

23 February 2026

## Rip it up (and start again)

The US Supreme Court has said that Trump’s imposition of ‘emergency’ tariffs was unconstitutional. He duly announced 15% tariffs under the 1974 Trade Act. Read on for a breakdown of fixed income news across sectors and regions.



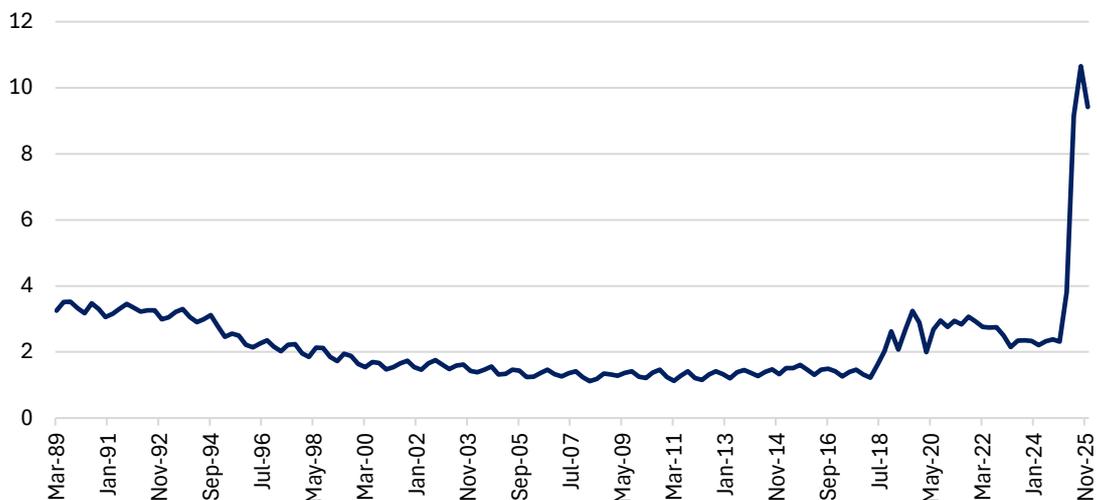
### Chart of the Week

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

On Friday, the US Supreme Court ruled that Donald Trump administration’s use of the International Emergency Economic Powers Act to impose broad-based tariffs was unconstitutional. With apologies to Scottish pop band Orange Juice, it was a case of rip it up and start again: the administration immediately said it would impose a 10% global tariff using Section 122 authority under the 1974 Trade Act. This was increased to 15% – the maximum that can be imposed using this provision. Key details remain unclear, including the treatment of existing trade agreements and how refunds (with interest) will be handled for tariffs already paid.

Section 122 tariffs can only remain in place for 150 days and would likely face legal challenges if rolled over. The administration could instead use Section 232 (national security) or Section 301 (unfair trade practices) to re-establish tariffs. But these could also be vulnerable to legal challenge. Confused? Imagine being a European exporter with goods halfway across the Atlantic. The below chart cannot capture the recent twists and turns, but clearly indicates that compared to more than 30 years of history we have moved to an entirely new regime for US tariffs.

Average US tariff (%)



Source: Bloomberg, as of December 2025

## Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
<b>US Treasury 10 year</b>	4.08%	3 bps	1.2%	1.2%
German Bund 10 year	2.74%	-2 bps	1.2%	1.2%
<b>UK Gilt 10 year</b>	4.35%	-7 bps	1.4%	1.4%
Japan 10 year	2.12%	-11 bps	0.1%	0.1%
<b>Global Investment Grade</b>	78 bps	0 bps	1.3%	1.3%
Euro Investment Grade	76 bps	1 bps	1.2%	1.2%
<b>US Investment Grade</b>	78 bps	-1 bps	1.4%	1.4%
UK Investment Grade	67 bps	1 bps	1.1%	1.1%
<b>Asia Investment Grade</b>	116 bps	-3 bps	0.9%	0.9%
Euro High Yield	277 bps	-9 bps	1.1%	1.1%
<b>US High Yield</b>	286 bps	-9 bps	0.9%	0.9%
Asia High Yield	396 bps	-2 bps	2.5%	2.5%
<b>EM Sovereign</b>	222 bps	-3 bps	1.9%	1.9%
EM Local	5.8%	2 bps	2.9%	2.9%
<b>EM Corporate</b>	234 bps	-4 bps	1.4%	1.4%
Bloomberg Barclays US Munis	3.3%	-2 bps	1.9%	1.9%
<b>Taxable Munis</b>	4.7%	3 bps	1.9%	1.9%
Bloomberg Barclays US MBS	19 bps	5 bps	1.5%	1.5%
<b>Bloomberg Commodity Index</b>	303.76	2.1%	9.7%	9.7%
EUR	1.1811	-0.7%	0.3%	0.3%
<b>JPY</b>	154.69	-1.5%	1.1%	1.1%
GBP	1.3515	-1.3%	0.0%	0.0%

Source: Bloomberg, ICE Indices, as of 20 February 2026. \*QTD denotes returns from 31 December 2025.



## Macro/government bonds

Simon Roberts  
Product Specialist, Global Rates

The US two-year yield rose by 7bps last week. This came as the minutes from the US Federal Reserve's December meeting pointed to a rate of inflation that remains stickily above target, while the downside risks to employment have diminished. Some participants argued that upward adjustments to interest rates could be necessary, challenging the narrative of a descending rate path. The probability of a June rate cut declined from 56% to 44%.

In Japan we saw a yield curve flattening. This reflected reduced fears of aggressive fiscal easing by the new government, yen strength, and the unwinding of short positions. The Japan 10-year yield fell by 11bps

Geopolitical risk continues to cast a shadow over the market as Trump moved more military assets to the Middle East in a bid to force the Iran regime into a nuclear deal.

**Portfolio activity** We closed a strategic short position in Japan and added to a tactical outright long position in New Zealand. Sluggish growth and the prospect of further disinflation in New Zealand mean there is scope for easier monetary policy.



## Investment grade credit

Charlotte Finch,  
Client Portfolio Manager, Investment Grade Credit

Credit spreads remained broadly flat last week, proving resilient to wider macro developments. Global investment grade (IG) spreads finished the week unchanged, with US, European and sterling markets barely moving. This continued stability reflects strong corporate fundamentals, low leverage levels and high banking sector capital (and we are now well past the halfway point of Q4 earnings season).

Goldman Sachs has raised its IG bond issuance forecasts for both the US and Europe following the strong start to the year. The bank now expects \$2.1 trillion of US high-grade debt sales in 2026 (up from \$1.9 trillion) and €850 billion in European issuance (up from €725 billion), citing improved economic expectations.

In corporate news, the Bank of Ireland is exiting the US leveraged acquisition financing market as private credit erodes traditional bank fee income. Following a strategic review, the bank concluded that intensifying competition from direct lenders is constraining returns. The €1.2 billion loan book, which drove a €137 million impairment charge, will be wound down over the next three years.



## US high yield credit and leveraged loans

Chris Jorel,  
Client Portfolio Manager, US High Yield

US high yield bond spreads were stable over the week as investors absorbed hawkish Federal Open Market Committee minutes and constructive fourth quarter earnings reports. There was little reaction to the US Supreme Court ruling around the administration's use of reciprocal tariffs. The ICE BofA US HY CP Constrained Index returned 0.20% and spreads tightened 10bps. According to Lipper, US high yield bond retail funds saw a small \$152 million outflow.

US leveraged loan prices also stabilised despite ongoing weakness in software-related issuers, while primary market activity remained light. The average loan price was unchanged around \$95.0. Floating rate funds saw their eighth consecutive inflow, albeit with a quite small \$22 million contributed over the week.



## European high yield credit

Angelina Chueh,  
Client Portfolio Manager, European High Yield

European high yield (HY) saw a strong recovery last week after recent subdued performance. The asset class returned 0.27% as spreads tightened 9bps to 277bps and yields fell 7bps to 5.64%. Single Bs bounced back strongly after last week's poor performance, returning 0.44% and outperforming BBs (close to average market performance), while CCCs returned to negative performance for the week. In a week that lacked new issuance as the primary market was closed for the winter half-term holidays, we still saw strong inflows (€398 million) via both ETFs and managed accounts.

In ratings news, there were both positive and negative announcements. Healthcare firm Grifols was upgraded to Ba3 from B1 by Moody's, bringing the rating in line with S&P. The rating agency cited the company's continued strong operating performance as well as its strong market position, scale and vertical integration in human blood plasma-derived products. There was less good news for Ineos Finance and Ineos Quattro, with S&P downgrading the chemical

companies from BB- to B+ and B respectively. The rating agency said a sustained recovery is now not expected until 2028. This came even as the French government awarded the chemicals firm €300 million to help towards lowering carbon emissions at its Lavera site (this was higher than the €250 million initially announced in November).



### Asian credit

Justin Ong,  
Research Analyst, Asian Fixed Income

Indonesia has finalised its reciprocal trade agreement with the US, formalising the 19% tariff that has been in place under July 2025's provisional trade framework. Before this the universal tariff imposed by the US on Indonesian exports was 32%. Under the finalised deal, Indonesia will cut trade barriers on more than 99% of US imports, while the US will establish a mechanism to allow certain textiles and apparel from Indonesia to receive a 0% reciprocal tariff rate. The White House hailed this as a "great deal" and markets responded in kind, with Indonesia's 10-year sovereign bonds rallying modestly. That said, the US Supreme Court ruling on the legality of the US tariffs (see Chart of the Week) raises questions. The 15% tariff is lower than the levy many Asian countries (including India) have negotiated with the US. At the very least, the tariff environment remains fluid.

On a related note, mining company Freeport-McMoRan (FCX) signed a memorandum of understanding with Indonesia to extend the operating rights of PT Freeport Indonesia (PTFI) beyond December 2041 (this was broadly in line with expectation). FCX will maintain its current stake of 48.76% in PTFI through to 2041, while the Indonesia government holds a 51% stake. From 2042, FCX will transfer an additional 12% stake to the Indonesia government with the former's stake dropping to around 37%. The extension of the operating rights is for the "life of resource" and not another 20-year extension.



### Emerging markets

Omotoke Joseph,  
Product Specialist, Emerging Market Debt

Emerging market (EM) sovereign debt was little changed last week, returning +0.01%, while spreads narrowed 3bps. Corporates outperformed (+0.16%) as local markets softened (-0.2%).

In LATAM, political turbulence resurfaced as Peru's Congress voted to impeach the president, José Jerí, just four months after he succeeded Dina Boluarte, who was also impeached. Lawmakers selected José María Balcázar as interim president until general elections in April. Markets remained calm, viewing the development as yet another episode in a long sequence of presidential upheavals.

In Africa, Mozambique made headlines as the International Monetary Fund declared the country's sovereign debt levels unsustainable, citing stalled reforms that continue to block progress towards a new bailout. Investor confidence weakened notably: Mozambique's 2031 bonds fell 1.83%, with the country the worst performer on the Bloomberg Emerging Market Index on Friday.

On the supply side, Kenya came to market with two euro bonds – one at \$1.35 billion due in 2039 at 8.7%, and a \$900 million one due in 2034 at 7.95%. These are to fund a \$500 million buyback announced earlier in the week. Results of this tender are due this week.

Geopolitical concerns remain, as US military presence in the Arabian and Mediterranean seas continues to build. The Iranian and US delegations are due to meet later this week, but there is nervousness that the Iranians will not offer sufficient concessions to prevent some kind of military response from the US. The oil price has edged higher as the world waits.



# Fixed Income Asset Allocation Views

## 23<sup>rd</sup> February 2026

Strategy and positioning (relative to risk free rate)	Views	Risks to our views
<b>Overall Fixed Income Spread Risk</b> 	<ul style="list-style-type: none"> <li>Spreads remain very tight across nearly all sectors and current valuations leave limited upside to returns in most areas.</li> <li>US macroeconomic growth fundamentals remain solid around 2.5 – 3%, though employment growth has slowed. The Fed delivered another 25bp cut in December.</li> <li><b>The group maintained a moderately underweight view on credit risk, with no changes to their underlying sector views.</b></li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>There's also expectations for fiscal policy to be supportive this year, starting with the MBS purchase program.</li> <li>Employment faces potential deterioration that could impact consumer-facing sectors.</li> </ul>
<b>Duration (10-year)</b> ('P' = Periphery) 	<ul style="list-style-type: none"> <li>Longer yields remain elevated as perma-loose fiscal keeps term premium in place.</li> <li>Inflation to continue to slowly normalise, although some sectors may remain sticky.</li> <li>Full tariff passthrough remains ahead in US, but shelter will continue to aid the Fed.</li> <li>Central Banks still predominantly searching for neutral, paths may diverge over coming quarters.</li> </ul>	<ul style="list-style-type: none"> <li>Fiscal drives stronger growth, leading to rebounding inflation pressures.</li> <li>Central Banks shift focus to fighting inflation once more.</li> <li>Yields break higher and curves drive flatter as policy hikes get repriced.</li> </ul>
<b>Currency</b> ('E' = European Economic Area) 	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>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</li> </ul>
<b>Emerging Markets Local (rates (R) and currency (C))</b> 	<ul style="list-style-type: none"> <li>US dollar weakness can enable EM currency performance.</li> <li>Inflation normalisation and currency strength allows EM central banks to stimulate domestic demand.</li> <li>Risk premium to leak out of local bond curves.</li> </ul>	<ul style="list-style-type: none"> <li>Global risk aversion restores bid for US dollar.</li> <li>Weaker oil environment requires fiscal premium among exporters</li> <li>Higher global term premium.</li> </ul>
<b>Emerging Markets Sovereign Credit (USD denominated)</b> 	<ul style="list-style-type: none"> <li>Sovereign and corporate spreads are back to cycle highs. Pockets of opportunity in BB credits and select quasi-sovereigns/corporates.</li> <li>Expecting an increase in issuance in 2026. EM growth has been stable with upgrades outnumbering downgrades; EM growth has been supported by strong Chinese exports.</li> <li>Technicals have been well supported with dollar weakening, US Federal reserve accommodation, and positive fund flows.</li> </ul>	<ul style="list-style-type: none"> <li>US trade policy aggression strengthens USD against EM currencies.</li> <li>EM policy makers constrained by currency pressure, rates remain tight.</li> <li>Fiscal concerns leak into local risk premia.</li> </ul>
<b>Investment Grade Credit</b> 	<ul style="list-style-type: none"> <li>Spreads remain near historically tight levels.</li> <li>Fundamentals remain strong with analysts predicting 2026 industrial leverage near decade lows and margins near all-time highs. Anticipating a jump in capital expenditures, largely from tech and utilities issuers.</li> <li>The group is watching for strong 2026 supply, especially from M&amp;A financing and AI infrastructure investment. Credit curves are likely to steepen from current flat levels.</li> </ul>	<ul style="list-style-type: none"> <li>Tighter financial conditions lead to European slowdown, corporate impact.</li> <li>Rate environment remains volatile.</li> <li>Consumer profile deteriorates.</li> <li>Geopolitical conflicts worsen operating environment globally.</li> </ul>
<b>High Yield Bonds and Bank Loans</b> 	<ul style="list-style-type: none"> <li>Spreads remain near historically tight levels.</li> <li>3Q earnings concluded on a positive note; Q4 earnings will focus on tariff impact assessment and AI implementation timelines. The group has added exposure in select battered industrials names as industry dispersion has increased. The group still sees pockets of good opportunity, especially in higher quality issuers.</li> <li>Despite Q4 defaults, the Loans LTM default rate fell to 2.87% in December, the lowest level in 2025.</li> </ul>	<ul style="list-style-type: none"> <li>Lending standards continue tightening, increasing the cost of funding.</li> <li>Default concerns are revised higher on greater demand destruction, margin pressure and macro risks</li> <li>Rally in distressed credits, leads to relative underperformance</li> <li>Volatility in the short end of the curve, eroding potential upside where we are positioned for carry.</li> </ul>
<b>Agency MBS</b> 	<ul style="list-style-type: none"> <li>Spreads have tightened in the past week as federal government began a new MBS purchase program. The value proposition for Agency MBS has waned but carry and convexity still offer value.</li> <li>Outlook for 2026 look modestly constructive. Falling mortgage rates accelerated prepayment speeds during Q4, though they are still muted.</li> <li>Technicals remain stable with REITS demand and increased GSE holding limits, but continued large scale government purchases will impact market balance.</li> </ul>	<ul style="list-style-type: none"> <li>Lending standards continue tightening even after Fed pauses hiking cycle.</li> <li>Fed fully liquidates position.</li> <li>Market volatility erodes value from carrying.</li> <li>More regional bank turmoil leads to lower coupons to underperform.</li> </ul>
<b>Structured Credit Non-Agency MBS &amp; CMBS</b> 	<ul style="list-style-type: none"> <li>The group maintains a large allocation of high-quality carry positions.</li> <li>RMBS: Spreads have been range-bound. Delinquencies remain low and home equity is at the highest levels ever.</li> <li>CMBS: Stress continues with the highest delinquencies in office, but multi-family is elevated. Seeing differentiation depending on property type.</li> <li>CLOs: AAAs are modestly attractive for a defensive high-quality credit option. Extra spread compensation for taking on more credit risk is low.</li> <li>ABS: The group prefers higher quality, liquid securities. Fundamentals have deteriorated (60+ day delinquencies, debt service ratios, subprime sponsor risk) but not to a degree to affect bond performance, especially higher-quality tranches.</li> </ul>	<ul style="list-style-type: none"> <li>Weakness in labour market</li> <li>Consumer fundamental position (especially lower income) weakens with inflation and Fed tightening. Consumer (retail/travel) behaviour fails to return to pre-covid levels</li> <li>Student loan repayments weaken consumer profile more than anticipated, affecting spreads on a secular level.</li> <li>High interest rates turn home prices negative, punishing housing market</li> <li>Cross sector contagion from CRE weakness.</li> </ul>

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