In Credit

13 July 2026

Back on the chain gang

France's finances remain an issue, with political instability likely to delay efforts to tackle the deficit. Elsewhere, the Middle East weighs on central banks. Read on for a breakdown of fixed income news across sectors and regions.

Chart of the Week

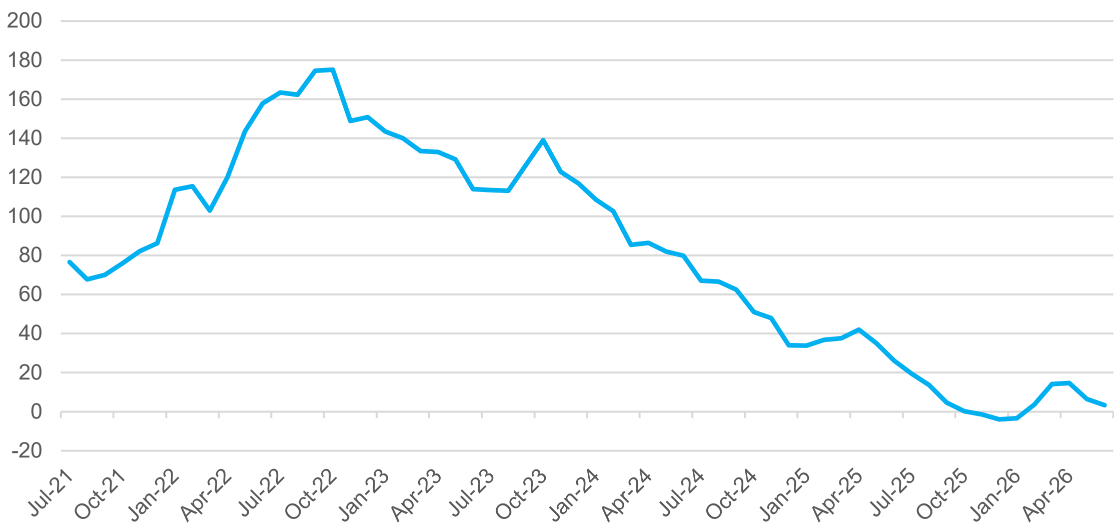
Gary Smith,
Head of Client Portfolio Management team, Fixed Income, EMEA

Marine Le Pen is expected to run for the French presidency in April 2027, potentially while wearing an electronic ankle chain following her fraud conviction. Given this, readers may be surprised that current opinion polls put her in the lead, with around 33% of intended votes. If that support holds, she is likely to be one of the two candidates to reach the run-off. But the field of declared candidates is likely to be crowded, and a fragmented vote will make the run-off contenders difficult to predict. Either of the centre-right candidates, Édouard Philippe and former prime minister Gabriel Attal, could perform well against Le Pen in a run-off, but only if they avoid knocking each other out in the first-round vote. The campaign is likely to bring further twists, with alliances playing a crucial role in positioning.

In the meantime, key measures to reduce the budget deficit are likely to remain delayed. For bond investors, Italy continues to look like the more stable option. Our chart shows how the Italian yield premium over France has disappeared in recent years.

Italy 10-year yield versus France 10-year yield

Monthly 10-year government bond yields (spread in basis points)



Source: Bloomberg, July 2026

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.59%	10 bps	-0.5%	-0.1%
German Bund 10 year	3.10%	16 bps	-1.1%	0.0%
UK Gilt 10 year	4.94%	16 bps	-0.8%	-0.8%
Japan 10 year	2.79%	0 bps	-0.6%	-3.4%
Global Investment Grade	77 bps	0 bps	-0.6%	0.5%
Euro Investment Grade	75 bps	-2 bps	-0.5%	0.9%
US Investment Grade	77 bps	2 bps	-0.7%	0.3%
UK Investment Grade	64 bps	-1 bps	-0.5%	0.4%
Asia Investment Grade	98 bps	-7 bps	-0.3%	0.9%
Euro High Yield	269 bps	-11 bps	0.1%	2.1%
US High Yield	269 bps	-5 bps	0.1%	2.0%
Asia High Yield	370 bps	-4 bps	0.0%	3.4%
EM Sovereign	216 bps	-4 bps	-0.4%	2.5%
EM Local	6.1%	1 bps	0.4%	1.9%
EM Corporate	210 bps	-4 bps	-0.1%	2.1%
Bloomberg Barclays US Munis	3.7%	5 bps	-0.4%	1.9%
Taxable Munis	5.2%	8 bps	-0.8%	0.4%
Bloomberg Barclays US MBS	26 bps	2 bps	-0.6%	0.4%
Bloomberg Commodity Index	327.40	3.1%	3.1%	17.9%
EUR	1.1414	-0.2%	-0.1%	-2.8%
JPY	162.27	-0.2%	0.5%	-3.1%
GBP	1.3380	0.4%	1.1%	-0.5%

Source: Bloomberg, ICE Indices, as of 10 July 2026. *QTD denotes returns from 30 June 2026.

Macro/government bonds

Simon Roberts
Product Specialist, Global Rates

Core fixed income markets in the US, UK and eurozone saw a mild bear-flattening bias as front ends sold off. Japan was the outlier with a bull-flattening move as longer-dated bond yields fell.

Higher yields in Europe and the US were driven by renewed escalation in the conflict between the US and Iran. Although US president Donald Trump suggested on Friday that talks would continue, the situation deteriorated over the weekend as Iran and the US exchanged strikes and Iran declared the Strait of Hormuz closed.

Over the week, Brent crude rose more than 5% to $76 a barrel, having been as high as $80 at one stage. Greater uncertainty in the Middle East reignited inflation concerns, prompting markets to price in a higher path for central bank rates.

Minutes from the June meeting of the US Federal Reserve (Fed) showed policymakers remained concerned about inflation, while worries about the labour market had eased. This reinforced the more hawkish tone already evident in the US Treasury market following developments in the Middle East.

In Europe, minutes from the June meeting of the European Central Bank (ECB) showed policymakers were trying to avoid pre-committing to future rate increases. Markets continue to expect one further ECB hike by year-end as it follows its inflation mandate.

In Japan, the long end of the market rallied. Long-dated yields had been pushed higher by concerns over the government's expansive fiscal plans. On Friday, the Japanese finance minister encouraged households and pension funds – including the Government Pension Investment Fund, the world's largest pension fund – to increase exposure to domestic financial assets such as bonds. Yields in the 10- to 30-year maturity range fell by around 10bps in response.

No data release was strong enough to override the geopolitical narrative. Slightly lower-than-expected jobless claims highlighted the resilience of the US labour market, while German factory orders surprised to the upside.

Portfolios We added duration in global bond strategies, reflecting our view that valuations now embed too much inflation risk premium.

Liability driven investments (LDI)

Guy Bottomley
Client Portfolio Manager LDI

Gilt yields moved higher across the curve over July so far. The two-year yield rose 15bps to 4.31%, the 10-year increased 18bps to 4.93%, and the 30-year added 17bps to 5.65%. The sharpest move came on 8 July when the 10-year reached an intraday high of 4.97% and the 30-year touched 5.69%. The sell-off reflected renewed concern around Iran, firmer energy prices and more cautious messaging from members of the Monetary Policy Committee.

The BoE rate path was a key part of that repricing. Swaps now imply 36bps of BoE hikes by year-end, up from 20bps at the end of June.

Supply dynamics have added pressure at the long end of the curve. The 2026-27 remit of the Debt Management Office (DMO) set long conventional gilt issuance at just £8 billion in the allocated tranches, within a total gilt programme of £252.1 billion. A further £30.5 billion remains in the unallocated bucket and could still be directed towards longer maturities, but the DMO has so far avoided issuing bonds beyond 15 years this fiscal year. That leaves the market questioning whether the full long-dated issuance target can be met without a larger yield concession. Demand has also softened, with foreign investors being net sellers of £5.5 billion of gilts in May, ending an eight-month buying streak.

Political risk remains an important part of the backdrop because it feeds directly into expectations for future borrowing. The gilt market has so far given prime minister-elect Andy Burnham some latitude, mainly because he has said he will respect the existing fiscal rules. The appointment of the chancellor is likely to be closely watched by sterling markets and the fiscal pressures are already visible: the Defence Investment Plan leaves an almost £5 billion gap in the first budget.

Investment grade credit

Steven Nelson,
Client Portfolio Manager, Investment Grade, EMEA

Global investment grade (IG) credit markets were mixed over the week. European corporate spreads tightened 2bps, UK equivalents were 1bp tighter, and US IG spreads widened 2bps. Government bond yields moved higher across major markets as investors reassessed the outlook for monetary policy and inflation, providing a modest headwind for credit markets.

The macro backdrop was dominated by inflation concerns and developments in the Middle East. For much of the week, energy markets remained relatively contained as shipping flows through the Strait of Hormuz normalised and OPEC+ confirmed a production increase for August. However, tensions escalated sharply over the weekend following military action between the US and Iran, with renewed threats to traffic through the Strait of Hormuz. Brent crude rose above $79 a barrel, reversing much of the previous fortnight's decline and increasing concerns about the inflationary impact of higher energy prices. Against this backdrop, comments from Fed officials highlighted persistent inflation risks, leading investors to reduce expectations for policy easing and contributing to the relative underperformance of US credit.

Primary issuance remained healthy, although volumes eased from June's exceptionally strong pace. European issuance reached approximately €15 billion, supported by strong investor demand. National Grid and Vesteda both priced transactions inside initial guidance. In the US, Amazon returned with a large multi-tranche deal, continuing the recent wave of AI-related financing that has tested market capacity.

Corporate news flow was mixed. S&P downgraded Oracle to BBB-, which is one notch above high yield (HY), reflecting concerns over planned capital expenditure, weaker expected cash generation and customer concentration. The downgrade prompted spread widening and renewed focus on leverage trends across the technology sector. Elsewhere, UniCredit increased its economic interest in Commerzbank following the completion of its tender offer, although opposition from Commerzbank management and the German government leaves the outcome uncertain. In real estate, Segro rejected a £12.6 billion takeover approach from Prologis despite reporting strong first-half operating performance, while Colonial and Generali Real Estate announced a joint venture to acquire a portfolio of prime German assets.

US high yield credit and leveraged loans

Chris Jorel,
Client Portfolio Manager, US High Yield

Despite a quiet summer week, US HY bond spreads tightened 5bps to close at 269bps, while yields ended at 7.14%. Dispersion remained beneath the surface, with CCC-rated bonds continuing to underperform higher-rated bonds, widening 6bps over the week. The ICE BofA US HY CP Constrained Index returned 0.04%. Primary issuance slowed significantly, but technical support remained favourable, with positive fund flows. According to Lipper, US HY bond retail funds reported an inflow of $194 million, their sixth consecutive weekly inflow. The new issue market priced two deals worth $8 billion.

Leveraged loans have started to show relative strength after an extended period of underperformance, with spreads moving lower and outperforming HY bonds last week. The average price of the S&P UBS Leveraged Loan Index finished the week up $0.18 at $94.40. Notably, JP Morgan reported that the upgrade-to-downgrade ratio in the loan market turned positive for the first time in around three-and-a-half years, signalling improving credit fundamentals. Nine new loans priced for a total of $7.3 billion. Collateralised loan obligation issuance also improved in July after a challenging period, providing additional technical support.

European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

European HY ended the week with subdued performance, returning 8bps even as spreads ground 11bps tighter to 269bps. Yields were broadly unchanged at 6.05% as underlying government bond yields rose sharply following the end of the US-Iran ceasefire. The week began with improved sentiment as conflict fears faded and cash markets found firmer footing, but sentiment shifted as bombing resumed and Trump announced the end of the ceasefire.

Flows were still skewed towards buying, with investors favouring higher-quality and shorter-duration bonds. BBs outperformed, while CCCs delivered negative returns. Despite the turn in events in the second half of the week, strong inflows continued into European HY, with €708 million marking a fourth consecutive week of inflows. The primary market improved from the previous week, with €3.1 billion coming to market, led by Loxam's €1.1 billion dual-tranche deal. New issues were relatively well received, although oversubscription levels were more modest than in previous weeks.

In ratings news, S&P downgraded Coty to BB/CreditWatch Negative following the early termination of its Gucci Beauty licence, which represented around 10% of revenues. Moody's cut Thames Water's Class A debt to Ca.

In M&A news, Aston Martin retained Lazard and Simpson Thacher to explore options after bondholders representing more than 50% appointed Akin Gump; sterling bonds fell eight points. Antolin's RSA saw strong support from bank lenders, at around 80%, but low bondholder accession of 6%-7%. Vodafone rose 13% after Emirates Telecom sold its 16% stake to a Xavier Niel vehicle. Continental confirmed the €4 billion sale of ContiTech, which was positive news for IHOVER.

Elsewhere, AI and technology credits bounced following strong results from ION Platforms, while Virgin Media continued to drift lower.

Structured credit

Kinsey Wessels,
Client Portfolio Analyst, Fixed Income

Structured products delivered mixed performance last week as rising rates pressured agency mortgages, while other sectors were broadly flat. In agency mortgage-backed securities (MBS), the Bloomberg US MBS Index returned -47bps for the week, with 30-year securities underperforming 15-year securities and spread widening concentrated in lower coupons. Mortgage market fundamentals remained subdued, with weekly applications down 2% and existing home sales declining 2.5%. June prepayment speeds were relatively stable, rising modestly across both 30-year and 15-year securities. Current agency mortgage spreads are in line with long-term averages, though the sector may face headwinds from the parallel shift higher in the Treasury curve.

Non-agency mortgages and asset-backed securities (ABS) continued to benefit from strong technical support. Non-agency spreads were flat, even as issuance remained well ahead of last year's pace at approximately $1 billion last week. Robust activity is expected through year-end. The ABS market saw eight deals price, totalling $8 billion, while spreads remained broadly flat. Commercial mortgage-backed securities (CMBS) spreads were also flat, despite 37 rating actions across the universe. CMBS issuance paused after strong pre-holiday activity, although approximately $100 billion is still expected to price over the remainder of the year.

Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income

The JACI delivered a 35bps loss last week, driven by higher US rates (-48bps), partly offset by a positive spread return (+14bps). JACI IG posted a 38bps loss, underperforming HY, which lost 15bps.

Moody's revised the ratings outlook for Prosus NV from stable to positive, reflecting improved operating profit and growing dividend income from Tencent and other assets. Moody's expects Prosus to maintain conservative leverage and its commitment to IG ratings. TSMC posted 68% year-on-year growth in June sales, supported by demand for AI chips and infrastructure investment. S&P affirmed Indonesia's BBB sovereign rating with a stable outlook. Despite

Indonesia's weaker fiscal and external positions, S&P views these developments as temporary and expects the country to benefit from higher commodity prices and expenditure cuts. Moody's and Fitch continue to hold negative outlooks on Indonesia's Baa2/BBB sovereign ratings.

In the primary market, Prosus issued a two-tranche $1.65 billion bond deal to fund a tender offer for senior notes maturing in January and July 2027. PTT Global Chemical repurchased and cancelled part of its $550 million bond maturing in 2051.

Emerging markets

Omotoke Joseph,
Product Specialist, Emerging Market Debt

Emerging market (EM) debt delivered another subdued week, returning -0.1%. EM corporates broadly matched sovereign performance, returning -0.12%, while local markets were marginally negative at -0.05%.

Middle East developments remained the dominant market driver. The US and Iran exchanged significant strikes over the weekend and into Monday, marking another escalation in the conflict. The renewed hostilities further clouded prospects for a lasting peace agreement, with both sides viewing the latest exchanges as evidence that the 60-day ceasefire had effectively ended. Oil prices rose 5.6% over the week, finishing at $76.01 a barrel versus $71.99 at the start of the period.

In Argentina, economy minister, Luis Caputo, outlined the government's 2027 financing plans, stating that debt obligations are expected to be met through multilateral lending, privatisations and domestic bond issuance, while avoiding Eurobond issuance in favour of lower-cost funding sources. The announcement was well received, with spreads on Argentina's 2035 bonds tightening by around 0.5 bps. Investors remain focused on the Milei administration's broader debt management strategy.

In Venezuela, the government introduced measures aimed at attracting private investment into the oil and gas sector, with reforms intended to support economic growth and aid recovery following the June earthquakes. While details remain limited, the market response was constructive, with Venezuela's 2027 bonds rising around 1.7% on the week.

Elsewhere, Hungary raised €3 billion through its first international bond issuance since the April elections, issuing €1.5 billion each of euro-denominated bonds due in 2032 and 2037. Strong demand contributed to lower borrowing costs and highlighted continued investor interest in the sovereign. Similarly, Egypt's central bank, acting on behalf of the Ministry of Finance, sold EGP146.6 billion (US$3 billion) of short-term Treasury bills. Strong demand from domestic banks and institutional investors resulted in a heavily oversubscribed auction, allowing the Ministry to accept roughly 70.2% of bids, with yields reaching 30% and 28.9% respectively for 91 and 273-day maturities – relatively low yields compared to previous auctions.

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