

Fixed Income Focus

Summary

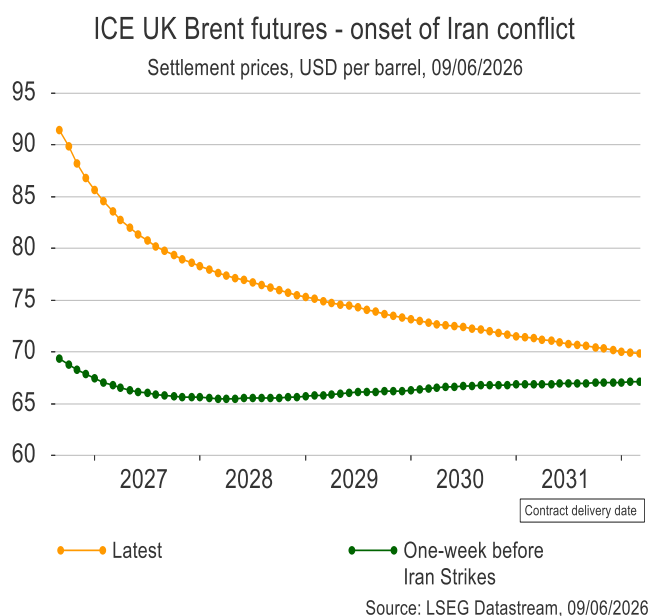
- All eyes on oil prices:** Investors are pricing out the chance of a very gradual oil price normalization. That remains a key indicator for optimism and risk appetite (see chart of the month).
- The Fed feels the heat:** After the job report, the Fed faces growing a pressure to address inflation risks. The next move will depend on two key factors: the trajectory of unemployment and the stability of inflation expectations. At this stage, we expect the Fed to remain on hold this year.
- ECB hiked as largely expected:** The ECB, operating under a stricter inflation-targeting framework raised its policy rate in June 2026 to counter inflationary pressures. We expect a wait-and-see approach thereafter.
- Opportunities in core eurozone govies as long as the 10-year Bund remains above 3%:** Positive stance on core eurozone govies. We favour maturities of 7-10 years.
- Positive opinion on UK bonds:** Yields fell back after the political pressure started to come down. We keep a positive stance on UK government bonds. We keep our target on the 10-year UK government bond yield at 4.30%.
- Selective opportunities in corporate bonds:** We prefer EUR and GBP IG corporate bonds (Positive view) over USD IG bonds (Neutral view).
- We keep a negative stance on corporate high yield bonds. For fallen angels as well as rising stars, we keep a neutral view:** Yield spreads remain very low and do not remunerate for the underlying risks.
- Too early to come back on EM Bonds:** The three primary drivers—valuation, currency outlook, and monetary policy expectations— are not supportive. We need to monitor the developments in the Middle-East and the expected re-opening of the Strait of Hormuz.

Writing completed on 11 June 2026

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CHART OF THE MONTH: ALL EYES ON OIL PRICES



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Central banks

ECB hiked rates in June as expected – Fed on hold

European Central Bank (ECB)

The June ECB rate hike was largely expected. Business activity showed signs of stabilization while high inflation persisted across the euro area. In May, headline inflation climbed to 3.2%, with core at 2.5% and services at 3.5%, reinforcing the ECB’s cautious tone in April’s meeting minutes. We also heard hawkish comments ahead of the 11 June policy decision. The Governing Council did not give much guidance regarding the meetings ahead. The communication focused on the persistence and on the outlook for inflation and its key drivers. Relative to March, the June ECB staff forecast showed lower growth and higher inflation.

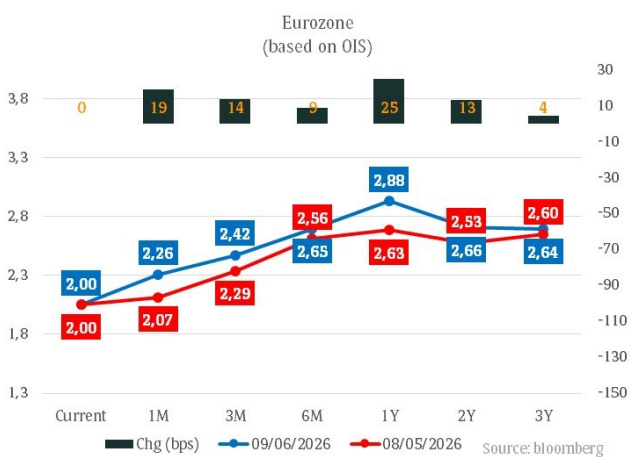
Outlook: The longer-than-expected Strait of Hormuz closure further heightened inflation risks, intensifying pressure on the ECB. With its strict inflation mandate, the central bank was expected to raise rates at the June meeting. We expect a wait-and-see approach going forward.

US Federal Reserve (Fed)

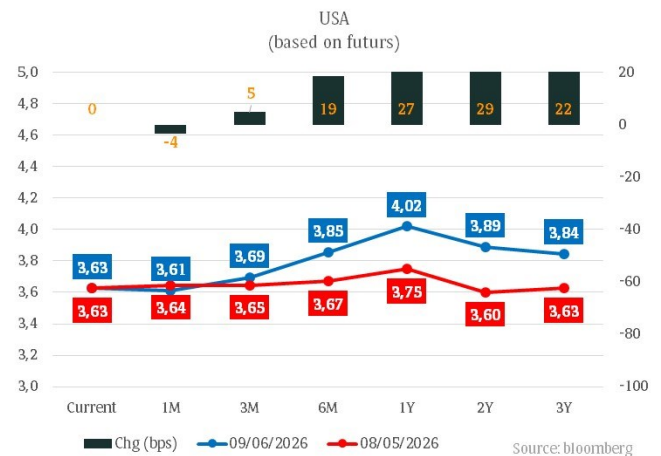
The FOMC minutes from April meeting highlighted that an "overwhelming majority" of members acknowledge a delay in inflation returning to its target. This assessment aligned with the stronger-than-expected May payrolls report, which reinforced confidence in the resilience of the U.S. economy but also heightened concerns about persistent inflation pressures. Markets reacted by pricing in a higher chance of a year-end rate hike. That seems quite aggressive, but the situation will need to be closely monitored.

Outlook: The Fed faces growing pressure to address inflation risks, as financial markets anticipate possible rate hikes later in the year. The Fed’s approach will likely depend on two key factors: the trajectory of unemployment and the stability of inflation expectations. For now, the outlook suggests the Fed will maintain its current policy stance throughout 2026.

MARKET PRICING FOR THE ECB



MARKET PRICING FOR THE FED



INVESTMENT CONCLUSION

We expect the Fed to hold its policy rate at 3.75 % for the remainder of the year. Recent labour market data again came in stronger than anticipated, and structural inflation risks remain entrenched in the United States, tilting the risk balance to the upside.

In the euro area, the ECB raised its target rate in June as the Strait of Hormuz closure persists longer than expected. After this month’s move, we anticipate a wait and see stance.

Topics in Focus

Why the risk for US yields is biased to the upside over the longer term

Fed balance sheet reduction: The Federal Reserve is expected to commence a modest, orderly reduction of its balance sheet—approximately \$700 billion of reserves—with the runoff pace accelerating from 2028 onward and communicated clearly to the market. The term premium on the 10-year Treasury is projected to increase by roughly 15 bps. That also suggests some upside for 10-year yields. Past episodes illustrate the sensitivity of rates to balance-sheet signaling. In 2013, the “taper tantrum” caused real yields to jump about 100 bps after the Fed hinted at tapering QE. With a gradual and well-communicated runoff, market disruption should however remain limited.

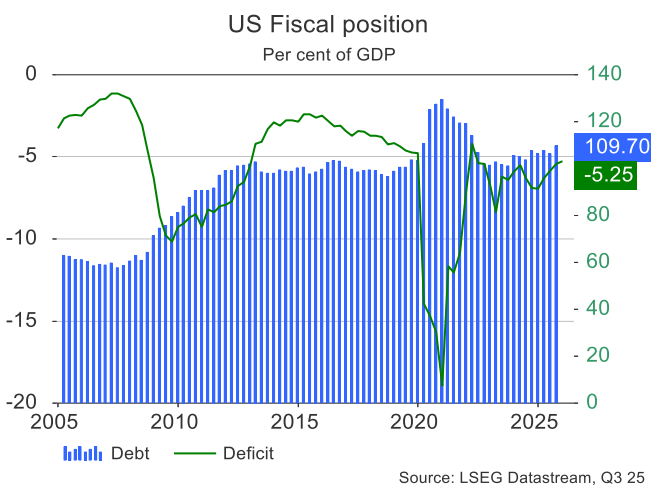
Higher deficit and debt: As the chart below shows, the U.S. deficit has risen steadily over the past few years, pushing the debt to GDP ratio to elevated levels (ex-Covid period). If no additional deficit were incurred, a key rule of thumb would be that economic growth should be higher than the average cost of existing debt (average coupon).

Nominal GDP growth should be around 4-4.5% in the coming years. Since government issued new debt at varying rates, it’s crucial to calculate the average cost of debt. The average cost of debt is estimated around 3%. That suggests a stable path if there is no new deficits. Markets could however become more worried as the public deficit is expected to increase further from the current level.

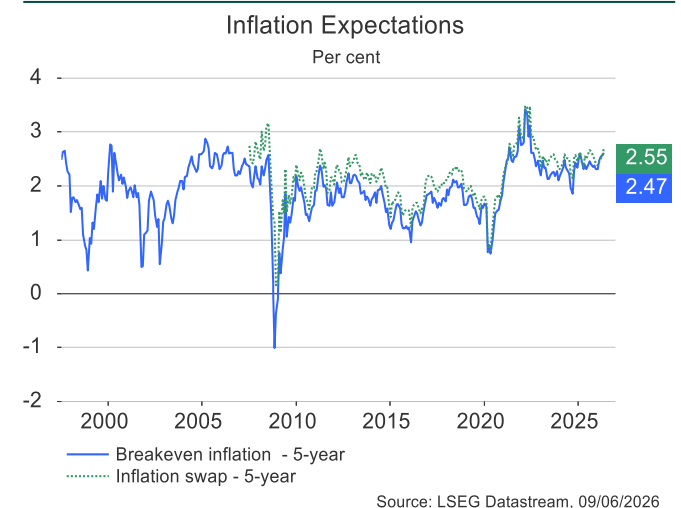
Volatility in inflation expectations: The term premium is driven largely by the volatility of long-term inflation expectations. The chart below suggests that this volatility has been on the rise. Even though the Fed is comparatively less inflation focused than other central banks, this environment could lift the term premium over the next year.

Conclusion: Despite those medium-term risks we anticipate a de-escalation of the conflict in the coming weeks. This should alleviate some upward pressure on U.S. yields. Our 12-month target remains at 4.25 %, though we will continue to monitor upside risks throughout the year.

US DEFICIT AND DEBT



LONG-TERM INFLATION EXPECTATIONS



INVESTMENT CONCLUSION

Three key factors are (1) the Fed balance sheet reduction, (2) the growing US debt and (3) the volatility of inflation expectations. All these factors will probably add some upside risk for the 10-year yield in the future. At this stage, we keep our US 10-year government bonds target of 4.25% over the coming year. Indeed, the de-escalation of the conflict should lead to a fall of oil prices toward a \$80-85 range. This should keep the upside for yields limited in the coming months. Long-term risks need to be monitored closely.

Government Bond yields

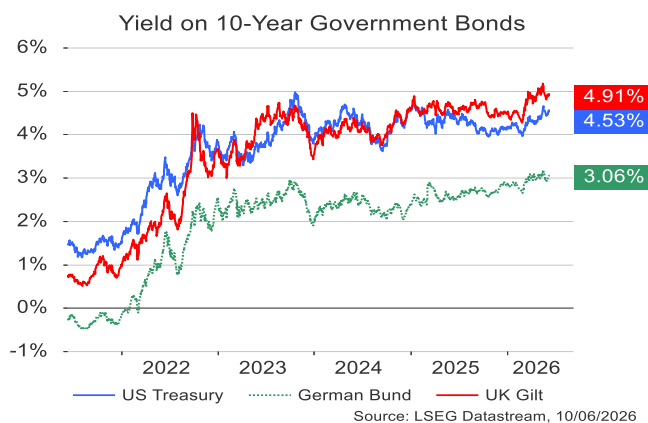
Positive eurozone and UK

Positive Core Eurozone Long Dated Bonds: They remain attractive as long as the German 10-year yield stays above 3%. The underlying assumption is that core inflation will not rise structurally, and second round effects should stay limited because firms have weak pricing power. Inflation breakeven rates are expected to fall again as the conflict de-escalates. Accordingly, we prefer maturities in the 7-to-10-year range.

Positive Stance on UK Government Bonds: Political uncertainty has subsided, and 10-year UK gilt yields have retreated. Since yields are still above our target level, we continue to keep a positive view on these bonds.

Neutral Stance on US Government Bonds: The US 10-year yield is hovering in a narrow band around 4.50% after briefly breaking 4.60% mid-May. Inflation expectations, measured by breakeven inflation, remain relatively stable despite strong employment data. We maintain a target of 4.25%, but, as discussed earlier, medium term risks are biased to the upside.

10-YEAR GOVERNMENT BOND YIELDS



	Maturity (years)	13/5/2026	3-month target	12-month target
USA	Policy rate	3.75	3.75	3.75
	2	4.10	3.80	3.80
	5	4.25	4.00	4.00
	10	4.50	4.35	4.25
	30	5.00	4.90	4.90
Germany	Policy rate	2.00	2.25	2.25
	2	2.70	2.50	2.25
	5	2.80	2.70	2.60
	10	3.05	2.90	2.75
	30	3.60	3.40	3.25
UK	Policy rate	3.75	4.00	4.00
	2	4.35	4.15	4.00
	5	4.50	4.25	3.90
	10	4.90	4.80	4.30
	30	5.60	5.40	5.10
Japan	Policy rate	0.75	1.00	1.50
	2	1.40	1.40	1.40
	5	1.95	1.70	1.80
	10	2.70	2.50	2.50
	30	3.85	3.70	3.70

Source: Refinitiv Datastream, BNP Paribas WM

INVESTMENT CONCLUSION

We are positive on core-Eurozone long-dated bonds and continue to hold a positive outlook on UK gilts despite the recent political events. We remain neutral on U.S. Treasuries. Yields remain above our target, but medium-term upside risks remain high.

Too early to come back on EM Bonds

Emerging Market Local Currency bonds do not offer attractive expected returns

Emerging market (EM) growth stayed resilient in early 2026, supported by China’s steady expansion and strong performance in industrialized Asian economies like South Korea and Taiwan, where AI-driven semiconductor demand boosted exports. The oil shock proved more severe than in 2022, with supply disruptions pushing energy prices sharply higher. While food inflation remained contained, rising fertilizer, petrochemical, and transport costs threaten broader price pressures. Metal prices had already been climbing before the conflict, adding to inflation concerns.

Most EM central banks left rates unchanged recently, with only Colombia, Indonesia, and the Philippines tightening, leaving real rates positive across the region. Financial conditions tightened modestly for most economies, but Turkey and Egypt faced acute stress. We expect a quite gradual fall in oil prices even if the Strait of Hormuz reopens, reflecting prolonged supply constraints and geopolitical risk premiums. The potential for rate cuts is very limited.

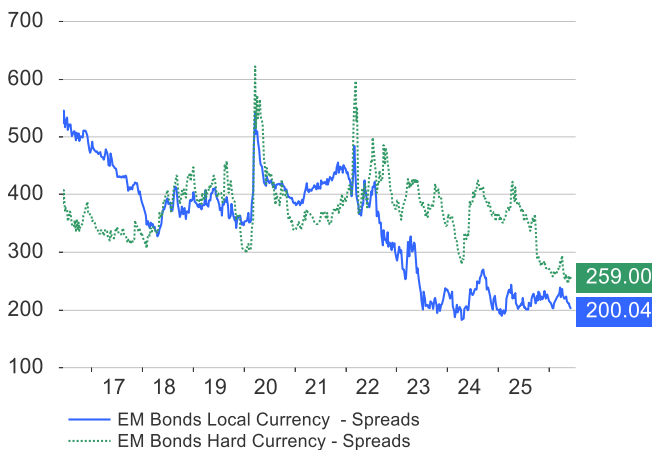
Neutral Stance: The three key performance drivers are: (1) valuation, (2) the dollar’s outlook, and (3) the potential for EM central bank rate cuts.

Valuation is unresponsive: As shown in the chart below (left), risk premia—measured by yield spreads—remain compressed. This suggests limited upside for future returns.

Currencies are range-bound: A weaker dollar would benefit EM local-currency bonds, but dollar upside appears capped at present.

Monetary policy support is fading: Inflation has reversed course and is expected to rise again across many economies. This outlook may shift in coming months, however, as we anticipate a de-escalation in geopolitical tensions and a gradual reopening of the Strait of Hormuz.

EM BONDS - VALUATION



MONETARY POLICY EXPECTATIONS

Emerging Central bank	Current Policy rate (%)	Market pricing for end 2026				Δ**
		Current		before the conflict*		
		Expected policy rate (%)	Cumul bp	Expected policy rate (%)	Cumul bp	
Brazil	14.50	15.13	63	14.15	-35	+ 98
Chile	4.50	4.62	12	4.28	-22	+ 33
Colombia	11.25	13.31	206	13.61	236	-30.20
Czech	3.50	4.23	73	3.46	-4	+ 77
Hungary	6.25	5.19	-106	5.58	-67	-38.99
India	5.25	6.16	91	5.39	14	+ 77
Indonesia	5.50	5.82	32	3.18	-232	+ 264
Korea	2.50	3.47	97	2.71	21	+ 76
Mexico	6.50	6.81	31	6.39	-11	+ 42
Poland	3.75	4.39	64	3.23	-52	+ 116
Thailand	1.00	1.25	25	0.87	-13	+ 38
Turkey	37.00	32.94	-406	32.00	-500	+ 93

*Market pricing in February
 **Repricing after the energy shock

INVESTMENT CONCLUSION

EM local-currency bonds currently present an unappealing risk-return profile at this stage. The three primary drivers — valuation, currency trends, and monetary policy expectations — do not offer a compelling case for investment. The same rationale applies to hard-currency bonds. As a result, we maintain a neutral stance on both asset classes.

Our Investment Recommendations

Asset class	Zone	Our opinion	
Government bonds	Germany and core eurozone	+	Positive as long as the 10-year Bund remains above 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. Neutral on TIPS.
Corporate bonds Investment Grade (IG)	Eurozone/United Kingdom	+	<ul style="list-style-type: none"> Positive on eurozone and UK IG corporate bonds, and Neutral on US corporate bonds. We prefer maturities up to 7 years in the eurozone and up to 5 years in the US. Neutral on convertible bonds.
	United States	=	
Corporate bonds High Yield (HY)	Eurozone and United States	-	<ul style="list-style-type: none"> Negative on corporate HY bonds. Neutral on fallen angels and rising stars.
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	4,53	---	
Germany	3,06	---	
France	3,71	66	4
Italy	3,82	77	3
Spain	3,50	44	3
Portugal	3,45	39	3
Greece	3,74	68	2

09/06/2026
Source: Refinitiv Datastream

	Yield (%)	Spread (bp)	Spread change 1 month (bp)
Corporate bonds IG EUR	3,57	74	-5
Corporate bonds IG USD	5,23	75	-4
Corporate bonds HY EUR	5,45	262	-10
Corporate bonds HY USD	7,15	274	-3
Emerging government bonds in hard currency	6,83	219	-18
Emerging government bonds in local currency	6,26	200	-18

09/06/2026
Source: Refinitiv Datastream

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	3.59	75	118	71	127	-2	-4	-3	▲
Single-A	3.51	68	101	64	116	-1	-4	-3	▲
Euro High Yield	5.48	263	377	256	429	-2	-9	-7	▲
BB	4.53	166	278	158	303	-2	-12	-3	▲

* Z-score 2y is based on the spread

Source: LSEG Datastream , BNP Paribas WM, 08/06/2026

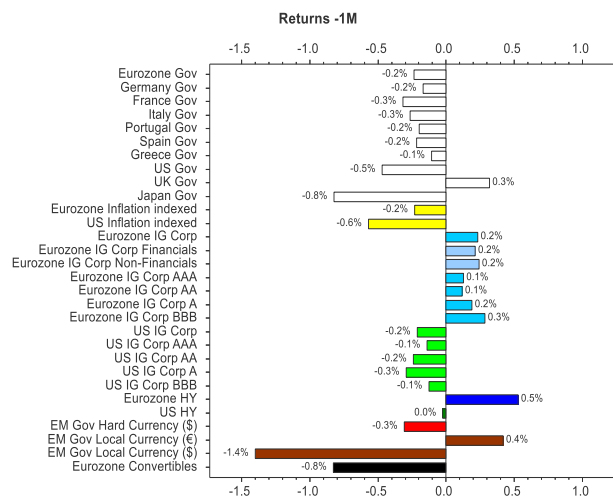
Credits	Yield	Spread	10yr Avg Spread	2yr Spread Range		Spread Change			2yr Z-Score*
				Min	Max	Chg 1W	Chg 1M bp	Chg 3m	
US Corporate	5.26	75	117	73	121	2	-4	-4	▲
Single-A	5.13	63	94	59	102	2	-3	-2	▲
US High Yield	7.14	271	387	258	456	3	-6	-5	▲
BB	6.12	164	255	156	306	2	-9	-5	▲
EM HY (\$)	6.84	216	345	214	379	-3	0	-15	▲

* Z-score 2y is based on the spread

Source: LSEG Datastream , BNP Paribas WM, 08/06/2026

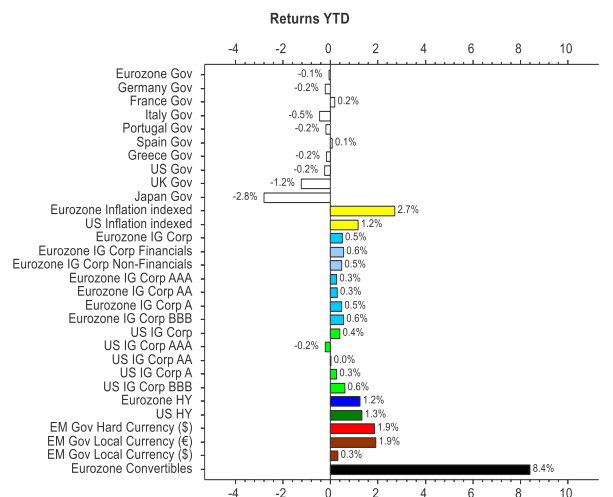
Return

OVER ONE MONTH



Source: LSEG Datastream, 09/06/2026 Index source: ICE BofA, JPM and Refinitiv

SINCE 01/01/2026



Source: LSEG Datastream, 09/06/2026 Index source: ICE BofA, JPM and Refinitiv

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