

6 July 2026

The long and winding road

Europe's biggest economies are slowly increasing defence spending, but a three-speed approach is emerging. Elsewhere, core markets bear steepened. Read on for a breakdown of fixed income news across sectors and regions.



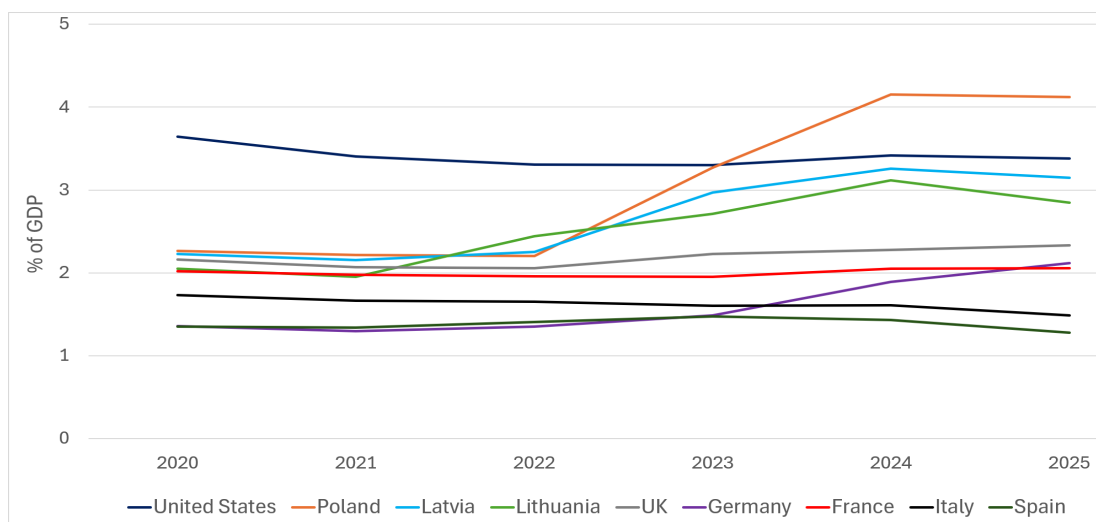
Chart of the Week

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

It will be a long and winding road for Europe to lift core defence spending to NATO's 3.5% of GDP target by 2035. The six largest European economies are likely to reach a GDP-weighted average of only 2.8% by 2029, although this would still be a marked increase from 1.7% in 2022 and 2.3% in 2025.

A NATO leaders' summit has begun against the backdrop of Donald Trump's recent criticism of the alliance around the Iran conflict. Even so, the summit is expected to advance the emerging "NATO 3.0" agenda, under which European members assume greater responsibility for their own conventional defence. A three-speed approach to defence spending is emerging across Europe. Poland is already at 4% of GDP, while the Baltic states are close to the 3.5% target. Germany is on course to reach it by 2030. France and the UK, who historically led Europe's defence capabilities, are set to move into the 2.5%-3.0% range but remain constrained by fiscal pressures. A third group, including Italy and Spain, looks unlikely to move much beyond the previous 2.0% target.

NATO members' defence spending as % of GDP



Source: Bloomberg, July 2026

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.46%	9 bps	-0.1%	0.3%
German Bund 10 year	2.93%	8 bps	-0.4%	0.7%
UK Gilt 10 year	4.78%	5 bps	-0.1%	-0.1%
Japan 10 year	2.83%	21 bps	-0.5%	-3.4%
Global Investment Grade	77 bps	-1 bps	-0.1%	1.1%
Euro Investment Grade	77 bps	0 bps	-0.1%	1.2%
US Investment Grade	75 bps	-2 bps	-0.1%	0.9%
UK Investment Grade	65 bps	0 bps	-0.1%	0.9%
Asia Investment Grade	105 bps	1 bps	-0.3%	0.9%
Euro High Yield	280 bps	0 bps	0.0%	2.1%
US High Yield	274 bps	-9 bps	0.1%	2.0%
Asia High Yield	374 bps	-8 bps	0.0%	3.5%
EM Sovereign	220 bps	-3 bps	-0.2%	2.6%
EM Local	6.1%	3 bps	0.4%	2.0%
EM Corporate	213 bps	-8 bps	0.0%	2.2%
Bloomberg Barclays US Munis	3.6%	0 bps	-0.1%	2.2%
Taxable Munis	5.1%	9 bps	-0.3%	1.0%
Bloomberg Barclays US MBS	24 bps	2 bps	-0.1%	0.9%
Bloomberg Commodity Index	319.28	0.1%	-0.1%	14.3%
EUR	1.1415	0.5%	0.1%	-2.6%
JPY	162.29	0.2%	0.7%	-2.9%
GBP	1.3336	1.1%	0.7%	-0.9%

Source: Bloomberg, ICE Indices, as of 3 July 2026. *QTD denotes returns from 30 June 2026.



Macro/government bonds

Simon Roberts
Product Specialist, Global Rates

Core fixed income markets bear steepened last week. The US two-year yield rose by 4bps, while the US 30-year yield increased by 12bps.

At the front end, the key driver of higher yields was an upside surprise in the JOLTS labour market survey, which increased market expectations of tighter monetary policy. Beth Hammack, senior US Federal Reserve (Fed) policymaker and Cleveland Fed President, reinforced the hawkish tone, noting that she had not yet seen evidence that current monetary policy was restraining the economy. A weaker-than-expected non-farm payrolls print on Thursday partially reversed the rise in US front-end yields. Ongoing concerns about the US fiscal outlook continued to push long-end yields higher.

Iran reiterated its determination to control shipping through the Strait of Hormuz, raising the prospect of higher energy and shipping costs.

In the UK, the 30-year yield rose by 7bps. While US Treasury price action partly explained the rise in long-end gilt yields, domestic political risk was another driver. Gilt investors are looking for greater clarity on the identity of the incoming chancellor and the implications for fiscal policy.

German 30-year yields rose by 10bps. The long end of the eurozone debt market remains under pressure from unfavourable fiscal dynamics. Germany plans to increase net borrowing to €118 billion in 2027. This is 7% more than projected in April and reflects weaker-than-expected tax revenues.

Japan was the weakest long-end market, with the 30-year yield rising 23bps. The sell-off mirrored yen weakness, as the USD/JPY exchange rate moved above 162, reigniting concerns that the Bank of Japan (BoJ) may be moving too cautiously in normalising monetary policy.

Portfolio activity We added to front-end duration, as we believe too much inflation risk premium is priced into valuations.



Liability driven investments (LDI)

Jan Willemsen,
Client Portfolio Manager LDI, Continental Europe

European long-dated rates have shown notable volatility over the past fortnight, with 30-year EUR swap yields – a key benchmark for European LDI investors – ultimately returning to mid-June levels around 3.19%. The initial decline from 3.17% to 3.07% reflected falling oil prices and optimism around Iran conflict resolution and partial reopening of the Strait of Hormuz. However, yields subsequently retraced these moves despite soft US June payroll data, as positive equity market sentiment and risk-on dynamics weighed on long-dated risk-free rates.

European sovereign spreads have remained range-bound, though with modest widening pressure. France, rated single-A since October last year, now trades 102bps over Bunds at the 30-year maturity – 5-10 bps wider than mid-June. Spain, previously a sovereign success story, has seen 30-year spreads widen approximately 5bp to be 48bps over Germany.

With oil prices stabilising, inflation expectations have held steady. Ten-year HICPx inflation swaps currently price 2.06% – marginally above the long-term target of the European Central Bank (ECB). We view levels below 2% as attractive entry points for European pension schemes to establish inflation hedges, given they trade below the ECB's target amid persistent long-term inflationary pressures. Market pricing for ECB policy has moderated significantly, with only one additional 25bp hike now expected through year-end versus two hikes priced in mid-June – a move that may not even materialise given evolving economic conditions.



Investment grade credit

Steven Nelson,
Client Portfolio Manager, Investment Grade, EMEA

Global investment grade (IG) credit markets were mixed over the week. US corporate spreads tightened by 2bps, while European equivalents were unchanged and UK corporates widened by 1bp as gilt-curve volatility weighed on sterling credit. The dominant macro catalyst was the US non-farm payrolls release for June, which showed 57,000 jobs added versus an expected 115,000. The weak print triggered a rally across shorter maturities, while markets reduced expectations for future Fed tightening. Risk appetite was also supported by continued progress towards a US-Iran peace accord, which contributed to lower oil prices and provided a modest tailwind for credit markets.

European credit was supported by a more measured tone from ECB officials at Sintra. While policymakers remained broadly hawkish, several speakers indicated limited urgency for a July rate increase given easing energy prices and moderating inflation risks. In the UK, markets continued to balance BoE Governor Bailey's relatively dovish stance against more hawkish Monetary Policy Committee commentary, while political attention shifted towards the incoming Burnham government's fiscal plans.

Primary issuance slowed sharply following June's record supply and the US holiday week. US IG issuance totalled \$18.3 billion, down around 70% week-on-week, while European issuance reached €26.7 billion. The lighter calendar helped clear some of the indigestion created by

June's heavy supply, with secondary performance notably stronger and technicals improving across both US dollar and euro credit markets.

Corporate news flow was broadly constructive. Crédit Agricole increased its stake in Banco BPM to 29%, reinforcing its position in the ongoing consolidation of the Italian banking sector. Manchester Airport Group reported solid FY26 results, with revenue up and leverage stable. Reckitt Benckiser received a favourable jury verdict in the latest NEC infant formula case, although litigation risks remain. Elsewhere, Legal & General successfully executed a liability management exercise, BT and Verizon announced plans to combine their international enterprise businesses, and Realty Income continued its expansion into data-centre infrastructure through a \$6 billion hyperscale joint venture.



US high yield credit and leveraged loans

Chris Jorel,
Client Portfolio Manager, US High Yield

High yield (HY) continues to function well at tight spread levels, absorbing supply and shrugging off negative headlines (see Dish Wireless below). Spreads tightened by 15bps last week, largely reversing the prior week's 17bp widening and returning to tight levels. Yields rose by 6bps to 7.24%. Primary activity was healthy, with 14 deals pricing for a total of \$7.7 billion. The HY market had positive flows of \$287 million for the week, taking total flows over the period to more than \$2 billion, although two-thirds came from ETFs, likely reflecting quarter-end rebalancing rather than organic demand.

Dish Wireless, with \$9.75 billion of bonds, recently defaulted, causing market default monitors to rise significantly and making cable the largest default industry by a wide margin. Excluding that single name, default rates remain well behaved.

In leveraged loans, spreads were unchanged week-on-week. The average price of the S&P UBS Leveraged Loan Index finished the week up \$0.20 at \$94.24. Issuance remained strong, with 14 new loans pricing for a total of almost \$20 billion. The key story remains technology, which now accounts for 46% of the distressed loan universe, defined as credits trading below 80. However, many of these companies are still growing revenues and EBITDA. This is an unusual profile for distressed credits and reflects the market's uncertainty around artificial intelligence's long-term impact on software business models, rather than traditional fundamental deterioration.



European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

The European HY market ended the week on a firm footing, with constructive technicals driven by real-money cash deployment and light primary supply. Month- and quarter-end flows were supportive, although high-beta names underperformed, notably VMED, IONPLA and STYRO. European HY delivered another solid, if slightly softer, week, returning 13.4bps through a barbell approach as BBs and CCCs outperformed Bs, with BBs the main outperformers. Credit spreads were unchanged at 280bps, while yields rose by 7bps to 6.04%. Flows finished June strongly and continued into July, with €426,000 added to the strategy through managed accounts for the week. Year-to-date flows stood at €1.9 billion, while ETF flows were negative both for the week and year-to-date. Primary activity slowed compared with previous weeks, with three new corporate issues totalling €1.3 billion. These included Heathrow Finance (£350 million, 6.5%, B1/BB+), CPI Property Group (a €550 million European Green Bond, 6.875%,

Ba2/BB) and HelloFresh (€350 million, 5.5%, BB+). Books were generally well covered, although CPI attracted a notably small book and full allocations were given to participants.

In ratings news, French lab group Cerba saw a quick turnaround. S&P downgraded the issuer to SD/D on Wednesday, before reversing the move to CCC- on Friday following news of a waiver agreement allowing the company to defer interest payments on its senior unsecured notes until August 2026.

In liability management news, Intrum completed creditor consents for a portfolio sale, partially repaying 2L 2027 notes. Antolin's steering committee objected to restructuring terms, leaving the resolution uncertain.

In M&A news, Continental neared a sale of ContiTech to Lone Star for around €4 billion.



Structured credit

Kinsey Wessels,
Client Portfolio Analyst, Fixed Income

Structured product markets were quiet last week, with spreads largely unchanged across sectors during the US holiday-shortened trading week. In Agency mortgage-backed securities (MBS), total returns were negative, with the Bloomberg US MBS Index returning -51bps for the week as bear steepening weighed on longer-duration holdings. Within the sector, lower coupons underperformed as spreads widened down the coupon stack, while current coupons held flat. Broadly, agency mortgage spreads have traded in a narrow 2bps-3bps range over the past month, reflecting a well-supported technical backdrop. The key development was that government-sponsored enterprise (GSE) portfolios shrank by approximately \$5 billion in May – the first contraction after months of steady purchases of around \$15 billion a month. They still have \$100 billion-\$115 billion of remaining capacity under their caps, and overseas buyers stepped in to fill the gap. With the housing market remaining dormant, agency MBS supply remains suppressed, keeping spreads well anchored even as GSE demand moderates slightly. Non-agency residential mortgage-backed securities (RMBS) spreads were unchanged week-on-week as issuance remained robust. Nine deals priced last week at nearly \$4 billion, with year-to-date gross issuance now at \$124 billion, 45% above the same period last year. The market expects more of the same through the summer.

Commercial mortgage-backed securities (CMBS) benchmark conduit spreads were mostly unchanged across the capital stack. Five single-asset/single-borrower deals priced at more than \$4 billion and the pipeline remains heavy heading into the summer months. Asset-backed security (ABS) secondary benchmark spreads were also unchanged to a few bps tighter. Primary activity was light towards the end of the week, with only two Pagaia subprime auto deals, but approximately 10 new deals are expected this week, pointing to a fuller calendar.

The bottom line: spreads are stable at tight levels, supply is elevated, particularly in non-agency and CMBS, and technicals remain supportive. The GSE portfolio contraction is worth monitoring, but low agency supply and diversified demand sources are keeping that market well contained for now.



Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income

The JACI lost 17bps last week, with higher US Treasuries (-24bps) more than offsetting the positive spread return (+8bps). JACI IG, which is more sensitive to rates moves, posted a loss of 24bps. By contrast, JACI HY delivered a positive return of 32bps, with spread compression of 44bps compensating for the impact of higher rates.

Fitch upgraded JSW Steel to BB+ with a stable outlook from BB on positive watch. This followed the completion of JSW Steel's divestment of certain steel assets to a 50/50 joint venture with Japan's JFE Steel Corporation. JSW Steel received INR373 billion of proceeds from the divestment.

On Indonesia, Fitch highlighted that the sovereign credit rating is vulnerable to any sustained and sharp deterioration in foreign exchange reserves, particularly if driven by persistent capital outflows amid weaker investor confidence or weaker governance indicators. In China, headline retail sales growth weakened materially in April and May 2026 to 0.2% year-on-year and 0.6% year-on-year respectively, from 2.4% year-on-year in Q1 2026. This continues to reflect the fading tailwind from two years of trade-in consumer stimulus.

The primary market was relatively quiet last week due to the holiday-shortened week. Year-to-date supply in Asia stands at around \$98.5 billion, down 8.9% year-on-year.



Emerging markets

Omotoke Joseph,
Product Specialist, Emerging Market Debt

Emerging market (EM) debt was lacklustre last week, returning -0.1%. EM corporates followed a similar pattern, posting marginally negative returns of -0.07%, while local markets gained 0.51%, fuelled by US dollar weakness.

In Romania, there were signs of political progress as negotiations between the main parties continued. The PSD party indicated it would support a rotating premiership arrangement provided it takes the first term in government, while PNL signalled its willingness to consider such an agreement, subject to progress on key reforms linked to Romania's Recovery and Resilience Facility (RRF) commitments, alongside measures to safeguard fiscal stability and secure EU funding. The market reaction was modestly positive, with Romanian 10-year bond prices rebounding 0.37%. However, concerns surrounding the durability of the political framework remain, and Romanian 10-year bonds still declined 0.79% over the week.

In Colombia, the president-elect, Abelardo de la Espriella, appointed Miguel Gómez, a respected economist and campaign adviser, as Finance Minister. Gómez previously had not featured prominently among market expectations for the role. Gómez stressed that meaningful fiscal adjustment will be unavoidable and outlined plans to keep spending growth below inflation, alongside expenditure reductions and other measures amounting to roughly 2.5-3% of GDP. The announcement was viewed as a credit-positive surprise and signalled a clear departure from the Petro administration's fiscal approach. Colombian 2037 spreads tightened by around 7bps over the week.

Elsewhere, economic data releases were in focus across EM. In Ghana, June CPI accelerated to 5.3% year-on-year from 3.7% in May, increasing the likelihood that the central bank will remain on hold at its next meeting following a cutting cycle most of last year. Despite the rise in inflation and a challenging macro backdrop, Ghana 2037 bonds gained 0.4% on the week. In Paraguay, inflation eased to 2.1% year-on-year in June, down from 2.4% in May, remaining below the central bank's 3.5% target.

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