

3Q 2026 FIXED INCOME MARKET COMMENTARY

The Business Behind the Bond

September 30, 2026

In 2017, Harris | Oakmark bought Netflix in the U.S. Large Cap Value strategy when that company's shares traded at more than 100 times estimated earnings. I understand why that might raise an eyebrow. A triple digit earnings multiple is not the usual opening line in a value investor's pitch. My colleague and Co-CIO Bill Nygren's value case in his [third-quarter 2017 commentary](#) begins with the business behind the number.

The team looked beyond Netflix's earnings multiple to examine what the company was building. Management was keeping subscription prices low and spending heavily on programming. A growing audience allowed the company to spread its costs across more subscribers, strengthening the franchise. The inflated earnings multiple captured the expense of those decisions much better than it captured the opportunity.

The bond market's pricing was just as misleading as the earnings multiple. Netflix carried a single-B rating, and our analysis of market pricing implied roughly a one-in-four chance of default over five years. The debate centered on cash burn. We drew on our equity colleagues' work to understand what Reed Hastings was buying with that spending. Our estimate of HBO's value in the Time Warner transaction offered a useful yardstick: roughly \$1,000 per subscriber. Applied to Netflix, that implied about \$110 billion of business value, well over ten times its outstanding bond debt.

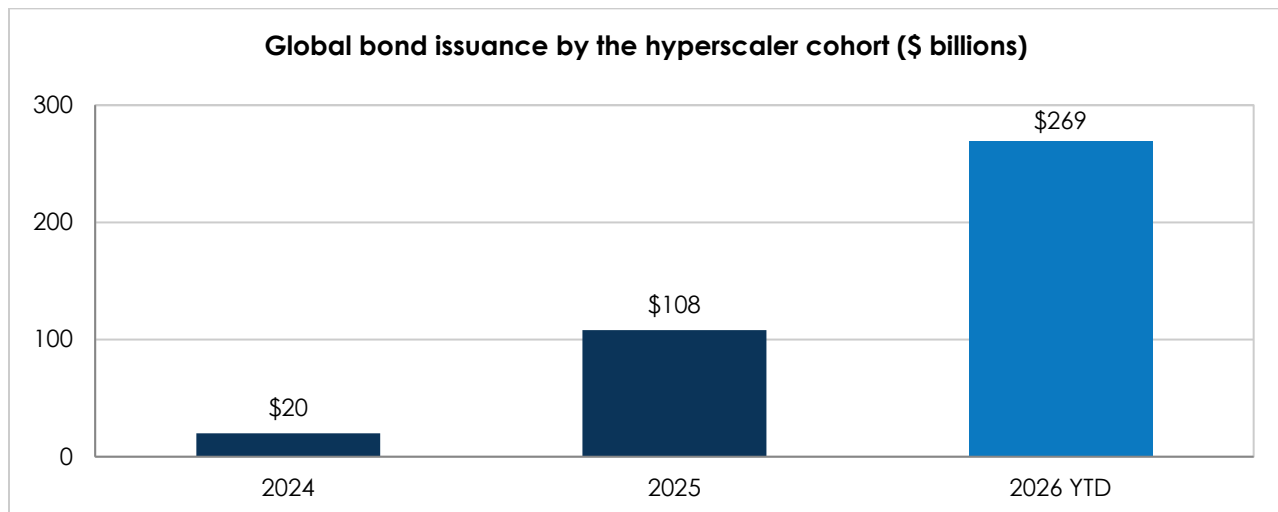
Recognizing the disconnect between market pricing and business fundamentals, the Oakmark Bond Fund and Oakmark Equity and Income Fund invested in Netflix bonds, although neither holds them today. Bill discussed this shared research approach in his [fourth-quarter 2020 commentary](#), in which he introduced the Oakmark Bond Fund: the research that helps the equity team identify undervalued stocks can also uncover mispriced bonds. That is the Harris | Oakmark DNA. Understanding a business helps us judge when the market's concerns are justified and when those concerns create opportunity.

Today, we see that opportunity in companies issuing large amounts of debt. In the Netflix example above, the debate centered on cash burn. Now, it centers on the volume of new bonds coming to market. We believe that focus on supply is allowing us to lend to stronger businesses on terms we would normally associate with weaker ones.

The companies in the crosshairs are, unsurprisingly, technology businesses. They include the "hyperscalers," the large companies running the vast computing networks behind cloud services and artificial intelligence. As investment in AI infrastructure has accelerated, so has borrowing. Seven of the major companies involved in this buildout¹, a group we refer to as the "hyperscale cohort" issued \$20 billion of bonds globally in 2024, \$108 billion in 2025 and \$269 billion by mid-August this year. Investors have a large amount to absorb, with more expected.

¹ Amazon, Oracle, Meta, Alphabet, Microsoft, Nvidia and SpaceX. Company names are for illustrative purposes and are not intended as recommendations.

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Source: Wells Fargo Securities, *Hyperscaler Spreads: Priced as One Trade, Not Seven Credits*, August 2026. Gross global bond issuance includes Amazon, Oracle, Meta, Alphabet, Microsoft, Nvidia and SpaceX. 2026 data through August 18, 2026.

Investors understandably want a lower price, and therefore a higher yield, to absorb that supply. I want that concession, too. A portfolio manager making room for a new offering may sell an existing bond or pass on another purchase. Prices adjust until buyers are willing to step in. We understand that process. The question is how much of a concession the buyer needs.

We own bonds issued by five companies in this cohort: Meta, Alphabet, Amazon, Oracle, and SpaceX. To compare these bonds with the broader market, we've created an equal-weighted basket of those five issuers, which we call our "hyperscaler exposure." We believe supply pressure has gone too far, pushing prices below what their financial strength and growing business value warrant. Before long, concerns over the next three months of borrowing could set the price of a bond that won't mature for another decade.

These are unusually profitable businesses. Expected profitability, as measured by EBITDA margin, for our hyperscaler exposure averages approximately 47%, compared with 32% across the investment-grade index, excluding financials. The advantage is even larger when we compare it with several cyclical sectors in the index: profitability averages 18% for capital goods, 25% for basic industries and 22% for consumer cyclicals. Growth adds to that earning power. As shown in the chart below, combined revenue for our hyperscaler exposure is expected to grow approximately 23% annually from 2026 to 2028, compared with roughly 6% to 9% under our assumptions for the corresponding S&P 500 cyclical sectors. Higher margins on a faster growing revenue base means more earnings and faster de-leveraging supporting our bonds.

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Hyperscaler fundamentals: Higher profitability, faster growth and lower leverage

Companies or sector	Net leverage	Total leverage	Profitability	Revenue growth 2026-28
Hyperscaler exposure	0.4x	1.3x	46.6%	22.6%
Capital goods	4.2x	4.6x	18.3%	8.0%
Basic industries	1.8x	2.3x	24.8%	5.7%
Consumer cyclicals	1.8x	2.6x	22.0%	8.5%
Transportation	2.6x	3.1x	33.0%	8.0%
Investment grade excluding financials	2.8x	3.3x	32.3%	9.2%

Sources: Bloomberg, Barclays and Harris | Oakmark analysis. Hyperscaler Exposure reflects equal issuer weights, not actual Fund position weights. Profitability is measured by EBITDA margin, using 2026 estimates for the hyperscaler companies and trailing 12-month results through Q2 2026 for the comparison sectors. Revenue growth reflects estimated annualized growth from 2026 to 2028.

I find the balance sheets even more persuasive. We believe these bonds are priced for more credit risk than their fundamentals warrant. Our hyperscaler exposure have an average net leverage of just 0.4x, compared with 3.5x for BBB-rated companies in the investment-grade index. Perhaps you are reluctant to count cash that management intends to spend. Fair enough. Set the cash aside. Total leverage of our hyperscaler basket averages 1.3x, versus 3.9x for BBB.

Our hyperscaler exposure starts with about one third of the leverage of BBB companies. Now look beyond the bonds to the commitments these businesses have made. Capitalizing future lease commitments and adding selected project financing and guarantees raises our illustrative estimate of average leverage to approximately 2.9x, still below 3.9x for BBB companies. The cushion narrows, but it remains substantial.

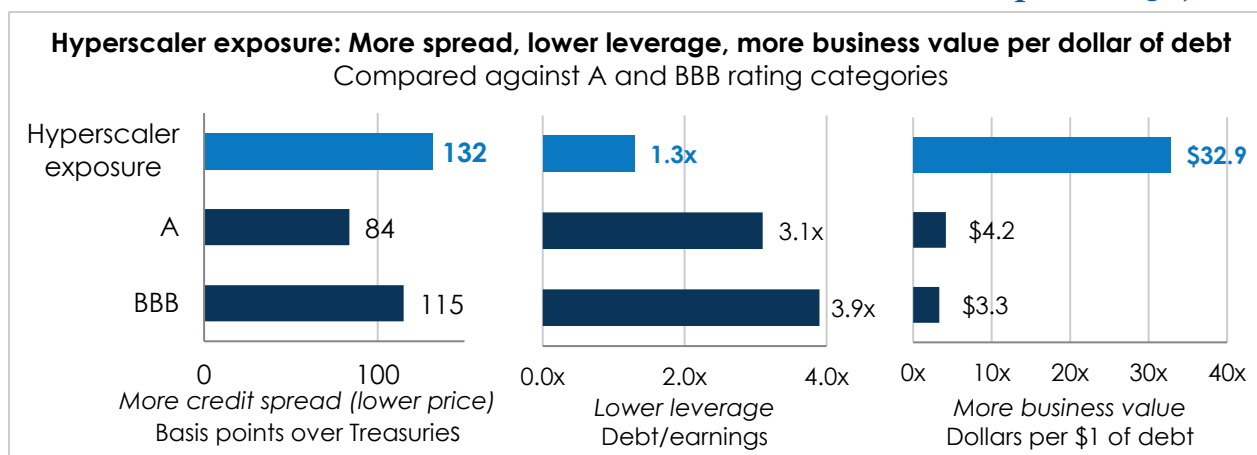
We like investments that leave room for disappointment. Even if these businesses fall short of earnings forecasts, raise more debt, or bring off balance sheet obligations onto their books, we believe they can still meet their obligations to lenders.

Then consider the business value behind the debt. Using market enterprise value as a proxy, these companies average roughly \$33 of business value for every \$1 of debt. The corresponding medians are about \$4 for A rated companies and \$3 for BBB companies. That is a substantial difference in the value supporting each dollar we lend.

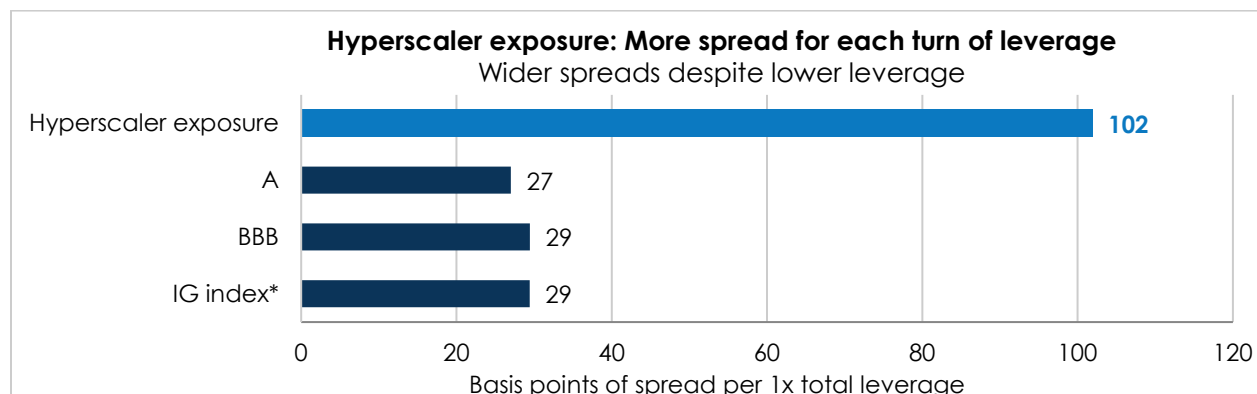
At roughly ten-year maturities, our hyperscaler exposure offers an average spread of 132 basis points over Treasuries, compared with 115 for BBB-rated bonds and 84 for A-rated bonds. We would expect to receive less spread from businesses with much less leverage, higher profitability, stronger growth prospects and more business value relative to each dollar of debt. Instead, we receive more.

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Sources: Bloomberg, Barclays and Harris | Oakmark analysis. Spreads as of September 30, 2026, for bonds with approximately 10-year maturities. Total leverage is debt divided by EBITDA. Business value is market enterprise value, not our estimate of intrinsic value. Hyperscaler figures are equal-weighted issuer averages; A- and BBB-rated figures are approximate medians. Leverage excludes the additional financing adjustments discussed in the text.



Sources: Bloomberg, Barclays and Harris | Oakmark analysis. Spreads as of September 30, 2026, for bonds with approximately 10-year maturities. Spread per turn of leverage is calculated as credit spread (basis points) divided by total leverage (debt/EBITDA). Hyperscaler figures reflect equal issuer weights, not actual Fund position weights. A- and BBB-rated figures use approximate medians. Leverage excludes additional financing adjustments.

We still need to understand what management is buying with all that spending. That is the question we asked of Netflix back in 2017, and it remains the right one today. We want returns on new investment that exceed the cost of the capital committed. But as lenders, we also need to understand what happens if those returns disappoint.

One source of potential downside protection is management's ability to slow future spending. Consider a scenario with \$700 billion in AI investment. At a 15% return, that investment would generate approximately \$105 billion in annual after-tax operating earnings. If returns fell short of 15%, those earnings would obviously be lower. At zero, they would disappear entirely. That could raise concerns about future cash flow and debt repayment. But these businesses generate substantial cash from their established operations, and management can scale back investments that fail to earn their cost of capital. A 20% reduction in annual spending would preserve approximately \$140 billion in cash, more than offsetting that shortfall. That outcome depends on management making those cuts and the established businesses continuing to generate cash. Still, it illustrates why disappointing investment returns do not necessarily translate into greater credit risk.

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Together, the financial strength and flexibility of these businesses provide what we view as meaningful protection for lenders. In our view, today's bond prices give too little credit to those advantages. Heavy issuance helps explain the discount. **It does not justify pricing these businesses as weaker credits trading at prices implying higher bankruptcy risk.**

Supply may keep prices under pressure. We can't predict when the market mindset will shift and that pressure will ease. Our job is to determine whether the price we pay today adequately compensates us for the underlying credit risk.

Netflix reminds me why we do the work. Cash burn was easy to see; the business being built required a closer look. **Today, new issuance is easy to estimate. Judging the value of the businesses behind those bonds takes more work.** Across Harris | Oakmark, we begin with the business, assess management's decisions and insist on a price that leaves room to be wrong. The market can decide how much to worry about the next bond offering. We decide whether the price pays us to look beyond it.

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Important Disclosures

The securities mentioned above comprise the following percentages of the Oakmark Bond Fund's total net assets as of 09/30/2026: Alphabet 0%, Amazon CB 04/36 5.300% Due 07-09-36 0.9%, Meta CB 11/55 6.300% Due 05-15-56 1.0%, Netflix 0%, Oracle CB 05/52 6.900% Due 11-09-52 0.9% and Space Exploration CB 04/36 144A 5.875% Due 07-15-36 1.1%. **Portfolio holdings are subject to change without notice and are not intended as recommendations of individual stocks.**

The securities mentioned above comprise the following percentages of the Oakmark Equity and Income Fund's total net assets as of 09/30/2026: Alphabet CI A 0.3%, Alphabet CI C 2.7%, Amazon.com 2.0%, Amazon CB 04/36 5.300% Due 07-09-36 0.3%, Meta Platforms CI A 1.4%, Meta CB 11/55 6.300% Due 05-15-56 0.2%, Netflix 0.9%, Oracle CB 05/52 6.900% Due 11-09-52 0.2% and Space Exploration CB 04/36 144A 5.875% Due 07-15-36 0.2%. **Portfolio holdings are subject to change without notice and are not intended as recommendations of individual stocks.**

To obtain a full list of the most recent quarter-end holdings, please visit our website at www.oakmark.com or call 1-800-OAKMARK (625-6275).

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The information, data, analyses, and opinions presented herein (including current investment themes, the portfolio managers' research and investment process, and portfolio characteristics) are for informational purposes only and represent the investments and views of the portfolio managers and Harris Associates L.P. as of the date written and are subject to change and may change based on market and other conditions and without notice. This content is not a recommendation of or an offer to buy or sell a security and is not warranted to be correct, complete or accurate.

Certain comments herein are based on current expectations and are considered "forward-looking statements." These forward-looking statements reflect assumptions and analyses made by the portfolio managers and Harris Associates L.P. based on their experience and perception of historical trends, current

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conditions, expected future developments, and other factors they believe are relevant. Actual future results are subject to a number of investment and other risks and may prove to be different from expectations. Readers are cautioned not to place undue reliance on the forward-looking statements.

Yield is the annual rate of return of an investment paid in dividends or interest, expressed as a percentage. A snapshot of a fund's interest and dividend income, yield is expressed as a percentage of a fund's net asset value, is based on income earned over a certain time period and is annualized, or projected, for the coming year.

EBITDA refers to Earnings Before the deduction of payments for Interest, Taxes, Depreciation and Amortization which is a measure of operating income.

The S&P 500 Index is a float-adjusted, capitalization-weighted index of 500 U.S. large-capitalization stocks representing all major industries. It is a widely recognized index of broad, U.S. equity market performance. Returns reflect the reinvestment of dividends. This index is unmanaged and investors cannot invest directly in this index.

Investing involves risk; principal loss is possible. There is no guarantee the Fund's investment objective will be achieved.

Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. Bond values fluctuate in price so the value of your investment can go down depending on market conditions.

The Oakmark Bond Fund invests primarily in a diversified portfolio of bonds and other fixed-income securities. These include, but are not limited to, investment grade corporate bonds; U.S. or non-U.S.-government and government-related obligations (such as, U.S. treasury securities); below investment-grade corporate bonds; agency mortgage backed-securities; commercial mortgage-and asset-backed securities; senior loans (such as, leveraged loans, bank loans, covenant life loans, and/or floating rate loans); assignments; restricted securities (e.g., Rule 144A securities); and other fixed and floating rate instruments. The Fund may invest up to 20% of its assets in equity securities, such as common stocks and preferred stocks. The Fund may also hold cash or short-term debt securities from time to time and for temporary defensive purposes.

Under normal market conditions, the Bond Fund invests at least 25% of its assets in investment-grade fixed-income securities and may invest up to 35% of its assets in below investment-grade fixed-income securities (commonly known as "high-yield" or "junk bonds").

The Oakmark Equity and Income Fund invests in medium- and lower-quality debt securities that have higher yield potential but present greater investment and credit risk than higher-quality securities. These risks may result in greater share price volatility. An economic downturn could severely disrupt the market in medium or lower grade debt securities and adversely affect the value of outstanding bonds and the ability of the issuers to repay principal and interest.

The Oakmark Equity and Income Fund's portfolio tends to be invested in a relatively small number of securities. As a result, the appreciation or depreciation of any one security held by the Fund will have a greater impact on the Fund's net asset value than it would if the Fund invested in a larger number of securities. Although that strategy has the potential to generate attractive returns over time, it also increases the Fund's volatility.

Oakmark Equity and Income Fund: The securities of medium-sized companies tend to be more volatile than those of large companies and have underperformed the securities of small and large companies during some periods.

These and other risk considerations such are described in detail in the Fund's prospectus.

All information provided is as of 09/30/2026 unless otherwise specified.

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Before investing in any Oakmark Fund, you should carefully consider the Fund's investment objectives, risks, management fees and other expenses. This and other important information is contained in a Fund's prospectus and summary prospectus. Please read the prospectus and summary prospectus carefully before investing. For more information, please visit Oakmark.com or call 1-800-OAKMARK (1-800-625-6275).

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