In Credit

2 February 2026

Fool’s gold

We’ve seen extraordinary moves in precious metals recently. The same can’t be said for Bitcoin. Elsewhere, a new US Federal Reserve chair was proposed by President Trump and rates were on hold. Read on for a breakdown of fixed income news across sectors and regions.

Chart of the Week

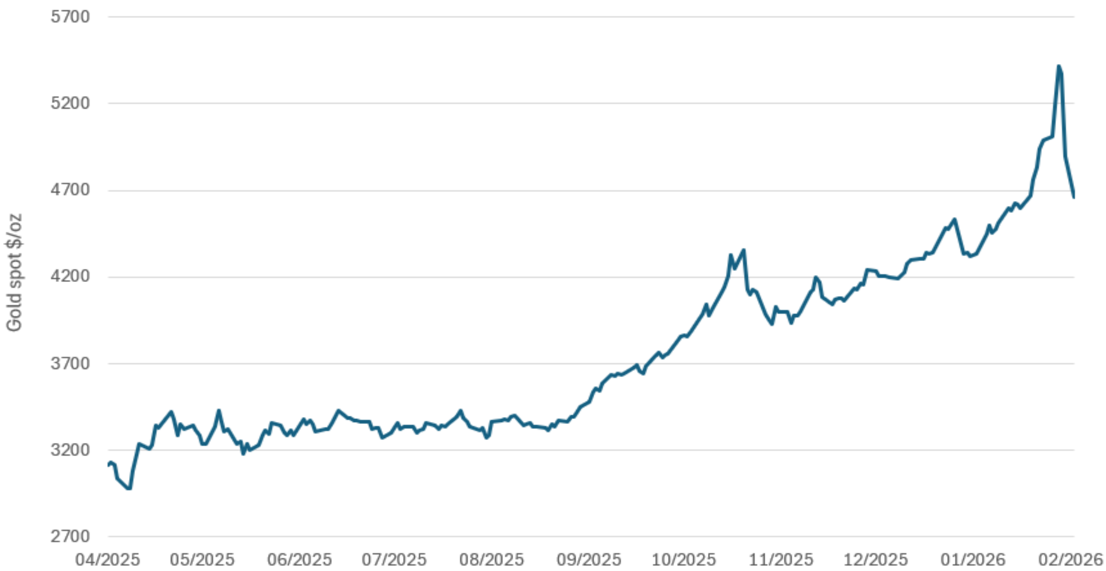
Gary Smith,
Head of Client Portfolio Management team, Fixed Income, EMEA

Gold recorded its biggest one-day decline since 2013 – 8.95% – on Friday. Its good friend silver saw its largest daily fall since 1980 – 26.3%. These are extraordinary moves.

Bear in mind that silver (+18.9%) and gold (+13%) still showed fantastic performance in January despite the final day collapse. If the fragile geopolitical environment is underpinning the price, we should observe that the aircraft carrier USS Abraham Lincoln is now off the coast of Iran.

We also note with interest that Bitcoin is down about 14% so far in 2026 and about 40% below its October 2025 peak (a level last seen in November 2024). Digital gold? That comparison is a nonsense, since over that same 15-month period gold has doubled in price. What an incredible start to the year.

Gold price (April 2025-February 2026)



Source: Bloomberg, February 2026

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.27%	5 bps	0.0%	0.0%
German Bund 10 year	2.87%	-4 bps	0.4%	0.4%
UK Gilt 10 year	4.51%	-1 bps	-0.1%	-0.1%
Japan 10 year	2.24%	-1 bps	-1.3%	-1.3%
Global Investment Grade	75 bps	1 bps	0.5%	0.5%
Euro Investment Grade	72 bps	-1 bps	0.8%	0.8%
US Investment Grade	75 bps	2 bps	0.4%	0.4%
UK Investment Grade	64 bps	0 bps	0.3%	0.3%
Asia Investment Grade	107 bps	1 bps	0.1%	0.1%
Euro High Yield	280 bps	7 bps	0.7%	0.7%
US High Yield	288 bps	20 bps	0.5%	0.5%
Asia High Yield	392 bps	-8 bps	2.0%	2.0%
EM Sovereign	223 bps	-2 bps	0.6%	0.6%
EM Local	5.9%	-2 bps	2.2%	2.2%
EM Corporate	224 bps	-2 bps	0.7%	0.7%
Bloomberg Barclays US Munis	3.5%	-4 bps	0.9%	0.9%
Taxable Munis	4.9%	-1 bps	0.0%	0.0%
Bloomberg Barclays US MBS	16 bps	-3 bps	0.4%	0.4%
Bloomberg Commodity Index	290.79	1.0%	10.4%	10.4%
EUR	1.1788	0.2%	0.9%	0.9%
JPY	155.65	0.6%	1.3%	1.3%
GBP	1.3659	0.3%	1.6%	1.6%

Source: Bloomberg, ICE Indices, as of 30 January 2026. *QTD denotes returns from 31 December 2025.

Macro/government bonds

Simon Roberts
Product Specialist, Global Rates

Last Friday, US president, Donald Trump, nominated Kevin Warsh as the new Federal Reserve (Fed) Chair, although this has still to be approved by the Senate. Warsh, a former Fed governor, is widely regarded as a safe pair of hands by the market.

Although Warsh is unlikely to have been nominated by Trump without a willingness to consider additional rate cuts, he has frequently expressed views that the Fed balance sheet has become too large. The prospect of balance sheet reduction created upward pressure on long-end yields. The US two-year fell by 7 basis points (bps) last week while the US 30-year rose 5bps.

The Fed kept rates on hold at 3.75% with two dissenters voting for a rate cut. The outgoing chair, Jay Powell, painted a picture of a resilient economy, and one in which the impact of tariffs is working its way through. He also made the point that much of the work had been done in terms of normalising US monetary policy. The market consensus is for rates to remain on hold until the second half of the year.

Elsewhere, eurozone bond yields came under downward pressure with the German 10-year falling by 6bps. Sluggish economic growth, relatively quiescent inflation and a stronger euro have raised questions as to whether a further rate cut may be required by the European Central Bank. In the UK and Japan there was relatively little change in bond yields.

Positioning There were no major changes to rates positions last week. We continue to trade market ranges in core markets and maintain a yield curve steepening bias.

Investment grade credit

Charlotte Finch,
Client Portfolio Manager, Investment Grade Credit

Spreads were mostly flat on the week in core markets, ending a record January for new issuance in investment grade (IG). US IG corporate bond sales exceeded $200 billion for January, breaking previous records and ranking among the top five months ever. This surge occurred as borrowing premiums reached their tightest levels since 1998, following three consecutive years of declining spreads. Spreads in Global IG have already tightened a further 5% year-to-date. Financial institutions dominated issuance, comprising nearly 60% of sales, with overseas lenders, major Wall Street firms and regional banks leading activity. This saw Goldman Sachs complete a record $16 billion deal. Elsewhere, companies like AT&T and IBM also participated with significant offerings. According to Bloomberg, global bond issuance hit $930 billion, surpassing January 2024's record of $842 billion.

In corporate news, software company Oracle will bring $25 billion of IG-rated bonds as the next bumper AI-related sale. This will be the second largest amount seen since Meta Platforms issued $30 billion last year. Demand is expected to be high.

US high yield credit and leveraged loans

Chris Jorel,
Client Portfolio Manager, US High Yield

US high yield bond spreads widened over the week, albeit from near post-global financial crisis (GFC) lows, amid an expected hold from the Federal Open Market Committee and benign reaction to the nomination of the next Fed chair. Sector dispersion was high, as software underperformed materially on AI displacement concerns, widening 55bps and returning -2% over the week. The ICE BofA US HY CP Constrained Index returned -0.17% and spreads widened 12bps. According to Lipper, US high yield bond retail funds saw a modest $233 million inflow, the first in three weeks.

US leveraged loan prices declined over the week as those accelerating losses in the software sector weighed on prices (software represents 13% of the S&P UBS Leveraged Loan Index). The average loan price declined $0.7 to $95.2, with software-specific loans declining $2. Floating rate funds saw their fifth consecutive inflow, with $234million contributed over the week.

European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

European high yield (EHY) finished the last week of January with a modest return (+0.03%) and some decompression, with BBs the only positive rating band, outperforming both Bs and CCCs, which produced negative returns. Yields were almost unchanged at 5.7% (-2bps) while spreads widened +7 bps to 280bps. Despite this, January's returns were solid – +0.73% for the market, with CCCs having a good start to the year, outperforming on the month with a return of 1.6% compared to lower Beta credit.

Demand for EHY was soft, with outflows for the first time in six weeks. This was led by managed accounts, although ETFs also experienced outflows.

However, it was the second highest primary week recorded, bettered only by 2020, with nine new corporate issues amounting to more than €6 billion. This takes the year-to-date gross issuance for corporates to €16 billion – up more than 50% year-on-year. New issues were overall very well received, with one offering tightening in by 100bps. There was one exception to this positive view of the primary market – Virgin Media had to widen away from initial price talk due to low interest.

We saw the first fallen angel of 2026 with the downgrade of SES Global by Fitch, bringing the telecommunications firm into the HY universe.

It should be noted that last week's softness in technology stocks and bonds hit the US HY universe more than EHY – the latter has less than 4% in technology and software versus more than 12% in the former.

Structured credit

Kris Moreton,
Client Portfolio Manager, Structured Credit

The US Agency Mortgage-backed Securities (MBS) sector outperformed last week with a 19bps total return. We saw the five-year agency MBS outpace the 30-year as the curve bear steepened. Lower coupons benefitted with spreads tightening most at the bottom of the coupon stack.

News for the sector surrounded the nomination of Kevin Warsh to succeed Jerome Powell as Chair of the Board of Governors of the Fed. Warsh was a member of the Fed from 2006-11, serving as a key partner to then-chair Ben Bernanke in navigating policy through the GFC. More recently he has been in the camp that thinks rates are too high, even though inflation is above target, and that the Fed's balance sheet is too big. These views align well with the Trump administration.

It is in the balance how this eventual Fed Chair could impact agency MBS credit spreads. Fannie Mae and Freddie Mac buying mortgages – as directed by the president – is a strong positive, while the Fed possibly reducing its holdings is a negative. We saw a bit of that negative view in last week's price action. Overall, valuations are becoming more challenged, although the tone remains relatively strong. The same can be said for non-agency residential mortgages where deals are two to three times oversubscribed and spreads continue to tighten, even amid heavy supply.

Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income

In Hong Kong, following speculation that Blackstone might acquire control of property firm New World Development (NWD) from CTFE, NWD issued a stock exchange clarification stating that none of its ongoing discussions with potential investors would trigger a general offer for NWD shares. CTFE currently holds around 45% of NWD. Under Hong Kong's Takeovers Code, any person or group acting in concert that acquires 30% or more of voting rights in a listed company must make a general offer to remaining shareholders. In essence, NWD is confirming that CTFE will retain control. Regardless, the focus will likely remain on asset disposals and possibly additional liability management exercises targeting perpetual securities. NWD may also consider selling a partial stake to external investors while CTFE maintains its controlling position.

Tech business SK Hynix delivered strong Q4 results and a positive outlook for 2026 while maintaining its net cash position. Capital expenditure will increase, though management remains committed to disciplined spending. For 2026, SK Hynix has secured full customer demand for its entire DRAM and NAND data/memory production capacity, with high bandwidth memory supply expected to remain tight through 2027. In Q1, DRAM shipments are expected to remain flat quarter-over-quarter despite typical seasonal weakness, reflecting strong demand constrained by limited supply. NAND shipments are projected to decline somewhat following robust 4Q25 performance. The company plans to maximise production within physical space constraints and technology migration complexity.

Chinese property stocks rallied on reports that the Three Red Lines (3RL) policy may be eased. Introduced in August 2020, the policy established three financial ratio thresholds: unrestricted cash to short-term debt above 1x; net debt to equity below 100%; and liabilities to assets below 70%. Companies were categorised as either Green (passing all three), Yellow (failing one), Orange (failing two) or Red (failing all three). The policy's rigid framework contributed to rapid credit tightening and exacerbated the liquidity crisis in the property sector. It also failed to fully capture short-term liquidity health given developers' reliance on presales and off-balance sheet financing. While easing 3RL would be positive for sentiment, domestic lenders have already been using broader credit and risk assessments beyond these metrics. Sustained improvement in developer financial positions requires meaningful reopening of funding channels for the sector.

Lastly, in Korea LG Energy Solution (LGES) provided 2026 guidance targeting up to 20% year-on-year revenue growth. This implies approximately KRW28 trillion in revenue driven primarily by the energy storage system (ESS) business. An operating profit margin is targeted in the mid-single-digit range, suggesting approximately KRW1.4-1.7 trillion. This represents modest margin expansion from 5.7% in 2025, reflecting an improved product mix towards higher-margin ESS and small battery applications, along with manufacturing efficiency gains.

Emerging markets

Omotoke Joseph,
Product Specialist, Emerging Market Debt

Emerging market (EM) sovereign debt delivered a modest gain of around 0.15% in the final week of January, with corporates returning 0.19% on continued high yield strength. Local currency markets performed well, returning 1.32% as the US dollar continued to soften.

Geopolitics contributed to volatility. Trump announced an increase in tariffs on South Korean imports to 25%, accusing Seoul of “not living up” to last year’s trade agreement. Despite high-level discussions in Washington later in the week, no meaningful breakthrough was reached. The South Korean 10-year bond price fell around 0.4%. India also drew attention following the announcement of its first major trade deal with a developed-market bloc, the EU. Indian government bonds remained broadly stable following the announcement.

In Latin America, Costa Rica’s ruling-party candidate, Laura Fernández, secured a first-round presidential election victory with 48% of the vote, avoiding a runoff. Her party achieved a simple legislative majority, which is sufficient for budgets and tax measures but not for eurobond approvals. Market reaction was supportive but muted, with 2045 spreads just 2bps tighter.

Finally, in Africa, Ethiopia moved back into focus as the country was forced to restructure its US$1 billion eurobond last Friday after the official creditor committee rejected previously proposed terms. Ethiopian sovereign spreads widened around 2bps after the announcement. Markets await clarity on how any revised agreement may differ from the original structure.

Fixed Income Asset Allocation Views

2nd February 2026

Strategy and positioning (relative to risk free rate)		Views	Risks to our views
Overall Fixed Income Spread Risk	Under-weight -2 -1 0 +1 +2 Over-weight	▪ Spreads remain very tight across nearly all sectors and current valuations leave limited upside to returns in most areas. ▪ US macroeconomic growth fundamentals remain solid around 2.5 – 3%, though employment growth has slowed. The Fed delivered another 25bp cut in December. ▪ **The group maintained a moderately underweight view on credit risk, with no changes to their underlying sector views.**	▪ There's expectations for the Federal Reserve to pause rate cuts in Q1 2026, given the conflicting signals between stable inflation and deteriorating employment metrics. ▪ There's also expectations for fiscal policy to be supportive this year, starting with the MBS purchase program. ▪ Employment faces potential deterioration that could impact consumer-facing sectors.
Duration (10-year) ('P' = Periphery)	P ¥ € Short -2 -1 0 +1 +2 Long $ £ A$ CAD$	▪ Longer yields remain elevated as perma-loose fiscal keeps term premium in place. ▪ Inflation to continue to slowly normalise, although some sectors may remain sticky. ▪ Full tariff passthrough remains ahead in US, but shelter will continue to aid the Fed. ▪ Central Banks still predominantly searching for neutral, paths may diverge over coming quarters.	▪ Fiscal drives stronger growth, leading to rebounding inflation pressures. ▪ Central Banks shift focus to fighting inflation once more. ▪ Yields break higher and curves drive flatter as policy hikes get repriced.
Currency ('E' = European Economic Area)	£ € A$ Short -2 -1 0 +1 +2 Long EM ¥ $	▪ After tracking sideways vs the Euro in H2 2025, the dollar may face a challenge in 2026 if the ECB stays on hold (or even raises rates) and the Fed implements an easing process under new leadership.	▪ Central banks need to keep rates at terminal for much longer than market prices, to the detriment of risk and growth and to the benefit of the Dollar
Emerging Markets Local (rates (R) and currency (C))	Under-weight -2 -1 0 +1 +2 Over-weight R C	▪ US dollar weakness can enable EM currency performance. ▪ Inflation normalisation and currency strength allows EM central banks to stimulate domestic demand. ▪ Risk premium to leak out of local bond curves.	▪ Global risk aversion restores bid for US dollar. ▪ Weaker oil environment requires fiscal premium among exporters ▪ Higher global term premium.
Emerging Markets Sovereign Credit (USD denominated)	Under-weight -2 -1 0 +1 +2 Over-weight	▪ Sovereign and corporate spreads are back to cycle tights. Pockets of opportunity in BB credits and select quasi-sovereigns/corporates. ▪ Expecting an increase in issuance in 2026. EM growth has been stable with upgrades outnumbering downgrades; EM growth has been supported by strong Chinese exports. ▪ Technicals have been well supported with dollar weakening, US Federal reserve accommodation, and positive fund flows.	▪ US trade policy aggression strengthens USD against EM currencies. ▪ EM policy makers constrained by currency pressure; rates remain tight. ▪ Fiscal concerns leak into local risk premia.
Investment Grade Credit	Under-weight -2 -1 0 +1 +2 Over-weight	▪ Spreads remain near historically tight levels. ▪ Fundamentals remain strong with analysts predicting 2026 industrial leverage near decade lows and margins near all-time highs. Anticipating a jump in capital expenditures, largely from tech and utilities issuers.. ▪ The group is watching for strong 2026 supply, especially from M&A financing and AI infrastructure investment. Credit curves are likely to steepen from current flat levels.	▪ Tighter financial conditions lead to European slowdown, corporate impact. ▪ Rate environment remains volatile. ▪ Consumer profile deteriorates. ▪ Geopolitical conflicts worsen operating environment globally.
High Yield Bonds and Bank Loans	Under-weight -2 -1 0 +1 +2 Over-weight	▪ Spreads remain near historically tight levels. ▪ 3Q earnings concluded on a positive note; Q4 earnings will focus on tariff impact assessment and AI implementation timelines. The group has added exposure in select battered industrials names as industry dispersion has increased. The group still sees pockets of good opportunity, especially in higher quality issuers. ▪ Despite Q4 defaults, the Loans LTM default rate fell to 2.87% in December, the lowest level in 2025.	▪ Lending standards continue tightening, increasing the cost of funding. ▪ Default concerns are revised higher on greater demand destruction, margin pressure and macro risks ▪ Rally in distressed credits, leads to relative underperformance ▪ Volatility in the short end of the curve, eroding potential upside where we are positioned for carry.
Agency MBS	Under-weight -2 -1 0 +1 +2 Over-weight	▪ Spreads have tightened in the past week as federal government began a new MBS purchase program. The value proposition for Agency MBS has waned but carry and convexity still offer value. ▪ Outlook for 2026 look modestly constructive. Falling mortgage rates accelerated prepayment speeds during Q4, though they are still muted. ▪ Technicals remain stable with REITS demand and increased GSE holding limits, but continued large scale government purchases will impact market balance.	▪ Lending standards continue tightening even after Fed pauses hiking cycle. ▪ Fed fully liquidates position. ▪ Market volatility erodes value from carrying. ▪ More regional bank turmoil leads to lower coupons to underperform.
Structured Credit Non-Agency MBS & CMBS	Under-weight -2 -1 0 +1 +2 Over-weight	▪ The group maintains a large allocation of high-quality carry positions. ▪ RMBS: Spreads have been range-bound. Delinquencies remain low and home equity is at the highest levels ever. ▪ CMBS: Stress continues with the highest delinquencies in office, but multi-family is elevated. Seeing differentiation depending on property type. ▪ CLOs: AAAs are modestly attractive for a defensive high-quality credit option. Extra spread compensation for taking on more credit risk is low. ▪ ABS: The group prefers higher quality, liquid securities. Fundamentals have deteriorated (60+ day delinquencies, debt service ratios, subprime sponsor risk) but not to a degree to affect bond performance, especially higher-quality tranches.	▪ Weakness in labour market ▪ Consumer fundamental position (especially lower income) weakens with inflation and Fed tightening. Consumer (retail/travel) behaviour fails to return to pre-covid levels ▪ Student loan repayments weaken consumer profile more than anticipated, affecting spreads on a secular level. ▪ High interest rates turn home prices negative, punishing housing market. ▪ Cross sector contagion from CRE weakness.

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