Information for investment professionals

In Credit

9 February 2026

Slow dancing in a burning room

The US dollar has hit a post-2022 low and some countries are reducing their exposure. Elsewhere there were contrasting government yield moves. Read on for a breakdown of fixed income news across sectors and regions.

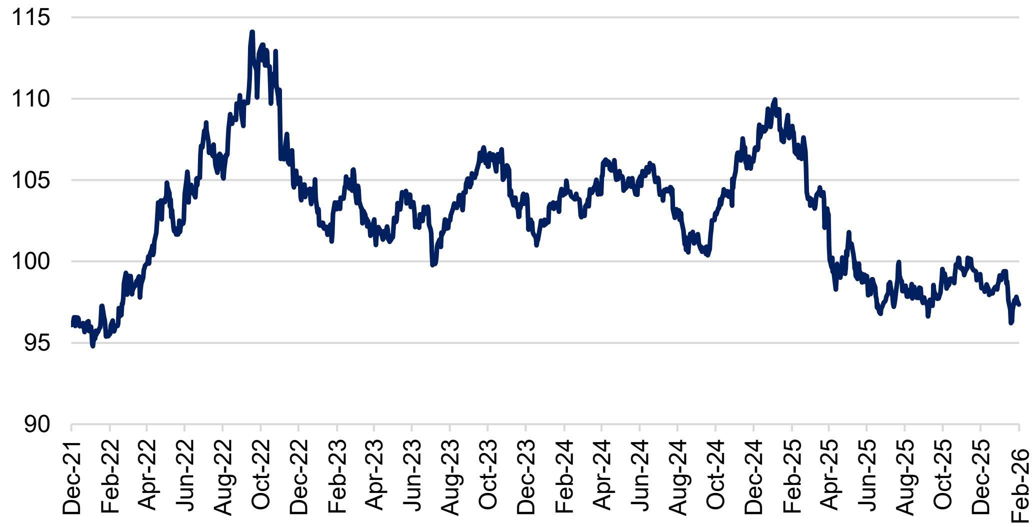
Chart of the Week

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

No sooner had US president, Donald Trump, declared from Davos that the dollar was doing great that it moved to a post-2022 low. Although the value and role of the dollar are not the same thing, they are related. Mark Sobel of OMFIF (the Official Monetary and Financial Institutions Forum) has described “termites” gnawing at the role of the dollar. He highlights the erosion of the status of the US as a trusted partner and attacks on US institutions, particularly the Federal Reserve (Fed). Throw in lingering concerns about fiscal deficits and the size of debt, as well as concerns about the weakening rule of law, and there are lots of termites gnawing simultaneously.

Consistent with this we have seen stories of Danish, Dutch, Chinese and Indian institutions reducing their exposure to US dollars. It is a muti-year story, and there is an absence of a credible rival. However, if inertia is the most convincing argument for the dollar remaining as the primary reserve currency, then the direction of travel is clear.

US dollar index



Source: Bloomberg, February 2026. Index is US dollar versus a weighted basket of six major foreign currencies: the euro, yen, Canadian dollar, GBP, Swedish krona and Swiss franc.

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.23%	0 bps	0.4%	0.4%
German Bund 10 year	2.86%	1 bps	0.4%	0.4%
UK Gilt 10 year	4.56%	4 bps	-0.2%	-0.2%
Japan 10 year	2.29%	4 bps	-1.1%	-1.1%
Global Investment Grade	75 bps	1 bps	0.7%	0.7%
Euro Investment Grade	73 bps	2 bps	0.8%	0.8%
US Investment Grade	76 bps	2 bps	0.6%	0.6%
UK Investment Grade	64 bps	0 bps	0.3%	0.3%
Asia Investment Grade	110 bps	2 bps	0.4%	0.4%
Euro High Yield	277 bps	-3 bps	0.8%	0.8%
US High Yield	287 bps	7 bps	0.6%	0.6%
Asia High Yield	398 bps	11 bps	1.7%	1.7%
EM Sovereign	223 bps	1 bps	0.9%	0.9%
EM Local	5.9%	0 bps	2.3%	2.3%
EM Corporate	228 bps	4 bps	0.9%	0.9%
Bloomberg Barclays US Munis	3.4%	-5 bps	1.2%	1.2%
Taxable Munis	4.8%	-4 bps	0.4%	0.4%
Bloomberg Barclays US MBS	15 bps	-1 bps	0.6%	0.6%
Bloomberg Commodity Index	297.09	-2.2%	7.9%	7.9%
EUR	1.1863	-0.3%	0.6%	0.6%
JPY	156.60	-1.6%	-0.3%	-0.3%
GBP	1.3613	-0.5%	1.0%	1.0%

Source: Bloomberg, ICE Indices, as of 6 February 2026. *QTD denotes returns from 31 December 2025.

Macro/government bonds

Simon Roberts
Product Specialist, Global Rates

There were small yield movements in the US and eurozone last week. In contrast, the Japanese two-year rose by 5bps while the UK two-year fell by 9bps.

The election gamble of Japanese prime minister, Sanae Takaichi, paid off, as her Liberal Democratic Party won an outright majority in Japan's lower house. The Japanese two-year and 10-year yields jumped again – 3bps and 6bps respectively – in early Monday trading.

Chinese regulators advised Chinese financial institutions to pare back holdings of US Treasuries. This advice has been framed as diversifying market risk rather than geopolitical manoeuvring.

Last week we saw monetary policy divergence. The Reserve Bank of Australia increased its cash rate by 25bps to 3.85% to reflect a pick-up in inflation. The European Central Bank left rates on hold as eurozone inflation stabilised around its 2% target. The Bank of England came close to cutting rates in a 5/4 vote. With UK inflation expected to fall in Q2, the market is pricing in a 70% probability of a rate cut in March.

US labour market data surprised to the downside. The Challenger job cut series revealed the largest number of reductions since 2009, while the JOLTS survey revealed the smallest number of job openings since 2020. There was also a rise in initial and continuing jobless claims. The data suggested a softening in the labour market.

In the UK the continuing fallout from the Jeffrey Epstein affair has led to upward pressure on gilt yields. The UK prime minister, Keir Starmer, has lost his Chief of Staff and his Director of Communications, increasing speculation that Starmer will be the next to leave.

Positioning In terms of activity, we opened a long position in New Zealand. This slowing pace of economic growth there increases the prospect of rate cuts over the next 12 months.

Investment grade credit

Charlotte Finch,
Client Portfolio Manager, Investment Grade Credit

Spreads in the European investment grade (IG) market were lower still last week when the Bloomberg Euro Agg Corporate Index declined to 72bps, the lowest level since 2007. Continued stability in corporate earnings helped this compression as we entered the second month of 2026. Despite the tightening move earlier in the week, spreads widened slightly at the end the week. New issuance has kept up its pace, with the global bond market reaching the $1 trillion mark sooner than ever, according to Bloomberg. Approximately 40% of issuance so far this year is from governments, closely followed by financials at 35%.

In corporate news, the potential mammoth M&A deal in the mining sector, between Rio Tinto and Glencore, has ended abruptly. Neither side was able to agree on valuations. There is a possibility that talks could resume in the future, but it’s a no for now.

US high yield credit and leveraged loans

Chris Jorel,
Client Portfolio Manager, US High Yield

US high yield bond spreads were largely unchanged over the week, while AI disintermediation fears continued to rile broader markets. The ICE BofA US HY CP Constrained Index returned 0.12% and spreads widened 6bps. According to Lipper, US high yield bond retail funds saw a $421 million inflow. This was a second consecutive week of inflows despite the market volatility.

US leveraged loan prices remained weak as software sector losses broadened. The average loan price declined $0.2 to $95, while software-specific loans declined another 1pt. Floating rate funds saw their sixth consecutive inflow with $608 million contributed over the week.

European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

The first week of February saw compression in European high yield (HY), with CCCs underperforming lower beta credit – the only rating band producing negative performance for the period. The market returned +0.10% while CCCs returned -0.21%. This came as the wider market saw spreads tightening 3bps to 277bps and yields fell 2bps to 5.68%.

The market was back to inflows last week, with €139 million added to the asset class. For once, this was largely via ETFs, as managed accounts were still in outflow mode. The primary market was in retreat with only €600 million coming to market via two new issues. In the telecoms sector, new issues looked under pressure as Telenet withdraw an offering due to pricing. This follows the previous week’s Virgin Media offering that came in wider than initial price talk (IPT), running counter to the current environment of tighter than IPT.

Gaming company Evoke (888) was downgraded by Moody's to B3 from B2. The rating agency expects "significant deterioration" of gross debt to EBITDA and free cash flow given tax announcements around online gaming and betting. This was despite news earlier in the week of the launch of an illegal gambling taskforce, which could be positive news for gaming companies.

In M&A news, Polish parcel locker firm InPost will be bought out by an Advent International-led group of investors and Fedex. The business is valued at €7.8 billion.

The default rate continues to fall with January posting 2.75%, down from 3.2% in December. Excluding distressed debt exchanges, the rate falls to 1.9% with only one default in January, Spanish renewables firm Amara, which deferred its January coupon payment.

Structured credit

Kris Moreton,
Client Portfolio Manager, Structured Credit

The US Agency Mortgage-backed securities (MBS) sector generated a 23bps return last week as the curve bull steepened. Lower coupons outperformed. Spreads are now particularly tight in 30-year MBS while the 15-years remain around longer-term averages. Although prepay speeds slowed in December, the reason was largely fewer business days of collections.

The Asset-backed securities (ABS) primary market had a busy week with 10 deals pricing for around $8 billion in issuance. Spreads continue to hold steady as most deals were well subscribed and priced through guidance. This week sees another 10 deals in various stages of premarketing for another circa $8 billion. ABS secondary ended the week a few bps tighter, though the top of the capital stack seems mostly unchanged. Lower quality has performed well with new issue BB consumer loans trading around 20bps tighter and subprime auto BB spreads also holding nicely at +300.

Commercial MBS secondary spreads held up through the end of week volatility. We are seeing strong pricing on SASB AAAs inside +100, which was expected at the start of the year. Deals seem to be well subscribed and nearly all completing before hitting the premarketing stage.

Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income

The JACI posted a 23bps positive return last, thanks to lower rates (31bps) more than offsetting wider spreads (-8bps). JACI IG delivered 28bps of positive return, while HY saw 13bps of loss.

Adani Ports & SEZ (APSEZ) delivered strong Q3 FY26 results with revenue of INR97.1 billion (+22% year-on-year) and EBITDA of INR57.9 billion (+19% year-on-year). This was driven by record cargo of 119.2 metric tonnes. Domestic port EBITDA margins remained strong at 72.8%, while international cargo rose sharply on the Colombo West terminal ramp-up. Container volumes grew 15% year-on-year, reinforcing APSEZ's 45.8% national market share. 9M26 performance also exceeded expectations, with cargo volume, revenue, and capex guidance unchanged, supported by strong organic growth and new asset consolidation.

Moody's has revised the ratings outlook of numerous Indonesian financial institutions (including Bank Mandiri, Bank Rakyat Indonesia, Bank Negara Indonesia), quasi-sovereign issuers (Pertamina, PLN, Mineral Industri Indonesia Persero) and non-quasi corporates (Indofood) to negative from stable. It also downgraded Indonesia's sovereign rating outlook to negative, which the agency attributes to lower policy predictability, weakening governance and fiscal risks.

Emerging markets

Omotoke Joseph,
Product Specialist, Emerging Market Debt

Emerging market (EM) sovereign debt delivered a 0.32% gain over the week, while EM corporates lagged, returning 0.17%. Local markets saw modest gains of +0.13% over the week. Sovereign spreads were choppy. They started the week tighter, widened meaningfully midweek before partially retracing this to finish just 1bp wider overall. Investor appetite remains buoyant. Although inflows were down from the previous week, there were still approximately $1.6 billion of inflows into EM bond funds last week.

The first round of US–Iran talks took place in Oman and focused primarily on nuclear issues. Talks are set to continue after "good beginnings", according to Iran's foreign minister. Gulf Cooperation Council bond prices have remained stable throughout these negotiations, but we will continue to monitor them as talks continue.

In Thailand, a snap election on Sunday saw a good showing for the ruling Bhumjaithai Party, putting it on track to secure the most votes in parliament. Such an outcome would strengthen Prime Minister Anutin Charnvirakul's hand in implementing policy priorities. Bond markets reacted cautiously to the possibility of a more concentrated hold on power, with 35-year Thai government spreads opening about 2.3bps versus the domestic curve.

Elsewhere, Chinese regulators advised major banks to limit their exposure to US Treasuries, citing concentration risk management rather than geopolitical motivations. Markets did not correct.

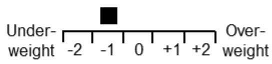
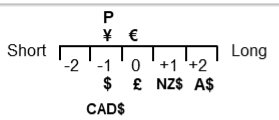
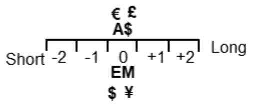
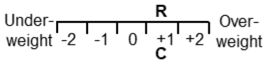
Responsible investments

Charlotte Finch,
Client Portfolio Manager, Investment Grade Credit

January issuance of green, social, sustainability and sustainability-linked bonds was one of the largest on record at $204 billion, with an interesting split across the different labels. While green bonds typically dominate the market as the "go-to" bond type in ESG-related issuance, social bonds saw a 25% increase versus January 2025, amounting to $88.9 billion, according to Bloomberg. Green bond issuance totaled $70 billion, sustainability bonds totaled $33.3 billion, with the remainder made up from sustainability-linked bonds, transition bonds (whose use of proceeds target energy transition projects) and loans. The US still lags in contributing to the labelled bond market, although there are still some development banks issuing from that side of the Atlantic.

Fixed Income Asset Allocation Views

9th February 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. 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)		▪ 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. ▪ 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		▪ 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		▪ 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		▪ 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		▪ 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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