In Credit

24 August 2026

Take it to the limit (one more time)

US debt has reached $40 trillion, up by about a third in less than five years. The Treasury has tried to contain long-end pressure, but investors remain sceptical. Read on for a breakdown of fixed income news across sectors and regions.

Chart of the Week

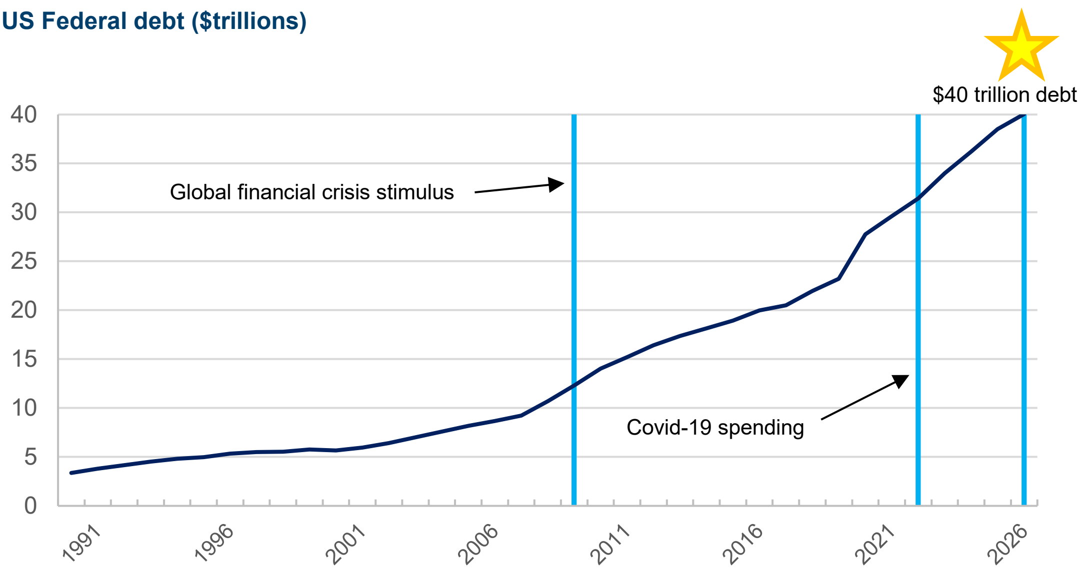
Gary Smith,
Head of Client Portfolio Management team, Fixed Income, EMEA

US government debt has reached $40 trillion, having stood at $20 trillion at the end of 2016. The pandemic explains part of the increase, and the Iran war will add to deficit and debt numbers in future years, but other factors are also at work, not least an inability to trim spending.

The mounting interest bill is taking the fiscal story closer to the limit. Net federal interest outlays are projected to rise more than fourfold between 2016 and 2026 as higher rates feed through to refinancing costs. Treasury borrowing needs remain substantial and, with bond auction sizes expected to remain steady into 2027, short-dated bills are likely to carry more of the burden.

That choice buys flexibility today but creates rollover risk tomorrow. Greater reliance on bills makes the funding structure more sensitive to short-term rates, investor demand and auction conditions. Debt-servicing costs and funding composition are becoming harder to ignore. The next quarterly refunding announcement on 4 November should show how much further policymakers are prepared to take it.

US Federal debt ($trillions)



Source: Bloomberg, August 2026

Market dashboard

G4 rates

Tenor	Ccy	Level	YDAY	MTD	YTD	12MO
2 Year	EUR	2.84	-0.01	0.02	0.72	0.89
	GBP	4.35	-0.02	-0.05	0.62	0.41
	JPY	1.68	0.00	0.18	0.50	0.81
	USD	4.22	0.05	-0.07	0.75	0.53
5 Year	EUR	2.97	0.00	0.03	0.52	0.69
	GBP	4.58	-0.01	-0.02	0.65	0.48
	JPY	2.14	0.01	0.10	0.59	0.97
	USD	4.40	0.03	-0.05	0.68	0.64
10 Year	EUR	3.24	0.00	0.04	0.39	0.52
	GBP	5.05	-0.01	0.00	0.57	0.35
	JPY	2.89	0.03	0.09	0.82	1.27
	USD	4.71	0.03	-0.03	0.54	0.45
30 Year	EUR	3.75	0.00	0.05	0.27	0.44
	GBP	5.79	0.00	0.01	0.58	0.24
	JPY	4.08	0.04	0.08	0.68	0.86
	USD	5.25	0.02	-0.02	0.41	0.37

Yield-spreads

Tenor	Mkt	Level	YDAY	MTD	YTD	12MO
10 Year	US-DE	1.46	0.03	-0.06	0.15	-0.07
	UK-DE	1.80	-0.01	-0.04	0.18	-0.17
	FR-DE	0.87	0.00	0.08	0.16	0.17
	IT-DE	0.82	-0.01	0.00	0.12	0.01

Inflation breakevens

Tenor	Market	Level	YDAY	MTD	YTD	YTD
10 Year	France	1.94	-0.01	0.14	0.19	0.04
	Italy	2.13	0.00	0.09	0.41	0.45
	Germany	2.13	0.00	0.09	0.38	0.40
	UK	3.27	-0.01	0.04	0.33	0.24
	US	2.33	-0.02	0.05	0.09	-0.09

G10 FX

FX	Level	YDAY	MTD	YTD	12MO
EUR	1.167	0.0	1.2	-0.7	0.4
GBP	1.363	0.1	1.1	1.2	1.3
JPY	159.15	0.1	-1.1	-1.5	-7.1
CAD	1.383	0.2	1.4	-0.8	0.2
AUD	0.716	0.8	2.1	7.4	10.5
NZD	0.597	0.6	1.5	3.6	2.0
CHF	0.802	-0.1	0.7	-1.2	0.5
NOK	9.317	0.6	1.7	8.3	8.7
SEK	9.483	0.2	0.5	-2.9	1.1

Key references

Mkt	Level	YDAY	MTD	YTD	12MO
DXY	98.90	-0.1	-1.0	0.6	1.2
BRENT	92.93	0.7	3.1	52.7	37.2
GOLD	4,634	1.9	14.5	7.3	37.7
BITCOIN	77,415	6.7	23.1	-11.7	-31.4
SPX	7,674	0.4	2.5	12.1	18.7
FTSE	10,813	0.6	-0.5	8.9	16.0
VIX	16	-1	0	1	2

Credit spreads - OAS, bp

Mkt	Level	YDAY	MTD	YTD	12MO
Global IG	81	0	1	1	1
USD IG	80	-1	2	2	4
EUR IG	77	0	-2	-1	-4
Global HY	279	-3	-8	-11	-31
USD HY	269	-4	-10	3	-18
EUR HY	279	-1	-8	-2	-7
EMBI-GD	240	-2	-4	-13	-51

Source: Bloomberg/Columbia Threadneedle Investments as of 21 August 2026. QTD refers to the period from 30 June 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

US Treasury price action set the tone for global bond markets last week, with the US curve flattening modestly: the two-year yield rose 7bps, while the 30-year yield increased by just 1bp. Japan was the notable exception, with the curve steepening as the two-year yield rose 1bp and the 30-year yield climbed 5bps. More broadly, long-end yields remained under upward pressure from sticky inflation, geopolitical energy risk and renewed concerns over fiscal sustainability. In the US, total public debt has surpassed $40 trillion (see Chart of the Week), rising by around a third in less than five years.

US Treasury Secretary, Scott Bessent, attempted to contain long-end yield pressure with a buyback announcement described as a “Treasury Twist”: issuing short-dated bills to fund purchases of longer-dated debt. Buybacks could exceed $4 billion, although details on frequency were limited. The immediate market reaction was a fall in yields, but the rally faded quickly. Investors remained sceptical because the programme did little to address the structural drivers of the fiscal deficit, especially when set against the scale of previous US Federal Reserve (Fed) Treasury purchases during quantitative easing.

In Japan, higher yields reflected persistent inflation pressure. Core CPI, excluding fresh food, rose 1.8% year-on-year in July, reinforcing expectations that the Bank of Japan (BoJ) could raise rates as soon as September to contain inflation and support the yen.

Geopolitically, there was no major military escalation in the Middle East. Bessent signalled that the administration's focus would shift from military options to Iran's economic isolation, likely through secondary sanctions on countries trading with Tehran. Separately, Canada walked away from an unfavourable trade deal with the US, adding to trade tensions.

Positioning There were no major changes to positions by the global rates desk last week.

Liability driven investments (LDI)

Guy Bottomley,
Client Portfolio Manager LDI, UK and Ireland

Gilt yields extended their rise over the fortnight, with the sell-off accelerating into mid-period before a partial retracement. The 10-year gilt peaked at 5.08% on 18 August, the highest level of the summer. The July CPI print of 2.9%, up from 2.6% in June, reinforced concerns about persistent inflation and supported the "higher for longer" Bank of England (BoE) policy path that markets had already begun to price. The BoE policy rate remains unchanged at 3.75%, while overnight index swap (OIS) pricing implies only a residual tightening bias at the September meeting.

Political developments became a clearer source of market uncertainty. The UK posted a surprise budget deficit of £1.8 billion in July, £700 million worse year-on-year, while national debt is approaching £3 trillion. Against the backdrop of the Burnham administration's pre-budget spending and tax plans, this provided a concrete data point for a political risk premium that had previously been more sentiment-driven. As a result, longer-dated gilt yields – where fiscal credibility has the greatest influence – moved more sharply than the front end over the period.

The UK's fiscal position remains a structural headwind for the gilt market. Supply was active, with the Debt Management Office selling £4 billion of 2036 gilts and £1.5 billion of index-linked gilts. A further £4 billion of 2033 gilts is scheduled for 25 August. With elevated debt levels, significant financing requirements and higher yields increasing debt-servicing costs, markets remain sensitive to any perceived weakening in fiscal discipline, maintaining a high term premium in longer-dated gilts.

For UK defined benefit pension schemes, the further rise in gilt yields was generally supportive of funding levels, particularly for schemes that retain some exposure to interest rate risk, as higher yields reduce the present value of liabilities. Elevated yields also continue to provide opportunities to increase hedge ratios and lock in long-term funding improvements. However, the period's volatility highlights the importance of robust LDI arrangements, including appropriate collateral buffers, liquidity management and governance frameworks.

Investment grade credit

Steven Nelson,
Client Portfolio Manager, Investment Grade

Global investment grade (IG) spreads ended the week 1bp wider at 80bps. Euro IG underperformed, widening 2bps to 76bps, while US and sterling IG each widened 1bp to 81bps and 80bps respectively. The iTraxx Main closed at 51.4bps, up 0.5bps week-on-week, and CDX IG at 50.8bps, up 0.1bps, with the modest divergence reflecting greater European credit sensitivity. The rates backdrop was unsettled as US Treasuries sold off before rallying after the Treasury announced a buyback programme for long-dated securities.

US IG supply reached approximately $43.6 billion for the week, extending one of the busiest Augusts on record. Notable transactions included QTS's $3.9 billion green secured note to fund a Microsoft-linked data centre in Georgia, AbbVie's approximately $9 billion offering, and AMD's $3.75 billion deal. Conditions were uneven, with at least seven issuers standing down amid widening spreads. In Europe, Belfius Bank priced a €750 million Social Senior Preferred bond, while the covered bond market saw its strongest weekly volume since January 2023, with €14 billion equivalent across 13 issuers.

Corporate news flow was broadly constructive, with financials and regulated utilities providing support. BHP delivered strong full-year results, with underlying profit of $13.2 billion, up 30% year-on-year, and copper overtaking iron ore as the largest contributor to group EBITDA. In Australian infrastructure, APA Group reported underlying EBITDA of A$2.18 billion, in line with consensus, with free cash flow of A$1.1 billion supporting the credit. In UK regulated utilities, Ofwat's draft determination provisionally approved £3.4 billion of additional infrastructure spending across 13 water companies. This was broadly credit-positive in providing greater revenue certainty. Thames Water is among five companies permitted to raise bills, though creditors have reportedly warned the government that nationalisation would cost £140 billion, leaving the longer-term ownership question unresolved.

Against a backdrop of record-pace US issuance and a European primary market poised to restart, the week underscored the divergence between investor appetite and the growing supply challenge facing credit markets into the autumn.

US high yield credit and leveraged loans

Chris Jorel,
Client Portfolio Manager, US High Yield

Market attention pivoted meaningfully towards rates, as Treasury Secretary, Scott Bessent, ramped up guidance around buying back long-dated government debt, adding a new dimension to the long-end narrative heading into Jackson Hole. US high yield (HY) spreads widened 3bps to 270bps, leaving the yield-to-worst at 7.12%, up 8.4bps on the week. The ICE BofA US HY CP Constrained Index returned -0.15%, with CCC-rated credits continuing to underperform, widening approximately 20bps on the week, while the broader market held at historically tight levels despite the modest move wider. Deal activity slowed over the week, with only four deals priced for a total of $1.7 billion, versus 11 deals the previous week. As we enter a quiet seasonal period, lighter new issuance is expected to continue until after Labor Day. According to Lipper, US HY bond retail funds reported their third consecutive inflow this week, totalling $97 million.

On the leveraged loan side, the S&P UBS Leveraged Loan Index finished essentially flat at $94.54, continuing to outperform HY on a relative basis. Collateralised loan obligations (CLOs) tightened slightly in the secondary market. BB loans versus BB HY spreads have normalised back to approximately 90bps from a peak of around 110bps earlier in the summer. Inflows into the loan market remain strong and are accelerating, with approximately $500 million of retail inflows last week against very limited net new issuance. The market remains watchful of the 2027 loan maturity wall, where approximately 60% of maturing loans are low-quality or low-dollar-price credits.

European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

European HY markets remained in summer mode through the week, with thin volumes and a broadly stable tone. Returns were -0.11%, with spreads widening just 1bp to 271bps. Yields rose 6bps to 6.24% on the back of higher underlying government bond yields. Flows were modest but still positive at €82 million, mainly through managed accounts, while ETFs experienced a small outflow. The primary market was quiet, with no new euro HY deals during the week. September is expected to be a strong supply month, with at least €40 billion of issuance forecast for the first week as corporates join financials and supranationals, sovereigns and agencies. Germany's TenneT, for example, has already mandated banks for a dual-tranche hybrid. Overall European HY issuance for 2026 is now expected to reach €145 billion, driven by a wave of leveraged buyout-backed offerings, a surge in HY-rated hybrid issuance running at its fastest pace in at least a decade, and an increase in inaugural issuers. Net supply is now forecast at €60 billion, up from €40 billion.

In rating news, Air Baltic was downgraded to SD by S&P, with its senior secured bonds cut to D. The action followed bondholders approving a debt-for-equity restructuring plan on 17 August, reportedly with more than 75% of represented holders voting in favour. Under the plan, bondholders would retain only €125 million of debt and receive equity for the remainder, while the airline would require approximately €225 million of interim financing. S&P viewed this as distressed and tantamount to default. In other news, Moody's upgraded four Vodafone corporate hybrid instruments to Baa3 from Ba1.

The upcoming maturity wall in European HY is back in focus. Near-term maturities through 2027 are expected to be manageable at 3% of the universe. However, including 2028 and 2029 brings upcoming maturities to 24%, compared with a long-term average of 16.6%. Lower-quality credits account for a significant share: 40% of maturities through 2027 are rated B3 or lower, rising to 44% in 2028 and 45% in 2029.

Structured credit

Kinsey Wessels,
Client Portfolio Analyst, Fixed Income

Structured products were mostly unchanged last week. Agency mortgage-backed securities (MBS) briefly tightened following the US Treasury's buyback announcement, but the move faded as the week progressed, leaving spreads largely unchanged by the end of the week. The Bloomberg US MBS Index returned -10bps over the week, with 15-year securities outperforming 30-year securities as rates bear-flattened. This left both slightly north of their long-term averages. Lower coupons tightened and outperformed, while spread widening was concentrated in the belly and higher coupons. Housing data continued to point to a soft market: building permits increased 5%, housing starts fell 12%, the NAHB Housing Index held below 50 at 35, and pending home sales declined 2%. July prepayment speeds were approximately 3%-5% slower month-on-month, despite July having an additional calendar day. Non-agency MBS spreads were approximately 5bps wider for the week, with the spread differential between AAA- and BBB-rated non-qualified mortgage (non-QM) bonds at historically tight levels of roughly 65bps. Non-agency MBS activity remained robust, with eight deals pricing for approximately $4 billion in total issuance.

Commercial mortgage-backed securities (CMBS) spreads have been notably stable, essentially unchanged across the conduit capital stack for the past two to three months. CMBS issuance was relatively quiet, with two single-asset single-borrower (SASB) transactions and one conduit deal pricing last week. However, year-to-date issuance remains approximately 6% ahead of last year's pace. Spreads remained largely stagnant across asset-backed securities (ABS) subsectors, moving within a narrow range of approximately ±2bps week-on-week. In ABS, six new issues totalling $14.5 billion priced last week, bringing year-to-date issuance to $268 billion, up 12% year-on-year.

Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income

The JACI posted negative returns of 9bps for the week, primarily driven by higher rates, which detracted 16bps, offsetting tighter spreads, which added 7bps. JACI IG delivered negative returns of 10bps, while JACI HY was flat.

Alibaba’s results for Q2 2026 were mixed, with the spotlight on its capex and funding plans. Revenue rose to CNY269 billion, up 9% year-on-year, supported by cloud revenue and quick commerce, but EBITA fell 30% year-on-year due to technology investment and spending to acquire more application subscribers. Capex rose to CNY68 billion, up 75% year-on-year, reflecting procurement-cycle fluctuations, investment in CPU compute and higher chip component prices. The company has launched a HK$80 billion (approximately $10.3 billion) share placement to fund AI capex.

Baidu reported a soft quarter, with revenue of CNY31.3 billion, down 4% year-on-year, while core online marketing revenue fell 19% year-on-year as AI chatbots cannibalised search.

AI cloud infrastructure grew 50% year-on-year, but this was not enough to offset the decline in advertising, while operating margins remained under pressure from continued AI investment. CK Hutchison has commenced another international arbitration proceeding, seeking more than $1.5 billion from Panama on the basis that the termination of its port concession breaches an investment protection treaty. In February 2026 CK Hutchison began arbitration to claim at least $2 billion in damages, arguing that Panama had violated the terms of the port concession agreements.

Emerging markets

Omotoke Joseph,
Product Specialist, Emerging Market Debt

Emerging market debt (EMD) delivered modestly positive returns over the week. Hard currency sovereign debt returned 0.1%, while local markets outperformed with gains of 0.65%. Corporate debt posted a return of 0.06%.

In Romania, the government formally submitted its fifth Recovery and Resilience Facility (RRF)request, worth approximately €2.8 billion. Officials pointed to early signs of economic stabilisation despite a second consecutive quarterly GDP contraction. Efforts to advance the reform agenda also continued, with the Constitutional Court upholding a key biodiversity law linked to the recovery programme, while partially rejecting an integrity bill tied to around €770 million of funding. Romanian 10-year bond prices rose modestly over the week as investors continued to monitor progress towards unlocking EU funding.

In Zambia, preliminary presidential election results indicated a first-round victory for President Hichilema, who secured around 62% of votes with more than two-thirds of constituencies counted. The outcome would grant him a second term centred on economic management and Zambia's copper-led growth story. However, the election was overshadowed by opposition claims of intimidation, irregularities and vote tampering. Zambia's 2033 bonds outperformed, with spreads tightening by approximately 12bps as investors welcomed the prospect of policy continuity and ongoing economic reforms.

Rating activity remained constructive during the week. S&P upgraded Kazakhstan's sovereign rating to BBB/A-2 from BBB-/A-3, reflecting expectations of economic resilience despite global uncertainty and commodity-price volatility. Moody's upgraded Pakistan's local and foreign currency issuer ratings to B3 from Caa1, citing expectations that governance improvements will support stronger external and fiscal metrics. Fitch revised Tanzania's outlook to Positive from Stable, while affirming its B+ rating, reflecting stronger reserve accumulation, moderate fiscal deficits and a declining government debt trajectory.

Looking ahead The Bank of Thailand Monetary Policy Committee meeting is scheduled for Wednesday 26 August.

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