Information for investment professionals

In Credit

2 March 2026

Everybody wants to rule the world

With the attack of Iran, geopolitics is once again dominating proceedings. The big question for markets is what a prolonged crisis will do to oil and gas prices. Read on for a breakdown of fixed income news across sectors and regions.

Chart of the Week

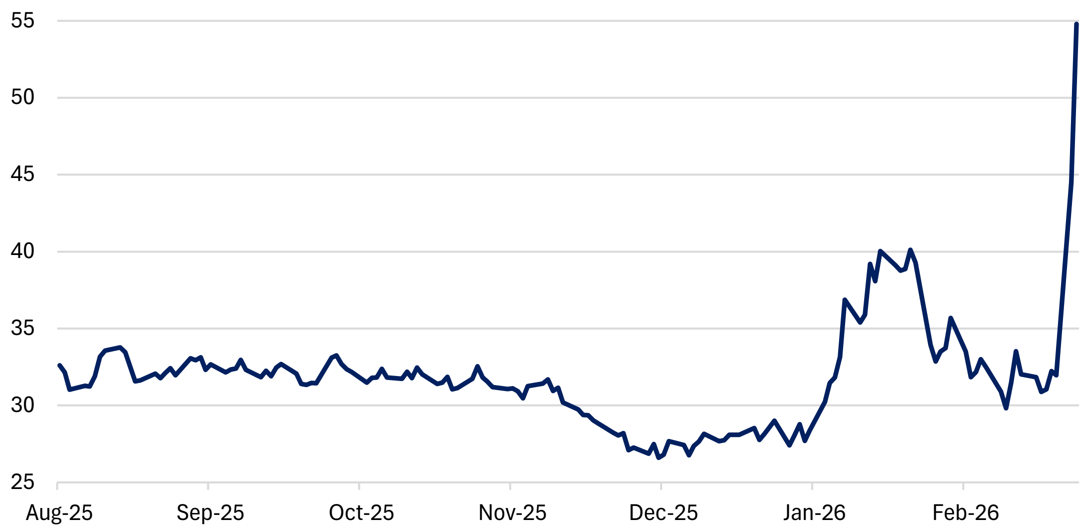
Gary Smith,
Head of Client Portfolio Management team, Fixed Income, EMEA

A retaliatory response from Iran to the Israel/US attacks have effectively closed the Strait of Hormuz – at least for the time being. Oil prices have jumped 7% and natural gas prices for European delivery have spiked by around 30%, with Qatari exports of liquefied natural gas (LNG) halted.

It appears the conflict will last longer than the “12-day war” of June 2025, which will pose greater risks for global inflation and potentially lead to tighter financial conditions and a possible ratchet higher in bond yields.

Finally, we note that China is a very large customer of both Venezuelan and Iranian oil. A pause to these supplies could create an economic chokepoint for China, which might make the Trump/Xi summit in April an interesting meeting.

European natural gas futures (€/MWh)



Source: Bloomberg, March 2026

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	3.97%	-11 bps	1.9%	1.9%
German Bund 10 year	2.66%	-8 bps	1.8%	1.8%
UK Gilt 10 year	4.32%	-3 bps	2.4%	2.4%
Japan 10 year	2.09%	-3 bps	0.2%	0.2%
Global Investment Grade	85 bps	7 bps	1.5%	1.5%
Euro Investment Grade	82 bps	6 bps	1.3%	1.3%
US Investment Grade	86 bps	8 bps	1.6%	1.6%
UK Investment Grade	70 bps	3 bps	1.6%	1.6%
Asia Investment Grade	120 bps	5 bps	1.2%	1.2%
Euro High Yield	291 bps	14 bps	1.1%	1.1%
US High Yield	312 bps	26 bps	0.6%	0.6%
Asia High Yield	402 bps	5 bps	2.7%	2.7%
EM Sovereign	236 bps	14 bps	2.0%	2.0%
EM Local	5.8%	-1 bps	3.5%	3.5%
EM Corporate	242 bps	8 bps	1.7%	1.7%
Bloomberg Barclays US Munis	3.3%	-4 bps	2.2%	2.2%
Taxable Munis	4.6%	-11 bps	3.0%	3.0%
Bloomberg Barclays US MBS	21 bps	2 bps	2.1%	2.1%
Bloomberg Commodity Index	318.94	1.7%	11.6%	11.6%
EUR	1.1712	0.2%	0.6%	0.6%
JPY	157.08	-0.6%	0.4%	0.4%
GBP	1.3340	0.0%	0.1%	0.1%

Source: Bloomberg, ICE Indices, as of 27 February 2026. *QTD denotes returns from 31 December 2025.

Macro/government bonds

Simon Roberts
Product Specialist, Global Rates

US 10-year yields declined 15bps last week to 3.94%, below the psychologically important 4% barrier. There was no fundamental catalyst for this downward pressure, with data sending mixed signals on the state of the US economy. Rising geopolitical risk, however, appears to have triggered some covering of short positions.

On Saturday, Israel and the US attacked Iran, killing the Iranian supreme leader, Ali Khamenei. The bond market reaction was relatively contained, with the US 10-year yield around 3bps higher in early Monday trading. Oil rose 7% from $67 a barrel to $72 a barrel. The bigger question for the bond market is the longer-term impact of current events on this oil price and whether the Strait of Hormuz, through which 20% of the world's oil flows, can be kept open.

OPEC+, an alliance of major oil producing countries, agreed on Sunday to increase production from April, which should help limit upward pressure on prices – an important consideration for the Trump administration as it edges closer to the midterm elections in November.

In the UK, the governing Labour party came third to the Greens in a by-election in Gorton, Manchester. This suggests the UK political landscape continues to fracture on both the left and the right. Although Keir Starmer's position as prime minister was viewed as having weakened further, there was a muted impact on gilts.

Investment grade credit

Charlotte Finch,
Client Portfolio Manager, Investment Grade Credit

Core market spreads are now wider year-to-date, after a blustery end to February. Global investment grade (IG) spreads widened 7bps last week, but under the bonnet it was US and European IG indices that were the notable underperformers. Globally, the technology and insurance sectors have underperformed year-to-date, widening by almost 17% and 10% respectively. Energy and autos are broadly flat.

In corporate news, after a months-long bidding war Paramount Skydance Corp is set to acquire Warner Bros Discovery for $111 billion. This came as Netflix declined to improve its bid, saying a higher price "was no longer financially attractive". Netflix will receive $2.8 billion for the termination of its previous agreement, paid for by Paramount. Netflix shares jumped 13% in after-hours trading as investors welcomed the decision to avoid overpaying.

Elsewhere, French utility Engie will acquire UK Power Networks from CK Group for £10.5 billion. This is Britain's largest power-distribution network, which serves 8.5 million customers in London and south-east England. The mid-2026 deal will make UK Power Networks the second-largest earnings contributor for Engie, supporting grid expansion for renewables, electric vehicles and data centers.

US high yield credit and leveraged loans

Chris Jorel,
Client Portfolio Manager, US High Yield

US high yield (HY) bond spreads widened to year-to-date highs (+325bps) over the week, with AI disruption risk seemingly the primary driver. The ICE BofA US HY CP Constrained Index returned -0.24% and spreads widened 25bps. According to Lipper, US HY bond retail funds reported a third consecutive outflow with $406 million withdrawn over the week. Despite weakness towards the end of the month, US HY delivered its 11th consecutive monthly total return in February. The new issue market continued to function normally with $29 billion priced during the month.

After stabilising the prior week, US leveraged loan prices resumed their decline, closing out the month with a $0.8 decline. This leaves the average price of the S&P UBS Leveraged Loan Index slightly above one-year lows at $94.01. Software-related weakness and large fund outflows drove the price decline. Floating rate funds saw their largest outflows since Liberation Day with a $1.5 billion withdrawal for the week. Given their large software exposure, leveraged loans underperformed most other fixed income products in February, returning -0.82%.

European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

European high yield had a subdued finish in February. The asset class returned 0.02% as spreads widened 9bps to 286bps, while yields remained unchanged at 5.64%. It was also a week of outflows with €137 million redeemed from the asset class via both ETFs and managed accounts (although the former experienced the bulk of the exit). Following the half-term break, the primary market returned with €2.2 billion of largely BB-rated new issuance. This brings the year-to-date gross to €20 billion (net €9 billion).

Year-to-date performance is now +1.1% with Euro BBs and Bs outperforming and CCCs continuing to lag, returning less than 50% of the lower Beta rating bands. This was not helped by a negative CCC performance in February.

AI concerns continue to rattle markets with software companies still in the firing line. However, with software-related corporates accounting for only 3.5% of European HY, it has the lowest percentage weight compared to other asset classes, eg private credit (18%) or loans (10%).

As to the newest market worry – the Iran conflict – the most immediate effect of the US-Israel attack on Iran has been the underperformance of airline hybrids given the halt of flights to and from the region.

Structured credit

Kris Moreton,
Client Portfolio Manager, Structured Credit

Overall, structured products experienced a quieter week due to the SFIG conference. Feedback from the event highlighted strong fundamentals, with investors showing increased preference for residential credit, and particularly non-agency products supported by solid housing fundamentals and positive mortgage applications (+0.5% weekly). Asset-backed securities (ABS) markets focused heavily on software and digital infrastructure risks, with discussions centered on distinguishing between genuine risk factors versus obsolescence concerns amid ongoing AI disruption themes.

US Agency mortgage-backed securities (MBS) delivered a 59bps return for the week, with 30-year securities outperforming the 15-year as the curve flattened. Lower coupons outperformed amid spread widening at higher coupon levels. The GSE portfolio buying rally, which caused a 0.5-1 point uplift, has fully reversed, returning spreads to early 2026 levels. While 30-year spreads normalised to long-term averages, 15-year securities appear relatively attractive.

A topical headline this week was a story about a group of ABS bondholders filing a lawsuit against JP Morgan regarding Tricolor's underwriting practices. The bankrupt subprime auto lender allegedly operated a “double-pledging scheme”, using single auto loans as collateral for multiple warehouse credit lines across different banks, often continuing after loan securitisation. Put more simply, the lawsuit cites that warehouse audits from 2022-2024 revealed cash-flow reconciliation issues and loan misclassifications. This story will likely unfold over multiple months, but plaintiffs claim these practices resulted in losses of hundreds of millions.

In Commercial MBS, AAA spreads remained stable across the capital stack. New issuance totalled $1.4 billion across two deals last week. Although year-to-date issuance has been light, around $38 billion is expected in the March pipeline, suggesting increased activity ahead.

Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income

The JACI posted a +27bps return last week, with lower rates (+41bps) offsetting wider spreads (-14bps). JACI IG returned +28bps, while HY delivered +18bps.

Shanghai has further eased its home-purchase rules by allowing non-residents who have paid social security contributions or individual income taxes for a year to buy homes in urban areas. Previously, they were required to provide three years of payments. This continues the trend observed since the second half of last year when Tier-1 cities, including Beijing, Shanghai, Guangzhou and Shenzhen, began loosening restrictions.

Technology business Baidu reported a soft Q225, though its core AI business continued to grow strongly. The company stopped separately disclosing legacy online-marketing revenue and redefined Baidu Core as "Baidu General Business". This includes traditional advertising and AI-powered businesses. Group Q4 revenue was CNY32.7 billion, supported by a 16.7% quarter-on-quarter rise in AI-powered revenue. EBITDA weakened due to declining ads and higher costs. Final year results reflected similar pressure: revenue was down 3% and EBITDA down 31%. Cash flow deteriorated and free cash flow (FCF) turned negative as Baidu launched a US$5 billion buyback program.

Leisure business Genting Singapore reported a weak Q425 and final year as it underwent a transition period with the ramp-up of Resort World Singapore attractions. Heavy capex (around SGD5 billion) will continue from 2026-2030, keeping FCF (after dividends) negative despite stronger contributions from new facilities. Final year revenue fell 3% while EBITDA dropped 15% due to lower gaming win rates and higher operating costs. Liquidity remains strong at SGD3.2 billion.

Emerging markets

Omotoke Joseph,
Product Specialist, Emerging Market Debt

The US/Israeli strikes on Iran over the weekend have dominated market attention. Previous episodes, such as the US attacks on Iran's nuclear facilities in June 2025, generated volatility that quickly receded. This latest development is less contained and has had a wider regional impact, underscored by Iran's retaliatory strikes on US-aligned states.

While market reaction has been negative, it is broadly orderly. Regional investment grade credits were around 5bps-10bps wider as of the start of the week, while names with weaker fundamentals or higher oil import dependence (Bahrain, Jordan and Egypt) are 20bps-30bps wider.

The medium- to long-term implications for EMD valuations will depend on how long the conflict persists. A rapid collapse of the Iranian regime, or swift de-escalation that limits attacks on Gulf Cooperation Council states and disruption to the Strait of Hormuz would likely normalise oil prices and regional risk premia. Conversely, prolonged Iranian resistance and regional instability could see a more sustained risk premium across credit and energy markets.

In the near term, EMD performance will be closely linked to two external drivers: first, the soft US dollar; and second the trajectory of oil prices. Sensitivity to oil varies markedly across emerging markets. For Middle Eastern exporters, higher oil prices provide fiscal and external support that will partially offset heightened geopolitical uncertainty. For oil importers, particularly in Asia, the consequence is more challenging.

Outside of the US-Iran conflict, several market-relevant developments unfolded over the week. Fitch downgraded Bahrain from B+ to B, citing expectations that government debt-to-GDP will continue to rise despite the implementation of fiscal consolidation measures. In Africa, Egypt secured $2.3 billion in IMF funding following successful programme reviews. However, investor confidence remains fragile given the broader US-Iran backdrop. In LATAM, Paraguay issued the equivalent of US$1 billion in local currency bonds, with demand exceeding the placed amount by 1.5 times. The issue priced at 8.5%, below the 9.1% achieved for similar local government bonds in November 2025.

Responsible investments

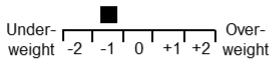
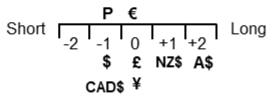
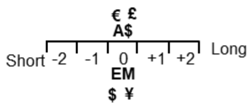
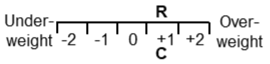
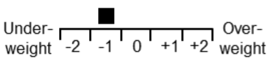
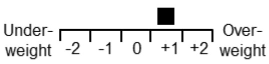
Charlotte Finch,
Client Portfolio Manager, Investment Grade Credit

Last week, three issuers disclosed that they had failed to meet sustainability targets linked to their outstanding sustainability-linked bonds (SLBs). Air France-KLM, Accor SA, and Ampol all missed emissions goals, triggering financial penalties through increased coupons and higher redemption prices. According to Bloomberg, nearly 250 SLBs reached their 2025 target dates. The market, which peaked at $100 billion in 2021, has contracted significantly to $33 billion in 2025, reflecting waning momentum in this debt structure.

Air France-KLM fell short of its target to reduce jet fuel emissions by 10% compared to 2019 levels. The airline attributed this to supply-chain constraints, engine issues with newer aircraft, and longer flight times resulting from geopolitical disruptions. The missed target will cost the airline €7.5 million in additional payments across two bonds, though this represents a modest penalty relative to the company's overall financial position.

Fixed Income Asset Allocation Views

2nd March 2026

Strategy and positioning (relative to risk free rate)		Views	Risks to our views
Overall Fixed Income Spread Risk		▪ 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 and key labor tensions persist. ▪ **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)		▪ 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)		▪ 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))		▪ 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)		▪ Sovereign and corporate spreads are back to cycle tights. Pockets of opportunity in BB credits and select quasi-sovereigns/corporates. ▪ Record issuance in January across sovereigns and corporates signals HY markets fully open. EM growth run rate holding in well supported by strong Chinese exports, with upgrades outnumbering downgrades. ▪ Technicals have been well supported with dollar weakening, US Federal reserve accommodation, and positive 2026 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		▪ Spreads are at historically tight levels…at the 1st percentile of the last 25 years. ▪ Fundamentals remain solid with 4Q earnings coming in better than expectations. ▪ Expectations for a strong 2026 supply have increased again with over $600 billion coming from just 4 companies. This surge in supply is coming from the technology and utilities sectors, propelled by AI infrastructure investment. ▪ Credit curves are likely to continue their steepening path given increased capital expenditure and M&A funding needs.	▪ 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		▪ Spreads remain near historically tight levels, especially for BBs. ▪ 4Q earnings have been within expectations so far. The uncertainty of AI's impact on software and tech-affiliated industries has become a major theme, though no concrete impact is expected in the short term. The group has added exposure in select high quality battered names as industry dispersion has increased. ▪ Loan market default rate fell to 2.78% in January, down 9bps from December.	▪ 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		▪ Spreads significantly tightened in January following President Trump's announcement of a $200 billion buying program, effectively pulling forward a year's worth of support into prices. The value proposition has shifted but carry and convexity still offer value. ▪ Outlooks 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; the buying program shifted the market from reducing to maintaining Agency MBS.	▪ 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		▪ The group maintains a large allocation of high-quality carry positions. ▪ RMBS: Spreads have been range-bound. Delinquencies have been stable and housing activity remains near historic trough on a population-adjusted basis. ▪ CMBS: AAA spreads at multi-year tights; availability of credit continues to improve for quality loans. Expectations for 2026 CMBS supply to set new post-GFC record. ▪ CLOs: New year started with resurgence of repricing activity; BB spreads repriced wider in sympathy with Tech concerns while senior tranches mostly unchanged. ▪ ABS: Spreads have continued to narrow across sectors and delinquencies have been mostly stable. The group prefers higher quality, liquid securities.	▪ 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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