

AI & software disruption: impact on credit markets



April 2026



Tim Leary
Senior Portfolio Manager



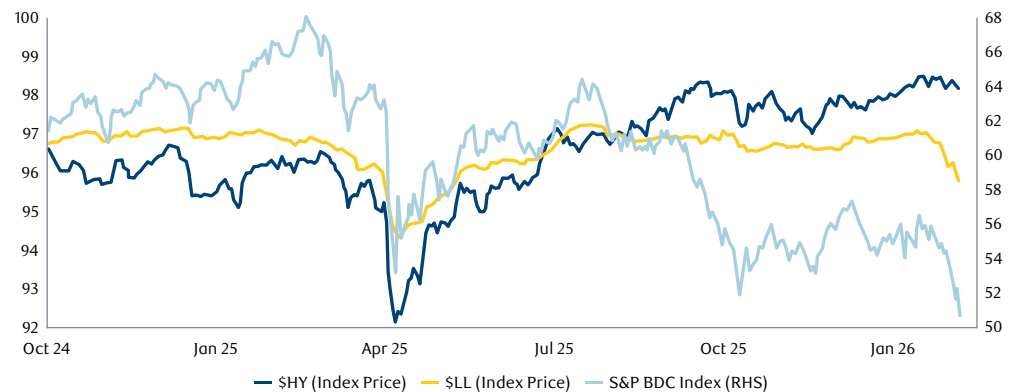
Anne Greenwood
BlueBay Institutional
Portfolio Manager

“In our view, this period of dislocation may, in fact, create a relative value opportunity within US high yield (HY) bonds.”

The first quarter of 2026 marked a clear inflection point for credit markets. A combination of geopolitical uncertainty, evolving AI-driven disruption risks, and growing scrutiny of private credit has driven a meaningful repricing across fixed income.

The technology sector - specifically software - sits at the center of this repricing as concerns around structural obsolescence have taken hold. The greatest impact is being felt in parts of the leveraged credit markets where software and software services comprise a disproportionate share of portfolios.

Exhibit 1: Price performance across leveraged finance sectors



Source: Deutsche Bank, Bloomberg Finance LP, as of February 9, 2026.

While recent spread widening has been largely contained in the lower-rated and direct lending parts of the market, risk of broader market contagion is keeping investors vigilant.

In our view, this period of dislocation may, in fact, create a relative value opportunity within US high yield (HY) bonds, particularly when viewed against other leveraged finance markets. Lower exposure to software risk, improved structural quality, and strong technical demand positions US HY as a potentially more resilient and attractive segment of credit in an AI-driven market environment and strained economic backdrop.

A meaningful repricing begins

Recent spread widening reflects a fundamental repricing driven by two interconnected themes that have left investors trying to pick up and put together the pieces.

1. AI displacement risk

AI capabilities are evolving rapidly, shifting software from AI beneficiary to disruption target. Single-vertical and narrowly focused providers face structural obsolescence pressure, with investor concerns centered on:

- **Elevated default probability** as competitive moats erode.
- **Compressed recovery values** given asset light business models within software.
- **Accelerated reinvestment requirements** to remain competitive in an AI-native environment.

2: Private Credit underwriting concerns amplified by sector concentration

Years of capital flooding into private markets have caused more acute sector clustering within these portfolios. Software exposure varies dramatically by segment, with private credit ranging between 25-35% of exposure.

During this time, this growing concentration was masked by a zero-rate environment, when growth-at-any-cost narratives dominated. As rates normalized and AI displacement emerged, structural vulnerability became apparent.

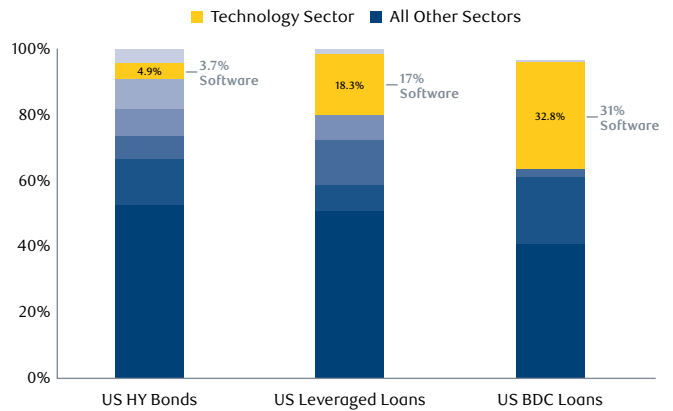
The missed concentration risks

And perhaps what caught most investors off guard was where the largest concentration of this particular risk was held, and that certain segments of the market were more significantly exposed. The percentage of software exposure is much more heavily concentrated (Exhibit 2) and lower quality (Exhibit 3 and 4) in the US leveraged loan and BDC private credit markets than in US HY bonds.

At the same time, on a asset growth basis, the incremental dollar has largely gone into these lower quality floating rate markets. As a result, concerns around lack of liquidity, lack of diversification and lack of transparent pricing seem warranted.

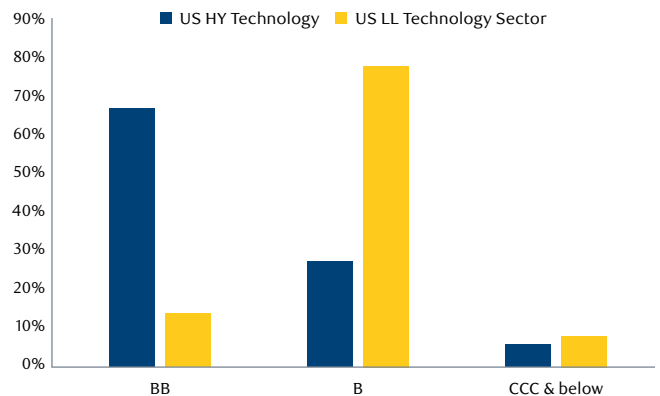
“Recent spread widening reflects a fundamental repricing driven by two interconnected themes that have left investors trying to pick up and put together the pieces.”

Exhibit 2: Technology exposure across leveraged finance sectors



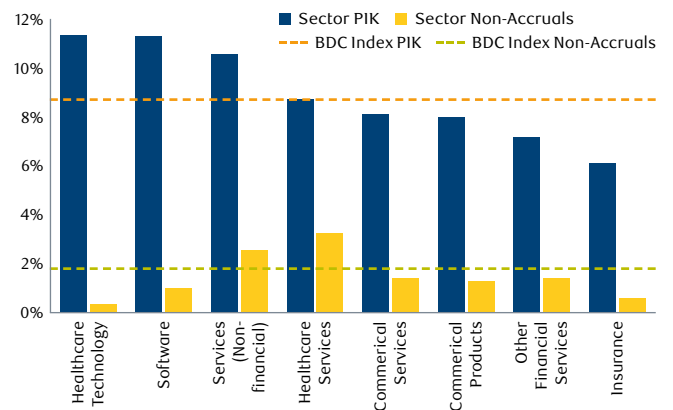
Source: ICE BofA, Bloomberg, as of February 28, 2026.
 Note: US High Yield Index refers to the ICE BofA US High Yield Index and Leveraged Loans refers to the Bloomberg US Leveraged Loan Index. BDC loans refer to subset of loans with instrument source = BDC in Bloomberg, USD only.

Exhibit 3: US HY and Leveraged Loan Tech sector quality breakdown



Source: Bloomberg, ICE BofA US High Yield Index as of February 28, 2026.

Exhibit 4: BDC PIK & Non-Accrual rates by sector



Source: Deutsche Bank, Bloomberg Finance L.P., Pitchbook, S&P, as of February 9, 2026.

Software selloff: what has been overdone and what risks still lie ahead?

We believe the concerns surrounding software are valid, but replacing core enterprise systems remains costly and risky. While immediate displacement threatens some companies, the bigger risk, in our view, is longer-term reinvestment pressure.

Below we identify the broad types of software at risk of potential AI displacement:

Exhibit 5: Technology risk hierarchy

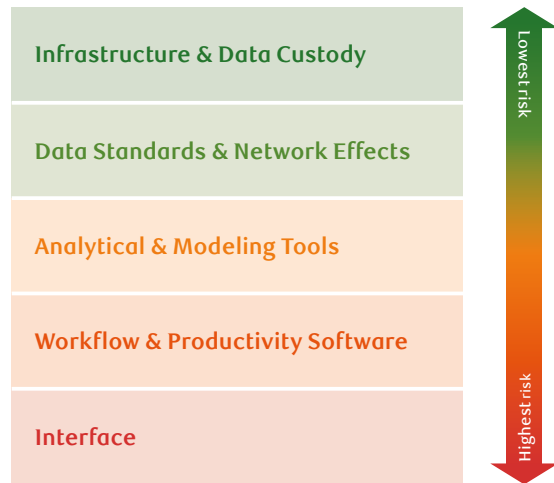
Infrastructure & Data Custody: System of record/central data repository for a company. Data ownership resides here - this is the layer AI trains on. There are storage standards here creating significant costs to switching, both structural and regulatory.

Data Standards & Network Effects: Proprietary data that becomes an industry standard - no substitution. The standard is the product.

Analytical & Modeling Tools: Industry-specific risk models and analytics used for data analysis and optimization. This used to require expert teams, but AI is lowering the barriers to entry. The moat is still there but it's getting shallower.

Workflow & Productivity Software: This is the SaaS per seat layer - customer relationship management.

Interface: Immediate threat from AI - easy to replace. This is user interface to productivity tools and basic automation software.



Source: RBC Global Asset Management, February 28, 2026.

While we do not believe the entire software market will collapse overnight, companies are likely to face mounting pressure from margin compression, reduced capital access, and potentially declining revenues. The critical differentiator will be financial flexibility – companies with larger balance sheets, diversified revenue streams, and low leverage can absorb this pressure and invest in adaptation. Conversely, those with narrow customer bases, high leverage, and limited reinvestment capacity are likely to face accelerated default risk and lower, more binary, recovery values.

The degree and impact to which this is felt will be largely driven by timing – how quickly displacement becomes entrenched versus how much runway markets provide for companies to adapt.

Beyond balance sheet metrics, management’s track record in navigating technological disruption will prove critical. Companies whose leadership has demonstrated adaptability, vision, and capital discipline are better positioned to compete in an AI-reshaped market.

Timeline Expectations

We expect the most acute default pressure within 12-18 months as:

Q1–Q2 2026

Customer churn and migration accelerates.

Q3–Q4 2026

Margin compression starts to flow through in guidance.

2027+

Refinancing pressure mounts as debt matures into a structurally higher-rate environment.

Companies without clear competitive positioning by early 2027 will likely face meaningful default risk.

Broader contagion concerns are mounting

Historical precedent suggests sector concentration can trigger acute default cycles. Telecom exposure in high yield during the early 2000s offers a cautionary parallel. Today's market faces similar dynamics, potentially amplified by several interconnected factors:

- **Bank line dependence:** Private credit's reliance on bank facilities creates liquidity vulnerabilities as lenders retreat.
- **Sponsor-borrower overlap:** Concentrated exposure across private credit and private equity ecosystems.
- **Sector concentration:** Leveraged loan and private credit markets heavily skewed toward software companies.
- **Interest rate environment:** Structurally higher rates, with potential upward pressure from geopolitical events and supply chain disruptions, are unlikely to provide relief for elevated debt capital costs for these companies.

While not our base case, we acknowledge the tail risk: should inflation re-accelerate alongside near-term refinancing pressures, these concentrated positions could face acute stress. The combination of structurally higher rates and reduced capital access would leave weaker issuers with limited options.

Our take on how to navigate this market

Despite this, we do think there are many reasons to stay invested today. In our view, investors can either take a diversified approach to the leveraged finance market – allocating capital across sectors and within-sector opportunities in an increasingly fragmented market environment - or focus on traditional US HY bonds, emphasizing carry and spread compression in quality companies with large, liquid capital structures.

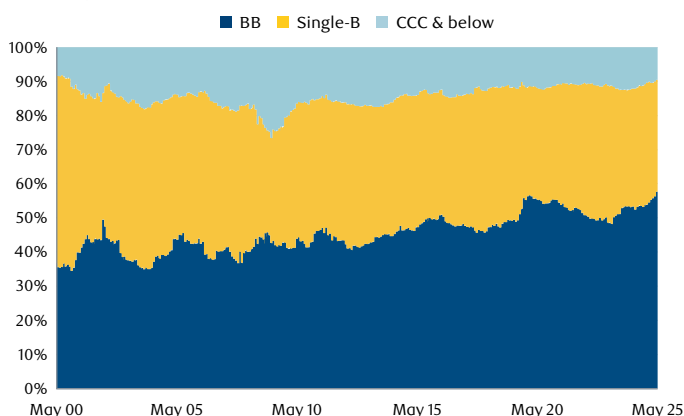
US HY as the alternative to Alternatives

With concerns around concentration risks and deteriorating underwriting standards in leveraged loans and private credit, these allocations are already starting to be reassessed by investors.

As a result, we could see a longer term rotation away from these markets and into traditional high yield bonds. The reason for this, we believe, is because in addition to offering compelling all-in yields, the US HY market benefits from a number of structural advantages:

1. **Lower software sector exposure:** Software represents only 3.5% of the US High Yield Bond index, compared to 25-35% in private credit and ~17% in leveraged loans.
2. **Improved credit quality backdrop:** Many US HY issuers are larger, more liquid and higher quality companies. The market has experienced continued improvement in overall credit quality over the past two decades, with meaningful migration from CCC to BB/B ratings (Exhibits 6 and 7).
3. **Sector diversification mitigates concentration risk:** While not void of higher concentrations in some sectors, like Energy and Telecom, US high yield is meaningfully more diversified than other leveraged credit markets.
4. **Liquidity as an alpha generation and risk management tool:** Increased dispersion and market fragmentation reward actively managed liquid portfolios by enabling tactical rotation and value capture. At the same time, it allows for managers to quickly adjust their risk exposures within portfolios, something not afforded to the less liquid, or in many cases, illiquid, parts of the market.

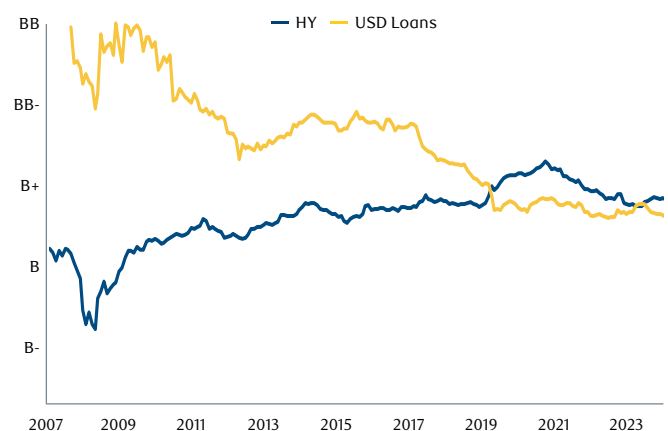
Exhibit 6: Rating allocation across the US High Yield Index



Source: ICE BofA, January 31, 2026.

Note: US High Yield Index refers to the ICE BofA US High Yield Index and European High Yield Index refers to the ICE BofA Euro High Yield Index.

Exhibit 7: Weighted average credit quality



Source: BofA, as of February 2026.

US HY's unique position of strength amid AI disruption risk

Unlike leveraged loans and private credit, software represents only 3.5% of the US High Yield index (as represented by the ICE BofA US High Yield Index) – providing natural diversification that private alternatives cannot replicate. Critically, US HY's daily liquidity enables tactical repositioning, whereas private credit investors face redemption gates and lock-up constraints that force them to absorb concentration risk indefinitely.

For investors seeking yield without concentration, US HY offers a compelling solution: attractive all-in return potential, genuine liquidity, and a quality backstop against further software sector dislocations. In an environment of rising defaults, margin compression, and refinancing uncertainty, the choice between concentrated, illiquid exposures and diversified, liquid US HY is becoming increasingly clear.

“For investors seeking yield without concentration, US HY offers a compelling solution: attractive all-in return potential, genuine liquidity, and a quality backstop against further software sector dislocations.”



Portfolio Manager Perspectives

Our experts offer their perspectives on the latest developments in global credit and the state of the markets.

[LEARN MORE](#)

This material is provided by RBC Global Asset Management (RBC GAM) for informational purposes only and may not be reproduced, distributed or published without the written consent of RBC GAM or the relevant affiliated entity listed herein. RBC GAM is the asset management division of Royal Bank of Canada (RBC) which includes RBC Global Asset Management Inc. (RBC GAM Inc.), RBC Global Asset Management (U.S.) Inc. (RBC GAM-US), RBC Global Asset Management (UK) Limited (RBC GAM-UK), and RBC Global Asset Management (Asia) Limited (RBC GAM-Asia), which are separate, but affiliated subsidiaries of RBC.

In Canada, the material may be distributed by RBC GAM Inc., (including PH&N Institutional), which is regulated by each provincial and territorial securities commission. In the United States (US), this material may be distributed by RBC GAM-US, an SEC registered investment adviser. In the United Kingdom (UK) the material may be distributed by RBC GAM-UK, which is authorised and regulated by the UK Financial Conduct Authority (FCA), registered with the US Securities and Exchange Commission (SEC), and a member of the National Futures Association (NFA) as authorised by the US Commodity Futures Trading Commission (CFTC). In the European Economic Area (EEA), this material may be distributed by BlueBay Funds Management Company S.A. (BBFM S.A.), which is regulated by the Commission de Surveillance du Secteur Financier (CSSF). In Germany, Italy, Spain and Netherlands the BBFM S.A. is operating under a branch passport pursuant to the Undertakings for Collective Investment in Transferable Securities Directive (2009/65/EC) and the Alternative Investment Fund Managers Directive (2011/61/EU). In Switzerland, the material may be distributed by BlueBay Asset Management AG where the Representative and Paying Agent is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich, Switzerland. In Japan, the material may be distributed by BlueBay Asset Management International Limited, which is registered with the Kanto Local Finance Bureau of Ministry of Finance, Japan. Elsewhere in Asia, the material may be distributed by RBC GAM-Asia, which is registered with the Securities and Futures Commission (SFC) in Hong Kong. In Australia, RBC GAM-UK is exempt from the requirement to hold an Australian financial services license under the Corporations Act in respect of financial services as it is regulated by the FCA under the laws of the UK which differ from Australian laws. All distribution-related entities noted above are collectively included in references to “RBC GAM” within this material.

This material is not available for distribution to investors in jurisdictions where such distribution would be prohibited.

The registrations and memberships noted should not be interpreted as an endorsement or approval of RBC GAM by the respective licensing or registering authorities.

This material does not constitute an offer or a solicitation to buy or to sell any security, product or service in any jurisdiction; nor is it intended to provide investment, financial, legal, accounting, tax, or other advice and such information should not be relied or acted upon for providing such advice. Not all products, services or investments described herein are available in all jurisdictions and some are available on a limited basis only, due to local regulatory and legal requirements. Additional information about RBC GAM may be found at www.rbcgam.com. Recipients are strongly advised to make an independent review with their own advisors and reach their own conclusions regarding the investment merits and risks, legal, credit, tax and accounting aspects of all transactions.

Any investment and economic outlook information contained in this material has been compiled by RBC GAM from various sources. Information obtained from third parties is believed to be reliable, but no representation or warranty, expressed or implied, is made by RBC GAM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC GAM and its affiliates assume no responsibility for any errors or omissions in such information. Opinions contained herein reflect the judgment and thought leadership of RBC GAM and are subject to change at any time without notice.

Some of the statements contained in this material may be considered forward-looking statements which provide current expectations or forecasts of future results or events. Forward-looking statements are not guarantees of future performance or events and involve risks and uncertainties. Do not place undue reliance on these statements because actual results or events may differ materially.

RBC Global Asset Management (U.S.) Inc. (“RBC GAM-US”) is a federally registered investment adviser founded in 1983. RBC GAM is the asset management division of Royal Bank of Canada (RBC) which includes RBC Global Asset Management Inc. (RBC GAM Inc.), RBC Global Asset Management (U.S.) Inc. (RBC GAM-US), RBC Global Asset Management (UK) Limited (RBC GAM-UK), and RBC Global Asset Management (Asia) Limited (RBC GAM-Asia), which are separate, but affiliated subsidiaries of RBC.

©/™ Trademark(s) of Royal Bank of Canada. Used under license. © 2026 RBC Global Asset Management (U.S.) Inc.

For Institutional Use Only - Not For Public Distribution.