In Credit

5 January 2026

Leaving on a jet plane

A spectacular start to 2026 saw the Venezuelan president whisked off to jail in the US, which caused a spike in bond prices. We wrap up the end of 2025 and focus on what's to come in 2026. 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

It is somewhat unlikely that his bags were packed, or that he was ready to go, but (ex) Venezuelan president, Nicolás Maduro, is now in prison in New York. His departure from Caracas was spectacular, and the consequences could reverberate for months if not years.

US president, Donald Trump, said America was "essentially willing to do what we think is necessary to make Venezuela great again". No doubt Beijing and Moscow have taken careful note of both US military excellence, but also the fact that consultation – either with Congress or the UN – was not deemed necessary.

The price of Venezuelan bonds had already appreciated significantly through most of 2025 on hopes of an eventual debt restructuring, and jumped sharply yesterday with the potential date for that event perhaps now moving closer.

Venezuela 2027 bond price (US dollar)

Source: Bloomberg, as of January 2026.

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.17%	4 bps	0.0%	0.0%
German Bund 10 year	2.89%	3 bps	-0.3%	-0.3%
UK Gilt 10 year	4.51%	1 bps	-0.4%	-0.4%
Japan 10 year	2.13%	8 bps	0.0%	0.0%
Global Investment Grade	80 bps	1 bps	-0.1%	-0.1%
Euro Investment Grade	80 bps	3 bps	-0.2%	-0.2%
US Investment Grade	79 bps	0 bps	-0.1%	-0.1%
UK Investment Grade	68 bps	4 bps	-0.3%	-0.3%
Asia Investment Grade	116 bps	-3 bps	-0.1%	-0.1%
Euro High Yield	292 bps	9 bps	-0.1%	-0.1%
US High Yield	283 bps	-3 bps	0.0%	0.0%
Asia High Yield	422 bps	-35 bps	0.1%	0.1%
EM Sovereign	230 bps	-4 bps	-0.1%	-0.1%
EM Local	5.9%	-3 bps	0.2%	0.2%
EM Corporate	236 bps	-6 bps	0.0%	0.0%
Bloomberg Barclays US Munis	3.6%	-1 bps	0.0%	0.0%
Taxable Munis	4.8%	4 bps	-0.3%	-0.3%
Bloomberg Barclays US MBS	23 bps	2 bps	-0.2%	-0.2%
Bloomberg Commodity Index	279.93	-2.6%	-0.1%	-0.1%
EUR	1.1686	-0.5%	-0.2%	-0.2%
JPY	156.76	-0.2%	-0.1%	-0.1%
GBP	1.3456	-0.3%	-0.1%	-0.1%

Source: Bloomberg, ICE Indices, as of 2 January 2026. *QTD denotes returns from 31 December 2025.

Macro/government

Simon Roberts
Product Specialist, Global Rates

The final week of the year was marked by thin liquidity in a holiday-shortened week. Two-year yields in the core markets of the US, Germany and the UK were broadly unchanged, while yields drifted higher by 3bps-6bps at the 10-year point. Japan was the outlier with the two-year yield rising by 7bps in anticipation of tighter monetary policy.

Data was relatively sparse. We received the US Federal Reserve (Fed) minutes from its December meeting, which emphasised their greater focus in supporting the labour market as inflation risks have diminished. We also had manufacturing PMI data, which contrasted a moderate expansion in the US with more sluggish activity in the UK and the eurozone.

The return from bonds over the past 12 months has been mixed. In local currency terms, US government bonds returned 6%, UK government bonds 5%, German government bonds -1.48% and Japanese government bonds -6.25%.

Two big themes impacted global bond markets in 2025. First, outright yield movements in the major bond markets – with the exception of Japan – were relatively modest. Second, yield curves steepened as market participants looked at the prospect of greater fiscal expansion and demanded greater term premia for holding longer-dated securities. Relative Value strategies, rather than directional strategies, became a more important alpha driver during 2025. At Columbia Threadneedle Investments, we were able to add significant value to relative return and unconstrained mandates through relative value interest rate strategies.

Over the weekend, the US arrest of Venezuelan leader, Nicolás Maduro, and his wife, Cilia Flores, reinforced the perception that we have taken a step further away from a global rules-based order. The impact on US Treasuries in early trading on Monday morning was relatively muted with yields 1bps-2 bps lower across the US Treasury curve.

Investment grade credit

Charlotte Finch,
Client Portfolio Manager, Investment Grade Credit

Over the Christmas and new year period, the global investment grade (IG) market maintained steady spread levels. US IG credit showed modest tightening in 2025 of just 3bps, while sterling non-gilt spreads delivered a more notable 13bps compression. Euro IG spreads performed well, achieving a solid 23bps of tightening.

Market participants expect high issuance volumes throughout January, particularly in US credit markets. This will likely be driven by continued artificial intelligence infrastructure investments and renewed market activity following the holiday period. While upcoming new issuance may present attractive investment opportunities, market participants remain watchful regarding potential spread widening should unfavorable macroeconomic developments emerge. Such concerns may result in an uptick in activity in credit default swap positioning.

US high yield credit and leveraged loans

Chris Jorel,
Client Portfolio Manager, US High Yield

US high yield (HY) bond valuations were largely stable in December with continued demand for the asset class and supportive macroeconomic data resulting in a risk-on tone within corporate credit. The ICE BofA US HY CP Constrained Index returned 0.64% in December, while spreads tightened 12bps. This boosted 2025's total return to 8.55%. According to Lipper, US HY bond retail funds saw $20 billion of inflows over the course of 2025 compared to $16 billion in 2024. Continued inflows helped offset a 15% year-on-year increase in new issuance over the year.

US leveraged loan prices were unchanged in December as investors assessed a well-telegraphed Fed cut and fund outflows remained manageable. The S&P UBS Leveraged Loan index average price was unchanged at $96. This resulted in a total return of 5.94% for 2025 for the asset class, lagging most other fixed income options given the lack of duration benefit. Floating rate funds saw modest outflows through year-end, leaving year-to-date net flows at a modest $2.6 billion.

We continue to have a constructive view of the fundamentals for the average leveraged credit company. We believe defaults will see only a modest increase from current levels for HY issuers, against a continued modest decline in leveraged loan defaults. Importantly, we have not seen the aggressive corporate behaviour that often precedes a meaningful or sustained spread widening environment. We believe this backdrop will be supportive to valuations and the probability of a sustained and material widening event across the breadth of the HY market is low.

European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

The European high yield (EHY) market finished December and 2025 with a tightening of 16bps to 287bps for the month (and just 2 bps of tightening for Q4). The yield-to-maturity was basically unchanged at 5.81% for December, with the yield to worst 7bps lower at 5.35%. As a result, December showed a return of 0.4%, Q4 was 0.5% and 2025 in total was 5.25% – so, basically a coupon clipping return year. Market bifurcation continued with BBs and Bs outperforming while CCCs continued showing negative performance (-0.4% for December and -4.3% for Q4).

December flows were net positive, despite net outflows in the last two weeks of the month, with net €675 million inflows for the month via both ETFs and managed accounts. This brings the 2025 net inflow to €9.52 billion. Given the holiday period, December's new issuance was only €3 billion bringing the year's gross issuance to €135 billion (with net issuance at €38 billion). This was an improvement on 2024's net issuance of €21 billion and above 2018 and 2019.

Positive comments from the market suggest an increasingly robust primary market for 2026 with the pipeline potentially reaching a three-year high. There are already indications of possible new issuance of €31 billion for Q1, with 30% of that coming to the market in January. Even more interesting is the story that a third of that new issuance will be from new borrowers. This will help the EHY market to evolve into something more than a refinancing market.

In other market news, ZF reported disposals of €1.5 billion with the announcement of Samsung buying ZF Group's driver assistance business.

In rating news, CPI Property was downgraded by Moody's to Ba2 from Ba1, with the rating agency saying this reflected the slower than expected balance sheet deleveraging.

Structured credit

Kris Moreton,
Client Portfolio Manager, Structured Credit

The US agency mortgage-backed securities (MBS) sector was down 26 bps as the curve steepened last week. This saw 15-year mortgages outperform 30-years and spreads widen most at the bottom of the coupon stack. As the year ended, MBS spreads were still wide of long-term averages but by a much slimmer margin.

Taking a step back, 2025 was a terrific year for this high-quality sector. Total return for the year was 8.5%, beating the broad Bloomberg Aggregate Bond Index by roughly 130bps. This was achieved despite banks net reducing their holdings by roughly $57 billion – an outcome most investors did not expect. The primary positive catalyst was lower volatility: agency MBS outperformed credit and par coupons outperformed discounts. Also positive was the continued trend of negative net issuance in Fannie Mae and Freddie Mac mortgages. Government-sponsored Enterprise reform was all talk, but the appetite for higher allocations to MBS on balance sheets proved quite positive. The laggard across the sector was Ginnie Mae. This sector was negatively impacted by higher supply and faster speeds. Builder buydowns was also a theme as inventories rose and resulted in more discount coupons.

Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income

The JACI posted 10bps of total returns last week, helped by tighter spreads (a 19bps return), which compensated for higher rates (a 9bps loss). JACI IG posted returns of 7bps, trailing JACI HY (28bps return).

In China, the manufacturing PMI for December 2025 surprised to the upside with a print of 50.1. This was a 0.9pt increase month-on-month and was the first PMI expansion after eight consecutive months of weakness. The key driver was the recovery in manufacturing and construction through December. The National Development and Reform Commission (NDRC) and Ministry of Finance jointly issued a document on the consumer trade-in subsidy program for 2026. While there was no disclosure about its scale, the government will allocate CNY62.5 billion for Q1. Annualised, this suggests around CNY250 billion for 2026. For comparison, China allocated around CNY150 billion in 2024 and CNY300 billion in 2025.

Several issuers are launching new bond issues in conjunction with tender offers for existing bonds that are maturing over the near term. SJM Holdings plans to issue five- or seven-year bonds to fund the tender offer for the SJMHOL '26s, while CAS Holding intends to issue a subordinated perpetual instrument to refinance an existing perpetual (callable in July 2026).

Emerging markets

Omotoke Joseph
Product Specialist, Emerging Market Debt

The weekend saw the arrest of Venezuelan leader, Nicolás Maduro, by the US. In what is a fast moving and uncertain situation, it is widely expected that the Venezuelan vice-president, Delcy Rodríguez, will comply with US administration demands. This would likely result in ruling party continuity – albeit with US guardrails.

The US may see this as a more controllable situation than an opposition government. US president, Donald Trump, has dismissed the possibility of placing key opposition figures such as María Corina Machado or Edmundo González at the helm. Moreover, we would guess that elections in the country might not happen until 2027.

In terms of oil production, Venezuela currently produces just under a million barrels per day (BDP). Production has been declining since the early 2000s, with a drastic drop from 2014-20. Production could increase by 300,000 BPD annually if significant investment is made. However, oil infrastructure is currently very poor, and it is thought it would take at least five years to reach 2.5 million BPD, which was Venezuela's production level prior to 2017 sanctions. Chevron, already operating in the country, is best positioned to ramp up quickly. Debt restructuring hinges on recognition of a new government, assistance from the International Monetary Fund (IMF), and partnership with bondholders. This could be years away.

There is a question mark over whether the IMF would recognise a non-democratically elected government. But the IMF is needed to both unlock funding and complete an Article IV mission to reassess economic data and forecasting. There has not been an Article IV mission in Venezuela since 2004 and data is severely limited. Bondholders need accurate data to agree to restructuring terms. We would expect any future restructuring would include an instrument that ties to future oil revenues.

Responsible investments

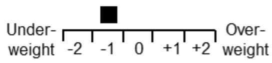
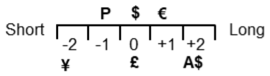
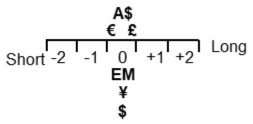
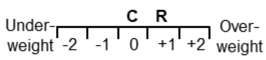
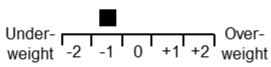
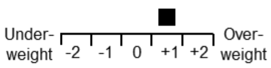
Charlotte Finch,
Client Portfolio Manager, Investment Grade Credit

Total issuance in green, sustainability and social bonds equated to just over $1 trillion in 2025, according to Bloomberg. Green bonds comprised around two-thirds of this total, with sustainability bonds around $230 billion and social bonds around $175 billion. The remainder consisted of the less commonly used transition and sustainability-linked bonds. Expectations are for 2026 levels to remain consistent or decline slightly. We also expect added volatility around sustainability-linked bonds as a large portion of current issuance will need to hit their target KPIs this year or face the consequence of a coupon step-up.

In the final days before Christmas, US president, Donald Trump, again hit out at the wind power sector by suspending leases for five wind farms currently under construction off the east coast of the US. Despite a federal judge ruling previous interruptions in 2025 as illegal, the US Interior Department proceeded with the development halt. It cited a national security threat as justification based on its assessment that the turbines would interfere with military and other radar systems. The timing was particularly unfortunate for workers who were told to go home without pay just before the holidays.

Fixed Income Asset Allocation Views

5th January 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 stable despite labor cooling. Policy and market outlook points to the Fed easing as inflation is moderating. ■ **The group maintained a moderately underweight view on credit risk, with no changes to their underlying sector views.**	■ Upside risks: the Fed achieves a soft landing with no labour softening; lower quality credit outlook improves as refinancing concerns ease; consumer retains strength; end to Global wars ■ Downside risks: Fed is not done hiking and unemployment rises, or the Fed pivots too early and inflation spikes. Restrictive policy leads to European recession. China property meltdown leads to financial crisis. 2024 elections create significant market volatility.
Duration (10-year) ('P' = Periphery)		■ Longer yields to be captured by long-run structural downtrends in real yields ■ Inflation likely to normalize over medium term, although some areas will see persistent pricing pressures ■ As markets have reduced the amount of cuts expected by the FED in 2025, we have used the back- up in yields to go long US duration	■ Inflationary dynamics become structurally persistent ■ Labour supply shortage persists; wage pressure becomes broad and sustained ■ Fiscal expansion requires wider term premium ■ Long run trend in safe asset demand reverses
Currency ('E' = European Economic Area)		■ Dollar has been supported by US growth exceptionalism and depricing of the Fed while the ECB looks set to embark on a cutting cycle. ■ Dollar likely to continue to be supported into year end, where a Trump presidency looks most likely, and with it a return to tariffs and America First policy.	■ 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 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)		■ Spreads have tightened to recent lows. Even after good performance, Emerging Markets offer a somewhat unique set of risks relative to other sectors. ■ EM High Yield and local currency bonds provide more value than EM Investment Grade, though this varies on an issuer-by-issuer basis. ■ The expected headwinds from tariffs have been smaller and more issuer specific, especially because the broad weakening of the US dollar has eased EM financial conditions.	■ 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		■ Valuations have widened about 10 basis points from September's historic tights. ■ Fundamentals remain strong, but the group is monitoring industry dispersion and low-end consumer weakness. 3Q earnings were above expectations. IG analysts are predicting industrial leverage near the lows of the last decade and margins near all-time highs. M&A activity has been increasing. ■ Technicals are modestly weaker this month, as AI-related hyperscaler issuance has come with meaningful confessions, impacting other high quality spread curves.	■ Tighter financial conditions lead to European slowdown, corporate impact. ■ Lending standards continue tightening, even after Fed pauses hiking cycle. ■ Rate environment remains volatile. ■ Consumer profile deteriorates. ■ Geopolitical conflicts worsen operating environment globally.
High Yield Bonds and Bank Loans		■ Valuations have widened about 35 basis points from September's recent tights. ■ 3Q earnings have been generally solid and the group has started to add exposure in select battered Industrials names. Despite the negative outlook on valuations, the group still sees pockets of good opportunity, especially in higher quality issuers. ■ Despite the First Brands default, the Loans LTM default rate fell to 3.3%, the lowest level in 2025. In general, the sector's fundamentals and technical remain solid.	■ 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 have tightened significantly but remain wide relative to other high-quality sectors. The group remains positive on Agency MBS because the carry and convexity are still attractive. ■ Falling mortgage rates accelerated prepayment speeds in October, though they are still muted. Technicals have improved as REITS stepped in and GSEs are permitted to increase holdings. ■ The Administration has signalled it wants to use Agency reform to lower mortgage rates and has floated launching a 50-year mortgage.	■ 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 widened with supply as credit curves have flattened. 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 increasing. New issue is plentiful but unattractive. ■ CLOs: AAAs are attractive for a defensive high-quality credit option, with spreads widening this month. Extra spread compensation for taking on more credit risk is low. ■ ABS: The group prefers higher quality, liquid securities. Fundamentals have deteriorated (60+ delinquencies are elevated, debt service ratios worsening) 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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