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Credit: Taming a Wide Universe



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After exploring how Candriam manages credit risks, where we stand in the cycle, and how to navigate late-cycle environments, this fourth paper focuses on the credit universe and how we exploit it in our investment decisions.

Defining the credit universe is not just an academic exercise. It is essential for understanding how investors navigate risk, interpret the cycle and integrate credit into strategic allocation decisions.

Defining the Credit Universe: Scale, Structure and Fragmentation

Credit is often described narrowly as a segment of fixed income positioned between government bonds and equities. In reality, it is far broader and more complex. Even when limited to cash corporate bonds, **the investable universe already represents approximately \$17.4 trillion across investment grade and high yield**,¹ based on the ICE BofA Global Corporate and Global High Yield indices. This scale alone makes credit a strategic allocation and one of the major pools of global capital. For perspective, global listed equity market capitalisation stood at \$151.94 trillion at the end of 2025², while global corporate bond debt outstanding reached \$36.4 trillion, excluding the sizeable private credit and credit derivatives markets³.

However, the true credit universe extends beyond cash bonds. It also includes a large and growing derivatives market. Credit Default Swaps (CDS), index CDS and related instruments form an unfunded layer through which credit risk is transferred, hedged and priced. The Depository Trust & Clearing Corporation's Trade Information Warehouse services around \$10 trillion of credit derivatives worldwide, OECD projected refinancing needs of approximately \$14 trillion of USD-equivalent notional outstanding⁴. In the first quarter of 2025 alone, CDS trading reached \$8.5 trillion across the US and Europe, with index products accounting for the vast majority of activity in Europe.⁵

This **dual structure** (funded and unfunded) is fundamental. The same credit risk can be assessed, priced and hedged through different instruments, each with distinct liquidity conditions and investor constraints.

Beyond this, the universe is segmented along several additional dimensions: public and private credit, capital structure (from senior secured debt to subordinated and hybrid instruments), currencies and regions, and investor bases. It also includes labelled instruments such as green, social, sustainability and sustainability-linked bonds. These segments operate under different constraints (regulatory requirements, liquidity needs, investment horizons and mandates). As a result, **the same issuer can be financed and traded under very different conditions**. A single company may simultaneously have bonds in multiple currencies, CDS contracts referencing its credit risk, and private financing that is not marked to market.

1 - Source: Bloomberg© ICE BofA Global Corporate Index (G0BC Index) and ICE BofA Global High Yield Index (Hw00 Index) as of 30/04/2026.

2 - Source: World Federation of Exchanges WFE Market Highlight 2025

3 - Source: OECD Global Debt Report 2026, https://www.oecd.org/en/publications/global-debt-report-2026_e9d80efd-en.html

4 - Source: OECD Global Debt Report 2026, https://www.oecd.org/en/publications/global-debt-report-2026_e9d80efd-en.html

5 - Source: International Swaps and Derivatives Association (ISDA)

Each of these exposures reflects a different balance of supply and demand, liquidity and investor behaviour, leading to situations where similar risks are priced differently across instruments and markets.

Credit risk is not priced once, but differently depending on where and how it is expressed. Rather than converging to a single equilibrium, credit markets operate through multiple coexisting equilibria shaped by the characteristics and constraints of each segment. Sustainable finance adds another layer, as dedicated demand for labelled bonds can create distinct pricing dynamics within the same issuer. Investor preferences themselves can become a driver of relative value.

For investors, value in credit lies not only in the absolute level of spreads, but in the differences across instruments, currencies, maturities and capital structure. These differences often reflect structural market features rather than temporary dislocations. As a result, credit should be understood not as a single unified market, but **a multi-layered and partially fragmented system that allows investors to adjust risk without exiting the asset class.**

The credit universe is more than a set of assets: it is a toolkit. Its breadth and segmentation allow investors to express views, manage risk and adapt positioning across the credit cycle by reallocating exposures, instruments and risk profiles as market conditions evolve.



A Complex and Evolving Market

The credit universe is not static. Over the past decade, structural changes in market architecture, regulation and investor behaviour have reshaped how credit is originated, distributed and priced.

Far from simplifying markets, these changes have reconfigured them, increasing segmentation and the potential for dislocations. While the Euro corporate bond market was still relatively new in the early 2000s, it has since become one of the broadest and most diversified fixed income markets globally.

1. Financial Disintermediation

One of the defining transformations of credit markets has been **the progressive disintermediation of the financial system**. In the aftermath of the global financial crisis, stricter banking regulation significantly reduced dealers' balance sheet capacity and their ability to warehouse risk. While these reforms strengthened the resilience of the banking sector, they also accelerated the shift from bank-based lending toward market-based financing.

At the same time, **corporate bond markets have expanded considerably in both size and depth**, creating a broader and more diversified investment universe. Primary markets now play a central role in price formation, with European investment grade issuance exceeding €450 billion in 2025 and expected to approach €500 billion in 2026.⁶ In many cases, valuation adjustments increasingly occur at issuance rather than solely in secondary markets.

The **rise of private credit**, now around \$2 trillion,⁷ has further reinforced market segmentation by shifting part of lower-rated financing away from public markets. Combined with the growing importance of ETFs, passive strategies and credit derivatives, these developments have contributed to more episodic liquidity conditions and more frequent dislocations between market pricing and fundamentals. In this environment, relative value opportunities and market inefficiencies have become more pronounced.

6 - Source : JP Morgan

7 - Source: OECD Global Debt Report 2026

2. Financial and Sustainable Regulation

Regulation has become a major structural force shaping credit markets. On the financial side, Basel reforms introduced higher capital requirements, stricter liquidity constraints and more demanding risk management standards. While these measures reinforced financial stability, they also reduced banks' capacity to intermediate risk, contributing to structurally lower secondary market liquidity.

At the same time, sustainability regulation has become an increasingly important driver of capital allocation. Following the European Green Deal, the European Union introduced a broad sustainable finance framework centred around the EU Taxonomy, SFDR and enhanced ESG disclosure requirements. These measures have increased transparency and accelerated the integration of sustainability considerations into investment processes.

As a result, sustainable bond issuance has grown rapidly and dedicated demand for green, social and sustainability-linked instruments has created additional pricing dynamics within credit markets. In some cases, labelled bonds can trade differently from conventional bonds issued by the same issuer, adding another layer of segmentation and relative value analysis.

3. Investor interests and market dynamics

Investor behaviour has evolved significantly alongside these structural and regulatory changes. **Non-bank investors**—including asset managers, insurers and pension funds—**now dominate credit markets**, but their objectives and constraints differ widely depending on regulatory frameworks, liability structures, benchmark considerations and sustainability mandates.

This has led to increasingly uneven capital allocation across market segments, reinforcing pricing dispersion and the coexistence of multiple market equilibria. Investors are no longer focused solely on yield generation; resilience, liquidity, transparency and long-term value creation have become increasingly important drivers of demand.

At the same time, the **growing influence of passive investment strategies and flow-driven markets** has amplified short-term volatility. In an environment characterised by reduced dealer intermediation, these flows can create temporary disconnects between prices and fundamentals. For active investors, this evolving market structure expands the opportunity set, making issuer selection, relative value analysis and liquidity management increasingly important sources of performance.

The Credit Universe as a Toolkit

The diversity of the credit universe becomes meaningful only when translated into practical use. Its breadth is not just a matter of scale, but of **choice**.

Because the same underlying credit risk can be accessed through multiple instruments and positions in the capital structure, investors are not confined to a single form of exposure. Instead, they can determine how that risk is expressed, adjusted and managed over time.

1. Investment grade

Investment grade credit typically forms the core of that toolkit. Representing around 80% of the global credit market and more than 25% of the total global bond market,⁸ it provides carry, diversification and relative resilience. Its breadth across regions, sectors and issuers allows investors to maintain exposure to credit while moderating downside risk, avoiding the binary choice between risk-on and risk-off positioning.

This diversity also makes investment grade an active allocation rather than a passive anchor. The same issuer may offer different value in euros and dollars once hedging costs are considered, while pricing discrepancies across maturities can reflect inconsistent pricing of risk along the curve. The capital structure adds another layer of flexibility, as subordinated debt, hybrids and junior instruments allow investors to adjust risk within the same issuer and access different premia linked to regulation and loss absorption.

Sustainable credit further expands this universe. Labelled bonds now represent a meaningful share of euro corporate issuance and are often supported by dedicated investor demand. As a result, green, social and sustainability-linked bonds may trade differently from conventional instruments issued by the same borrower, creating additional relative value opportunities and reinforcing the idea that credit pricing is shaped not only by fundamentals, but also by investor preferences and constraints.

2. High yield

High yield plays a complementary role. With close to \$2.3 trillion outstanding⁹ and a composition increasingly dominated by BB-rated issuers (currently representing 60%¹⁰), the segment has evolved into a more selective market. Lower quality borrowers have progressively migrated towards private financing channels, reducing the breadth of the public high yield universe and increasing its segmentation. High yield is therefore no longer simply a beta allocation, but **a market where issuer selection and relative value analysis have become essential.** Differences in liquidity, investor participation and market access can create persistent pricing dispersion across issuers and instruments, offering opportunities for active investors able to navigate these structural inefficiencies.

3. Credit derivatives

Credit derivatives further expand the flexibility of this toolkit. With more than \$14 trillion in notional outstanding, **CDS markets have become central to credit price discovery.**¹¹ They allow investors to hedge or adjust exposure efficiently, often more rapidly than cash markets, particularly in period of market stress or changing macro conditions. At the same time, derivatives create an additional layer of market segmentation. Bonds and CDS may diverge because of differences in liquidity, technical positioning or investor participation, generating recurring basis opportunities between cash and derivative markets. These dynamics reinforce the idea that credit is not a single market with one equilibrium price, but a system of relative prices across instruments and investor bases.

Taken together, investment grade, high yield and derivatives illustrate how broad and multi-layered the credit universe has become. Investors are no longer limited to a single exposure to credit risk, but can rotate across instruments, market segments and pricing regimes to manage risks and capture opportunities. In this environment, **market segmentation and pricing dispersion increasingly favour relative value approaches and active allocation strategies.**

9 - Source: Bloomberg® HW00 Index ICE BofA Global High Yield Index as of 30/04/ 2026

10 - Source: Bloomberg, ICE BofA Global High Yield Index

11 - Source: DTCC TIW: The Solution for the Credit Default Swaps Market | DTCC

Using the Credit Toolkit Across the Cycle

As discussed in our previous papers, credit markets evolve through distinct phases of the cycle. For investors, the key question is not simply when to enter or exit the asset class, but how to adapt positioning within it. Because the credit universe is broad and multi-layered, each phase of the cycle does not require a different asset class, but a different use of the same toolkit.

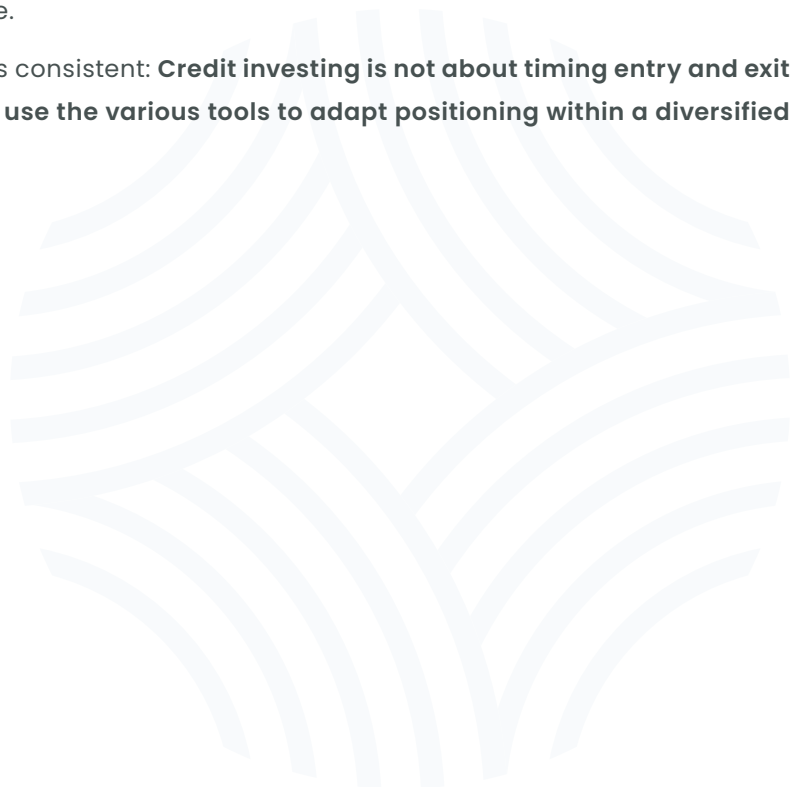
In the early stages of the cycle, wide spreads and improving fundamentals favour re-risking. Higher beta segments offer opportunities for spread compression, while primary markets often provide compelling entry points.

As the cycle progresses into a mid-cycle phase, returns are increasingly driven by carry. Portfolio construction becomes more balanced, combining investment grade stability with selective higher yield exposure. The focus shifts from broad beta to issuer selection, sector allocation and curve positioning, while relative-value opportunities become more relevant as dispersion gradually increases.

In late-cycle conditions, risks become more asymmetric and dispersion increases. The emphasis shifts from maximising beta to managing downside. Investors may move up in quality, increase selectivity and make greater use of derivatives and relative-value strategies.

During downturns, liquidity and capital preservation become dominant. Investment-grade credit, particularly higher-quality issuers, tends to provide relative resilience, while derivatives can be used to protect portfolios and maintain flexibility. Investors who are able to deploy capital selectively can position portfolios for the next phase of the cycle.

Across all phases, one principle remains consistent: **Credit investing is not about timing entry and exit from the asset class, but about how to use the various tools to adapt positioning within a diversified and segmented universe.**



Candriam's Approach: Turning Complexity into Selectivity

In a fragmented and increasingly complex credit universe, the central challenge is not access, but selection.

At Candriam, our approach is built on a clear principle: the broader the universe, the more selective the investment process must be. Rather than covering the entire credit universe, we deliberately narrow it down, from the global opportunity set to segments, issuers and instruments where we have the highest conviction.

We start by structuring the market clearly, differentiating between investment grade and high yield, and recognising their distinct roles in portfolio construction. For that, our fixed income teams share macro and market views to guide overall positioning. From there, we apply strict filters to focus on segments where fundamental analysis is most effective. This includes selective exclusions, a liquidity filter designed to ensure sufficient market depth and tradability, and, within high yield, a deliberate decision not to invest in financial issuers.

Our investment process integrates multiple layers of analysis. At the top-down level, we assess the credit cycle, financial conditions and risk environment. At the bottom-up level, we conduct fundamental issuer analysis, focusing on balance sheets, cash flows and long-term resilience. Crucially, we extend this analysis to the instrument level. Differences in pricing across bonds, CDS and capital structures create opportunities that can be actively exploited.

We complement this with quantitative tools to identify relative value and monitor market dynamics in real time. This strengthens our ability to adapt positioning in an environment increasingly shaped by liquidity and flows. We also actively use both funded and unfunded instruments, combining cash bonds, credit derivatives and sustainable instruments, to express views, manage risk and exploit pricing differences across markets. This flexibility is particularly valuable in volatile or late-cycle environments.

Primary markets are an integral part of our process. With several trillion dollars of issuance each year, new issues represent a significant share of the opportunity set. Our teams analyse deal structures and allocation dynamics to identify attractive entry points and manage portfolio construction actively.

A core strength of our platform lies in its integration across strategies. Our expertise spans investment grade, high yield, subordinated debt, sustainable credit and long/short approaches. These strategies are not siloed. Instead, insights are shared across teams, allowing for a more comprehensive understanding of the market and more consistent positioning.

In a fragmented market, value is not captured through broad exposure to the average, but through the ability to be selective within the universe.

Conclusion: Credit as a Dynamic Allocation Framework

Credit is often approached as a single asset class defined by spreads, ratings and benchmarks. In practice, it is a broad, multi-layered system in which the same underlying risk can be accessed through different instruments, markets and positions in the capital structure, often at different prices.

This gives credit a distinctive role in portfolio construction. Unlike more binary asset classes, it allows investors to adjust exposures internally—across quality, instruments, maturities and markets—rather than relying solely on entry and exit decisions. In that sense, credit is not just an allocation, but a framework for navigating risk across the cycle.

In today's environment, this flexibility is increasingly important. Market pricing is influenced not only by fundamentals, but also by liquidity conditions, investor flows and structural segmentation.

As a result, understanding credit now requires more than issuer analysis, it requires a broader perspective on how the market itself functions. **Taming risk, therefore, is not about stepping away from credit, but about understanding how the market functions and using its tools effectively.** Capturing the full potential of credit requires more than access, it requires active, selective and adaptative management.



To know more on Candriam's credit expertise and funds :

[Credit | Candriam >](#)

To explore how Candriam's credit team tames risks:

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