

# Fixed Income Under the Spotlight

## Navigating Global Fixed Income Markets in 2026

### In brief

- In today's uncertain environment, maintaining portfolio liquidity and seeking diversification are key for many investors
- High-yield markets have improved in quality and may present opportunities at shorter durations
- Emerging markets offer relatively attractive diversification opportunities for global fixed income investors, but it is important to stay risk aware

The fixed income market in 2026 presents both opportunities and challenges. The global macro backdrop is supportive, and the appetite for global diversification is creating more opportunities in non-core markets. At the same time, however, fiscal dominance, sticky inflation, and geopolitical risks — including current developments in the Middle East — pose significant challenges for investors. Given the complexity of the current market backdrop, we believe that a thorough research process and a focus on portfolio liquidity will help investors take advantage of the potential opportunities that may emerge from future market dislocations.

### Managing Risks and Finding Opportunities in Fixed Income Markets

**We are watching a number of global risks.** Geopolitical risks are increasing, with tensions now present in Venezuela, Greenland, and the Middle East, in addition to the ongoing conflict between Russia and Ukraine. These events — especially the conflict with Iran — have the potential to disrupt energy markets and supply chains and could lead to higher inflation. Another macro challenge is fiscal dominance in developed markets, particularly the high level of public sector debt and the lack of political will to restore fiscal discipline. Additionally, inflation remains stubbornly high in some countries; for example, health care costs are becoming a more significant factor in the United States. Offsetting these challenges, we also see some supportive macro themes: the International Monetary Fund has upgraded its expectations for global growth; central banks are maintaining a relatively neutral stance; and there is a positive productivity story in the US as a result of strong private capital expenditure.

**It is too early to tell if issuance related to AI capex will cause a credit bubble.** The market's reaction to significant issuances by technology companies and hyperscalers indicates heightened interest from investors — but also highlights potential risks. In our view, the Alphabet story should be focused on the company's doubling capital expenditures in 2026 rather than the size or term of its bond issue. We believe the biggest risk for credit investors would be a general spread-widening event, which would then result in reduced market liquidity. We remain vigilant for such knock-on effects to other industries and are closely watching as software companies refinance their existing leveraged loans.



**The US Treasury market's status as a safe haven asset has become more nuanced.** While the term premium of the treasury curve reflects increased risk, it is noteworthy that the US 10-year yield has shown resilience compared to other major markets. The hurdle for designation as a safe haven asset is higher than it was in the face of increased scrutiny from investors, and US Treasuries' safe haven status now depends more on the source of uncertainty. If the uncertainty originates from the US, such as from government shutdowns or other policies, their safe haven status becomes compromised. Conversely, in the face of external geopolitical or market issues, the US dollar and Treasuries will continue to play a critical role due to their global liquidity and collateral significance.

**Maintaining liquidity and diversifying portfolios should be front of mind for investors.** We expect continued volatility to create market dislocations in the year ahead. As a result, investors should consider maintaining sufficient liquidity in portfolios to take advantage of such opportunities. Importantly, the ability to leverage geographical diversification and make use of bottom-up security selection across sectors as well as quality will likely be key to exploiting potentially valuable opportunities as they emerge. For example, our fixed income sector teams are highlighting that the US high-yield market currently offers more relatively attractive prospects than Europe, while investment-grade opportunities appear more favorable in Europe.

## Global Fixed Income Positioning

Despite the complex valuation landscape, we are finding attractive fixed income opportunities in new geographies and relative value plays. Positive drivers include the potential for intermediate carry in fixed income markets, where investors can find defensive positions that offer better break-evens and positive total returns. We are strong proponents of diversification in today's markets, as investors are increasingly looking beyond domestic borders to find opportunities as well as to manage risk; in particular, emerging markets appear to offer potential value despite their higher-beta nature.

### Corporate Credit

We are taking a careful approach towards **investment-grade (IG) credit**; we are underweight European IG (due to lower sector dispersion and spreads) as well as the tech sector in the US (due to high AI-related issuances). Our caution towards IG should be seen in the light of maintaining liquidity in portfolios as we wait for potential dislocations to present more attractive entry points. In **high-yield credit**, despite tight valuations, we are finding attractive, idiosyncratic names in the US rather than in Europe. In general, the public high-yield market has seen structural improvements in recent times, with a higher share of better quality companies and more BB ratings as weaker credits have switched into leveraged loan or private credit markets for funding purposes.

We also see attractive opportunities in **securitized credit**, where we encourage CRE CLOs over CMBS and using agency pass-throughs for funding (*i.e.*, selling US mortgages to fund positions in high-yield and emerging markets). In the **emerging markets** space, we prefer sovereigns over corporates due to the relative valuations and liquidity advantages of sovereigns.

### Rates

In 2025, we maintained a long duration position, as we believed central banks globally would lower rates. This year, we have significantly reduced duration while maintaining a long position, and we are utilizing a more bottom-up approach to find the best possible opportunities. We are finding some of these opportunities in developing rather than developed markets. For example, we see attractive risk premia in South Africa and have found notable dislocations in Thailand following recent elections. We also like the high real rates in Brazil, stability in Uruguay, and modest easing cycle in Chile. Within developed markets, we have a long duration exposure in the US, as we think the Federal Reserve will ease policy by more than the market has priced in, and we are positioned for a steeper curve in the United Kingdom.



## Conclusion

We believe that a strong research platform is crucial in this environment, and a bottom-up approach is essential to identifying the right names and generating excess returns. Focusing on geographic diversification, portfolio liquidity, and credit quality can help investors manage risks and capitalize on opportunities presented by market dislocations during these uncertain times. ▲

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