In Credit

30 March 2026

Pump it up (when you don't really need it)

Rising petrol prices will eventually feed into higher inflation, which is being reflected in the pricing of government bonds. Inconsistent messaging from the US and Iran around potential peace talks is further unsettling financial markets. Read on for a breakdown of fixed income news across sectors and regions.

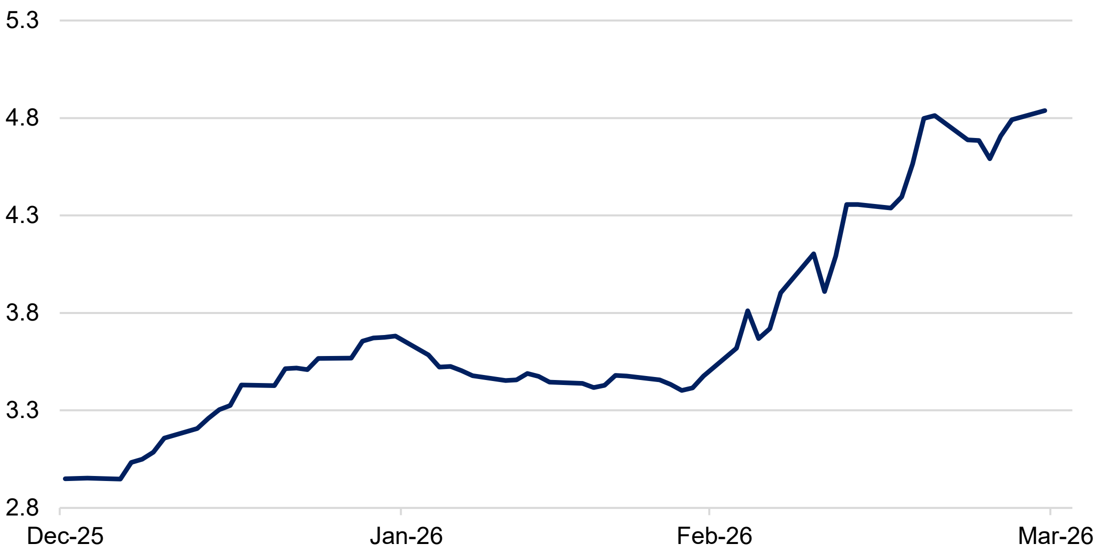
Chart of the Week

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

Sharply higher prices at petrol stations are a worldwide consequence of the current effective closure of the Strait of Hormuz. Pump prices will feed through into economy-wide higher inflation rate, and this will be reflected in the pricing of inflation-protected bonds.

Such bonds of all nations have been affected, but the big hit has been in UK gilts. The market perception is that the UK is simply more vulnerable to any inflation shock. The chart shows the inflation breakeven rate derived from two-year index-linked gilts. At the start of this year the market priced a two-year inflation rate of just under 3.0%. That rate is now around 4.8%. As the Elvis Costello song laments, it's a case of pump it up, when you don't really need it.

Pumped up inflation expectations in the UK (two-year breakeven rate, %)



Source: Bloomberg March 2026

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.36%	-2 bps	-0.5%	-0.5%
German Bund 10 year	3.04%	0 bps	-0.9%	-0.9%
UK Gilt 10 year	4.93%	-7 bps	-2.6%	-2.6%
Japan 10 year	2.37%	10 bps	-1.6%	-1.6%
Global Investment Grade	92 bps	3 bps	-1.2%	-1.2%
Euro Investment Grade	93 bps	4 bps	-1.3%	-1.3%
US Investment Grade	91 bps	3 bps	-1.2%	-1.2%
UK Investment Grade	74 bps	-2 bps	-2.1%	-2.1%
Asia Investment Grade	111 bps	-5 bps	-0.5%	-0.5%
Euro High Yield	336 bps	13 bps	-1.6%	-1.6%
US High Yield	342 bps	18 bps	-1.3%	-1.3%
Asia High Yield	426 bps	1 bps	0.2%	0.2%
EM Sovereign	253 bps	4 bps	-1.5%	-1.5%
EM Local	6.4%	4 bps	-2.3%	-2.3%
EM Corporate	245 bps	5 bps	-0.4%	-0.4%
Bloomberg Barclays US Munis	3.8%	16 bps	-0.6%	-0.6%
Taxable Munis	5.1%	3 bps	-0.8%	-0.8%
Bloomberg Barclays US MBS	26 bps	2 bps	-0.5%	-0.5%
Bloomberg Commodity Index	344.64	0.1%	23.4%	23.4%
EUR	1.1474	-0.5%	-2.0%	-2.0%
JPY	159.47	-0.7%	-2.2%	-2.2%
GBP	1.3198	-0.6%	-1.6%	-1.6%

Source: Bloomberg, ICE Indices, as of 27 March 2026. *QTD denotes returns from 31 December 2025.

Macro/government bonds

Simon Roberts
Product Specialist, Global Rates

Both US and eurozone 10-year yields rose around 5bps over the course of the week, with war related headlines dictated price action. US president, Donald Trump, began the week with a 48-hour deadline before he would bomb Iranian energy infrastructure. This gave way to a five-day pause on Monday, which was later changed to a 10-day pause on Thursday.

The market reaction to the five-day pause was to rally. However, inconsistent messaging from both the US and Iran on the status of peace talks saw the market became less inclined to take what Trump says at face value. This was reflected in a steady creep higher in bond yields during the remainder of the week.

Further complicating factors have been the arrival of US troops in the Middle East, the launch of missiles by the Houthis against Israel, and speculation that the seizure of Kharg island (from where the majority if Iran oil exports are transported) may be the next US plan.

With events likely to be drawn out before any settlement emerges, and oil trading close to $115 a barrel, market participants focused on the downside impact to global growth. PMI survey data pointed to an unwelcome combination of slower growth and rising inflation across the global economy.

Over the weekend, Japan's currency chief, Atsushi Mimura, warned that they would take action to support the yen after it breached 160 against the dollar. The jawboning was successful in preventing further yen weakness.

Portfolio activity Last week we exited a small long in the UK, which brought duration back to neutral across portfolios.

Investment grade credit

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

Despite the war in the Middle East and continued financial market turbulence, global investment grade (IG) credit spreads have been relatively resilient. A widening of 3bps last week took the total widening for March to 9bps. Year-to-date, spreads have now widened by 15bps. Within this overall widening, euro spreads have underperformed a touch. This has been driven by weakness in sectors such as real estate, autos and financials.

Although there have been outflows (measured by ETF flows), this has been modest. An important counterweight has been that new issuance volumes remain buoyant. During March the market digested $230 billion of new paper – the fourth largest monthly total ever. Moreover, the signs are that dealer inventory is low, and it seems as though 10-year yields in the dollar market of close to 6% are viewed as an attractive entry level.

Our view is still that spreads are quite rich from a historical perspective, and consequently our beta overweight is still relatively modest.

European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

Despite the week's sell-off in equity and government bonds, European high yield (EHY) credit spreads proved less sensitive to headline news: they remained relatively stable, widening only 3bps to 336 bps. Yields rose 14bps to 6.57%. This was largely due to the rise in underlying government bond yields as market expectations for an extended period of higher energy prices could force central banks to raise rates. EHY returned -0.4% on the week. Decompression continued as CCCs lost more ground as spreads moved higher given the market's preference for BBs and some single Bs.

It was a fifth week of outflows for the asset class, with €622 million exiting via both ETFs and managed accounts. This takes March's month-to-date figure to €2.6 billion of net outflows, and year-to-date net outflows to €1.1 billion.

The primary market, though subdued, was not closed, with issuers bringing tranches to the market in both US dollar and euro (video game company Electronic Arts and plastic packaging firm Sealed Air), as well as a tap issue (casino operator Cirsa). The EA offering was revised down from initial talk, although still ended up being $6.6 billion equivalent. Sealed Air announced but pricing is expected this week, with a suggested issue size equivalent to $1.35 billion. However, unlike for EA, bond placement has been more challenging with potential buyers raising queries regarding some of the bond provisions. There is already talk of a price improvement. Interestingly, both offerings are to fund leveraged buyouts, ($55 billion for EA and $7.2 billion for Sealed Air).

Sector news Even as some sectors are showing weakness – for example, shipping companies such as CMA CGM – specialty chemicals, specifically European ones, have bounced back. Ineos bonds rallied last week given the advantage European firms have over Asian competitors in the current climate.

Structured credit

Kinsey Wessels,
Client Portfolio Analyst, Fixed income

Markets remained volatile due to the Middle East geopolitical tensions, which caused rate bear flattening with the two-year Treasury rising above 4%.

Agency mortgage-backed securities (MBS) returned -8bps for the week, with the 15-year continuing to outperform the 30-year. Spreads widened modestly but remained near historical averages. Technical support from banks and government-sponsored enterprises (GSEs) continues to act as tailwinds. This modest widening presented an opportunity to add exposure given our constructive but cautious outlook, as rate volatility will likely be the primary driver of agency performance in the near term. Higher coupon spreads widened most and underperformed. Agency MBS also had a busy week for new issuance, with more than 10 deals priced last week. Given the strong issuance pipeline and risk-off environment, spreads in private label Residential MBS widened 5bps-10bps.

In asset-backed securities, only two new issues priced last week for a total of $1.1 billion. While this was a slower week, new issuance year-to-date stands at $98.1 billion – 4.2% higher versus last year. In Commercial MBS, AAA spreads remained mostly stable, with some single-digit widening happening down the capital stack. CMBS new issuance picked up versus the previous week with six new deals totalling $5 billion.

Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income

The JACI delivered a negative return of 55bps last week. Once again this was driven by higher rates (-60bps) more than offsetting tighter spreads (+4bps). Both JACI HY and IG posted negative returns of 58bps and 55bps respectively.

In India, the government has reduced excise duty on petrol and diesel by INR10 per litre and reimposed windfall taxes on refined product exports including diesel and aviation turbine fuel. The reduction of the excise duty on petrol and diesel is not being passed on as a price cut at the pump. Instead, the oil marketing companies (OMCs) can offset some of their losses – as of 27 March OMCs such as Indian Oil Corp, HPCL and BPCL have been absorbing daily under-recoveries of around INR24 billion (around US$250 million).

Xiaomi faces smartphone margin pressure from rising memory costs, which it has absorbed longer than competitors. However, it may now pass these through via average selling price increases, which will balance market share concerns. The impact from the US-Iran war is limited given that Xiaomi's sales in the Middle East are minimal, but raw material costs (pellets, plastic etc) are rising. Q425 revenue reached CNY116.9 billion (+7.6% year-on-year) with a 20.8% gross margin. FY25 smartphone revenue declined to CNY186 billion (-2.8% year-on-year) with a compressed 10.9% gross margin due to memory costs and competition. The company's smart electric vehicle (EV) business now represents 31.8% of revenue. EV deliveries hit 411,000 vehicles, way ahead of its 350,000 target, helping to achieve a first positive operating income of CNY0.9 billion. Xiaomi is targeting 550,000 vehicles in 2026.

Emerging markets

Omotoke Joseph,
Product Specialist, Emerging Market Debt

Emerging market (EM) sovereign debt declined 0.42% over the week, with spreads ending 12bps wider. This was the largest weekly widening since Liberation Day and reflected heightened geopolitical tensions. EM corporates marginally outperformed sovereigns, returning -0.29%, while local markets fell by 0.43%. Tensions between Iran and the US intensified following the expiry of President Trump's five-day pause on infrastructure attacks. Reports that US marines may launch an operation to seize Iran's primary export hub at Kharg Island have increased the risk of a prolonged conflict.

Oil prices spiked amid mounting pressure from the war, which has prompted energy emergencies globally. In the Philippines, President Ferdinand Marcos Jr announced a national energy emergency following a two-day strike by transport workers, though market reaction was muted. Sri Lanka has also faced emerging energy supply concerns as it seeks to secure fuel amid war-related shocks. Sri Lankan 10-year bond prices fell modestly by 0.7% over the week.

In Mongolia, the prime minister, Gombojav Zandanshatar, stepped down voluntarily on Friday following policy paralysis driven by infighting within the ruling Mongolia People's Party (MPP) and a parliamentary boycott by the opposition Democratic Party. The MPP swiftly nominated parliamentary speaker and party chairman, Nyam-Osoryn Uchral, as replacement, who was subsequently appointed by parliament. Market reaction was limited, with Mongolia's 32-year bond rising by 0.08%.

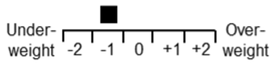
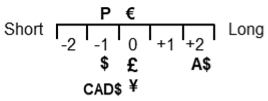
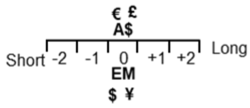
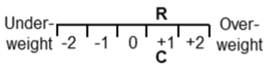
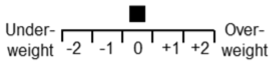
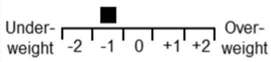
In ratings news, Fitch affirmed Bulgaria's long-term foreign currency rating at BBB+ with a stable outlook, citing strong public and external finances. However, it warned that persistent political instability could hinder reforms. Fitch also maintained Israel's sovereign rating at A with a negative outlook, citing expectations of rising public debt and a fractured domestic political environment amid the conflict with Iran.

- There will be no In Credit next week due to the Easter holidays. It will return on 13 April 2026.

Fixed Income Asset Allocation Views

30th March 2026

COLUMBIA THREADNEEDLE INVESTMENTS

Strategy and positioning (relative to risk free rate)		Views	Risks to our views
Overall Fixed Income Spread Risk		▪ 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.**	▪ 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)		▪ 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.	▪ 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)		▪ 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))		▪ 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.	▪ 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)		▪ 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. ▪ Technicals have been well supported with dollar weakening, US Federal reserve accommodation, and positive 2026 fund flows.	▪ 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		▪ 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.	▪ 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		▪ 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.	▪ 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		▪ 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. ▪ Technicals remain stable with REITS demand and increased GSE holding limits; the buying program shifted the market from reducing to maintaining Agency MBS.	▪ 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		▪ 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.	▪ 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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