Harris | Oakmark

1Q 2026 FIXED INCOME MARKET COMMENTARY

Painting with a finer brush

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Since COVID, market narratives seem to form more quickly and be applied more broadly. I suspect passive flows, real-time information, and momentum-driven strategies all contribute to this phenomenon, but the result is really what matters: once a narrative takes hold, it becomes the dominant lens through which everything is viewed.

We've seen this dynamic repeatedly. Tariffs will derail the economy. Regional banks are uninvestable. Commercial real estate is uninvestable. Each narrative arrives rapidly and with conviction, flattens important distinctions, and is soon replaced by the next. The details remain, but they matter less.

Today feels similar. Markets are again painting with broad strokes, where narratives outweigh fundamentals. At Harris | Oakmark, our focus on issuer-level detail and our willingness to be patient help us see what broader narratives miss, and creates opportunity when prices diverge from fundamentals.

Here are a few areas where our approach is creating opportunity.

Software and commercial insurance
AI is increasingly framed as an existential risk across entire sectors. In software, the market narrative has moved quickly from viewing businesses as durable and entrenched to treating the entire category as at risk of dying overnight.

As my colleague Jeremy Thames highlighted in our recent commentary, *Why We're Buying Software*, this doomsday view has been applied broadly and makes little distinction between those companies with deeply embedded, mission-critical systems and those with more exposed application-layer risk.

In reality, many of these businesses continue to exhibit the characteristics we have always valued: high switching costs, strong retention, pricing power, and deep integration within customer workflows. In many cases, AI may strengthen these systems rather than replace them.

A similar dynamic is playing out in commercial insurance. High-quality brokers and insurers are being grouped with more commoditized, retail-oriented models. While AI may compress distribution in standardized products, complex commercial risk still requires expertise, relationships, and judgment. We believe it is fair more likely that proprietary data and underwriting tools will reinforce the advantages of scaled, disciplined operators.

In both cases, a single narrative is driving a single conclusion. We see a more nuanced reality—and more attractive entry points.

Hyperscalers — optionality vs inevitability
The discussion around hyperscalers has also become increasingly binary. The focus has shifted to capital intensity, with the assumption that elevated AI investment will inevitably lead to poor outcomes for creditors.

That framing overlooks an important point: these companies retain significant flexibility. Their core businesses remain highly cash-generative, and future investment is not a fixed obligation. If demand falls short or returns compress, spending can be adjusted.

Oracle is a good example. While equity outcomes may span a wide range, we believe credit outcomes are more bounded. Oracle generates strong core cash flows relative to its debt, and it has acted to protect its investment-grade rating, even using its equity as currency—an action that may dilute its equity value but supports its creditors.

At the same time, the current narrative assumes a level of capital commitment that may never materialize. Oracle's future AI infrastructure investments are discretionary, not the fixed obligations they are often framed as. If demand does not meet expectations or returns normalize, the company has the flexibility to scale back, pace investment, or pursue more capital-efficient partnerships across the broader ecosystem.

Unlike the technology boom in the early 2000s, today's technology companies are not investing to survive; they are investing to win. That distinction matters. It introduces optionality that credit markets are increasingly ignoring.

Private Credit — narrative vs structure
Private credit is another example of how quickly broad, extreme narratives can take hold.

Just a few months ago, we highlighted some of the structural risks in the asset class. Private credit investments are not marked to market, are relatively illiquid, and lack a deep secondary market, which limits valuation transparency and can delay the visibility of stress. But when markets do reprice, the adjustment can be abrupt. Until recently, those risks were largely overlooked. Today, the narrative has swung in the opposite direction, with private credit increasingly viewed as a source of systemic risk and often compared to mortgage-backed securities ahead of the 2008 financial crisis.

That is an overly extreme—and, in our view, imprecise—leap.

Private credit is not the structured mortgage market of 2007. The differences are important, starting with scale. The pre-crisis mortgage securitization complex was both enormous and deeply embedded across financial institutions. At its peak, the U.S. mortgage-backed securities market was approximately $7.2 trillion, representing a significant share of global securities and sitting directly on bank balance sheets, often as highly rated tranches. More broadly, mortgage-related exposures, when incorporating synthetics, structured products, and other leveraged products, were measured in the tens of trillions of dollars and served as a core funding and collateral mechanism for the banking system.

By contrast, the private credit market today is roughly $2 trillion globally and represents a small share of total securities outstanding. Private credit is also not embedded in the financial system in the same way. Private credit is not a core funding and collateral mechanism for the financial system, meaning it is not widely used to finance balance sheets or support borrowing across banks and other financial institutions. That also means very little direct exposure is currently sitting on bank balance sheets. These differences are very important.

Underwriting is another key distinction. The pre-crisis mortgage market was defined by deteriorating standards, including low- and no-documentation loans, layered leverage through securitization, and complex structures that obscured and concentrated risk.

Private credit today is different. From what we can see, underwriting remains largely disciplined, and loans are tied directly to the performance of underlying businesses. Outcomes are driven by leverage, cash flow durability, and sector exposure. That does not eliminate risk, but we believe it makes the risks more transparent and more idiosyncratic.

Of course, there are still risks. Liquidity mismatches in certain vehicles can create pressure, particularly in periods of stress. That dynamic is not new, but it is now being tested. At the same time, the cost of capital is rising, and some weaker credits will likely face restructuring as refinancing becomes more challenging.

Even so, this is not a uniform or systemic outcome. In our view, the path forward for private credit will be driven more by economic conditions than by sentiment, and results will vary meaningfully across managers, structures, and portfolios.

When markets paint with such a broad brush, the underlying nuance is lost. For investors willing to look more closely, that creates opportunity. We see that most clearly in insurance names pulled down by the private credit narrative despite limited or manageable exposures, and in investment-grade quality asset managers with manageable exposure and the ability to play offense in stress rather than defense.

Conclusion

We believe narratives will likely form even faster and with broader reach, driven by increasing transparency, real time information, and the continued "retail-ization" and "passive-ication" of markets. In particular, AI related existential narratives will continue to claim entire sectors as victims, and new doomsday scenarios will continue to emerge, as they always do.

As those narratives take hold, very different businesses are increasingly treated the same, and price reflects narrative rather than underlying fundamentals. For us, that is creating opportunities to add exposure across insurance, asset management, and software.

At Harris | Oakmark, our approach remains unchanged. We assess the gradient of potential outcomes, not just the extremes, and compare that to price. When markets paint with a broad brush, we focus on the details, and that is where we find opportunity.

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Access the full list of holdings for the Oakmark Bond Fund here.

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