GCC BOND MARKET STRATEGY

WHAT DIRECTORS NEED TO KNOW – Q2 2026
A LEADERSHIP BRIEFING

Macro Stability, Partial Repricing Relief & Rising Tail Risk — Q1 2026 vs Q2 2026

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EXECUTIVE OVERVIEW

For boards, the GCC bond market is a clear read on regional credit health. Between Q1 2026 and Q2 2026 the market kept growing in value while the sharp credit repricing of the prior quarter partially reversed. Median bank-capital yields eased, issuance stayed strong, and legacy distress remained contained — but a handful of names dislocated sharply, and a visible wave of higher-coupon refinancing began. The signal for directors: broad conditions are normalising, yet the gap between anchor credits and stressed outliers is widening.

- **Market expansion:** the GCC bond universe reached USD 1,023 billion across 1,381 outstanding issuances as of 30 June 2026 — about USD 23 billion larger in value than Q1, but 17 fewer instruments.
- **Yield relief, unevenly shared:** median AT1 / perpetual yields eased to roughly 6.4% (perpetuals) and 6.2% (convertibles), down about 90 bps from the Q1 peak of ~7.3% — while distressed outliers widened further.
- **Structure unchanged:** non-rated debt remains roughly two-thirds of corporate issuance (USD 268 billion across 833 issues), still predominantly UAE and financial-sector paper.

KEY HIGHLIGHTS — WHAT CHANGED THIS QUARTER

The defining shift this quarter was a partial reversal of the Q1 repricing. After spiking roughly +120 bps in Q1, median yields on GCC bank Additional Tier 1 (AT1) and perpetual capital eased back to about 6.4% on perpetuals and 6.2% on convertibles by 30 June — a compression of roughly 90 bps from the Q1 peak as investors re-engaged with regional bank capital. The relief, however, was uneven: dispersion widened at the tails. Investcorp's 2021 perpetual blew out from around 14.0% to 33.8%, and Bank Muscat's low-coupon 2022 perpetual drifted back up to 11.8%, even as anchor names such as Alinma (4.7%) and Al Rajhi (5.4%) held firm. The market also grew in value while shrinking in count — bonds outstanding rose about USD 23 billion to USD 1,023 billion, but the instrument count fell by 17 to 1,381, as smaller legacy issues matured and were replaced by larger, higher-coupon new deals. That new-issue wave is the clearest structural signal: through 2025 and into 2026, banks including Emirates NBD, First Abu Dhabi Bank, Saudi National Bank, Riyad Bank and Mashreq issued fresh AT1 at 6.0–6.9% coupons, actively terming out the cheap 2020–21 vintages before they reset. The refinancing cycle flagged last quarter as a 12–24-month risk is now visibly underway.

THE BOARDROOM DASHBOARD

~$1,023 BN	~6.4%	1,381	~66%
GCC BONDS OUTSTANDING	MEDIAN AT1 / PERP YIELD	INSTRUMENTS OUTSTANDING	CORPORATE DEBT UNRATED
+$23 BN vs Q1 2026	−90 bps from Q1 peak	−17 vs Q1 2026	USD 268 BN / 833 issues

THE MARKET AT A GLANCE — STRUCTURE

Sovereign paper now accounts for 60% of outstanding value but only 27% of instruments — a small number of large government deals, led by Saudi Arabia (47% of sovereign value). Corporates make up the balance, where the UAE dominates (about half of corporate value and 70% of the count) and financials account for roughly 58% of corporate value, with energy the next-largest sector at 28%.

Segment	Amount (USD BN)	Issuances	Share of value
Sovereign	615	368	60.2%
Corporate	407	1,013	39.8%
— of which non-rated	268	833	~66% of corporate
Total GCC universe	1,023	1,381	100%

Source: Haykala Research / S&P Capital IQ — all fixed-income GCC issuances outstanding as of 30 June 2026.

THE CREDIT NARRATIVE: A REALIGNMENT OF RISK

The unrated segment: a hidden friction point

A structural feature of the regional credit market still demands attention: roughly two-thirds of GCC corporate debt (USD 268 billion) carries no public credit rating, predominantly UAE and financial-sector paper. In calm conditions this functions as a deep, liquid capital pool. But because it sits outside the global benchmark indices tracked by international asset managers, it lacks external pricing anchors and remains the first layer of capital to reprice if sentiment turns.

The real story: relief in the middle, stress at the tails

The broad AT1 and perpetual market rallied this quarter, with the median yield easing back toward 6.4% as investors re-engaged. But the improvement was concentrated in the middle of the distribution. At the tails, idiosyncratic stress intensified: Investcorp's 2021 perpetual blew out to 33.8%, and Bank Muscat's low-coupon 2022 perpetual re-widened to 11.8%. Anchor names — Alinma, Al Rajhi, Emirates NBD's low-coupon 2021 issue — barely moved. The dispersion between the best and worst regional bank capital is now the wider story, not the headline median.

Instrument	Issue Yr	Coupon	Yield (Q2 2026)	Strategic Reading
Investcorp Holdings Perpetual	2021	8.3%	**33.8%**	Deep-distress outlier; blew out from ~14.0%
Bank Muscat SAOG Perpetual	2022	4.3%	**11.8%**	Low-coupon vintage; re-widened from 10.6%
Alternatif Bank Perpetual	2026	9.3%	**9.1%**	High-coupon Türkiye issuer; elevated
National Bank of Oman	2024	6.8%	**7.2%**	Solid defensive play; stable
Banque Saudi Fransi	2024	6.0%	**6.8%**	Trades in line with the market
Emirates NBD	2021	4.3%	**5.7%**	Low-coupon but well-held
Al Rajhi Banking & Investment	2022	5.5%	**5.4%**	Anchor-quality regional name
Alinma Bank	2021	4.0%	**4.7%**	Lowest-yielding AT1; anchor
Median (all active perpetuals)	—	6.3%	**6.4%**	The market baseline

Source: Haykala Research / S&P Capital IQ — active GCC perpetual instruments, yields as of 30 June 2026. Median across all 41 active perpetuals.

THE LEGACY DEFAULT WATCHLIST

Standing screen — carried forward. The active-default screen was not refreshed in the 30 June dataset; the names below are long-standing legacy defaults (missed payments dating from 2002–2022, ~USD 5.8 billion across ~20 instruments) retained from the prior review. They remain the clearest candidates to exit or avoid, but the list should be re-run against a current default screen before circulation.

Issuer	Sector	Geography	Size ($M)	Coupon	Default Type	Default / Missed
Al Mal Investment Company	Financials	Kuwait	36	n/a	Principal	Nov 2019
Al-Ahlia Holding Company	Financials	Kuwait	51	4.1%	Principal	Dec 2010
Bereke Bank JSC	Financials	Kazakhstan	135	7.0%	Interest	Dec 2018
Denizbank Anonim Sirketi	Financials	Türkiye	12	18.4%	Interest	Apr 2019
Golden Belt 1 B.S.C.	Financials	Bahrain	650	n/a	Interest	May 2010
Gulf Investment Corporation	Financials	Kuwait	500	5.8%	Interest	Mar 2007
Investment Dar Company	Financials	Kuwait	100	5.5%	Principal	Oct 2010
Kyivstar Group Ltd. (×2)	Comms.	UAE	2,500	3.4%	Selective default	May 2022
NMC Health (Jersey) Limited	Financials	UAE	450	1.9%	Interest	Apr 2020
Oman (Government Note)	Government	Oman	260	3.0%	Interest	Nov 2018
Polarcus Limited	Energy	UAE	57	8.4%	Interest	Jan 2021
Others (8 legacy names)	Mixed	GCC / Intl	~700	—	Mixed	2002–2018

Source: Haykala Research — legacy default watchlist (standing screen). Full 20-name detail available on request.

THE MACRO OUTLOOK

The dominant reality for the next 12 to 24 months is refinancing — and this quarter's data shows it moving from forecast to fact. A steady stream of 2025–26 bank AT1 issuance at 6.0–6.9% coupons is replacing the cheap 2020–21 vintages as they approach reset. For strong investment-grade issuers this is orderly and manageable. For lower-tier and unrated borrowers it means materially higher capital costs and, in some cases, a real test of whether they can refinance at all. Not a sudden cliff, but a steady tightening that rewards early planning.

KEY TAKEAWAYS FOR BOARDS OF DIRECTORS

1. Capital structure discipline & maturity management

- **Map the maturity wall:** ask management for a clear schedule of debt due in the next one to three years, and address it early through opportunistic refinancing or repurchases rather than waiting for maturity — especially any low-coupon 2020–21 paper approaching reset.
- **Revisit debt vs. equity:** with debt pricing structurally higher, a more conservative balance sheet may preserve enterprise value better than chasing the lowest coupon.

2. Risk oversight & stress-testing

- **Audit unrated exposure:** quantify how much of the funding strategy relies on unrated debt — the segment most exposed to a shift in sentiment or liquidity.
- **Run macro scenarios:** stress-test credit spreads against oil-price swings and any change to the US-dollar peg; and watch tail names, where dispersion is now widening fastest.

3. Proactive engagement with debt advisors and rating agencies

- **Build relationships early:** in a repricing market, engage a firm that tracks the major global rating agencies before conditions tighten — not after an adverse event forces the issue.

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