

# Fixed Income Focus

## Summary

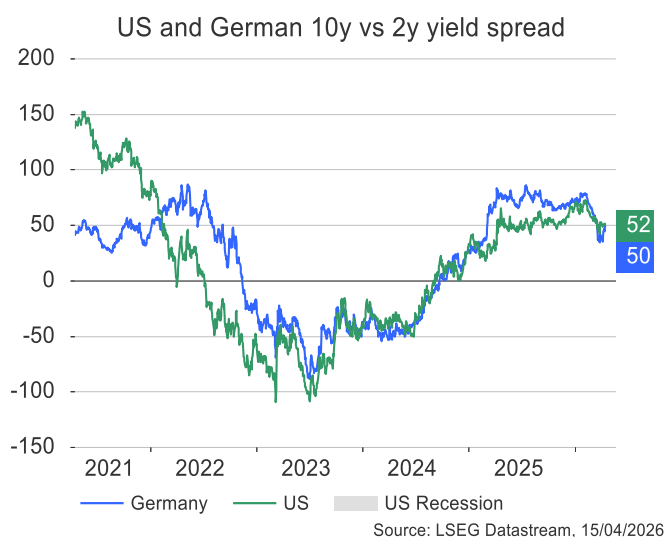
- 1. The Fed on hold this year:** The March job report was solid, while the risks for inflation are tilted to the upside. We do not expect further Fed rate cuts this year.
- 2. ECB not expected to hike this year:** We are not yet seeing second-round effects, nor signs of de-anchoring in inflation expectations. Therefore, we continue to expect the policy rate of the ECB to remain unchanged this year.
- 3. Opportunities in core eurozone govies:** Positive stance on core eurozone govies. We favour maturities of 7-10 years.
- 4. Opportunities in UK bonds:** Positive stance on UK government bonds: We keep our target on 10-year UK government bond yields at 4.30%.
- 5. Selective opportunities in corporate bonds:** We prefer EUR and GBP IG corporate bonds (Positive view) over USD IG bonds (Neutral view).
- 6. We keep a negative stance on corporate high yield bonds. For fallen angels as well as rising stars, we keep a neutral view:** Current spreads do not remunerate for the underlying risks. Even if recession risks remain low, they are still higher compared to the environment before the Iran strikes.
- 7. Neutral view on emerging market bonds in local and hard currency:** We see less potential for USD weakening is not supportive for this asset class. The risk premium is not sufficient at this stage.

Writing completed on 16 April 2026

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## CHART OF THE MONTH: YIELD CURVE FLATTENING OVER?



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# Central banks

## Monetary authorities should look through the rise in headline inflation

### European Central Bank (ECB)

The ECB has adopted a cautious but increasingly hawkish stance following the beginning of the Iran conflict. While initially emphasizing the duration of the energy crisis and impact, recent signals suggest a shift toward acknowledging the risks of persistence. ECB President Lagarde’s latest comments lean more hawkish, warning of longer-lasting supply chain disruptions and gradual economic slowdown. The key will be to monitor second-round effects as companies could pass on energy cost increases and wage negotiations could add further pressure. At this stage there are no signs of such developments. The situation is very different compared to 2022. At the time, the ECB started hiking rates after the Russian invasion while inflation was already at 6%. (see chart below).

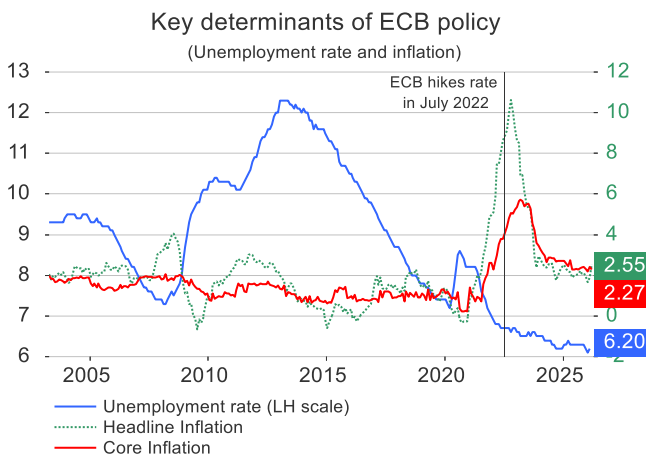
**Outlook:** The balance of risks has turned less favorable, but we are not yet seeing second-round effects, nor signs of de-anchoring in inflation expectations. Therefore, we continue to expect the policy rate of the ECB to remain unchanged this year.

### US Federal Reserve (Fed)

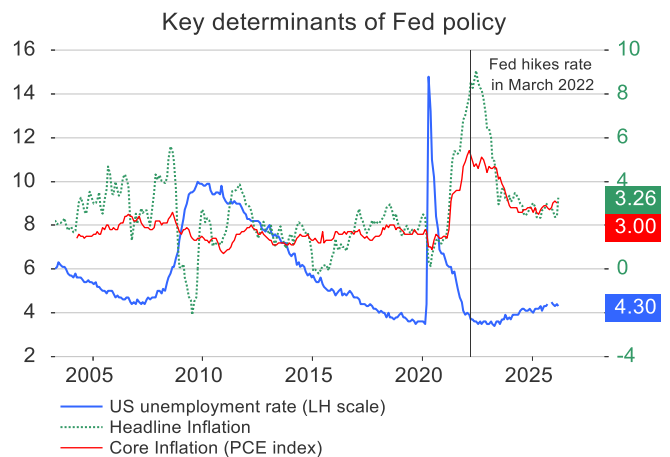
The FOMC minutes were largely in line with expectations, but they highlighted the emergence of two-sided risks: upward pressure on inflation and a weakening labour market. Comments from the April Fed meeting also revealed a more symmetric bias in the Committee’s outlook. Unemployment remains near historic lows, yet recent job-creation data show early signs of softness, a trend that is reinforced by both business- and consumer-survey results. Meanwhile, the upside risk to inflation has risen sharply: energy prices have increased, and inflation expectations have moved higher. Despite this, long-term inflation expectations remain anchored (i.e., relatively stable).

**Outlook:** The March jobs report was robust, indicating that labor-market concerns have eased slightly, while the inflation outlook has clearly moved to the upside. Consequently, we now expect that the Fed will not implement any further rate cuts during the remainder of the year.

#### THE KEY WILL BE CORE VS HEADLINE INFLATION AND SECOND ROUND EFFECTS



#### THE STARTING POINT FOR US INFLATION IS HIGH, BUT THE JOB MARKET IS LESS HOT



#### INVESTMENT CONCLUSION

We anticipate that the Fed will keep its policy rate at 3.75 % unchanged for the rest of the year as the FOMC adopts a more symmetric bias. The unemployment rate remains stable, with modest hiring and low turnover. At the same time, structural inflation risks continue to linger. The ECB is expected to maintain rates close to 2 % throughout the year. Second-round effects are still muted, and there are no evident signs of a de-anchoring of inflation expectations.

## Topics in Focus

### Has the German sovereign bond yield reached its peak?

In recent weeks, the yield on the German 10-year sovereign bond has rebounded sharply, temporarily exceeding 3.10%. This move appears mainly attributable to a significant rise in inflation uncertainty, amplified by the Middle East crisis. The bond yield can be broken down to separate the component linked to expected inflation from the real component (i.e., purchasing power adjusted), which depends on the economy’s potential growth. The real component is measured through inflation linked bonds: these securities pay a real coupon plus the inflation actually realised over the period. For example, such a bond may provide a 1% annual coupon together with the observed inflation.

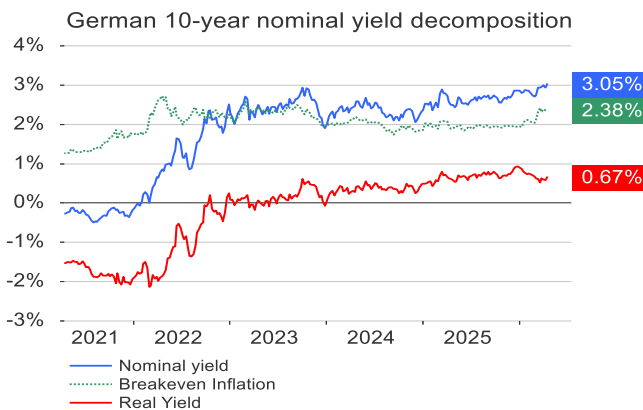
At the beginning of April, the real yield to maturity of a German inflation linked sovereign bond with a 10-year horizon was around 0.6%. By contrast, a nominal (non indexed) bond offered a yield of roughly 3%. The 2.4% spread (breakeven inflation) therefore reflects, at first glance, 10-year inflation expectations. However, this simple difference can be biased by other factors, notably a premium related to inflation

uncertainty and some liquidity premium.

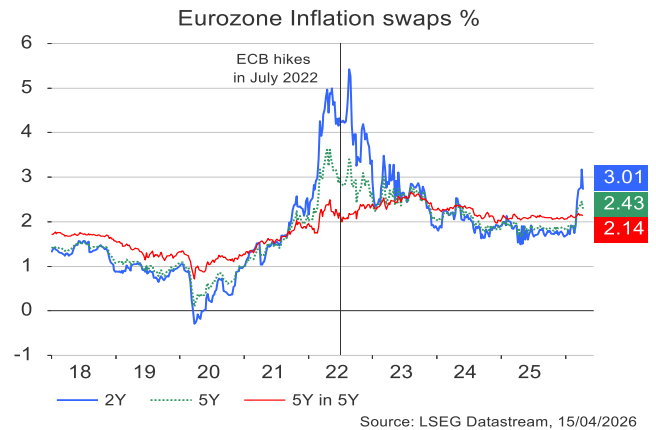
We anticipate a de escalation of the conflict in Iran and a fall in oil prices to around \$80 per barrel. Damage to energy facilities in Iran and neighboring countries, however, will prevent a return to pre conflict levels (about \$70). Consequently, European inflation will continue to rise in the short term, but we consider it unlikely that companies will broadly pass higher energy costs on to their selling prices. Likewise, a generalized wage increase seems improbable. Hence, a persistently high inflation scenario appears unlikely.

Even if the conflict intensified and oil prices rose sharply, we do not envisage inflation remaining elevated over longer period. In that case the ECB would be forced to raise its policy rate sharply, triggering a recession in the euro area. The resulting marked slowdown in activity would eventually act as a natural brake on inflation. In both scenarios, long term inflation expectations of 2.30%-2.40% seem excessive.

#### DECOMPOSITION OF NOMINAL VERSUS REAL YIELDS IN GERMANY



#### ANCHORING OF EUROZONE INFLATION EXPECTATIONS



#### INVESTMENT CONCLUSION

We see no reason to doubt the ECB’s ability to bring inflation back to roughly 2% on average over the next few years. Real yields are driven primarily by the economy’s growth potential, which we estimate at about 0.7%. Even after adding an uncertainty premium, it is realistic to expect nominal yields to stabilize within a range of roughly 2.70% - 3.0% within a year.

# Government Bond yields

## Buying opportunity in the eurozone and UK

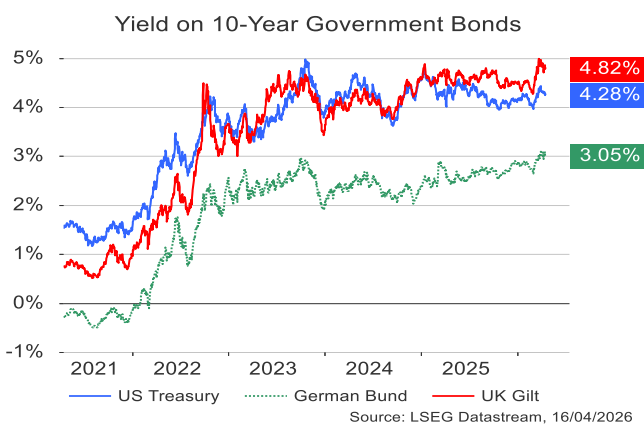
**Buying opportunities in core eurozone long-dated bonds:** We saw the 10-year government bond yield in Germany breaking temporarily the 3.10% level. The yield fell back to 3% by mid-April. This is still well above our forecast of 2.75%. We do not expect core inflation to rise durably. The recent move in breakeven rates seems exaggerated (see previous page). We favour maturities of 7-10 years.

**Positive stance on UK government bonds:** We keep our target on 10-year UK government bond yields at 4.30%. We thus keep a positive recommendation. Indeed, the yield has been hovering around 4.80% over the past few weeks.

**Neutral stance on US government bonds:** The 10-year Yield in the US has been hovering in a tight range 4.25-4.30%. Inflation expectations as measured by the breakeven inflation, remain were quite stable. US Treasury yields will probably remain biased to the upside over the coming year, due to the risk of increasing sovereign debt. We keep a target of 4.25%.

	Maturity (years)	16/04/2026	3-month target	12-month target
USA	Policy rate	3.85	3.75	3.75
	2	3.80	3.60	3.60
	5	3.90	3.75	3.75
	10	4.30	4.25	4.25
	30	4.90	4.75	4.90
Germany	Policy rate	2.00	2.00	2.00
	2	2.51	2.25	2.25
	5	2.70	2.50	2.70
	10	3.04	2.80	2.75
	30	3.60	3.50	3.25
UK	Policy rate	3.75	3.75	3.75
	2	4.23	4	4
	5	4.36	4.10	3.75
	10	4.86	4.40	4.30
	30	5.57	5.10	5.10
Japan	Policy rate	0.75	1.00	1.00
	2	1.36	1.30	1.40
	5	1.83	1.70	1.80
	10	2.42	2.40	2.50
	30	3.62	3.6	3.70

### 10-YEAR GOVERNMENT BOND YIELDS



### INVESTMENT CONCLUSION

We have turned positive on core-Eurozone long-dated bonds and continue to hold a positive outlook on UK gilts. We remain neutral on U.S. Treasuries, as the 10-year yield is trading close to our 12-month target, while the risks associated with rising sovereign debt have increased.

# Selective Opportunities in Corporate bonds

We see opportunities in Investment Grade Bonds in the EUR and GBP

## Positive view on Corporate investment grade bonds:

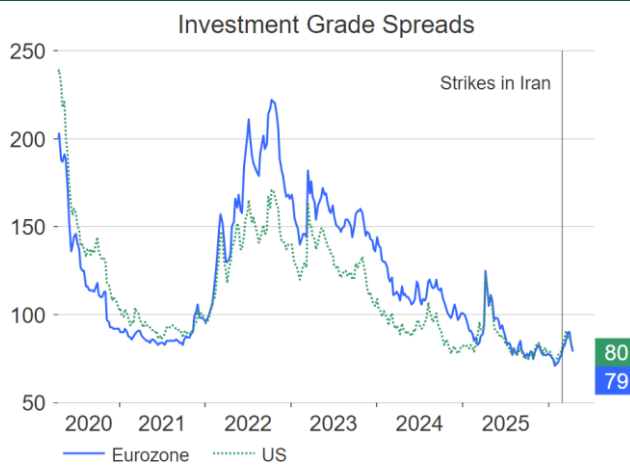
Spreads on both investment-grade and high-yield corporate bonds have receded to levels that are close to – and in some cases even below – those seen before the strikes in Iran, particularly in the United States. We continue to expect a gradual de-escalation of the conflict, with the fighting likely to be measured in weeks rather than months. This outlook reflects not only an assessment of Iran’s military capabilities but also the potential political and economic fallout a protracted war would generate worldwide. A rapid return to the “Goldilocks” macro-economic environment that prevailed a month ago now looks unlikely. In addition, structural damage to energy infrastructure has probably already taken place, making it improbable that Brent crude will fall below \$80 per barrel. Given the current supply dynamics and the prevailing spread levels, we maintain a positive view on EUR- and GBP-denominated investment-grade corporate bonds, while we remain neutral on USD-denominated investment-grade bonds. Our focus remains on high-quality issuers.

## Caution on Corporate high yield bonds

As mentioned earlier, spreads have retraced the rise that followed the cease-fire announcement—a surprising development, given that there is no clear evidence the conflict has actually ended. Current spreads no longer compensate investors for the underlying risks. Even though recession risks remain modest, they are still higher than they were before the Iran strikes. BB-rated spreads are especially low by historical standards. In addition, the high yield-to-investment-grade spread remains compressed and does not reflect the heightened risk environment.

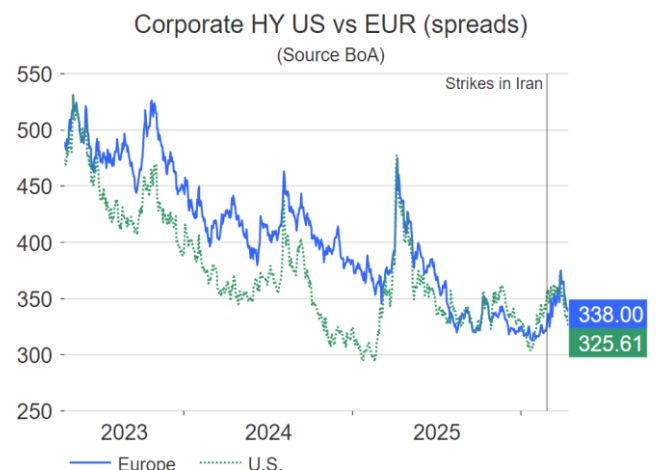
Last month we downgraded corporate high-yield bonds to a negative outlook and moved both fallen-angel and rising-star issuers to a neutral stance.

### INVESTMENT GRADE CORPORATE BONDS



Source: LSEG Datastream, 16/04/2026

### CORPORATE HIGH YIELD BONDS



Source: LSEG Datastream, 15/04/2026

### INVESTMENT CONCLUSION

We maintain a positive view on EUR- and GBP-denominated investment-grade corporate bonds, while we remain neutral on USD-denominated investment-grade bonds. Our focus remains on high-quality issuers. Last month we downgraded corporate high-yield bonds to a negative outlook and moved both fallen-angel and rising-star issuers to a neutral stance.

## Our Investment Recommendations

Asset class	Zone	Our opinion	
Government bonds	Germany and core eurozone	+	Positive since the 10-year Bund broke 3%. Prefer 7-10 years maturities.
	Non-core Peripheral countries	=	Neutral on non-core peripheral debt (Portugal, Italy, Spain, Greece).
	United Kingdom	+	Positive on UK government bonds.
	United States	=	We are Neutral and prefer 2-5 years maturities. Positive on TIPS.
Corporate bonds Investment Grade (IG)	Eurozone/United Kingdom	+	<ul style="list-style-type: none"> <li>Positive on eurozone and UK IG corporate bonds, and Neutral on US corporate bonds.</li> <li>We prefer maturities up to 7 years in the eurozone and up to 5 years in the US.</li> <li>Neutral on convertible bonds.</li> </ul>
	United States	=	
Corporate bonds High Yield (HY)	Eurozone and United States	-	<ul style="list-style-type: none"> <li>Negative on corporate HY bonds.</li> <li>Neutral on fallen angels and rising stars.</li> </ul>
Emerging bonds	In hard currency	=	Neutral on EM hard currency bonds (sovereign and corporate).
	In local currency	=	Neutral on EM local currency government bonds to neutral.

## Market Data

	10-year rate (%)	Spread to bund (bp)	Spread change 1 month (bp)
United States	4.28	---	
Germany	3.05	---	
France	3.68	64	-6
Italy	3.83	78	-3
Spain	3.50	45	-6
Portugal	3.44	40	-6
Greece	3.79	74	-8

16/04/2026  
Source: Refinitiv Datastream

	Yield (%)	Spread (bp)	Spread change 1 month (bp)
Corporate bonds IG EUR	3.52	79	-10
Corporate bonds IG USD	5.00	80	-13
Corporate bonds HY EUR	5.67	294	-14
Corporate bonds HY USD	6.81	280	-44
Emerging government bonds in hard currency	6.64	222	-16
Emerging government bonds in local currency	6.10	221	-16

16/04/2026  
Source: Refinitiv Datastream, Bloomberg

# Valuation

Credits	Yield	Spread	10yr Avg Spread	2yr Spread Range		Spread Change			2yr Z-Score*
				Min	Max	Chg 1W	Chg 1M bp	Chg YTD	
Euro Corporate	3.52	79	118	71	127	-3	-10	1	▲
Single-A	3.44	70	101	64	116	-4	-12	1	▲
Euro High Yield	5.67	294	380	256	429	-11	-14	24	▲
BB	4.57	182	280	158	303	-9	-17	3	▲

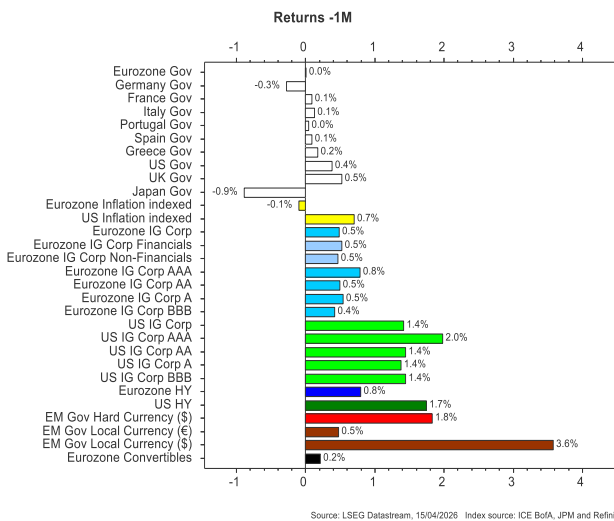
\* Z-score 2y is based on the spread Source: LSEG Datastream , BNP Paribas WM, 15/04/2026

Credits	Yield	Spread	10yr Avg Spread	2yr Spread Range		Spread Change			2yr Z-Score*
				Min	Max	Chg 1W	Chg 1M bp	Chg 3m	
US Corporate	5.00	80	118	73	121	-3	-13	1	▲
Single-A	4.85	66	94	59	102	-3	-12	1	▲
US High Yield	6.81	280	392	258	456	-9	-44	4	▲
BB	5.78	173	258	156	306	-5	-33	4	▲
EM HY (\$)	6.64	222	348	219	379	-16	-17	-9	▲

\* Z-score 2y is based on the spread Source: LSEG Datastream , BNP Paribas WM, 15/04/2026

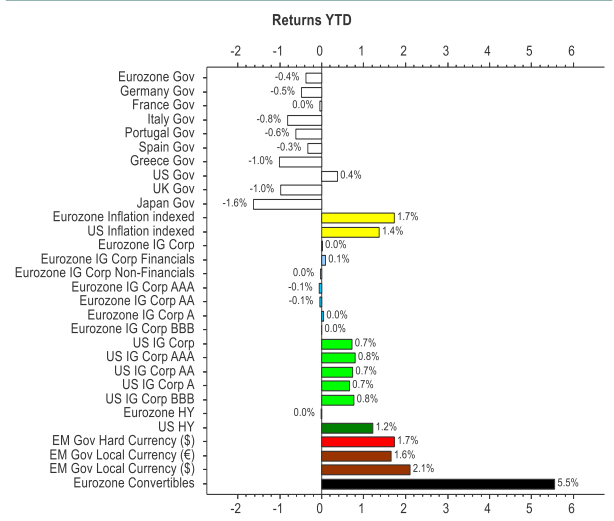
# Return

## OVER ONE MONTH



Source: LSEG Datastream, 15/04/2026 Index source: ICE BofA, JPM and Refinitiv

## SINCE 01/01/2026



Source: LSEG Datastream, 15/04/2026 Index source: ICE BofA, JPM and Refinitiv

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Senior Investment Advisor, Commodities

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Chief Investment Strategist

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Chief Investment Officer, Asia
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- Dannel LOW**  
Investment Services Analyst

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