MARKET COMMENTARY · AUGUST 2026

BROOKLAND
GROUP

# MENA credit markets: 2026 mid-year commentary

## AT A GLANCE

- The region delivered the year's defining credit shock. Conflict choked Gulf energy exports at the peak of hostilities and the IMF cut its 2026 growth forecast for the Middle East and North Africa to roughly 1.1%.[1]
- Markets priced it and then repriced it. EM hard currency spreads widened about 35bps in the first quarter on the conflict and oil shock, then tightened 53bps in the second as the mid-June ceasefire framework took shape, ending the half near 235bps.[2,3]
- The funding machine barely broke stride. The GCC debt capital market grew about 14% in 2025 to roughly USD 1.1 trillion outstanding and remains on track to exceed USD 1.25 trillion this year.[4,5]
- Sukuk reached a record share of Gulf funding at more than 40% of outstanding GCC debt stock, with about 84% of rated instruments investment grade and issuance up 13.1% in the first four months of 2026 despite the war.[5,6]
- By the end of June, regional fixed income had recovered to positive territory for the year, with the major GCC and MENA bond and sukuk indices back in the green.[7]

SECTION 1

# The shock, and the spread round trip

MENA supplied the global credit event of the half. The conflict's escalation through the spring choked Gulf oil and gas exports, pushed the IMF to cut regional growth to roughly 1.1% for 2026, and widened credit default swap spreads across the GCC, with Saudi Arabia recording the sharpest moves.[1,4] The shock travelled well beyond the region. EM hard currency sovereign spreads widened about 35bps over the first quarter and the benchmark index returned negative 1.26%.[2]

The second quarter unwound it. As the US-Iran ceasefire framework took shape in mid-June, the geopolitical premium came out of the market. EM hard currency spreads tightened 53bps to end the half near 235bps and the index returned 4.63% for the quarter.[3] Regional performance followed the same path. After a volatile start to the year, the major GCC aggregate and MENA bond and sukuk indices finished the half modestly positive.[7]

The honest reading carries both halves of the story. The real economy absorbed genuine damage, unevenly spread across the region, and the recovery in spreads is partly a bet that the ceasefire holds. But the speed of the round trip tells you how markets now assess the Gulf. The risk premium moved. The doubt about whether the region funds itself did not appear at all.

SECTION 2

# The funding machine

The GCC debt capital market expanded about 14% year on year to roughly USD 1.1 trillion outstanding in 2025 and is expected to surpass USD 1.25 trillion in 2026, supported by refinancing needs, project funding, and diversification agendas.[4,5] GCC issuers accounted for around 35% of all emerging market US dollar issuance excluding China in 2025, which makes the Gulf one of the largest emerging market borrowers in the world.[5]

> A regional war changed the price of Gulf credit. It did not change its function.

Primary markets stayed open throughout. January alone produced USD 26.3 billion of GCC issuance, and nearly half of it was Saudi sovereign supply across long tenors.[4] Through the spring, corporate and financial issuers from Qatari banks to Dubai developers continued to price benchmark deals in the low to mid 7% area with order books covered several times over.[4] Sustainable issuance is gaining traction as well, with regional volumes forecast at USD 20 to 25 billion for 2026 and Saudi Arabia dominating early ESG sukuk activity.[4,8]

Issuers are also diversifying how they fund. Fitch notes rising use of private credit, syndicated financing, and certificates of deposit across the region alongside the public markets.[5] We regard this as the early architecture of a Gulf private credit market growing up beside the public one, and it is the development we watch most closely as a private capital firm operating in the region.

SECTION 3

# Sukuk: the structural story

Sukuk now exceed 40% of the GCC's outstanding debt stock, the highest share on record. About 84% of rated GCC sukuk carry investment grade ratings and roughly 90% of issuers sit on stable outlooks.[5] Issuance rose 13.1% year on year in the first four months of 2026 despite the conflict, within a global sukuk market that grew 20% over the same period.[6] The GCC supplied about 45% of global sukuk issuance in 2025.[6]

The composition of supply is shifting. S&P expects growth of the global Islamic finance industry to slow to a range of 5% to 10% this year from 10.2% in 2025, citing the war's impact on core markets, and expects foreign currency issuance to moderate while the conflict persists.[6] Local currency supply led by Saudi Arabia is set to carry this year's volumes.[6]

Our view is that the sukuk market's maturity in public form has run ahead of its private form. Demand for credit structured to Shariah principles is not confined to listed instruments, and we expect private formats to be a meaningful part of how Gulf capital reaches borrowers over the coming cycle.

SECTION 4

# The second half: what we are watching

**Ceasefire durability and the oil channel.** The second quarter recovery is partly a bet that the mid-June framework holds. A re-escalation would reprice the region's risk premium quickly. The first half suggests the funding base would hold. Spreads would not.[3]

**The local currency shift.** If foreign currency issuance moderates as S&P expects, the move toward local currency and Saudi-led supply will shape relative value across Gulf credit and change who the marginal buyer is.[6]

**Rates.** The Federal Reserve's December cut took the funds rate to a range of 3.50% to 3.75% and markets price perhaps one further reduction this year. Lower US rates would support both refinancing economics and demand for the region's long duration supply.[4]

**The private funding channel.** The diversification into private credit and syndicated formats that Fitch flags is the structural development beneath the headline numbers. We expect it to accelerate, and we expect the borrowers using it to value certainty of execution over headline pricing.[5]

## Brookland's view

We operate in private credit from Dubai at the centre of this market, and the half reinforced our approach rather than changing it. The Gulf's public markets have demonstrated depth that no longer depends on a benign backdrop. The private market beside them is still forming, and that is where we work. Our bias remains seniority, security, conservative attachment, and counterparties who intend to remain through whatever the second half brings.

ENDNOTES

# Sources


1. International Monetary Fund, 2026 regional growth revision for the Middle East and North Africa to approximately 1.1%, reflecting the conflict's impact on Gulf energy exports.

2. State Street Investment Management, “Emerging Market Debt Commentary: Q1 2026,” April 2026. Index data from JP Morgan EMBI Global Diversified. Q1 return of negative 1.26% with spread widening of about 35bps.

3. State Street Investment Management, “Emerging Market Debt Commentary: Q2 2026,” July 2026. Q2 return of 4.63% with spread tightening of about 53bps to about 235bps, and the mid-June US-Iran ceasefire framework.

4. First Abu Dhabi Bank, MENA Credit Reports, December 2025 to March 2026. GCC DCM of about USD 1.1 trillion outstanding in 2025, up 14% year on year. January 2026 GCC issuance of USD 26.3bn including USD 11.5bn of Saudi sovereign supply. Regional CDS moves, representative corporate sukuk pricings, the Federal Reserve policy rate of 3.50% to 3.75%, and the 2026 MENA sustainable issuance forecast of USD 20 to 25 billion.

5. Fitch Ratings, GCC debt capital markets commentary, January 2026. 2026 DCM expected to exceed USD 1.25 trillion, up about 13.6%. Sukuk above 40% of outstanding stock. About 84% of Fitch-rated GCC sukuk investment grade with about 90% of issuers on stable outlooks. GCC at about 35% of EM USD issuance excluding China in 2025. Rising issuer use of private credit and syndicated funding.

6. S&P Global Ratings, “Islamic Finance 2026-2027: Navigating Rough Waters,” May 2026. GCC sukuk issuance up 13.1% year on year in the first four months of 2026. Global sukuk issuance up 20%. Industry growth expected to slow to 5% to 10% from 10.2% in 2025. GCC at about 45% of 2025 global sukuk issuance.

7. GCC fixed income index performance for the first half of 2026, with the Bloomberg GCC Aggregate Index and the S&P MENA Bond and Sukuk Index each returning 0.39% year to date at the end of June (market data as reported July 2026).

8. Gulf Capital Market Association market data, 2026. Saudi Arabia accounted for about 61% of regional ESG sukuk issuance in the first quarter.


## Important information