

12 October 2026

The real thing

Inflation continues to influence government finances, with UK real yields nearing 2%, their highest level since 2008, and US real yields approaching 3%. Read on for a roundup of fixed income news across sectors and regions.



Chart of the Week

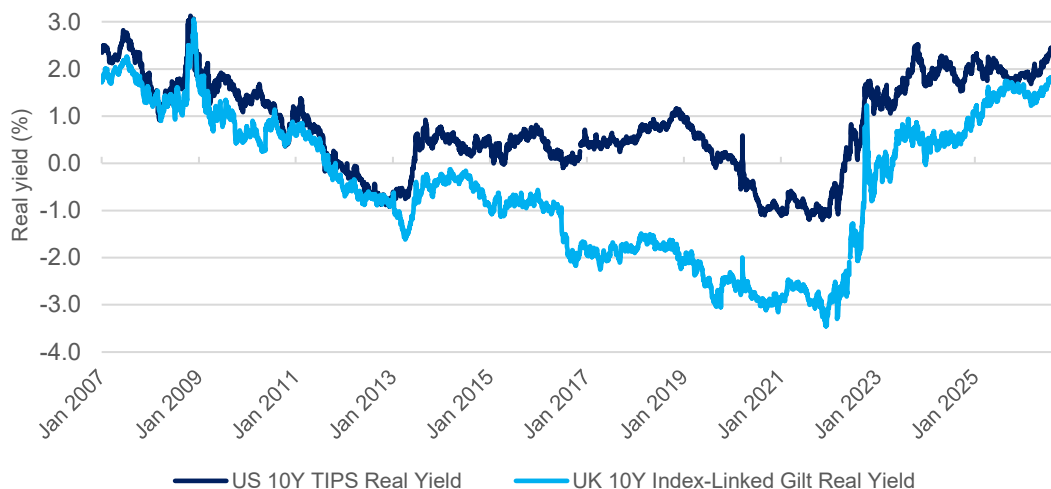
Guy Bottomley,
Client Portfolio Manager LDI, UK and Ireland

UK real yields have quietly reached a milestone. Ten-year index-linked gilt yields rose to 1.95% last week – their highest level since 2008 – completing an extraordinary reversal from nearly -3% in 2021. This is one of the most significant shifts in borrowing costs since the global financial crisis. The US tells a similar story: 10-year inflation-adjusted Treasury yields stand at 2.89%, up from below -1% in 2021, showing that this is not a uniquely British phenomenon.

Inflation is the catalyst, but the story extends beyond any single data point. UK CPI reached 3.1% in August and the Bank of England (BoE) has indicated that it is likely to rise further. The BoE's Monetary Policy Committee left rates at 3.75% in September, although three of its nine members voted for an increase. Markets are no longer asking how quickly rates will fall, but whether they may need to rise again.

When governments borrow at close to 2% in real terms, other investments must compete with that return. The minimum required return from riskier assets, including corporate bonds, equities and infrastructure, therefore rises. For companies and governments that borrowed cheaply in 2020-2021, refinancing maturing debt will also be more expensive.

UK and US 10-year real yields



Source: Bloomberg, October 2026

Markets dashboard

G4 rates							G10 FX					
	Ccy	Level	YDAY	MTD	YTD	12MO	FX	Level	YDAY	MTD	YTD	12MO
2 Year	EUR	3.12	0.04	-0.09	1.00	1.16	EUR	1.120	0.1	-1.1	-4.6	-3.2
	GBP	4.86	0.06	-0.03	1.13	0.90	GBP	1.325	0.1	-0.2	-1.7	-0.7
	JPY	1.92	0.00	-0.02	0.75	0.99	JPY	158.46	0.1	-0.7	-1.1	-3.9
	USD	4.79	-0.01	-0.10	1.31	1.29	CAD	1.426	0.2	-0.2	-3.8	-1.6
5 Year	EUR	3.25	0.04	-0.11	0.80	1.01	AUD	0.698	-0.1	0.4	4.6	7.1
	GBP	4.97	0.05	-0.01	1.04	0.85	NZD	0.560	0.1	-0.6	-2.7	-2.1
	JPY	2.36	-0.01	-0.02	0.81	1.13	CHF	0.832	0.2	0.5	-4.7	-3.3
	USD	5.02	-0.04	-0.07	1.29	1.39	NOK	9.574	0.1	0.5	5.4	5.4
10 Year	EUR	3.46	0.02	-0.12	0.61	0.82	SEK	9.998	0.4	0.1	-7.9	-4.9
	GBP	5.41	0.04	-0.02	0.93	0.73	Key references					
	JPY	3.02	-0.01	-0.05	0.95	1.32	Mkt	Level	YDAY	MTD	YTD	12MO
	USD	5.24	-0.06	-0.05	1.07	1.21	DXY	102.24	-0.1	0.8	4.0	3.3
30 Year	EUR	3.84	0.01	-0.10	0.36	0.61	BRENT	103.95	4.1	0.4	70.8	65.7
	GBP	5.91	0.01	-0.04	0.71	0.44	GOLD	4,180	0.5	0.5	-3.2	1.7
	JPY	4.07	-0.02	-0.08	0.67	0.89	BITCOIN	83,923	-2.0	0.4	-4.2	-27.0
	USD	5.60	-0.07	-0.03	0.75	0.98	SPX	7,812	-0.5	2.1	14.1	19.2
Yield-spreads							FTSE	10,607	-0.2	0.0	6.8	12.5
	Mkt	Level	YDAY	MTD	YTD	12MO	VIX	15	0	-1	0	-6
10 Year	US-DE	1.77	-0.08	0.08	0.46	0.39	Credit spreads - OAS, bp					
	UK-DE	1.94	0.02	0.11	0.32	-0.09	Mkt	Level	YDAY	MTD	YTD	12MO
	FR-DE	1.37	0.00	0.10	0.66	0.54	Global IG	87	0	2	7	9
	IT-DE	1.08	-0.01	0.05	0.38	0.26	USD IG	81	1	1	3	6
Inflation breakevens							EUR IG	96	0	5	18	19
	Market	Level	YDAY	MTD	YTD	YTD	Global HY	317	4	3	26	2
10 Year	France	1.95	-0.01	-0.05	0.20	0.18	USD HY	308	5	-3	42	26
	Italy	2.08	0.02	-0.03	0.36	0.34	EUR HY	344	4	23	63	45
	Germany	2.22	0.02	0.01	0.47	0.46	EMBI-GD	187	-7	1	-8	-21
	UK	3.45	0.02	0.01	0.52	0.36						
	US	2.35	-0.02	-0.02	0.11	0.03						

Source: Bloomberg/Columbia Threadneedle Investments as of 9 October 2026. OAS – option-adjusted spread; Yield spreads are the spreads over German Bunds (DE); DXY – US dollar Index; SPX – S&P 500 Index; FTSE – FTSE All-Share index; VIX – CBOE Volatility Index; HY – High yield bonds; EMBI-GD – JPMorgan Emerging Markets Bond Index (Global Diversified).



Macro/government bonds

Simon Roberts
Product Specialist, Global Rates

The French sovereign debt crisis dominated bond markets, although French yields eventually retreated from their weekly highs amid short covering. The UK was the worst-performing core market, with 10-year yields rising by around 8bps (see Chart of the Week).

In the US, minutes from the US Federal Reserve (Fed) reinforced a higher-for-longer stance, while comments from senior Fed officials remained hawkish.

Oil prices continued to rise, with crude increasing from around \$102 to \$105 a barrel amid renewed attacks on shipping in the Strait of Hormuz. President Trump also announced an energy ceasefire between Russia and Ukraine and said Russia had agreed to supply 300,000 tonnes of diesel fuel to the US. Higher oil prices continued to push yields upwards and reinforce the higher-for-longer interest-rate narrative.

Reflecting stress in the French sovereign market, the 10-year France-Germany spread remained around 140bps. Reports also pointed to carry-trade unwinding by Japanese investors, who hold an estimated €145 billion in French bonds. French sovereign debt now yields more than Italian and Greek debt across the curve, while concerns about government stability ahead of the presidential election are amplifying fiscal uncertainty.

Downward pressure on gilt prices reflected energy-related inflation concerns, the UK government's increasingly limited fiscal headroom and uncertainty ahead of the Budget in two weeks.

Strong demand for Japanese government bonds reflected higher domestic yields and the carry-trade unwinding in markets including France. The 10-year Japanese government bond yield fell by around 7bps, while the 30-year yield declined by around 12bps.

Portfolios There were no changes to positions in global rates portfolios last week.



Liability driven investments (LDI)

Reve Kragbe,
Investments Associate

The 10-year gilt yield rose 6.8bps over the week to 5.481%, its highest level since 2007. The 10-year breakeven inflation rate also increased, rising 5.3bps to 3.463%, indicating that higher inflation expectations accounted for most of the increase in nominal yields.

UK rate markets modestly repriced over the week, with the implied BoE policy path rising by around 7bps through June 2027. Although a November rate increase is already largely priced in, the move suggests investors have become slightly more convinced that further tightening will follow in 2027. Forecasts that inflation will remain above target into next year reinforce the prospect of a higher-for-longer rate environment and continued upward pressure on UK bond yields. BoE officials maintained a hawkish tone, warning that higher energy prices could keep inflation elevated and add to domestic price pressures.

Meanwhile, strong demand at recent gilt auctions – where cover ratios of around four times meant that investors bid for roughly four times the amount of debt offered – suggests the market has so far absorbed expectations of higher government borrowing. Additional supply arising from the October Budget may therefore place less upward pressure on gilt yields than might otherwise be expected. Even so, estimated fiscal headroom fell to around £9 billion-£11 billion during the week – less than half the level recorded in March. This increases the significance of the Budget, with investors likely to remain sensitive to measures implying materially higher borrowing or debt issuance.

For LDI investors, higher nominal yields continue to support funding levels by reducing liability values. At the same time, rising breakeven inflation reinforces the importance of monitoring inflation-hedge coverage, particularly for schemes with material inflation-linked liabilities. Intra-week moves in the 10-year gilt yield, which ranged from roughly 5.35%-5.50%, also highlight the continuing collateral and liquidity requirements of leveraged LDI portfolios.



Investment grade credit

Steven Nelson,
Client Portfolio Manager, Investment Grade

Global investment grade (IG) credit tightened by 3bps over the week, partially reversing the previous week's widening. Euro IG led the recovery, tightening by 5bps to 95bps and retracing around a third of the previous week's move. US IG tightened by 2bps to 83bps and sterling IG by 2bps to 89bps. The iTraxx Main tightened by 1.7bps to 62.8bps and CDX IG by 2.2bps to 26.2bps, in line with the cash-market recovery. Lower US 10-year government bond yields modestly supported US credit, while rising gilt yields constrained the recovery in sterling IG relative to euro IG.

European primary markets issued around €13 billion of IG corporate debt during the week, the lowest volume since mid-August and well below expectations. Air Liquide, ABN Amro and PepsiCo were among the issuers, with PepsiCo pricing just one day after cutting its profit outlook because of rising North American costs. US issuance also fell short of consensus at around \$17 billion, with Cantor Fitzgerald, DBS and Scentre among those returning to the dollar market.

Corporate credit news was dominated by SpaceX's spectrum acquisition and its implications for the telecoms sector. Verizon, T-Mobile and AT&T widened in sympathy as their shares fell by as much as 8%. The credit impact was more pronounced in the US, as the EU regulatory framework offers European incumbents greater protection. In French credit, many corporates now trade inside French government bonds, reflecting sovereign spread widening beyond what issuer fundamentals would imply. NCC's divestment of its industry business to Heidelberg Materials and CRH is credit positive for both acquirers because of the bolt-on nature and cash-funded structure. Anglo American's negotiations with China's State Administration for Market Regulation over the Teck Resources merger remain unresolved, while South West Water's downgrade added to dispersion among UK regulated utilities.



European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

European high yield (HY) returned -0.09% over the week, even as spreads tightened by 6bps to 340bps and yields fell by 2bps to 7.08%. Performance diverged sharply: Euro HY returned 0.08%, while sterling HY fell by 1.96%, driven by rate sensitivity and severe idiosyncratic stress among UK issuers. Decompression continued within Euro HY as higher-quality bonds outperformed. BB-rated bonds were the only rating segment to post a positive weekly return, at 0.23%, compared with -0.11% for single-B bonds and -1.25% for CCC-rated bonds. European HY recorded net inflows of €91 million, led by exchange-traded fund (ETF) demand and supported by managed-account flows as higher yields attracted some investors – a constructive technical signal despite negative total returns.

Risk aversion deterred issuers, leaving European credit with its lowest primary-market volume since mid-August. European HY issuance was particularly subdued at €1.1 billion across just two BB-rated deals, reflecting an almost complete absence of demand for sub-IG supply.

In ratings news, Fitch upgraded Spanish environmental services group Urbaser to B+ from B, with a positive outlook. This followed Moody's decision in September to revise its outlook to stable from negative.

The divergence between EU and UK tariffs on Chinese electric vehicle (EV) imports emerged as a developing theme. The EU applies duties of 18%-45%, compared with the UK's standard 10% rate. Shortly afterwards, the EU and China reached an interim agreement to cap annual Chinese EV imports at 350,000.



Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income

The JACI gained 23bps over the week, supported by rates, which contributed 18bps, and spread compression, which added 5bps. The index's IG and HY segments returned 24bps and 15bps respectively.

Genting Berhad's proposed MYR1.25 billion rights issue is modestly credit positive, with MYR800 million earmarked for debt repayment. Rating stability remains dependent on an earnings recovery at Genting Singapore following renovation and expansion work, and the ramp-up of Resorts World New York City. Genting expects to complete the rights issue in Q1 2027. Controlling shareholders, led by Kien Huat Realty with a 43.8% stake, have committed to subscribe to their entitlements.

Tencent is issuing US dollar-denominated and offshore renminbi bonds to support its artificial intelligence (AI) investment plans. New World Development has launched an exchange offer for three bonds maturing in 2027 and 2028, capped at US\$600 million. The proposal would exchange the unsecured instruments for longer-dated notes maturing in 2032.



Emerging markets

Omotoke Joseph,
Product Specialist, Emerging Market Debt

Emerging market debt (EMD) recovered from the previous week's losses, with sovereigns returning 0.36%, corporates returning 0.10% and EM local markets returning 0.11% on the week.

Geopolitics remained the dominant market driver. Over the weekend, President Trump announced that Russia and Ukraine had agreed to an immediate 'energy ceasefire'. However, the validity of the agreement was quickly called into question after Ukraine President Zelensky expressed surprise at the announcement, although he later indicated that Ukraine would support such an arrangement if Russia also agreed. Markets initially welcomed the prospect of a ceasefire, but the relief faded as uncertainty around the agreement grew.

Tensions in the Middle East also remained elevated. Riyadh's main airport was struck twice within 24 hours by Iran-backed Houthi rebels, marking the deadliest offensive against a Gulf Arab country since the Iran war began. Separately, the US struck a commercial vessel in the Gulf of Oman after it attempted to breach the US naval blockade of Iranian ports. Against this backdrop, Brent crude opened Monday 1.5% higher at \$107.

Elsewhere, Ethiopia appointed Fitsum Assefa as Finance Minister as the country seeks to finalise its restructuring and stabilise the economy, with its 2024 bonds gaining 2.24% over the week. Zambia also reached a staff-level agreement with the IMF on a new \$1.5 billion Extended Credit Facility, supporting its 2033 Eurobond.

In Rating news, Moody's upgraded Ghana from Caa1 to B3, its second upgrade in a year, citing lower borrowing costs and improved debt affordability, with Ghana's 2035 bonds finishing 1.08% higher. Meanwhile, Fitch affirmed Egypt at B with a Stable outlook, highlighting the country's relatively strong medium-term growth potential, substantial support from bilateral and multilateral partners, and the scale of its economy relative to other B-rated sovereigns. These strengths, however, continue to be balanced by significant credit vulnerabilities and ongoing geopolitical risks.

Looking ahead We await the outcomes of this week's IMF-World Bank Annual Meetings taking place in Bangkok, with discussions focused on the global economic outlook, sovereign debt and financing conditions.

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