

1 June 2026

## Living in a box

The European Central Bank’s inflation policy target is causing it a headache, as central banks across the world grapple with the Middle East issue. Read on for a breakdown of fixed income news across sectors and regions.



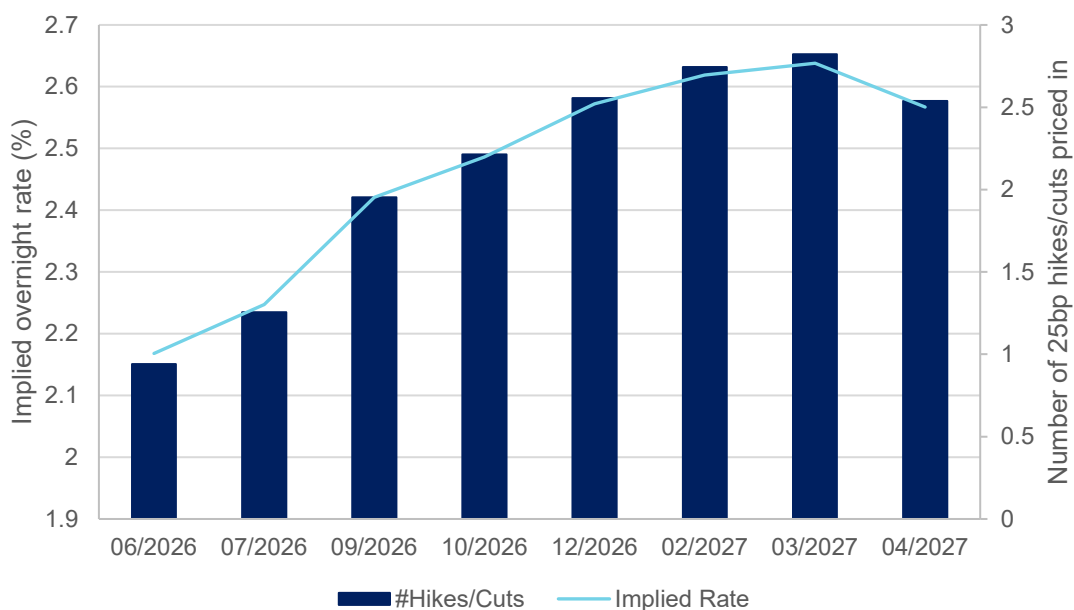
### Chart of the Week

Gary Smith,  
Head of Client Portfolio Management team, Fixed Income, EMEA

Boxed in by their 2% inflation target, the European Central Bank (ECB) will likely hike their key lending rate next week, despite being aware that this will weaken a growth outlook that has already been undermined by fallout from the war in the Persian Gulf. The ECB will hope that a single hike of 25bps will maintain their credibility, but also buy some time during which the war might end and freight traffic in the Strait of Hormuz is able to return to normal.

Before the war the ECB was the envy of other developed central banks, having steered inflation back to 2% while also smoothly easing rates back to the perceived “neutral” rate of 2%. However, if the war is prolonged, higher inflation numbers may force them into further hikes later this year. Being “boxed in” by a single policy target may increase the risk of repeating the policy mistakes of 2008 and 2011 when hikes due to energy price effects had to be quickly unwound.

Chart of the Week: implied overnight rate and number of hikes/cuts



Source: Bloomberg, June 2026

## Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
<b>US Treasury 10 year</b>	4.46%	-10 bps	0.0%	0.1%
German Bund 10 year	2.98%	-6 bps	0.8%	0.6%
<b>UK Gilt 10 year</b>	4.83%	-7 bps	1.4%	-0.6%
Japan 10 year	2.69%	-8 bps	-1.3%	-2.9%
<b>Global Investment Grade</b>	76 bps	0 bps	1.5%	0.9%
Euro Investment Grade	78 bps	1 bps	1.8%	0.9%
<b>US Investment Grade</b>	74 bps	0 bps	1.3%	0.8%
UK Investment Grade	65 bps	-1 bps	1.9%	0.3%
<b>Asia Investment Grade</b>	100 bps	0 bps	1.0%	0.9%
Euro High Yield	292 bps	1 bps	3.0%	1.3%
<b>US High Yield</b>	274 bps	0 bps	2.2%	1.6%
Asia High Yield	381 bps	-7 bps	2.6%	2.7%
<b>EM Sovereign</b>	215 bps	-6 bps	3.4%	2.2%
EM Local	6.2%	-12 bps	3.7%	1.3%
<b>EM Corporate</b>	219 bps	3 bps	2.0%	1.8%
Bloomberg Barclays US Munis	3.7%	-15 bps	1.5%	1.3%
<b>Taxable Munis</b>	5.1%	-11 bps	0.1%	0.5%
Bloomberg Barclays US MBS	22 bps	0 bps	0.4%	0.8%
<b>Bloomberg Commodity Index</b>	349.94	-2.5%	0.5%	25.0%
EUR	1.1646	0.5%	0.9%	-0.7%
<b>JPY</b>	159.48	0.0%	-0.3%	-1.6%
GBP	1.3464	0.2%	1.7%	-0.1%

Source: Bloomberg, ICE Indices, as of 31 May 2026. \*QTD denotes returns from 31 March 2026.



## Macro/government bonds

Simon Roberts  
Product Specialist, Global Rates

Markets drew comfort from reports during the week that US and Iran were nearing a deal. This helped push oil prices and bond yields lower.

A weaker tone to economic data from the US also supported markets, as inflation rose less than expected. Core PCE, which strips out food and energy prices, increased 0.2% in April, translating into a year-on-year figure of 3.3%. Real personal spending rose 0.1% in April, underscoring a growing divergence between a consumer constrained by higher energy costs and an otherwise resilient US economy supported by strong AI-driven investment

Messaging from several US Federal Reserve (Fed) policymakers pointed to the increasing risks of elevated inflation, highlighting the challenges involved with shifting towards an easier monetary policy stance.

The ECB had a similar message (see Chart of the Week). The market continues to price for two rate hikes by the end of the year, with a June hike viewed as a near certainty. Debate has focused on the magnitude of any tightening of monetary policy, as markets evaluate the trade-off between controlling inflation and supporting economic activity in the face of a demand shock.

Andrew Bailey, Bank of England (BoE) governor, suggested the Bank could look through an inflation spike as the economy softens. A mixture of external inflationary pressures and political instability has already left gilt yields trading at elevated levels, effectively tightening financial conditions.

The Reserve Bank of New Zealand left interest rates on hold, although it warned that monetary policy might tighten at coming meetings.

**Positioning** There were no change to positions in global rates mandates last week.



### Liability driven investments (LDI)

Richard Ferris,  
Client Portfolio Manager, Fixed Income

Following several weeks of volatility, UK gilts experienced a relatively calm period. Thirty-year yields drifted down by 5bps over the week to 5.52%, down from a year-to-date peak of 5.85% recorded on 15 May.

BoE governor, Andrew Bailey, indicated that the Monetary Policy Committee is under no immediate pressure to raise interest rates, noting that it would be tolerable for inflation to remain above the Bank's 2% target amid ongoing tensions in the Middle East.

UK CPI rose by 2.8% in the 12 months to April 2026, a decline from 3.3% in the year to March. The Office for National Statistics reported that housing and household services were the largest contributors to the slowdown, while a rise in motor fuel prices was offset by declines across other transport categories.

Inflation expectations also eased, with 10-year breakeven inflation rates falling by 12bps to 3.33% by the end of the week.

In UK pensions news, The Pensions Regulator has said it expects three new "superfund" providers to seek regulatory approval by year-end. Superfunds offer pension schemes a potential alternative to traditional insurance buyouts. With more schemes already considering run-on as an endgame strategy, it will be interesting to see how these options are reflected in investment strategy and hedging objectives.



### Investment grade credit

Luke Copley,  
Client Portfolio Manager, Fixed Income

In a quieter week, global investment grade (IG) corporate spreads were 1bp tighter week-on-week (the US dollar market was 1bp tighter, versus unchanged spreads in Europe).

May 2026 closed as a record month for new supply in Europe and the US. Primary volumes in each totalled around \$40 billion / €40 billion for the week, which was well above dealer forecasts. Goldman Sachs headlined with a \$9 billion four-tranche offering – its fourth US dollar deal of 2026. We generally focused our primary participation during the week on European financial issuers.

In corporate news, Dell reported blockbuster first quarter revenues of around \$44 billion. This was +88% year-on-year and far above analyst estimates of \$35 billion. AI-optimised server revenue reached \$16 billion in the quarter (+757% year-on-year). Shares jumped 40% on the news.

Elsewhere, Yum! Brands reportedly entered exclusive talks to sell its Pizza Hut chain to private equity firm LongRange Capital, while other M&A headlines surfaced on Scotiabank and MapleMark, IFF and CVC, and (rumoured) Castllake and easyJet. Goldman Sachs put out a note suggesting that 2026 M&A activity is on track to approach the record set in 2021.



## European high yield credit

Angelina Chueh,  
Client Portfolio Manager, European High Yield

European high yield (EHY) had a solid finish to May. It returned 0.56% as spreads stayed steady around 292bps while yields fell 7bps on the back of lower underlying government bond yields. There was a bit of decompression in the last week as BBs outperformed the other rating bands, with CCCs just scraping by with a small positive performance (+0.15%). This took the month of May performance to a whopping 1.02% as EHY appeared to shrug off geopolitical risks, instead focusing on earnings and yield opportunity.

Flows were largely flat over the week with only -€7 million of outflows due to ETFs. This brought the month-to-date net flows to +€1,618 million and the year-to-date flows back into positive territory with +€430 million.

The primary market was subdued after some bumper previous weeks in the merry month of May. There was only €1.2 billion across just three issuers over the week. This brings year-to-date corporate EHY issuance to €58 billion gross and €18 billion net.

In ratings news, gaming company Cirsa was upgraded by Moodys to Ba3, bringing it in line with S&P's BB- rating.

Turning to liability management exercise news, it was reported that Antolin and creditors have finalised legal teams for debt restructuring with the cooperation agreement signed. The new name going into creditor and issuer negotiations is Emeria (real estate services provider) with around €3.5 billion in debt and maturities starting next year and onwards.



## Asian credit

Justin Ong,  
Research Analyst, Asian Fixed Income

The JACI delivered 54bps of positive return during the week, almost all due to Treasury returns. JACI IG posted 52bps of positive returns, while JACI HY, which benefited from spread compression, generated 65bps.

Xiaomi reported lower smartphone shipments for the first quarter due to the impact of higher memory prices. The company lowered the shipment of low/mid-end smartphones, which helped raise the average selling price to CNY1,310 per unit (+11.4% quarter-on-quarter and +8.2% year-on-year). The company maintained its rank as the third largest smartphone company by global market share at 11.3% (+0.2 percentage points quarter-on-quarter and -2.8 year-on-year).

In Hong Kong, New World Development (NWD) is holding advanced talks with Singapore-based real estate management company Aravest to divest its stakes in three hotels – the Grand Hyatt, the Renaissance Harbour View Hotel and the Hyatt Regency Kowloon. NWD will also defer the coupon payments on its perpetual bonds while it's in discussions with the Airport Authority Hong Kong about overdue lease payments on 11 Skies Mall.

AS Watson Group, the subsidiary of CK Hutchison Holdings, may proceed with a dual listing in Hong Kong and London by the end of the year with the aim to raise around US\$2 billion.



## Emerging markets

Omotoke Joseph,  
Product Specialist, Emerging Market Debt

Emerging market (EM) debt delivered a constructive performance over the week, with sovereigns tightening by 3bps and returning 1.22%. Corporates lagged, posting a more modest 0.52%, while local markets also contributed positively with returns of 1.05% (US dollar).

In Senegal, political tensions escalated as former prime minister, Ousmane Sonko, who was dismissed the previous week by President Bassirou Diomaye Faye, was elected Speaker of the National Parliament. This served to heighten institutional friction between the former allies and provided Sonko with a powerful platform to challenge Faye's administration. The evolving political backdrop adds to concerns around fiscal credibility, particularly given public debt levels estimated at around 132% of GDP. Senegal's 2048 US dollar bonds exhibited pronounced volatility, initially declining 3% to \$49.99 following Sonko's dismissal, before recovering 2.3% to close the week at \$51.14.

Geopolitical risk in Central and Eastern Europe re-emerged towards the end of the week, following Russian drone strikes that allegedly hit an apartment block in Romania during a broader attack on Ukraine. The reports prompted strong condemnation from NATO and European leaders, alongside renewed discussions around an additional (21st) EU sanctions package against Russia. Romanian sovereign bonds responded modestly, with prices declining around 0.5% to open at \$94.94.

In Latin America, Colombia entered the final phase of its presidential election cycle amid heightened political polarisation and strong campaign activity. The first-round vote confirmed a tightly contested race with no candidate securing a majority. Right-leaning candidate Abelardo de la Espriella led, followed by Iván Cepeda, setting up a second-round run-off on 21 June. Market reaction was supportive, with Colombian 2037 bonds opening 1.97% higher at 104.17, reflecting optimism around a potentially more market-friendly policy trajectory as right-wing candidate Espriella polled better than expected.

**Looking ahead** Attention turns to upcoming central bank meetings in Poland and India, where both are expected to maintain policy rates unchanged.

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