

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.25%	11 bps	0.1%	0.1%
German Bund 10 year	2.95%	9 bps	-0.2%	-0.2%
UK Gilt 10 year	4.77%	14 bps	-1.5%	-1.5%
Japan 10 year	2.28%	10 bps	-0.7%	-0.7%
Global Investment Grade	92 bps	8 bps	-0.6%	-0.6%
Euro Investment Grade	89 bps	7 bps	-0.5%	-0.5%
US Investment Grade	93 bps	9 bps	-0.7%	-0.7%
UK Investment Grade	75 bps	3 bps	-1.3%	-1.3%
Asia Investment Grade	120 bps	-3 bps	0.1%	0.1%
Euro High Yield	324 bps	24 bps	-0.7%	-0.7%
US High Yield	328 bps	15 bps	-0.5%	-0.5%
Asia High Yield	410 bps	5 bps	1.6%	1.6%
EM Sovereign	239 bps	0 bps	-0.1%	-0.1%
EM Local	6.2%	19 bps	-1.4%	-1.4%
EM Corporate	238 bps	-1 bps	0.5%	0.5%
Bloomberg Barclays US Munis	3.6%	12 bps	0.7%	0.7%
Taxable Munis	4.9%	15 bps	0.2%	0.2%
Bloomberg Barclays US MBS	24 bps	1 bps	0.3%	0.3%
Bloomberg Commodity Index	339.84	2.7%	23.9%	23.9%
EUR	1.1477	-1.7%	-2.8%	-2.8%
JPY	159.20	-1.2%	-1.9%	-1.9%
GBP	1.3274	-1.4%	-1.8%	-1.8%

Source: Bloomberg, ICE Indices, as of 13 March 2026. *QTD denotes returns from 31 December 2025.



Macro/government bonds

Simon Roberts
Product Specialist, Global Rates

Last week was negative for bonds as the market reacted to the inflationary consequences of the gulf conflict. Brent reached \$120 a barrel at one stage before settling at \$103 on Monday 16 March. The market remains beset by uncertainty over how long the conflict will last. President Trump called for international help, including from China, to ensure the free movement of ships through the Strait of Hormuz, but China has so far been reticent of any entanglement.

In fixed income markets, higher oil prices led to a paring back of interest rate expectations in the US, while the market priced in the prospect of tighter monetary policy in the UK and the eurozone. Both of these are much more energy dependent and therefore vulnerable to any blocking of supply. The rise in yields was most marked at the front end of global curves, resulting in a bear flattening trend across global markets. The one bond market to prove relatively insulated from events was China, reflecting the country's relatively high stockpiles of oil.

Economic data was of secondary importance. US inflation remained in line with market expectations while JOLTS (Job Openings and Labor Turnover Survey) labour market data pointed to a still resilient economy. In the UK economic growth flatlined, raising the spectre of stagflation if energy prices remain elevated.

Portfolio activity We believe that we remain in a range trading environment for core global bond markets. We took advantage of the back-up in yields in the UK to add to UK duration. We also took the defensive measures of reducing the spread sensitivity of global rates portfolios by paring back exposure to government-related debt and by reducing the size of the euro 10s30s yield curve steepening position.



Investment grade credit

Charlotte Finch,
Client Portfolio Manager, Investment Grade Credit

Investment grade (IG) spreads widened 7bps-9bps last week in both euros and US dollar. Year-to-date spreads are now 9bps wider in Europe and 15bps wider in the US. New issuance continues to be successfully placed, despite the geopolitical backdrop. Last week, Amazon came to market in both currencies, and we continue to expect hyperscalers to be heavy issuers. Microsoft is expected to come to market in euros shortly. While we expect the new paper to be well placed, some sectoral re-pricing within the wider market is likely.

In the week to 11 March, euro IG ETFs continued to see modest inflows. These were mainly into long duration funds, while short duration funds saw some outflows. Cumulative flows this year are positive, albeit tracking at a lower level than a year ago. Although spreads are still tight by historical comparison, outright yield levels are still attractive for income buyers.

Our analysts have become more positive on European banks, with a view that AI will have a positive impact on the sector. We see the technology driving down costs and improving underwriting processes. Retail-heavy banks with high cost bases in the UK, Benelux and France are most likely to benefit. We also think the telecoms sector will benefit from AI. However, we are less positive on the likely AI impact in sectors such as technology, basic materials, consumer services, healthcare and industrials (look out for a viewpoint on this topic).

Finally, in the UK we note that lenders have withdrawn nearly 500 mortgage products in recent days as the market has become pessimistic on the prospect for a UK rate cut. Many of these will return but at a higher rate. We note that the average rate on a two-year fixed mortgage has climbed 17bps to 5.01%.



US high yield credit and leveraged loans

Chris Jorel,
Client Portfolio Manager, US High Yield

US high yield bond yields rose 31bps to a seven-month high, while spreads widened 16bps to 343bps. The ICE BofA US HY CP Constrained Index returned -0.70% and spreads widened 9bps. According to Lipper, US high yield funds reported their largest outflow since last April's Liberation Day – \$1.5 billion for the week. The new issue market priced seven deals last week for \$4.6 billion. As fourth quarter earnings wrap up, we should highlight that earnings were strong with the lowest miss rate in more than a year (15%) and nearly twice as many beats versus misses. Sector dispersion remains, creating opportunities for disciplined risk taking through credit selection – particularly in lower-rated names – to drive returns.

Leveraged loan prices rose modestly as buyers cautiously re-entered the software sector following significant repricing and resilience in new collateralised loan obligation (CLO) issuance. The average price of the S&P UBS Leveraged Loan Index finished the week up \$0.15 at \$93.99. Loan funds reported their third consecutive outflow this week of \$325 million. In the loan primary market, three new loans priced this week for a total of \$1.2 billion.



European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

With the US/Israel-Iran conflict as the main headline, and with both sides remaining defiant, risk markets had another negative week of performance. European high yield (EHY) returned -0.91%, and month-to-date performance has now wiped out the positive performance of the first two months of 2026. Interestingly, although all rating bands produced negative performance, CCCs outperformed. Spreads rose again, up 24bps to 324bps, while yields remained steady at 6%. It was noted that real estate performance has been especially dragged down, given concerns around interest rates and the economy.

The asset class saw a third week of outflows as the flight from risk assets accelerated. Almost €900 million left the asset class via ETFs and managed accounts. This is the second largest total since the Covid highs of 2020. The primary market was quiet until the end of the week when Stellantis came in with a multi-billion hybrid offer (€5 billion equivalent in euros and GBP). A few other corporates – SES, IQV and Jaguar Land Rover – made noises around issuance, but in the end pulled back.

It was also a week of “fallen angels” as German chemical group Lanxess was downgraded to Ba1 by Moody’s. This came as the firm failed to sell its stake in Envalior to Advent International. The issuer was quick to confirm that financing remains sold, even without this disposal, and that the fund for October’s bond repayment is already secured. This was followed by S&P’s downgrade of French glass packaging producer Verallia to BB+ from BBB-. This returns the issuer to the HY universe (having moved up to investment grade 5 May 2023). In making the decision the rating agency cited a longer market downturn as well as continued performance headwinds in the near term.



Structured credit

Kris Moreton,
Client Portfolio Manager, Structured Credit

Agency mortgage-backed securities (MBS) returned -79bps for the week, with the 15-year outperforming the 30-year as the curve bear flattened. Since the government-sponsored enterprise (GSE) \$200 billion purchase announcement in January, spreads have widened by around 30bps. Higher coupons outperformed while spreads widened more in the belly of the coupon stack. Agency MBS priced \$5 billion across six deals in new issuance last week. Given the risk-off environment, as well as a strong issuance pipeline, spreads in private label Residential MBS widened 5bps-10bps.

In asset-backed securities, strong new issuance activity continued last week with 14 deals priced for \$8.7 billion. Year-to-date issuance is now 17.8% higher versus last year at \$90.7 billion. In Commercial MBS, AAA spreads continued to widen out 5bps-10bps across the capital stack as the market took some risk off. New issuance totalled \$3.9 billion across six deals last week, with another \$200 billion in the forward pipeline potentially coming to market this month.

More broadly, we note that structured products remain largely stable, with agency and non-agency mortgages supported by solid technicals – ongoing GSE support and renewed bank participation – alongside healthy demand. The MBS outlook remains positive given limited exposure to macro themes such as technology and oil. CLOs have experienced the most pressure, particularly in lower-quality and/or tech-exposed tranches, which has created an opportunity to selectively add exposure in new deals that feature meaningfully reduced technology concentrations and cleaner overall structures.



Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income

The JACI posted a 57bps loss during the week, with higher rates (-64bps) more than offsetting tighter spreads (+7bps). JACI high yield underperformed investment grade (IG) with a weekly loss of 91bps versus an IG loss of 52bps.

China's key macro indicators in January and February came in above consensus. Fixed Assets Investments (FAI) for the two-month period rose +1.8% year-on-year thanks to higher infrastructure investment that compensated for weakness in real estate. This was a reversal from the sharp -13% year-on-year decline in December 2025. Retail sales grew 2.8% year-on-year supported by the long nine-day Lunar New Year holidays and the front loading of trade-in subsidies. Industrial production was up 6.3% driven by manufacturing and mining growth. Exports also increased, by 21.8%, underpinned by tech (including chips) and automobiles. Meanwhile, China is tightening restrictions on fuel exports due to the Iran war and disruption to energy supply. Chinese refining companies have been ordered to stop signing export contracts and to negotiate the cancellation of cargos where custom procedures have not been completed.

Elsewhere, Swire Properties posted positive FY25 results with decent growth in revenue (+11% year-on-year to HK\$16 billion) and EBITDA (+6% to HK\$8.8 billion). It communicated a positive outlook for its properties business, noting that retail sales in China have seen double-digit growth so far in 2026. While the vacancy rate in offices remains high, management expects the flight-to-quality trend will ultimately be of benefit. In Hong Kong, improving leasing momentum is driving a recovery in capital markets. The company expects negative rental reversion to narrow.

Adani Green Energy has raised US\$500 million through a privately placed bond with an all-in cost of around 8.5%. This demonstrates that Adani entities continue to maintain solid access to various funding channels.



Emerging markets

Omotoke Joseph,
Product Specialist, Emerging Market Debt

Emerging market (EM) sovereign debt posted negative returns of roughly 0.9% over the week, with investors taking a cautious stance amid the Iran conflict. EM corporate debt also delivered negative performance, returning -0.64%, while local markets fared worse with returns of -1.84%.

The Iran war remains firmly at the forefront of market attention. Escalations persisted, with Iran conducting strikes on US targets in Lebanon, Iraq and the United Arab Emirates (UAE). Attacks in Dubai prompted authorities to suspend flights at Dubai International Airport after a drone-related incident caused a nearby fire. UAE 34-year government bonds fell by 1.04% over the week to Monday afternoon. Oil continued to rise with Brent crude up to \$106.33. Despite Trump's previous assertion that the war would end soon, Iranian officials countered that only they could determine when the conflict would end.

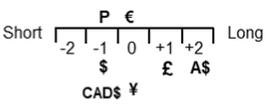
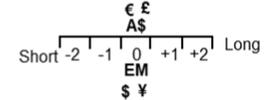
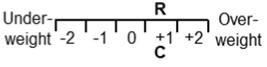
Elsewhere, S&P Global downgraded Botswana's long-term foreign and local currency sovereign ratings to BBB- from BBB, citing the adverse economic effects of declining diamond prices. Botswanan local government bonds saw a 0.1% decline following the announcement. S&P also highlighted the potential risk of a downgrade to Hungary, driven by rising energy costs linked to the Iran conflict. Hungary's 10-year bond prices ended the week down 1.2%.

Looking ahead This week features a series of central bank meetings in Brazil, Czech Republic, Ukraine and Indonesia, with a prevailing theme of caution influenced by the Iran conflict. We expect Brazil to deliver a 25bps rate cut – smaller than previously anticipated – while policy rates in the other economies are likely to remain unchanged.

Fixed Income Asset Allocation Views

16th March 2026



Strategy and positioning (relative to risk free rate)	Views	Risks to our views
Overall Fixed Income Spread Risk 	<ul style="list-style-type: none"> 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 and key labor tensions persist. The group maintained a moderately underweight view on credit risk, with no changes to their underlying sector views. 	<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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)) 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> Sovereign and corporate spreads are back to cycle tights. Pockets of opportunity in BB credits and select quasi-sovereigns/corporates. Record issuance in January across sovereigns and corporates signals HY markets fully open. EM growth run rate holding in well supported by strong Chinese exports, with upgrades outnumbering downgrades. Technical have been well supported with dollar weakening, US Federal reserve accommodation, and positive 2026 fund flows. 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Spreads are at historically tight levels... at the 1st percentile of the last 25 years. Fundamentals remain solid with 4Q earnings coming in better than expectations. Expectations for a strong 2026 supply have increased again with over \$600 billion coming from just 4 companies. This surge in supply is coming from the technology and utilities sectors, propelled by AI infrastructure investment. Credit curves are likely to continue their steepening path given increased capital expenditure and M&A funding needs. 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Spreads remain near historically tight levels, especially for BBs. 4Q earnings have been within expectations so far. The uncertainty of AI's impact on software and tech-affiliated industries has become a major theme, though no concrete impact is expected in the short term. The group has added exposure in select high quality battered names as industry dispersion has increased. Loan market default rate fell to 2.78% in January, down 9bps from December. 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Spreads significantly tightened in January following President Trump's announcement of a \$200 billion buying program, effectively pulling forward a year's worth of support into prices. The value proposition has shifted but carry and convexity still offer value. Outlooks for 2026 look modestly constructive. Falling mortgage rates accelerated prepayment speeds during Q4, though they are still muted. Technical remain stable with REITS demand and increased GSE holding limits; the buying program shifted the market from reducing to maintaining Agency MBS. 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> The group maintains a large allocation of high-quality carry positions. RMBS: Spreads have been range-bound. Delinquencies have been stable and housing activity remains near historic trough on a population-adjusted basis. CMBS: AAA spreads at multi-year tights; availability of credit continues to improve for quality loans. Expectations for 2026 CMBS supply to set new post-GFC record. CLOs: New year started with resurgence of repricing activity, BB spreads repriced wider in sympathy with Tech concerns while senior tranches mostly unchanged. ABS: Spreads have continued to narrow across sectors and delinquencies have been mostly stable. The group prefers higher quality, liquid securities. 	<ul style="list-style-type: none"> 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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