Haykala Advisors & Managers

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GCC BOND MARKET STRATEGY: WHAT DIRECTORS NEED TO KNOW

Macro Stability vs. Structural Repricing — Q4 2025 vs Q1 2026

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EXECUTIVE OVERVIEW

For boards, the GCC bond market offers a clear read on regional credit health. Between Q4 2025 and Q1 2026 the market stayed broadly stable in size while credit repriced sharply. Issuance kept growing and distress remained contained, but investors demanded meaningfully higher compensation for holding debt capital — the key signal for directors. The two trends together tell a consistent story: the market is not fragile, but it is no longer forgiving of cheap, legacy-era pricing.

- Market expansion: the GCC bond universe reached approximately USD 1.0 trillion across 1,398 instruments, up USD 24 billion in three months.
- Persistent distress: actively distressed instruments held flat at 20, representing roughly USD 5.8 billion — legacy issues, not a new wave of failures.
- The yield surge: pricing on regional bank Additional Tier 1 (AT1) and perpetual hybrid capital moved sharply, with median yields rising from 6.1% to 7.3%, or +120 basis points, in a single quarter.

THE CREDIT NARRATIVE: A REALIGNMENT OF RISK

The unrated segment: a hidden friction point

Nearly two-thirds of GCC corporate debt — predominantly UAE bonds — carries no public credit rating. In calm markets this functions as a deep, liquid regional capital pool. But because it sits outside the global benchmark indices tracked by international asset managers, it lacks pricing benchmarks, leaving it highly vulnerable to rapid repricing if sentiment turns.

The real story: stress is isolated within otherwise healthy issuers

The 20 distressed instruments are the same names as last quarter — mostly financial institutions, with energy and communications names behind them, and missed payments dating back years. Meanwhile, yields on GCC bank AT1 and convertible instruments expanded even where nothing has gone wrong with the issuer: investors now demand real premiums to hold debt that may run indefinitely at low, pandemic-era coupons. Low-coupon vintages from 2020–21 have been hit hardest — Emirates NBD's 2020 perpetual jumped from 5.8% to 12.0% (+620 bps), and First Abu Dhabi Bank's moved from 4.9% to 9.3% (+440 bps). Oman Arab Bank's 2021 perpetual and Investcorp's 2021 perpetual now yield 13.7% and 14.0% respectively.

By contrast, a group of resilient names — including Bank Muscat SAOG (down 130 bps to 10.6%), Dukhan Tier 1 Sukuk, Al Rajhi Banking & Investment, and several National Bank of Oman issues — held steady or even tightened, outperforming the +120 bps market-wide move and acting as stable strategic anchors.

Where to divest, where to invest

The USD 5.8 billion in active distress spans 20 instruments, largely legacy defaults and missed payments — from Kuwait's Al Mal Investment Company and Investment Dar, to NMC Health, Kyivstar Group, and Golden Belt 1 B.S.C. — the clearest candidates to exit or avoid. The outperformer list above offers the inverse: anchor-quality names that resisted the broader repricing.

THE MACRO OUTLOOK

The dominant reality for the next 12–24 months is refinancing: a large volume of debt raised in the low-rate years of 2016–21 now matures into a far more expensive market. This is highly manageable for strong investment-grade issuers, but it will mean materially higher capital costs for lower-tier or unrated borrowers, testing their ability to access alternative capital — or refinance at all. Not a sudden cliff, but a steady tightening that needs early planning. Directors who treat this as a planning exercise now, rather than a crisis to manage later, will have far more options when their own maturities come due.

KEY TAKEAWAYS FOR BOARDS OF DIRECTORS

1. Capital structure discipline & maturity management

Ask management for a clear maturity schedule: debt due in the next one to three years will cost more to refinance and should be addressed early through opportunistic refinancing or repurchases, not left to mature. Given structurally higher debt pricing, boards should also revisit the debt-versus-equity trade-off — a more conservative balance sheet can preserve long-term enterprise value better than chasing the lowest coupon.

2. Risk oversight & stress-testing

Audit how much of the company's funding strategy relies on unrated debt — the segment most exposed to a shift in sentiment or liquidity. Ensure management runs stress tests on credit spreads against macro shocks, particularly oil price swings and any change to the US dollar currency peg.

3. Proactive engagement with debt advisors and rating agencies

In a repricing market, early engagement with an advisory firm that tracks the major global credit rating agencies gives boards visibility they can't get after the fact. Build these relationships before capital conditions tighten, not after an adverse event forces the issue.

Haykala Advisors & Managers' Analysis

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