In Credit

15 June 2026

The only way is up

A peace deal between the US and Iran should see the Strait of Hormuz reopen, which triggered a sharp selloff in the oil price and a rally in bond markets. Read on for a breakdown of fixed income news across sectors and regions.

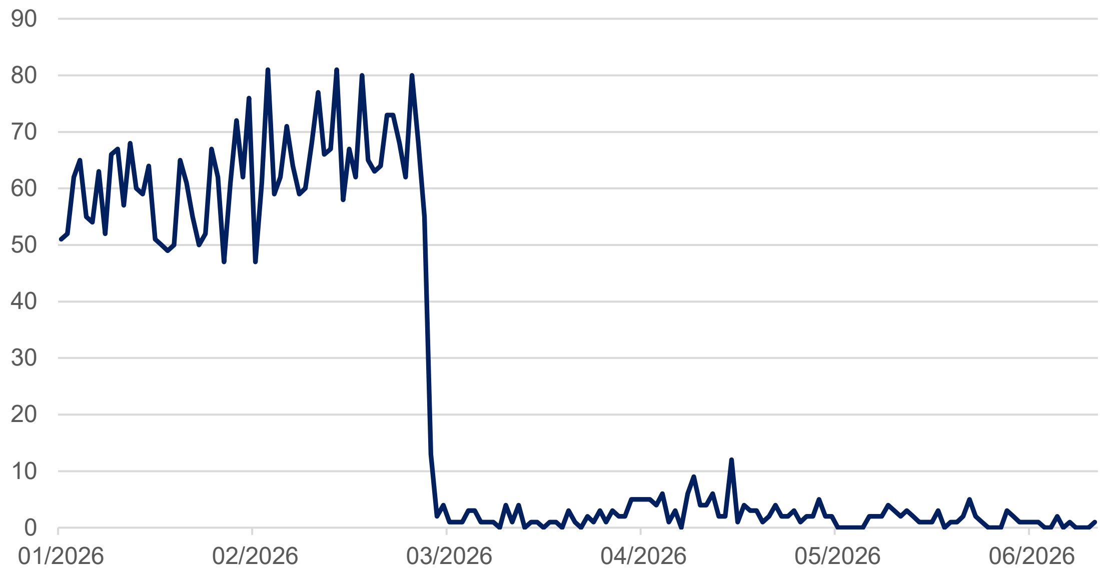
Chart of the Week

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

The only way is up for the line in our chart that shows traffic navigating the Strait of Hormuz. After 107 days we appear to have a deal between the US and Iran to end the war and open the waterway. This should be within 30 days (ie, after a mine clearing exercise and the lifting of the US naval blockade).

The oil price fell sharply on the news, and expectations of central bank interest rate hikes has started to recede. Let's hope that the agreement holds. The deal also sets out a 60-day negotiation window on a broader accord, including constraints around Iran's nuclear program, whereby Tehran is expected to commit to not pursuing nuclear weapons. It will also include a lifting of US sanctions on Iranian oil exports and unfreezing Iranian assets offshore.

Number of ships navigating the Strait of Hormuz daily



Source: Bloomberg, 15 June 2026

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.45%	-9 bps	0.0%	0.1%
German Bund 10 year	2.95%	-9 bps	0.4%	0.2%
UK Gilt 10 year	4.80%	-10 bps	1.3%	-0.7%
Japan 10 year	2.58%	-9 bps	-0.9%	-2.6%
Global Investment Grade	75 bps	0 bps	1.7%	0.8%
Euro Investment Grade	75 bps	1 bps	1.7%	0.8%
US Investment Grade	74 bps	0 bps	1.2%	0.8%
UK Investment Grade	63 bps	0 bps	2.0%	0.3%
Asia Investment Grade	99 bps	6 bps	1.0%	0.9%
Euro High Yield	282 bps	4 bps	3.2%	1.5%
US High Yield	271 bps	-5 bps	2.2%	1.7%
Asia High Yield	379 bps	4 bps	2.7%	2.9%
EM Sovereign	213 bps	-2 bps	3.7%	2.5%
EM Local	6.2%	-6 bps	3.9%	1.6%
EM Corporate	215 bps	4 bps	2.2%	2.0%
Bloomberg Barclays US Munis	3.6%	3 bps	1.8%	1.6%
Taxable Munis	5.1%	-6 bps	0.4%	0.8%
Bloomberg Barclays US MBS	21 bps	-4 bps	0.3%	0.7%
Bloomberg Commodity Index	327.82	-2.3%	-3.6%	19.9%
EUR	1.1610	0.4%	0.1%	-1.5%
JPY	160.14	0.0%	-1.0%	-2.2%
GBP	1.3429	0.5%	1.4%	-0.5%

Source: Bloomberg, ICE Indices, as of 12 June 2026. *QTD denotes returns from 31 March 2026.

Macro/government bonds

Simon Roberts
Product Specialist, Global Rates

The hope that a peace deal in the Persian Gulf might be close triggered a sharp selloff in the oil price and a commensurate rally in bond markets. With oil prices at their lowest in months investors became more dovish on the future rate outlook. The market pricing for a US Federal Reserve (Fed) rate hike by December fell from 100% at the start of last week to 82% on Monday morning. The 10-year Treasury yield fell 5bps last week to 4.48% and had fallen further to 4.45% on Monday. In Europe the 10-year bund yield fell 3.7bps to 2.99% last week, even though the European Central Bank hiked by 25bps – a move that was fully priced in.

Central banks remain the focus. In the UK, the Bank of England (BoE) is expected to hold rates, with attention focused on the vote split and any evolution in guidance against a backdrop of still-sticky inflation. UK economic data – particularly CPI (Wednesday), labour market indicators (Thursday) and retail sales (Friday) – will provide context. Decisions are also due this week from the Swiss National Bank, the Norges Bank (Norway) and the Riksbank (Sweden).

The Reserve Bank of Australia kept interest rates on hold while it sought to evaluate the impact of past monetary tightening. In contrast, the Bank of Japan increased rates to 1%, their highest level since 1995. This reflected the impact of higher energy costs on consumer prices as well as diminished downside risks to the economy. Both central banks retain a bias to further tightening if warranted by conditions.

Political developments will also be in focus, with the G7 leaders meeting this week. President Macron will host, so we may see the return of some Trump whispering.

Liability driven investments (LDI)

Guy Bottomley,
Client Portfolio Manager LDI, UK and Ireland

The UK defined benefit (DB) run-on landscape has moved from a theoretical possibility to a practical reality with impressive velocity. The Pension Schemes Act 2026 is on the statute book. The Department for Work and Pensions (DWP) has confirmed the funding threshold for surplus release as full funding on a low dependency basis (lower than some expected), and draft regulations have been released for consultation. Implementation is targeted for April 2027. The tax charge on employer surplus payments has already fallen from 35% to 25%. Half of large schemes are now actively considering run-on, and survey data released this week shows the bulk annuity market has had a notably slow start to 2026, consistent with schemes taking longer to assess the full range of endgame options.

What remains outstanding is the detail that will determine how smoothly the framework operates. The Pensions Regulator's surplus release guidance (expected imminently) will set the tone for how trustees approach the balance between member protection and employer extraction. The finance bill must legislate for authorised member surplus payments before direct cash distributions to members become possible in April 2027. Final DWP regulations follow the consultation closing on 2 September, with a government response expected within 12 weeks. The window between now and April 2027 is the preparation period. Schemes that use it well will be ready to act the moment the framework is live.

The 10-year gilt yield closed last week at 4.84%, driven higher mid-week by strong US payrolls (gilts exhibit a high beta to US treasuries) before partially retracing as oil prices softened on budding Iran deal optimism. Real yields peaked at 1.61% on 10 June – a multi-week high – before falling back to 1.54% by Friday's close. UK CPI, due on 17 June, is the next key domestic catalyst as political risk continues to dominate gilt investor sentiment.

Defence Secretary John Healey's resignation on 11 June, citing inadequate Treasury defence funding, added a risk premium to long-end gilts and dealt another blow to Keir Starmer's authority. The Makerfield by-election on 18 June is flagged as the key near-term event risk, with a win for Andy Burnham expected to trigger a leadership challenge and further gilt volatility – despite his recent statements intended to reassure gilt markets.

The Debt Management Office executed a £9 billion syndicated tap of the 5.25% 2041 gilt and a £5 billion auction of the 4% 2029 (bid-cover 3.6x). BoE rate hike pricing reached 34bps for 2026 – the most hawkish level in several weeks.

Investment grade credit

Luke Copley,
Client Portfolio Manager, Fixed Income

Global investment grade (IG) corporate spreads were unchanged on the week – though this masked a choppy evolution. Monday saw a tentative backdrop following the prior week’s blowout jobs report, which triggered the largest single-session credit default swap move since March. Wednesday then saw the new US issue market completely frozen, as rates sold off sharply, while Thursday saw a powerful reversal on the more positive geopolitical headlines and easing inflation fears.

IG primary volumes for the week were approximately $30 billion in the US, and €25 billion in Europe – well below the prior week's +€50 billion pace. Corporate activity was busy again, with Intesa Sanpaolo launching a €30 billion offer to acquire Banca Monte dei Paschi di Siena, which would create one of Europe's most valuable banks and give Intesa control over Monte Paschi's large stake in Assicurazioni Generali. In the US, the Department of Justice cleared Paramount

Skydance's proposed $110 billion acquisition of Warner Bros. Discovery, concluding that the deal is unlikely to harm competition. The clearance removes a major regulatory hurdle for what would be one of the largest media mergers in history.

In earnings news, Oracle shares fell after reporting quarterly capex above estimates. The annual total rose to $55.7 billion versus Oracle's own $50 billion projection. Revenue and cloud growth were solid, but the higher-than-expected data centre spending raised investor concerns about AI infrastructure profitability.

Investment grade credit sector spotlight: autos

Michael Laskin,
Senior Analyst, Fixed Income

The transition to electric vehicles (EVs) is a capital cycle before a margin cycle. That capital cycle has become elongated, putting pressure on cash flows and, ultimately, balance sheets. Therefore, liquidity and cash reserves have become a primary focus for us as the industry navigates a prolonged period of elevated capex, platform investment and pricing uncertainty.

Incumbent auto makers face an accelerating competitive threat from Chinese manufacturers. European players have already ceded meaningful share, driven largely by uncompetitive battery EV offerings on both cost and performance metrics. While internal combustion engine (ICE) portfolios have shown greater resilience, volumes are still declining. Chinese carmakers are also rapidly expanding share across broader Asia and emerging markets (the Middle East, Africa and South America). Their focus on entry-level and core compact/mid-size segments directly challenges the volume-heavy portfolios of Stellantis, Volkswagen and Toyota. Given the sector’s high fixed-cost structure, incremental share loss carries disproportionate margin pressure.

Overall demand for new cars has also been under pressure for years. GM, Ford and Toyota are guiding flat-to-declining industry volumes. This reflects affordability constraints as average selling prices in the US approach $50,000 amid persistent inflation, elevated interest rates and higher fuel costs. In the US volumes remain below the pre-2020 circa 17 million level, with current expectations closer to around 16 million or lower, with limited visibility on a full recovery before the end of the decade. European trends are broadly similar, with some offset from light commercial vehicle demand.

We expect sector consolidation as weaker balance sheets become increasingly constrained, hence the view that liquidity is the key metric to watch when picking winners and losers.

US high yield credit and leveraged loans

Chris Jorel,
Client Portfolio Manager, US High Yield

High yield (HY) markets held a constructive tone this week with the ICE BofA US HY CP Constrained Index returning +0.42% for the week, with spreads grinding 5bps tighter. HY spreads have completed a round trip since the start of the year, starting at around 270bps, widened to 360bps at the peak of the Middle East conflict, before tightening back to around 280bps now. This reflects both geopolitical de-escalation and exceptionally strong fundamentals, with first quarter earnings exceeding expectations across most industries.

According to Lipper, US HY bond retail funds reported their eighth inflow in the past 10 weeks, totalling $490 million. The new issue market remained active last week with $7 billion of new issuance, meaning year-on-year new issuance growth is tracking 6%-6.5%. The market is on pace to reach $200 billion by the end of June and $380-$400 billion for the full year. A notable development is the surge in AI-related capital expenditure financing, which is expected to exceed $90 billion and represent nearly 25% of total HY issuance in 2026 – a significant new theme that wasn't a factor just a year ago. Data centre-related deals have been particularly prominent, with three AI transactions totalling $3.65 billion pricing last week alone.

The leveraged loan market experienced a brief bout of volatility last week, declining 12bps-13bps on uncertainty around a deal with Iran and repricing/collateralised loan obligation (CLO) issuance dynamics. Strength is expected to return following headlines of a deal between the US and Iran. The average price of the S&P UBS Leveraged Loan Index finished the week down $0.20 at $94.24. Loan funds reported their 10th consecutive weekly inflow (of $295 million), while new issuance remained robust with 31 loans totalling $21.7 billion pricing this week. Repricings have totalled $175 million year-to-date, while approximately 22% of the market faces refinancing over the next three years, approaching levels last seen in 2012 (33%) and 2022-23 (20%). This emerging maturity wall is once again becoming a relevant technical factor.

European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

European HY had a comeback week of positive returns (+0.18%) as higher beta CCCs outperformed the market by almost 5x. This came even as fund flows were negative, both for ETFs and managed accounts, though the former took the bulk of the hit. Market spreads were a modest 4bps wider at 282bps while yields remained unchanged at 6.1%.

New issuance was strong with €4.5 billion of supply, the heaviest since early May. This included a €2 billion bond from CoreWeave, an AI cloud infrastructure provider and the first broad entry AI issuer in the EHY space. The bond is the largest single issuance in the EHY universe and is part of a $3.55 billion equivalent overall offering. The market expects this to be the start of more AI issuance. Overall, the week's new issuance took the year-to-date figure to €65 billion gross and €28 billion net.

In credit rating news, S&P downgraded Tereos to B+ (from BB-) and Foncia to CCC+ (from B-), the latter on capital structure concerns. This brings Foncia's rating in line with a call Moody's made in April 2025. Moody's also downgraded Travelodge's corporate family rating to Caa1 (from B3) on weaker financial performance, with a stable outlook.

In M&A news, the owner of Boots, Sycamore Partners, confirmed last week that they were considering scrapping an IPO of the pharmacy firm in favour of a sale to Australian pharmacy group Sigma. This was then followed by news that the Weston family (Canadian owners of Primark and Associated British Foods) were interested. The valuation is around $7.5 billion. However, Sigma's interest was apparently short lived as they ended talks over the weekend. So, an IPO could be back on the table if a deal with the Weston family doesn't work out.

Structured credit

Kinsey Wessels,
Client Portfolio Analyst, Fixed Income

In structured credit, spreads remain well-supported despite heavy deal supply, while performance has generally been positive across agency and non-agency mortgage sectors. Recent housing market data shows mortgage applications up 11% as both purchase and refinancing activity gained momentum. Existing home sales rose 3% to reach 4.2 million units on an annualised basis – the strongest pace so far this year. Meanwhile, the National Association of Home Builders housing market index data shows homebuilder sentiment remains subdued near current cycle lows.

Agency mortgage performance was positive across the board with the Bloomberg US MBS Index returning 66bps for the week. Elsewhere, 30-year securities outperformed their 15-year counterparts, and lower coupons outperformed as spreads tightened. Prepayment activity continues to moderate as expected, declining roughly 10% in May, with further deceleration anticipated in June due to higher mortgage rates and seasonal factors. The non-agency residential mortgage market remains robust, with issuance volumes running 45% ahead of 2025 and on track to set post-financial crisis records. Despite absorbing more than $5 billion in new supply across 12 transactions last week, spreads tightened only modestly – a testament to the strength of investor demand and the attractive risk-adjusted returns available in this sector.

The Commercial MBS market continues to be active, with nearly $8 billion in new deals pricing last week, predominantly in single-asset single-borrower (SASB) structures. The pipeline remains healthy heading into the summer months, and despite heavy supply benchmark spreads held steady across the capital stack. The asset-backed securities market priced $6 billion in new deals last week, meaning year-to-date issuance is nearly 20% above 2025. Despite the elevated supply, secondary spreads remained stable, reflecting strong and balanced investor demand.

Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income

The Pentagon has added Alibaba, Baidu, Nio and several other Chinese companies to the Chinese Military List. Since late 2025, the Pentagon had reportedly been planning to do this and in February of this year they were indeed added – albeit briefly. Within hours, they were withdrawn from the list with no explanation. A plausible reason was to preserve the stability of US-China ties ahead of Trump's visit in May. That said, none of this has much impact on the fundamentals of the companies.

In the primary market, SMGP issued a new senior perpetual, SMCGL 8.875%, with the first call in March 2031 and a coupon reset in June 2031. The US$430 million proceeds funded the tender and exchange offer for the old SMCGL 5.45%. After the settlement date on 17 June 2026, the outstanding amount of SMCGL 5.45% will decline to $258.5 million. Meanwhile, Tencent issued a $2.45 billion two-tranches of US dollar bonds, marking its first return to that market since 2021. It also issued a two-tranche of CNY15 billion domestic bonds.

Emerging markets

Omotoke Joseph,
Product Specialist, Emerging Market Debt

Emerging market (EM) debt posted positive returns of 0.6% over the week. Performance recovery was seen in local markets that posted returns of +0.99% on the week, while corporates also saw positive gains of +0.31%.

Late-week market activity was shaped by a re-escalation of tensions between the US and Iran, with President Trump threatening to hit Iran "very hard" with strikes and potentially take control of Kharg Island. The threatened strikes were called off, with Trump indicating that progress had been made towards a potential deal between the US and Iran. Markets responded positively to this shift in tone, with oil prices declining to $87.33 by Friday's close from $94.25 earlier in the week. Credits in the Gulf Cooperation Council edged higher with Kuwait and Qatar 2035 bond prices finishing the week up 0.73% and 0.61% respectively.

Argentina was the standout performer over the week, supported by a midweek upgrade from S&P who raised the country's foreign currency sovereign rating from CCC+ to B-. S&P cited easing economic vulnerabilities and gradually improving external liquidity conditions as the key drivers. Argentine bonds rallied on the announcement, with 2035 maturities tightening by 45bps and finishing the week 61bps tighter overall.

Elsewhere, Turkey's central bank left its key interest rate unchanged at 37% – a third consecutive hold – as policymakers continue to monitor the inflation outlook amid ongoing geopolitical tensions in the Middle East. In Asia, Bank Indonesia delivered a 25bps rate hike to 5.5% in an unexpected off-cycle move aimed at stabilising the rupiah following a period of sustained weakness. Markets reacted positively to the near-term relief, with Indonesian 10-year government bond yields tightening around 12bps over the week, though caution remains as the longer-term implications for the nation's currency remain uncertain.

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