# In Credit

26 January 2026

## Enough is enough

The Japanese yen was in the spotlight this week, with the exchange rate prompting 'verbal intervention' by the US and speculation that physical intervention – from both the US and Japan – will follow. Read on for a breakdown of fixed income news across sectors and regions.

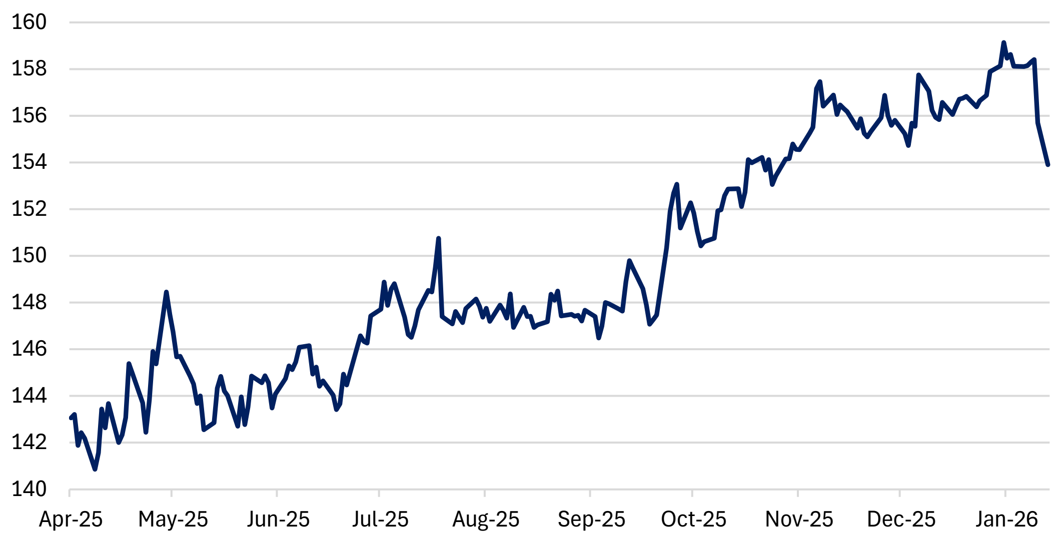
### Chart of the Week

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

The Japanese yen has been on a weakening trend for several months, declining from 141 versus the US dollar in mid-April to almost 160 last week. On Friday, the New York Federal Reserve decided that enough was enough and contacted banks to enquire about dealing prices in the currency on behalf of the US Treasury.

This "verbal intervention" in the foreign exchange market is a necessary precursor to physical intervention, and these are rare events. The last time the US Federal Reserve (Fed) intervened physically in the yen was in March 2011 after the Fukushima earthquake. Perhaps the current US administration is more willing to intervene in international markets to achieve domestic policy priorities – as intervention in the Argentinian peso in October 2025 suggested.

**US dollar to Japanese yen**




Source: Bloomberg, January 2026

## Markets at a glance

| | Price / Yield / Spread | Change 1 week | Index QTD return* | Index YTD return |
|---|---|---|---|---|
| **US Treasury 10 year** | 4.21% | -1 bps | 0.1% | 0.1% |
| German Bund 10 year | 2.88% | 4 bps | 0.1% | 0.1% |
| **UK Gilt 10 year** | 4.49% | 9 bps | 0.1% | 0.1% |
| Japan 10 year | 2.24% | 5 bps | -1.5% | -1.5% |
| **Global Investment Grade** | 74 bps | -2 bps | 0.4% | 0.4% |
| Euro Investment Grade | 73 bps | -2 bps | 0.4% | 0.4% |
| **US Investment Grade** | 73 bps | -2 bps | 0.4% | 0.4% |
| UK Investment Grade | 64 bps | 0 bps | 0.3% | 0.3% |
| **Asia Investment Grade** | 107 bps | -3 bps | 0.1% | 0.1% |
| Euro High Yield | 273 bps | -2 bps | 0.7% | 0.7% |
| **US High Yield** | 268 bps | 3 bps | 0.7% | 0.7% |
| Asia High Yield | 400 bps | -4 bps | 1.3% | 1.3% |
| **EM Sovereign** | 224 bps | -2 bps | 0.5% | 0.5% |
| EM Local | 5.9% | -1 bps | 1.4% | 1.4% |
| **EM Corporate** | 226 bps | 0 bps | 0.5% | 0.5% |
| Bloomberg Barclays US Munis | 3.5% | 5 bps | 0.6% | 0.6% |
| **Taxable Munis** | 4.9% | 0 bps | 0.0% | 0.0% |
| Bloomberg Barclays US MBS | 19 bps | 3 bps | 0.2% | 0.2% |
| **Bloomberg Commodity Index** | 306.58 | 5.3% | 9.3% | 9.3% |
| EUR | 1.1861 | 2.0% | 0.7% | 0.7% |
| **JPY** | 153.55 | 1.6% | 0.7% | 0.7% |
| GBP | 1.3671 | 2.0% | 1.2% | 1.2% |

Source: Bloomberg, ICE Indices, as of 23 January 2026. *QTD denotes returns from 31 December 2025.

## Macro/government bonds

Simon Roberts
Product Specialist, Global Rates

In Japan, prime minister, Sanae Takaichi, announced she would dissolve parliament, triggering a snap election for 8 February. Market concerns over the prospect of further fiscal stimulus triggered the sale of Japanese government bonds (JGB), which was most pronounced at the long end. The yield on the 40-year JGB rose from 3.84% to a high of 4.23% by close of trading on Tuesday. Volatility in this market had a spillover effect on global bond markets.

The Bank of Japan left rates on hold at 0.75% in an 8-1 vote. However, governor, Kazuo Ueda, sent a message to markets that the Bank is ready to take “nimble action” if markets become disorderly. On Friday the yen gained against major currencies when it was reported that the Federal Reserve Bank of New York had contacted financial institutions to ask about the yen’s exchange rate (see **Chart of the Week**). This was interpreted as laying the ground for intervention by both the US and Japan. Note that the NY Fed has only intervened to buy the yen on two occasions this century. On Friday, the yen gained 1.35% against the dollar – a trend that continued into this week.

In the UK, gilt yields came under upward pressure last week, rising 11bps at the 10-year point. This reflected concerns that Andy Burnham, the current mayor of Manchester, would re-enter parliament via aby-election, after which he could make a potential leadership bid. The market retraced some of these moves on Monday after Labour’s National Executive blocked this attempt.

## Investment grade credit

Charlotte Finch,
Client Portfolio Manager, Investment Grade Credit

Investment grade credit spreads were stable last week amid heightened political volatility. Market tensions ran high ahead of US president, Donald Trump's, address at the World Economic Forum in Davos. However, investors responded constructively to his remarks with spreads tightening 2bps-3bps by the end of the week. While new issuance was somewhat lighter than usual, investor appetite remained robust for those bonds that came to market. In addition, results season is showing strength in corporate earnings and supporting the continuing tight spread environment.

The market learned last week that Zurich Insurance has made several failed attempts over recent months to acquire London-based cyber insurer Beazley. The latest offer was £7.7 billion, which Beazley claims is a significant undervaluation. Zurich first approached Beazley in June 2024, making an £8.4 billion offer that was declined. After several further undisclosed bids, Zurich went public last week with its latest offer. The Swiss insurer bypassed Beazley's board and announced its latest proposal directly to shareholders. Beazley's share price jumped around 30% when the news broke.

## US high yield credit and leveraged loans

Chris Jorel,
Client Portfolio Manager, US High Yield

US high yield bond spreads remain near post-global financial crisis tights. Valuations have been supported by a quiet start to Q4 earnings season, supportive macro data and easing geopolitical tensions. The ICE BofA US HY CP Constrained Index returned 0.10% and spreads widened 3bps. According to Lipper, US high yield bond retail funds reported a $1.4 billion outflow, the largest since the “Liberation Day” tariffs in April 2025.

US leveraged loan prices declined slightly over the week, with CCC-rated securities responsible for the move lower. That said, the S&P UBS Leveraged Loan index average price declined to $95.9. Outside of the lower quality rating bucket, much of the asset class remains capped near par. Floating rate funds saw their fourth consecutive weekly inflow with $428 million contributed.

## European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

European high yield had a moderate week with a +14bps return, as spreads and yield showed only a modest change (-2bps and -1bps respectively). It was a mixed week with ETFs initially trading at a discount before recovering in the second half as pricing returned to a premium. Though returns were moderate, it was a compression week as CCCs outperformed lower beta credit. There was only €14 million of inflows with managed account inflows modestly offsetting ETFs outflows. After the previous week’s busy primary market, we saw a pause in new issuance, with only one – albeit large – offering by European gaming company Bitclic for €1 billion (upsized from €750 million). The primary market is expected to pick up in the coming week with three new issues already announced as coming to market.

In M&A news, EP Group, controlled by Daniel Křetínský, has submitted a tender offer for the outstanding shares in FNAC Darty at a €3.5 billion valuation. In the leisure sector, gym operator David Lloyd is apparently looking to buy Aspria, a high-end European gym operator with headquarters in Brussels.

In issuer-specific news, Ineos bonds saw a relief rally on the back of a Debtwire article looking at the company's 2027 refinancing options. The article downplayed the possibility of a liquidity management exercise and mentioned an equity injection of €250 million. This was good news for the chemical company, which had been under pressure the previous week. In the auto sector, Jaguar Land Rover announced it is looking to develop a new petrol-powered engine. It would still be mostly electric but with a range-extending small combustion engine – more or less in line with new EU legislation of 90% electric vehicle + 10%.

## Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income

The JACI posted a 6bps loss over the week, due to both unfavourable rates (-5bps) and spreads (-1bps). JACI HY was more resilient, with a positive 23bps return against -10bps for IG. Emerging market bond flows registered another positive week with a US$2 billion inflow versus US$1.2 billion the previous week. This was largely driven by local currency inflows of around US$1.3 billion.

In China, as part of President Xi's top-down anti-corruption initiative, the Central Military Commission (CMC) saw the dismissal of two generals: Liu Zhenli, and Vice Chairman Zhang Youxia, who is also a longtime ally of the president. This reduces the seven-member CMC to just two members –Xi and General Zhang Shengmin.

In response to media reports, CK Hutchison Holdings Ltd (CKHH) clarified that it has not made any decisions on the potential listings of two of its businesses. CKHH is reportedly exploring a dual listing in London and Hong Kong of its telecoms business, CK Hutchison Group Telecom Finance, with a valuation of around US$20 billion, as early as in Q3 this year. CKHH may also list AS Watson Group, one of the world's largest health and beauty retailers. For context, the retail business accounted for 41% of CKHH's H125 revenue and 14% of its underlying EBITDA. The telecoms business accounted for 29% of CKHH's H125 revenue and 23% of its underlying EBITDA.

The US Securities Exchange Commission (SEC) is seeking approval from US District Courts to bypass Indian diplomatic channels and serve summons directly via email to Gautam Adani and Sagar Adani. The US Department of Justice has already indicted Gautam Adani and several other individuals in 2024 over the violation of the US Foreign Corrupt Practice Act. The US SEC has also served the summons twice via the Indian Ministry of Law and Justice. However, the ministry rejected the summons on procedural grounds. If the SEC civil indictment process moves forward again with the direct summons, the fundamental quality of the Adani companies will likely remain resilient (underlying operating performance, funding to access etc). That said, the focus will shift towards how the defendants respond and whether this paves the way for a negotiated settlement or protracted litigation.

## Emerging markets

Omotoke Joseph,
Product Specialist, Emerging Market Debt

Emerging market (EM) sovereign hard currency debt returned 0.25% over the week, while corporates lagged with returns of 0.07%. Local returns were +1.22% as the US dollar softened over the week.

During the week news emerged that China had launched a military investigation into two generals accused of "serious" disciplinary violations (see Asian credit). Market reaction to this event was muted, with minimal effect on Chinese sovereign bonds. Elsewhere, trilateral peace talks between Russia, Ukraine and the US were held in Abu Dhabi last week, with a focus on the sensitive issue of territorial concessions. There was no significant breakthrough, but the discussions were reported to have been constructive. Another round is planned for this coming week. In the wake of this, Ukraine 10-year bonds saw a reflex 1.4% price increase.

Looking ahead, monetary meetings will be held in Hungary, Ghana and South Africa this week.

# Fixed Income Asset Allocation Views

26th January 2026

COLUMBIA THREADNEEDLE INVESTMENTS

| 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.<br>▪ US macroeconomic growth fundamentals remain solid around 2.5 – 3%, though employment growth has slowed. The Fed delivered another 25bp cut in December.<br>▪ **The group maintained a moderately underweight view on credit risk, with no changes to their underlying sector views.** | ▪ 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.<br>▪ There's also expectations for fiscal policy to be supportive this year, starting with the MBS purchase program.<br>▪ Employment faces potential deterioration that could impact consumer-facing sectors. |
| **Duration (10-year)**<br>('P' = Periphery) | P €<br>Short -2 -1 0 +1 +2 Long<br>¥ $ £ A$<br>CAD$ | ▪ Longer yields remain elevated as perma-loose fiscal keeps term premium in place.<br>▪ Inflation to continue to slowly normalise, although some sectors may remain sticky.<br>▪ Full tariff passthrough remains ahead in US, but shelter will continue to aid the Fed.<br>▪ Central Banks still predominantly searching for neutral, paths may diverge over coming quarters. | ▪ Fiscal drives stronger growth, leading to rebounding inflation pressures.<br>▪ Central Banks shift focus to fighting inflation once more.<br>▪ Yields break higher and curves drive flatter as policy hikes get repriced. |
| **Currency**<br>('E' = European Economic Area) | € £<br>A$<br>Short -2 -1 0 +1 +2 Long<br>EM<br>$ ¥ | ▪ 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) )** | R<br>Under-weight -2 -1 0 +1 +2 Over-weight<br>C | ▪ US dollar weakness can enable EM currency performance.<br>▪ Inflation normalisation and currency strength allows EM central banks to stimulate domestic demand.<br>▪ Risk premium to leak out of local bond curves. | ▪ Global risk aversion restores bid for US dollar.<br>▪ Weaker oil environment requires fiscal premium among exporters<br>▪ Higher global term premium. |
| **Emerging Markets Sovereign Credit (USD denominated)** | Under-weight -2 -1 0 +1 +2 Over-weight | ▪ Sovereign and corporate spreads are back to cycle tights. Pockets of opportunity in BB credits and select quasi-sovereigns/corporates.<br>▪ 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.<br>▪ Technicals have been well supported with dollar weakening, US Federal reserve accommodation, and positive fund flows. | ▪ US trade policy aggression strengthens USD against EM currencies.<br>▪ EM policy makers constrained by currency pressure; rates remain tight.<br>▪ 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.<br>▪ 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..<br>▪ The group is watching for strong 2026 supply, especially from M&A financing and AI infrastructure investment. Credit curves are likely to steepen from current flat levels. | ▪ Tighter financial conditions lead to European slowdown, corporate impact.<br>▪ Rate environment remains volatile.<br>▪ Consumer profile deteriorates.<br>▪ 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.<br>▪ 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.<br>▪ Despite Q4 defaults, the Loans LTM default rate fell to 2.87% in December, the lowest level in 2025. | ▪ Lending standards continue tightening, increasing the cost of funding.<br>▪ Default concerns are revised higher on greater demand destruction, margin pressure and macro risks<br>▪ Rally in distressed credits, leads to relative underperformance<br>▪ 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 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.<br>▪ Outlook for 2026 look modestly constructive. Falling mortgage rates accelerated prepayment speeds during Q4, though they are still muted.<br>▪ Technicals remain stable with REITS demand and increased GSE holding limits, but continued large scale government purchases will impact market balance. | ▪ Lending standards continue tightening even after Fed pauses hiking cycle.<br>▪ Fed fully liquidates position.<br>▪ Market volatility erodes value from carrying.<br>▪ 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.<br>▪ RMBS: Spreads have been range-bound. Delinquencies remain low and home equity is at the highest levels ever.<br>▪ CMBS: Stress continues with the highest delinquencies in office, but multi-family is elevated. Seeing differentiation depending on property type.<br>▪ CLOs: AAAs are modestly attractive for a defensive high-quality credit option. Extra spread compensation for taking on more credit risk is low.<br>▪ 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. | ▪ Weakness in labour market<br>▪ Consumer fundamental position (especially lower income) weakens with inflation and Fed tightening. Consumer (retail/travel) behaviour fails to return to pre-covid levels<br>▪ Student loan repayments weaken consumer profile more than anticipated, affecting spreads on a secular level.<br>▪ High interest rates turn home prices negative, punishing housing market.<br>▪ Cross sector contagion from CRE weakness. |

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