not substituted. We also identify **balance sheets with room to be wrong**, not structures where the debt only works if the equity keeps compounding. And we want **spread compensation** that matches the risk, especially where liquidity is strong and maturities do not force the issue.

Said differently, even though the market sold the complex, it did not re-underwrite every capital structure.

Cross-Sector Lens: Software, Insurance Brokers and BDCs

This is a dispersion market. In **software**, it is credit selection, not beta. Systems of record with deep workflow integration should behave differently than modular tools where AI can plausibly pressure contracts, pricing or margins. **Insurance brokers** are different. AI is more likely to be a productivity tailwind than a displacement story, but we are still watching how that productivity gets competed away and distribution relationships are impacted.

And in **BDCs**, it is worth keeping perspective. These vehicles are built for credit cycles and are designed to absorb pressure through diversification, covenants and active portfolio management. The market has moved quickly to portfolio mix and concentration, so the checklist stays straightforward: composition, marks, non-accruals, leverage and funding costs. If liquidation pressures subside, the media-fueled frenzy may die quickly.

Investment Implications

So, where does that leave investors? Three positioning takeaways stand out:

- **Intermediate duration:** With front-end rates still anchored to Fed expectations and fiscal concerns likely to keep pressure on the long end, we believe that the intermediate part of the curve remains the sweet spot. You get attractive carry and roll, manageable day-to-day volatility, and a solid hedge if the outlook deteriorates.
- **Active credit:** When dispersion rises, idiosyncratic fundamentals matter more than market narratives. That is when active management earns its keep. We are still seeing “sell first, ask later” price action, which creates two opportunities at once: selective adds where spreads now overcompensate for risk and a timely reassessment of issuers where the downside is more fragile than the story suggests. We believe that combination should remain a durable source of active credit alpha.
- **Volatility reduction:** Risk-asset valuations still look rich, and February was a reminder that sentiment can swing faster than fundamentals. Yet the growth backdrop remains broadly supportive. In that environment, we favor lower-volatility ways to earn income. In public markets, that argues for short-duration high yield, where yields are attractive, quality is higher and drawdowns have typically been less severe than in equities or longer-duration high yield. For investors who can sacrifice some liquidity, private credit may still play a role, with an added premium that can help cushion volatility.

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

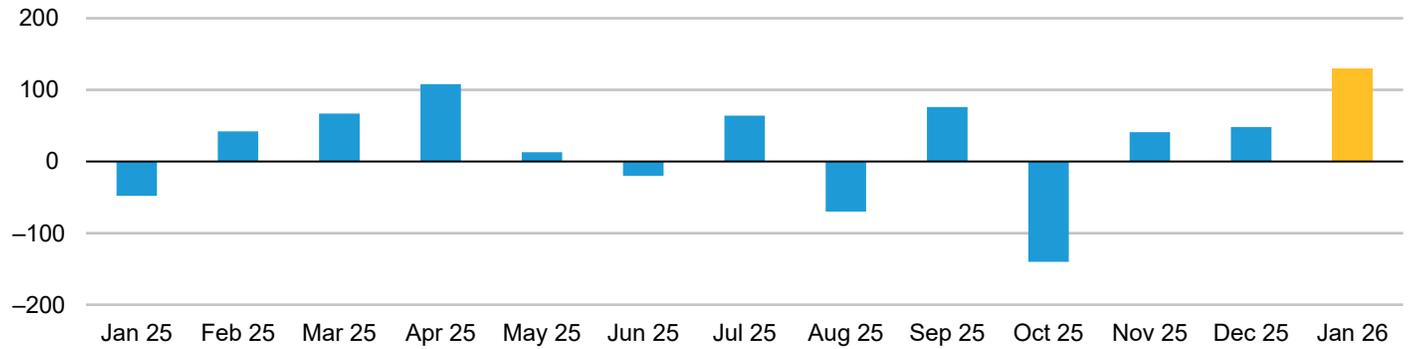
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US Economic Scenarios

Economic Outcome	Description	Probability (Percent)
Hard Landing	Growth and the labor market collapse and the Fed has to ease aggressively.	5
Soft Landing	The labor market slows enough and inflation comes down enough for the Fed to cut below neutral, but not so much as to signal an imminent recession.	25
Rebalancing	Both growth and the labor market are stable and the Fed cuts +/- two times as inflation gradually declines.	45
Reacceleration	Growth picks up quickly and strongly, and hiring rebounds. Inflation starts to pick up and rate hikes come back on the table in 2H:26.	25

Display 1: Payrolls Show the Strongest Monthly Gains in the Last Year

US Employees on Nonfarm Payrolls Total MoM Net Change SA (Percent)

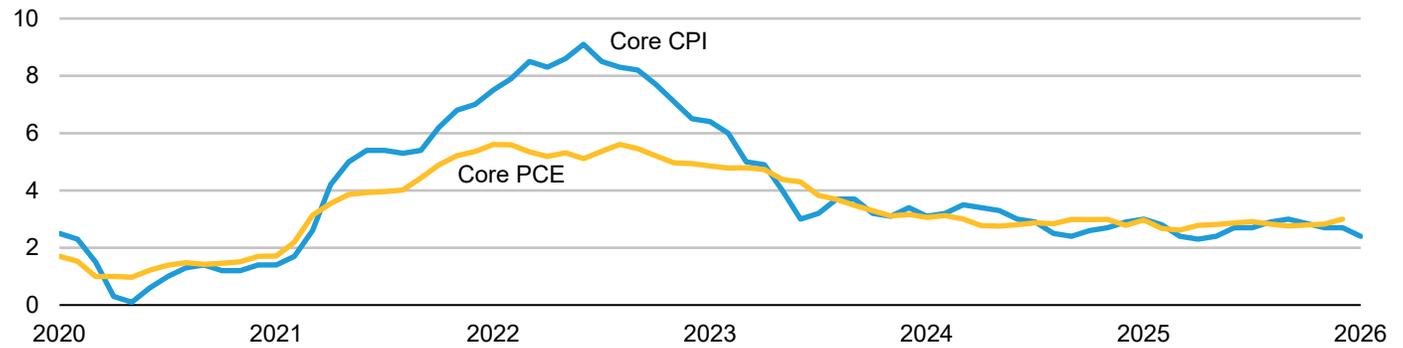


As of February 27, 2026

Source: Bloomberg

Display 2: Inflation Trends Continue to Improve Despite Structural Headwinds

US CPI Urban Consumers Less Food & Energy YoY NSA, US Personal Consumption Expenditure Core Price Index YoY SA (Percent)

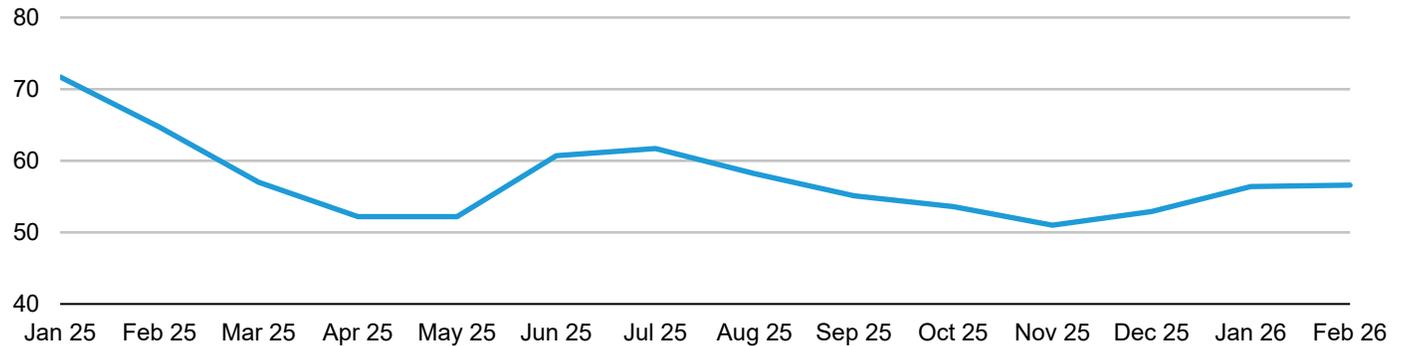


As of February 27, 2026

Source: Bloomberg

Display 3: Consumer Sentiment Rebounds

University of Michigan Consumer Sentiment Index

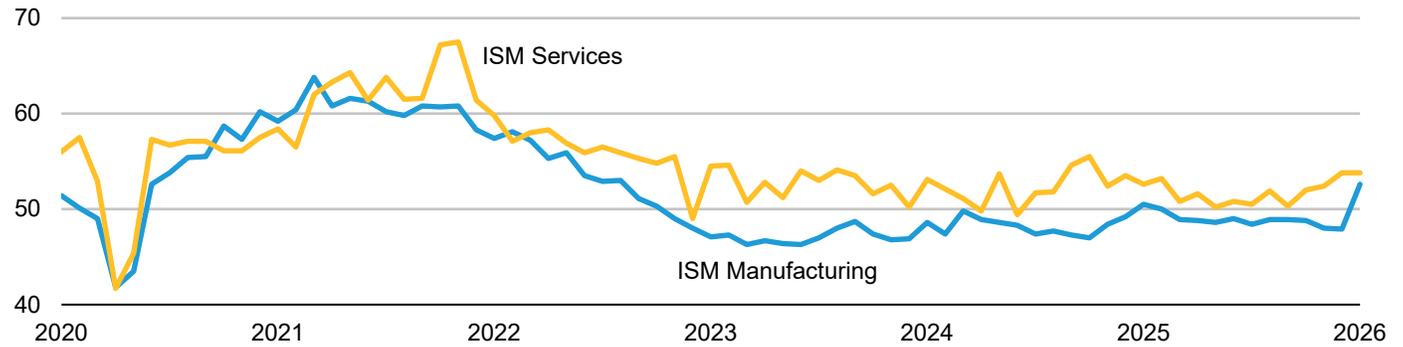


As of February 27, 2026

Source: Bloomberg

Display 4: Business Sentiment Improves with a Sharp Acceleration in Manufacturing

ISM Manufacturing PMI, ISM Services PMI

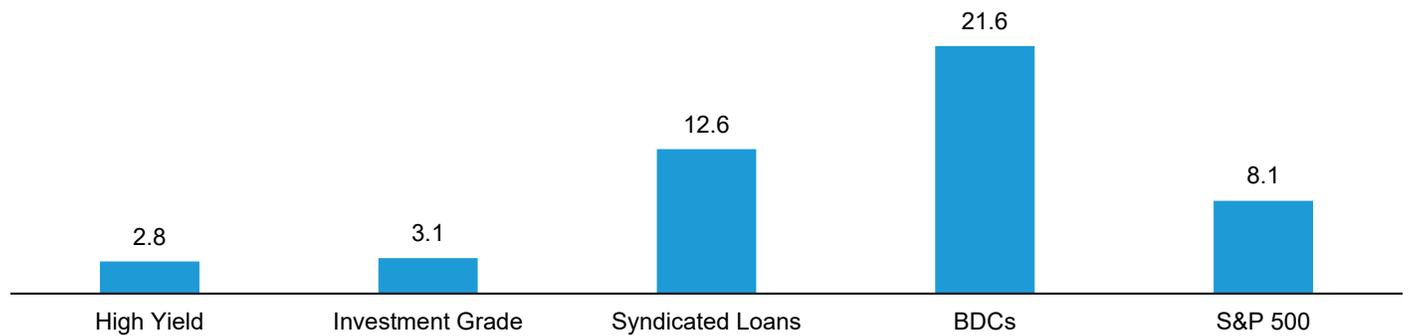


As of February 27, 2026

Source: Bloomberg

Display 5: Private Credit Has Significantly More Exposure to Software than Public Credit

Percent of Investment Universe



As of February 27, 2026

Source: Barclays, Bloomberg, S&P 500, AllianceBernstein (AB)

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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