Information for investment professionals

In Credit

11 May 2026

Hold on tight

Emerging market bonds have been the standout performers recently, with spreads at their narrowest level of the year. Elsewhere, yields in core markets came under marginal downward pressure. Read on for a breakdown of fixed income news across sectors and regions.

Chart of the Week

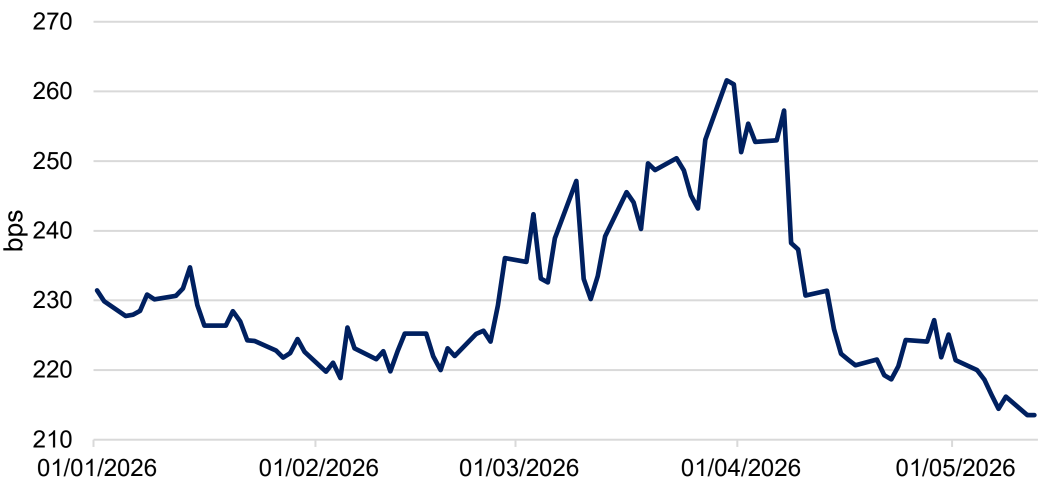
Gary Smith,
Head of Client Portfolio Management team, Fixed Income, EMEA

The fact emerging market (EM) bond index spreads have tightened to the narrowest level of the year is extraordinary given the conflict in the Persian Gulf and the effective closure of the Strait of Hormuz.

The EM outperformance has been broad based. Latin American names have led the rally, helped in part by continued strength from Venezuela (whose oil is now more valuable) and the regions detachment from the conflict. However, Middle Eastern names have been surprisingly resilient, despite the need to spend large on rebuilding munitions. Even Asian names – hardest hit by oil shortages – have seen their spreads tighten.

This standout EM performance reflects both healthy underlying fundamentals for many EM nations, especially on the fiscal side versus developed market peers, and a continued healthy appetite for the asset class from investors around the globe. Hold on tight to your dreams.

JP Morgan Emerging Markets Bond Index Global spread



Source: Bloomberg, 12 May 2026

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.39%	2 bps	0.2%	0.3%
German Bund 10 year	3.03%	-1 bps	0.2%	0.0%
UK Gilt 10 year	4.98%	1 bps	0.4%	-1.6%
Japan 10 year	2.52%	1 bps	-0.3%	-2.0%
Global Investment Grade	80 bps	-1 bps	1.1%	0.5%
Euro Investment Grade	79 bps	-1 bps	1.2%	0.3%
US Investment Grade	79 bps	-2 bps	1.0%	0.6%
UK Investment Grade	66 bps	-3 bps	1.0%	-0.7%
Asia Investment Grade	106 bps	-6 bps	0.9%	0.8%
Euro High Yield	291 bps	-7 bps	2.4%	0.8%
US High Yield	281 bps	4 bps	1.9%	1.3%
Asia High Yield	391 bps	-7 bps	2.3%	2.4%
EM Sovereign	216 bps	-5 bps	3.3%	2.2%
EM Local	6.2%	-6 bps	4.1%	1.7%
EM Corporate	221 bps	-1 bps	1.9%	1.7%
Bloomberg Barclays US Munis	3.7%	-2 bps	1.4%	1.2%
Taxable Munis	5.0%	-2 bps	0.3%	0.6%
Bloomberg Barclays US MBS	19 bps	0 bps	0.5%	0.9%
Bloomberg Commodity Index	357.37	-1.2%	2.7%	27.8%
EUR	1.1774	0.6%	2.0%	0.3%
JPY	157.10	0.2%	1.3%	0.0%
GBP	1.3610	0.4%	3.1%	1.2%

Source: Bloomberg, ICE Indices, as of 8 May 2026. *QTD denotes returns from 31 March 2026.

Macro/government bonds

Simon Roberts
Product Specialist, Global Rates

Yields in core markets came under marginal downward pressure last week amid optimism that the end of the conflict in the Middle East could be in sight. However, the de-escalation narrative ground to a halt as Donald Trump rejected Iran's response to US proposals over the weekend to end the conflict. Renewed geopolitical uncertainty caused the price of oil to track higher from US$96 (Brent) to $104 in early Monday morning trading, with a knock-on impact on bond yields.

US employment data came in stronger than expected on Friday, pointing towards a resilient economy. Alongside robust corporate earnings and elevated inflation levels, this has diminished the probability of a near-term rate cut in the US.

European Central Bank (ECB) president, Christine Lagarde, spoke of the difficult balancing act between acting prematurely on inflation and acting too late. Eurozone inflation remains elevated at 3%, while lower than expected industrial production numbers from Germany highlighted the impact of the Middle East conflict on growth. Within the eurozone sovereign bond market, the theme of spread convergence between core and periphery countries remained in place, amid bullish market sentiment towards risk assets.

In the UK, the leadership of the prime minister, Keir Starmer, has been called into question by Labour MPs following steep losses in local and regional elections. This has opened up the potential for a left wing and more fiscally expansive leadership candidate to step into the race, placing upward pressure on long-dated gilt yields.

Portfolio activity We established a short inflation breakeven position in those UK mandates that have an inflation component in their benchmark. This reflects our belief that the market has been overly pessimistic on the outlook for UK inflation.

Liability driven investments (LDI)

Guy Bottomley,
Client Portfolio Manager, LDI

UK gilt and swap markets experienced another week of volatility as political turmoil coincided with fundamental shifts in gilt market structure. The 30-year gilt yield surged to 5.78% early last week – the highest since 1998 – driven by domestic local election concerns and Iran-related energy price spikes. However, yields reversed sharply midweek – with the 30-year yield falling to 5.61% – on US-Iran ceasefire speculation and as Starmer vowed to remain Labour leader despite devastating election losses. Markets bull-flattened as traders slashed Bank of England (BoE) rate hike expectations to just 53bps by December.

Despite high market volatility, the Debt Management Office maintained a disciplined execution of the budget with a projected £11.7 billion quarterly surplus by June – potentially a record 'war chest' for Autumn Budget contingencies. However, political fragmentation raises fears of fiscal expansion and increased borrowing under potential new leadership.

The sell-off reignited gilt market volatility concerns, with economists urging the BoE to slow quantitative tightening. Meanwhile, inflation expectations were revised upwards to 3.3% for 2026, reflecting energy pressures and policy uncertainty. The pension schemes bill, which will require the government to reveal how much public sector pensions will cost over the next 50 years, may further complicate future fiscal debates. The government's own figures put the total amount needed to pay out all the public sector defined benefit pensions already promised at £1.32 trillion.

Investment grade credit

Luke Copley,
Client Portfolio Manager, Fixed Income

Risk assets advanced on hopes that the US and Iran would come to an agreement to end the war, despite both sides trading attacks towards the weekend. Global investment grade (IG) corporate spreads were 1bp tighter on the week (the US dollar market was 2bps tighter versus a 1bp tightening in Europe). The more supportive tone was also helped by fundamentals: S&P 500 corporate earnings growth is on track to accelerate sharply from 13% in Q4 2025 to more than 25% in Q1 2026 (more than double consensus expectations).

Given the backdrop, primary markets were active during the week. US dollar new issuance amounted to more than $37 billion, with notable deals including a $9 billion eight-tranche offering from Ely Lily; a $3 billion two-part Morgan Stanley sale, which led the week's secondary market gains with spreads 10bps-12bps tighter on re-offer; and a $2.25 billion Yankee bond from BBVA (with order books five times oversubscribed). The demand technical for credit still appears to be rock solid. The story in Europe was even more impressive, with Wednesday seeing the most issuers print new bonds in one day on record – 34 in total. That sent the weekly volume to just over €54 billion in new bonds, triple the volume of the previous week.

During the week we also continued to monitor the interplay between public markets and private lending channels, to the extent that larger issuers are being increasingly opportunistic with their financing plans. Private lenders Apollo and Blackstone revealed talks were in progress with chipmaker Broadcom over a $35 billion financing package, which if executed would be one of the largest ever private credit deals.

US high yield credit and leveraged loans

Chris Jorel,
Client Portfolio Manager, US High Yield

High yield (HY) spreads tightened 6bps last week, supported by encouraging labour market data and signs of potential progress in geopolitical negotiations. Total returns were flat as yield movements tracked Treasury volatility.

A significant portion of HY issuers reported earnings last week, with this quarter posting the highest beat rate in three years, according to JP Morgan data. Credit quality remains broadly healthy, with weakness confined to the housing and cable sectors. New issuance activity was robust at approximately $12 billion across 18 transactions – the second-most active week since early December. Refinancings represented 60% of supply, while artificial intelligence-related capital expenditure financings accounted for 30%. HY funds saw their 15th consecutive inflow last week for a total of $643 million.

Leveraged loan spreads tightened 6bps to a 2.5-month low of 479bps, supported by a strong technical environment – 48% of loans now trade at or above par (up from 12% during the peak Iran tensions). The average price of the S&P UBS Leveraged Loan Index finished the week up $0.11 at $94.63. The leveraged loan new issue market was also robust, with 20 loans priced for a total of $14.9 billion. Loans reported their largest inflow in 16 weeks for a total of $844 million.

European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

May got off to a solid start with European HY month-to-date performance of 0.48%. Spreads tightened 7bps to 291bps and yield to maturity fell 0.11% to 6.11%. Compression continued as CCCs strongly outperformed BBs and Bs, returning more than 2x the performance of the stronger credits.

Flows continued into the asset class – +€311 million – but solely via managed accounts as ETFs experienced modest outflows. In sectors, financials and transportation outperformed the market with banking and real estate laggards. It was a busy primary week with €5.7 billion coming to the market via seven corporate issuers. This was largely BB-rated, although there were €2.5 billion of B-rated bonds. Overall, new issues have been well received, coming well in from initial price talk. Gross issuance for 2026 to the end of April is now €53 billion (net €18 billion), which is 1.5x larger compared to the same period in 2025.

Even as geopolitics have dominated the market, increasing uncertainty, the year-to-date effect has been relatively modest with crossover only 3bps wider from the end of 2025. In general. earnings reports have reaffirmed 2026 guidance despite the uncertain macro picture.

Default rates have remained relatively subdued, inching only 9bps higher to 3.17% for the end of April figures. The recovery rate remains unchanged at 59%.

Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income

The JACI delivered positive returns of 31bps last week, helped primarily by spread compression (+30bps). Both JACI IG and HY posted positive returns of 27bps and 58bps respectively.

Melco Resorts delivered a stronger-than-expected Q1, rebounding from a weak Q4 2025 on improved hold-adjusted EBITDA, disciplined operating expenditure control and a quarter-on-quarter gain in gross gaming revenue market share. Studio City was the standout, with EBITDA up 29% quarter-on-quarter. Management expects Golden Week demand to be supported by increased domestic travel. Its subsidiary, Studio City Company, printed a new senior secured US$300 million offering to fund the tender for the STDCTY bond that matures in February 2027.

CK Hutchison, via CK Hutchison Global Telecom Holdings Ltd, will sell its 49% stake in VodafoneThree to Vodafone for £4.3 billion, fully exiting UK telecoms. The sale will result in a gain in the region of HK$4.7 billion and supports CK Hutchison's broader strategy of divesting non-core assets, reducing debt and reallocating capital to infrastructure and utilities.

Hon Hai (Foxconn) reported record April revenue of NT$832 billion (+29.7% year-on-year and +3.5% month-on-month), driven by strong demand for AI servers and cloud-networking products. The group expects continued sequential and year-on-year growth in Q2 despite seasonal headwinds.

Emerging markets

Omotoke Joseph,
Product Specialist, Emerging Market Debt

Emerging market (EM) debt delivered positive returns over the week, with EM sovereigns gaining 0.53% (US$) and spreads tightening by 5bps. Corporates lagged slightly but still posted a +0.36% return, while local markets returned +0.97% in US dollar terms.

Geopolitical risks re-emerged as the US-Iran ceasefire came under pressure. Military clashes were reported in the Strait of Hormuz after US forces struck two Iranian-flagged tankers attempting to breach the US naval blockade. Tensions intensified further Monday morning after Trump rejected Iran's proposed peace deal, describing it as "totally unacceptable". Oil prices rose off the back of this, opening the week at $104, up from $101 on Friday.

In Romania, Prime Minister Ilie Bolojan was removed following a no-confidence vote brought by the Social Democratic Party (PSD) alongside the far-right Alliance for the Union of Romanians. The formation of a new government remains uncertain. While the PSD has indicated openness to another pro-EU coalition, the PNL (Bolojan's party) has signalled reluctance following his departure. Market reaction was muted as the vote was widely anticipated.

Elsewhere in Europe, sentiment improved following remarks from Russian president Vladimir Putin indicating a possible end to Russia's war in Ukraine, alongside an offer to hold direct talks with President Zelenskyy in a neutral location. Ukrainian sovereign bonds responded positively, with 36-year bonds rising 4.3% to 55.4.

In Africa, Fitch upgraded Ghana's sovereign rating to B from B-, maintaining a positive outlook on the back of falling public debt and solid economic growth. Ghanaian 35-year bonds prices finished 0.92% higher over the week. Meanwhile, Nigeria issued two- and three-year savings bonds via subscription, at 13.525% and 14.525% respectively, with settlement due 13 May.

Looking ahead Markets will closely monitor developments from Trump's visit to China, where discussions are expected to cover both the Iran conflict and the status of US-China trade relations.

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