In Credit

12 January 2026

Hi ho silver lining …

The price of the precious metal is rapidly rising due to its use in solar panels and, more importantly, defence products, with China having control over much of the market. Elsewhere, Fed independence was back in the news. Read on for a breakdown of fixed income news across sectors and regions.

Chart of the Week

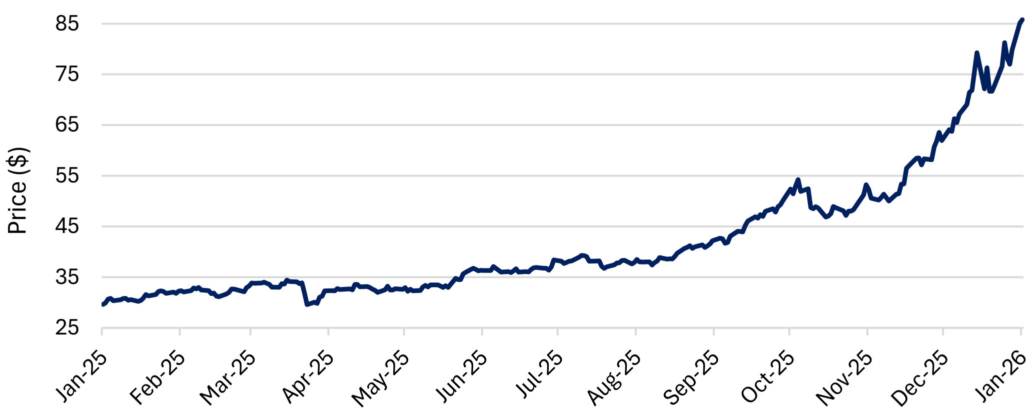
Gary Smith,
Head of Client Portfolio Management team, Fixed Income, EMEA

… I see your sun is shining. Solar panel manufacturing (currently) requires silver as a key input, and China produces around 70% of all panels globally. China is also a large producer of silver, at around 13% of the global total, and exerts control over the silver market because it has a dominant 65% of global refining capacity. Silver prices are at an all-time high.

This has enabled China to create a chokepoint. On 1 January, Beijing announced export restrictions after the re-definition of silver as a "strategic material". This has less to do with solar panels and more to do with the fact that silver is a key input in many defence sector products.

The supply cavalry isn't coming anytime soon. Increasing silver production will be challenged by lags in mining activity, and by the fact that half of all silver production is a by-product of the mining of something else (usually copper, lead or zinc). Innovation may eventually help, and some solar manufacturers (in China, of course) use copper as a substitute in panel production. However, in the short- and medium-term China will have a good card to play in global trade negotiations.

Price of silver



Source: Bloomberg, 12 January 2026.

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.19%	0 bps	0.2%	0.2%
German Bund 10 year	2.85%	-5 bps	0.2%	0.2%
UK Gilt 10 year	4.37%	-16 bps	0.9%	0.9%
Japan 10 year	2.10%	3 bps	-0.2%	-0.2%
Global Investment Grade	78 bps	-2 bps	0.3%	0.3%
Euro Investment Grade	76 bps	-4 bps	0.3%	0.3%
US Investment Grade	78 bps	-1 bps	0.3%	0.3%
UK Investment Grade	66 bps	-2 bps	0.7%	0.7%
Asia Investment Grade	113 bps	-3 bps	-0.1%	-0.1%
Euro High Yield	274 bps	-18 bps	0.5%	0.5%
US High Yield	274 bps	-9 bps	0.4%	0.4%
Asia High Yield	416 bps	-6 bps	0.4%	0.4%
EM Sovereign	230 bps	0 bps	0.2%	0.2%
EM Local	5.9%	0 bps	0.2%	0.2%
EM Corporate	234 bps	-2 bps	0.2%	0.2%
Bloomberg Barclays US Munis	3.5%	-12 bps	0.7%	0.7%
Taxable Munis	4.8%	-2 bps	0.1%	0.1%
Bloomberg Barclays US MBS	14 bps	-9 bps	0.5%	0.5%
Bloomberg Commodity Index	286.26	2.5%	2.3%	2.3%
EUR	1.1686	-0.7%	-0.9%	-0.9%
JPY	157.80	-0.7%	-0.7%	-0.7%
GBP	1.3472	-0.4%	-0.5%	-0.5%

Source: Bloomberg, ICE Indices, as of 9 January 2026. *QTD denotes returns from 31 December 2025.

Macro/government bonds

Simon Roberts
Product Specialist, Global Rates

Over the weekend, the US Department of Justice served grand jury subpoenas on the Federal Reserve (Fed) related to building renovations. Fed Chair, Jay Powell, said the subpoenas should be seen within the broader context of threats and ongoing pressure by the administration on the Fed. He stressed that the legal case would determine whether the Fed will be able to continue to set rates based on economic conditions or whether monetary policy will be directed by political pressure. His public message represents a challenge to President Trump. The long end of the market reacted badly, with the yield on the 30-year jumping 5bps on the news.

The main data point last week was non-farm payrolls, which recorded net job creation of 50,000 (slightly lower than expected), while the unemployment rate declined to 4.4%. The data painted a picture of a “low hiring, low firing economy” but was insufficient to move debate meaningfully on the state of the US labour market.

The two stand-out market performers last week were the UK and Australia; the 10-year yield in these markets fell by 16bps and 15bps respectively. Gilt market strength partly reflected technical factors. High levels of sovereign issuance in Europe and the US increased the relative attractiveness of the UK, and the narrative of sluggish growth and labour market softness remained in play.

The positive performance of Australian debt reflected a weaker than expected inflation print, and relatively dovish comments from the deputy governor of the Reserve Bank of Australia, Andrew Hauser, when he suggested the central bank would take a more medium-term approach in assessing inflation trends.

Major positions in global rates portfolios retain a bias for Australian and South African government bonds, a short position in Japan, and general yield curve steepening strategies.

Investment grade credit

Charlotte Finch,
Client Portfolio Manager, Investment Grade Credit

Credit spreads tightened across investment grade markets last week, with European investment grade outperforming by tightening 4bps. This occurred alongside heavy new issuance activity in the first full trading week of the year. Bloomberg reported approximately $260 billion in year-to-date issuance, marking the busiest start on record. Despite this supply, demand matched the pace of issuance. Heavy supply is expected to continue throughout the early weeks of the year.

Sector performance showed some variation within the overall tightening. Automotive and financial sectors tightened most year-to-date, particularly in Europe, while energy and utilities lagged. The differences remain within a few basis points across sectors. The banking sector will kick off earnings season this week, providing the first fundamental updates of the year.

Last week, Warner Bros. Discovery rejected an amended takeover offer from Paramount Skydance Corp and encouraged shareholders to support the agreed deal with Netflix. Warner questioned Paramount's ability to execute what, at $108.4 billion, would be the largest leveraged buyout in history.

US high yield credit and leveraged loans

Chris Jorel,
Client Portfolio Manager, US High Yield

US high yield bond valuations continued to tighten over the first week of 2026, with capital market activity beginning to heat up amid continued demand for leveraged credit. The ICE BofA US HY CP Constrained Index returned 0.39% and spreads tightened 8bps to open the year. CCCs outperformed with a return of 0.73%. According to Lipper, US high yield bond retail funds saw a $278 million inflow.

US leveraged loan prices also started the year strongly given the broader risk-on tone. The S&P UBS Leveraged Loan index average price increased $0.1 to $96.1. Floating rate funds saw just the third inflow over the past 13 weeks with $514 million contributed.

European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

The European high yield market had a robust start to 2026, returning 0.63% in the first week. Spreads tightened 18bps to 274bps and yields fell 14bps to 5.73%. In the absence of new supply, strong demand was reflected in the spread compression theme. This saw CCCs outperform BBs and Bs (1.52% vs 0.56% and 0.62% respectively), with the higher beta rating tightening 50bps in the week. Flows into the asset class were solid with €325 million via both

ETFs and managed accounts. There is anticipation that new issue volume will accelerate; indeed, five offerings were announced last Friday.

The positive start to the year saw 2025's worst performing sectors – chemicals, consumer products, paper and packaging – coming out on top as the best performing sectors for the first week of 2026.

In issuer news, there were a few disposals reported. Debt collector Intrum, which went through a restructuring last year, announced the sale of its remaining 35% position in joint venture (JV) portfolios with Cerberus Capital for €215 million. The proceeds will be used to pay down debt, in line with the company's commitment to deleverage. Grupo Antolin, the Spanish auto parts company, confirmed the sale of its Indian operations for €159 million, with the proceeds again committed to deleveraging.

The default rate for the asset class finished 2025 at 3.2% with the recovery rate at 62% and a loss rate of 120bps.

Structured credit

Kris Moreton,
Client Portfolio Manager, Structured Credit

The US Agency Mortgage-backed Securities (MBS) sector received a big boost last week, resulting in a +73bps return. The catalyst was a social media post from President Trump instructing Fannie Mae and Freddie Mac to buy $200 billion in mortgage bonds in an effort to reduce mortgage rates and help housing affordability. The post came out towards the end of the working day on Thursday and, while we will have to wait to see how effective this incremental demand will be at combating affordability, the market's reaction was almost immediate.

Following the post there was buying across account types, which continued the next day. Large price swings were seen throughout Friday's session as large buy volumes were met with money managers taking the opportunity to reduce overweights. At the end of the day the coupon spread versus a 5- and 10-year Treasury blend tightened from 111bps to 94bps. Given there was only one full day of trading after the news, the dust needs to settle and some price volatility should be expected this week.

The Asset-backed Securities (ABS) market is also off to a strong start. On the primary side, four deals are set to price this week for $3.9 billion in supply. All of these have been well received with strong subscription levels (3-8x over) as investors look to pick up some new paper.

We expect a continuation of 2025's theme of record new issue, with an increase in data centre and AI-related issuance. ABS secondary was also busy, with most trading days at or above the daily average ($1.2 billion). Spreads closed out the week 1-2bps tighter in benchmark cards, autos and equipment, and were 3-5bps tighter in credit and some esoterics.

Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income

The JACI was relatively flat over the first week of 2026, generating only 3bps of returns. This was attributed to spreads (7bps) and treasury effects (-4bps). JACI HY delivered 48bps of return, while IG registered 3bps of loss for the week.

Property developer China Vanke is reportedly seeking bondholders' approval to extend the CNY3.7 billion of onshore notes that matured on 28 December 2025. These are currently in a grace period of 30 trading days. The scope for a debt restructuring is increasing: Chinese authorities have reportedly requested that China Vanke prepare a debt restructuring plan.

China has announced a round of cuts on VAT rebates for the exports of solar and battery products. This is aimed at curtailing structural overcapacity in both sectors as part of China's anti-involution policy. This could also mitigate trade tensions related to the deflationary impact of China's aggressively priced exports. The VAT rebate for batteries will be cut to 6% in April 2026, down from 9% in 2025 and 13% in 2024, before being phased out altogether in 2027. The rebates for solar PV products (wafers, cells, modules) will be removed in April this year.

Emerging markets

Omotoke Joseph,
Product Specialist, Emerging Market Debt

Hard currency emerging market debt was relatively flat in terms of performance last week. However, high yield sovereigns performed well, helped by a surge in the price of Venezuelan bonds. The 2027 Venezuelan bond, which is in default, jumped by around 10 points (or 30% in price terms) on the first day of trading following the removal of President Nicolás Maduro, and remained close to that level through the week.

There is an expectation that Vice President Delcy Rodríguez will cooperate with US plans, but also a realisation that if she is unwilling or unable to do so, she will be removed. US president, Donald Trump, is intent on pursuing his aim of getting US oil majors back into Venezuela, thus ensuring there isn't a void that can be filled by China or Russia. Removal of sanctions and the election of a new democratic government would move us closer to debt restructuring, but that could be a couple of years away.

The bar is high is for US oil companies to re-invest in Venezuela, with the focus on better fiscal terms, security and sanctions relief. Trump met with oil executives at the White House on Friday and promised "total safety, total security." However, Exxon's CEO said that Venezuela is "uninvestable" without "significant changes."

Elsewhere, last week saw a record weekly supply of $75 billion, and we could be on track for a monthly January record. Mexico, Saudi Arabia, Chile and Indonesia all came to market, and although demand was solid, spreads in the investment grade space largely moved sideways.

Responsible investments

Charlotte Finch,
Client Portfolio Manager, Investment Grade Credit

Green, social, and sustainability bond issuance started 2026 with strong momentum. Last week saw numerous new transactions, including Standard Chartered's debut eight-year green bond targeting green buildings, renewable energy and clean transport projects. Meanwhile, German power grid operator Amprion secured €2.6 billion through a three-tranche green bond offering with five-, 12-, and 20-year maturities. The company will use proceeds to support electricity infrastructure serving businesses and households across Europe.

The Inter-American Development Bank (IADB) issued a new 5.5-year Australian dollar Amazonia social bond. It follows both ICMA (International Capital Markets Association) standards and specialised Amazonia Bond Issuance Guidelines. The bond supports net-zero deforestation transition while improving livelihoods in the Amazon region. Eligible projects include state modernisation, security and justice programs, cultural heritage preservation, employment generation and essential services access. Target beneficiaries encompass indigenous peoples, afro-descendants, local communities, low-income populations, small businesses, and vulnerable groups throughout the Amazon.

Fixed Income Asset Allocation Views

12th January 2026

Strategy and positioning (relative to risk free rate)		Views	Risks to our views
Overall Fixed Income Spread Risk	Under-weight -2 -1 0 +1 +2 Over-weight	▪ 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)	P € Short -2 -1 0 +1 +2 Long ¥ $ £ A$	▪ 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)	€ £ A$ Short -2 -1 0 +1 +2 Long EM $ ¥	▪ 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))	C R Under-weight -2 -1 0 +1 +2 Over-weight	▪ 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)	Under-weight -2 -1 0 +1 +2 Over-weight	▪ Sovereign and corporate spreads are near cycle tights. Pockets of opportunity in BB credits and select quasi-sovereigns. ▪ EM High Yield and local currency bonds provide more value than EM Investment Grade, though this varies on an issuer-by-issuer basis. EM IG still offering pickup over US IG. ▪ 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 YTD 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	Under-weight -2 -1 0 +1 +2 Over-weight	▪ Spreads remain near historically tight levels. ▪ Fundamentals remain strong, but the group is monitoring balance sheet stewardship, industry dispersion, and low-end consumer weakness. ▪ IG analysts are predicting 2026 industrial leverage near the lows of the last decade and margins near all-time highs. ▪ The group is watching for 2026 supply headwinds from M&A financing and AI infrastructure investment.	▪ 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	Under-weight -2 -1 0 +1 +2 Over-weight	▪ Spreads remain near historically tight levels. ▪ 3Q earnings have been generally solid and the group has started to add 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 3.2%, 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	Under-weight -2 -1 0 +1 +2 Over-weight	▪ Spreads have been range-bound over the past few months. The group remains positive on Agency MBS because the carry and convexity are still attractive. ▪ Outlook for 2026 look modestly constructive. Falling mortgage rates accelerated prepayment speeds during Q4, though they are still muted. ▪ Despite soft bank demand, technical are stable with REITS demand and the increase in GSEs holding limits.	▪ 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	Under-weight -2 -1 0 +1 +2 Over-weight	▪ 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 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+ 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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