2027 credit outlook: building portfolios for a wider range of outcomes



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Investors enter 2027 facing an unusually wide range of economic and market outcomes. Artificial intelligence is driving historic capital investment, supporting growth and increasing demand for external financing. At the same time, fiscal deficits, demographic pressures, geopolitical tensions and uncertainty around inflation are complicating the outlook for monetary policy and long-term interest rates.

These forces are also challenging familiar portfolio relationships. Long-duration assets remain vulnerable to rate volatility, while government bonds may not respond to market stress as reliably when fiscal and inflation concerns are elevated. But investors do not need to predict every outcome to find opportunity. With real and nominal yields at levels rarely accessible during the last two decades, portfolios can be built around something more tangible: current income and carry across public and private credit.

AI is reshaping capital markets

The AI buildout is becoming a major influence on capital formation. Investment extends beyond data centers and computing capacity to power generation, transmission, semiconductors, cooling systems and digital infrastructure. Financing requirements are growing with it, creating opportunities and risks across public and private credit markets.

In investment grade credit, hyperscalers are relying more heavily on bond markets to fund capital expenditure. Heavy issuance has contributed to wider spreads and steeper credit curves, improving the relative value of select high-quality companies that previously offered limited compensation for their credit risk. But it also creates concentration and duration risks as technology issuers become larger components of credit indexes. Even so, broad credit markets generally have less direct technology and software exposure than major equity indexes. That broader sector mix may provide diversification for portfolios whose equity exposure has become increasingly dependent on the AI trade.

Infrastructure debt and asset-based finance (ABF) provide other routes into the buildout, including exposure to data centers, fiber networks, equipment and power assets. Here, the strength of the opportunity depends on more than demand for AI. Power availability, construction risk, lease terms, technological obsolescence and the visibility of repayment cash flows will all shape outcomes. The policy environment will matter as well, as debates over power costs, permitting, grid reliability and infrastructure funding influence the pace and location of development. Large AI transactions may also absorb traditional sources of capital, potentially improving terms in smaller, mid-market or non-AI financings.

AI is also an underwriting consideration outside of physical infrastructure. Across corporate credit, for instance, the effects will vary between companies able to use AI to improve efficiency and those whose products or competitive positions become more vulnerable. They will likely be most pronounced among businesses already under pressure, placing a greater premium on defensibility, financial flexibility and, in private markets, documentation.

Policy pressures increase dispersion

AI is only one source of uncertainty. Persistent fiscal deficits, aging populations and supply constraints could keep inflation and long-term rates volatile even if central banks reduce policy rates. Government borrowing may add further pressure at the long end of yield curves, creating the potential for short-term and long-term rates to move in different directions.

That uncertainty has important implications for credit. If rates remain elevated or decline gradually, higher starting income could provide a meaningful foundation for returns. But a sharp increase in long-term rates could weigh on valuations and expose borrowers more dependent on refinancing. Conversely, a rapid decline could signal a deeper economic slowdown, bringing corporate fundamentals and default risk back into focus. In other words, the direction of rates matters, but so do the speed and underlying cause of the move.

Different economic pressures are also likely to increase dispersion across sectors, borrowers and consumers. Household balance sheets may appear healthy in aggregate even as stress increases among lower-income and lower-credit-quality consumers, creating a more selective opportunity in consumer-facing areas like ABF. In direct lending, higher financing costs and earlier underwriting decisions are revealing differences among companies, portfolios and managers. Public credit markets may also become less uniform as investors distinguish between issuers that can absorb higher funding costs and those with less financial flexibility.

A portfolio playbook for 2027

- **Prioritize carry**: Credit spreads may look tight, but they are only one part of the return equation. Starting yields, duration, collateral and structural protections also factor in. High yield bonds, for example, combine elevated starting income with relatively modest rate sensitivity, while floating-rate private credit can provide contractual income if rates remain higher for longer.
- **Manage duration intentionally**: Shorter-duration assets may be less exposed to volatility at the long end, while selective duration can still be attractive when real yields adequately compensate investors. Combining fixed- and floating-rate exposures can help portfolios respond to different paths for inflation and monetary policy.
- **Diversify broadly**: Look across public and private credit, regions, borrowers, collateral, and repayment sources rather than relying on one market or benchmark. This includes looking through apparently distinct investments to identify shared economic risks, while adding exposure to assets supported by different cash flows and collateral.

No portfolio will be insulated from volatility. But investors do not need to identify one perfect forecast for AI, inflation or rates. By combining current income with careful credit selection, broad diversification and appropriate structural protections, investors can reduce their dependence on capital appreciation or any single economic path.

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