MARCH 2026

Fixed Income Focus

Summary

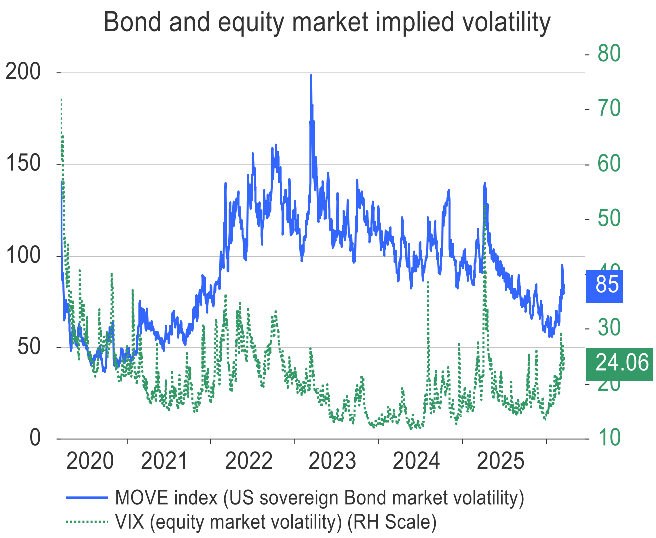
1. **The Fed suggests greater symmetry in the policy outlook:** We still expect the FOMC to cut one more time. Indeed, we expect a de-escalation of the conflict in the Middle-East in the coming weeks and gradual fall of oil prices towards 80$.
2. **ECB kept the policy unchanged:** We expect policy rates for the ECB to remain unchanged this year and forecast the first hike in 2027. Headline inflation will rise but we do not expect major second round effects. Core inflation is not expected to rise much.
3. **Opportunities in eurozone govies:** We keep a neutral stance on eurozone government bonds. A move above 3% could be a good opportunity to buy eurozone longer maturity bonds.
4. **Opportunities in UK bonds:** Government bond yields are well above our targets. Current yield levels are attractive especially on longer maturities. We also keep a positive view on UK investment grade corporate bonds.
5. **Selective opportunities in corporate bonds:** We prefer EUR and GBP IG corporate bonds (Positive view) over USD IG bonds (Neutral view) given the supply dynamics and the level of spreads.
6. **We downgrade corporate high yield bonds to negative and fallen angels as well as rising stars to neutral:** The risk-return trade-off has deteriorated further as the probabilities of an alternative scenario with oil prices remaining above USD 100 have risen.
7. **We also downgrade emerging market bonds (local currency) to neutral.** Similar reason as for corporate high yield bonds. Less potential for USD weakening is not supportive for this asset class. The risk premium is not sufficient at this stage.

Drafting completed on 19 March 2026

Contents

Central banks 2
Government Bond yields
Topics in Focus: 4
Opportunities and risks on the UK market
Reducing risk 5
Recommendations & Data 6
Returns and Team 7
Disclaimer 8

CHART OF THE MONTH: RISING VOLATILITY



Source: LSEG Datastream, 20/03/2026

Guy Ertz, PhD.

Deputy Global Chief Investment Officer
BNP Paribas Wealth Management

BNP PARIBAS WEALTH MANAGEMENT

The bank for a changing world

Central banks

Monetary authorities should look through the rise in headline inflation

European Central Bank (ECB)

The ECB kept policy rates on hold at their meeting March 19. The communication was in favor of a more risk-conscious tone and suggested to adopt a wait-and-see approach for now while emphasizing that it won't hesitate to act to ensure price stability if required. The ECB suggested that they are positioned to deal with the increased uncertainty as inflation expectations remain broadly stable while the economy shows signs of resilience. Even if oil prices stay above USD 100 for one or two months, core inflation is not expected to rise a lot. Indeed, headline inflation would rise as energy prices are included in the index but for core inflation to rise, it would need costs increases to be passed on to final prices of other goods and services. That seems unlikely at this stage.

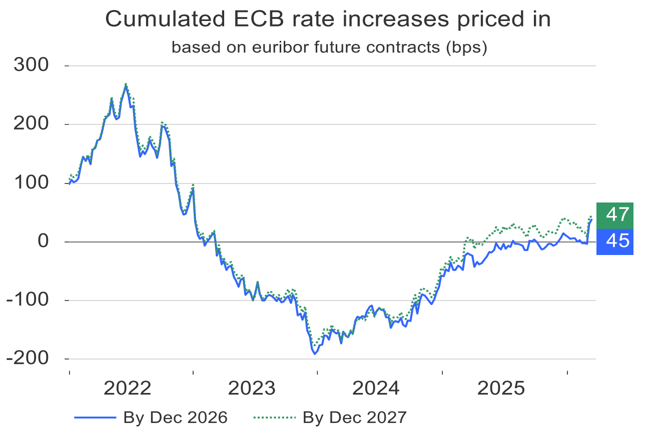
Outlook: We expect the policy rate of the ECB to remain unchanged this year and forecast the first hike in mid-2027.

US Federal Reserve (Fed)

The Fed maintained an easing bias and projections for some additional policy easing, The uncertainty about the Iran war could push towards a greater symmetry in the policy outlook. Powell suggested some confidence in the stability of the labor market despite recent disappointing data. He argued that zero job creation is “about what the economy needs” in the context of restrictive immigration policy. Growth forecasts were revised up at the meeting. They now incorporate a stronger productivity assumption related in part to AI. The recession risk was not prominent in the communication.

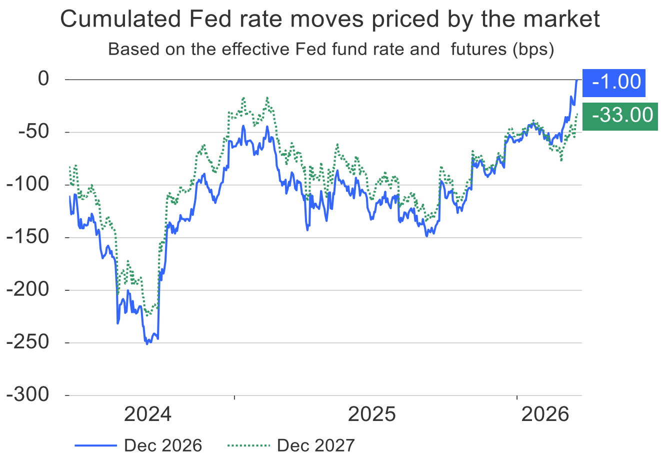
Outlook: We still expect the FOMC to cut one more time in September 2026. Indeed, even if oil prices fall, it is unlikely to see a pull back to levels seen before the Iran strikes. Even in such a scenario it is unlikely that core inflation rises durably as second round effects should be quite moderate.

MARKETS PRICE MORE THAN ONE RATE CUT THIS YEAR. WE DON'T



Source: LSEG Datastream, 18/03/2026

MARKETS PRICE NO MORE RATE CUT THIS YEAR



Source: LSEG Datastream, 20/03/2026

INVESTMENT CONCLUSION

In our view, the Fed will cut the policy rate once more this year to 3.25 %. We expect oil price to peak in the coming weeks and gradually fall back towards 80$. Core inflation is not expected to rise durably on both sides of the Atlantic. In the eurozone, the ECB should keep rates unchanged around 2% this year, with a potential hike in 2027.

Government Bond yields

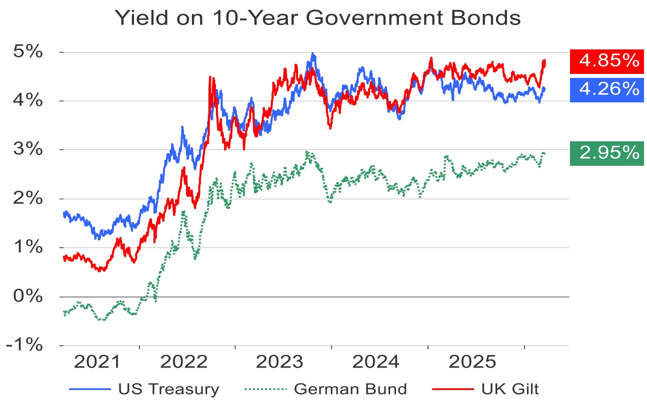
Buying opportunity in the eurozone

Yields jump especially in Europe: We saw a V-shape rebound in 10-year government bond yields since the beginning of the month (see chart below). That corresponded with the military strikes in Iran.

Buying opportunities in the eurozone: the 10-year Bund yield is trading close to 3%, 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 next page). A move above 3% would be a good opportunity to buy eurozone longer maturity bonds. We keep our target on UK government bonds at 4.40% and keep a positive recommendation.

Neutral stance on US government bonds: Yields in the US have not been rising considerably in the US despite the Iran conflict (see chart). Inflation expectations remain relatively stable. US Treasury yields will probably remain biased to the upside, due to the risk of increasing sovereign debt. The weakness in swap spreads further increases the risk of a self-reinforcing feedback loop of higher Treasury yields.

10-YEAR GOVERNMENT BOND YIELDS



Source: LSEG Datastream, 20/03/2026

	Maturity (years)	19/03/ 2025	3-month target	12-month target
USA	Policy rate	3.85	3.75	3.25
	2	3.70	3.60	3.60
	5	3.92	3.75	3.75
	10	4.28	4.25	4.25
	30	4.86	4.75	4.90
Germany	Policy rate	2.00	2.00	2.00
	2	2.55	2.25	2.00
	5	2.68	2.40	2.25
	10	2.97	2.80	2.75
	30	3.48	3.50	3.60
UK	Policy rate	3.75	3.50	3.50
	2	4.45	4	3.30
	5	4.49	4.10	3.75
	10	4.86	4.40	4.30
	30	5.02	5.10	5.10
Japan	Policy rate	0.75	1.00	1.25
	2	1.28	1.30	1.40
	5	1.68	1.70	1.80
	10	2.27	2.30	2.40
	30	3.53	3.5	3.60

Source: Refinitiv Datastream, BNP Paribas WM

Investment Conclusion

We keep a neutral stance on eurozone government bonds but would become positive if we break 3% on the 10-year Bund. We keep a positive view on UK gilts. We remain neutral on US Treasuries as yields trade relatively close to our 12-month targets and the risks related to rising sovereign debt has risen.

Topics in Focus

Opportunities and risks on the UK market

The economic Outlook: With the current energy price shock, the UK faces a similar fragmented political environment compared to its European peers. The additional challenge is that economic growth is more vulnerable. Although the economy is less directly exposed than the eurozone, due to its lower energy intensity and a relatively small manufacturing sector, the inflationary shock could reduce consumer confidence and spending. Some structural properties of the UK economy needs also to be considered. First, the UK has a structurally low level of gas storage. Second, the Ofgem* price cap mechanically slows down the speed of transmission to household energy prices by one or two quarters. This contributes to the dynamics seen in 2022, when UK energy price shocks were of a similar size as in the eurozone but peaked later.

Depending on the duration of the supply shock, the BoE could look through the impact, given recent evidence that domestic inflationary pressures are falling back.

*The Office of Gas and Electricity Markets in UK

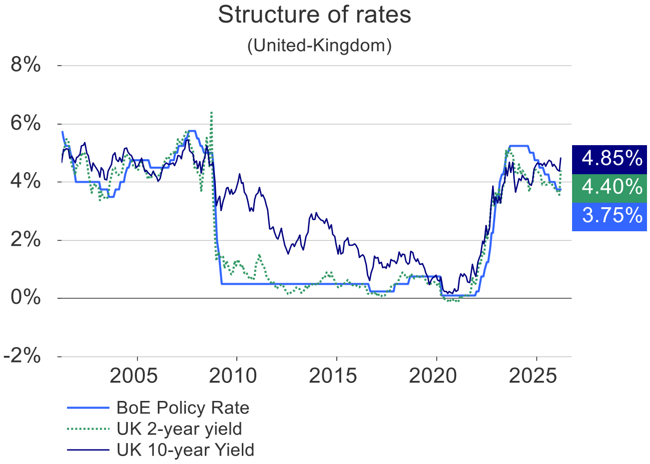
We like UK govies and IG corporate bonds

More easing to come: The Bank of England left its policy rate unchanged at 3.75 % in March. The tone was more hawkish-than-expected, sending a strong signal that the central bank is prepared to act in response to the energy price shock. The base case is still that the BoE will be able to cut rates later this year as oil prices move towards 80$.

Outlook for yields: Yields on government bonds are between 80 and 50 basis points above our targets (see chart below). When we decompose the 10-year nominal yield we see real yield falling but breakeven inflation rising since late February. On a net base, nominal were moderately higher around 4.75%. Inflation swaps (5Y5Y) price around 3.10% while the breakeven 10Y was around 3.50%. CDS (5-year) remain low and well below the average of the last 120 years. Current yield levels are attractive especially on longer maturities.

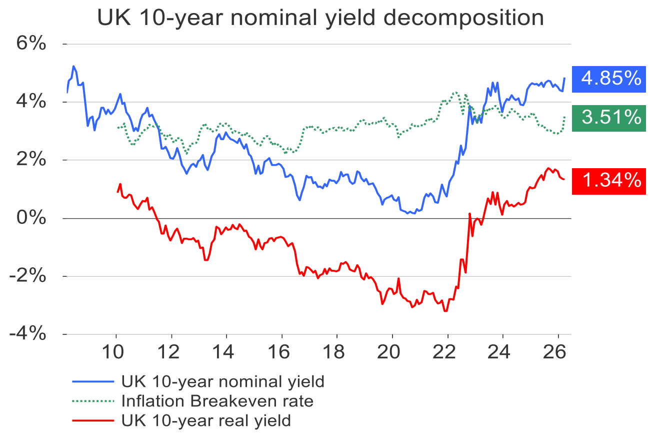
Outlook for corporates: The outlook for corporate bonds remains positive mainly for the carry. Spreads are close to a 20-year low, and we see no downside from here. We keep a positive view.

THE STRUCTURE OF UK RATES



Source: LSEG Datastream, Mar 26

NOMINAL VERSUS REAL YIELDS



Source: LSEG Datastream, 20/03/2026

Investment Conclusion

Government bond yields are well above our targets. Looking at the decomposition of nominal yields, we see that a most of the recent move was related to a sharp rise in inflation expectations. That seems exaggerated at this stage. Current yield levels are attractive especially on longer maturities. We also keep a positive view on UK investment grade corporate bonds.

Reducing risk

We are more cautious on Corporate yield and Emerging Market Local Currency bonds

Downgrade Corporate yield bonds to negative: Our positive stance for emerging market bonds in local currency was based on two key arguments: (1) the outlook for a weaker dollar and (2) the potential for central banks in emerging countries to lower rates as inflation was expected to fall further. The risks related to these two factors have been rising and we the risk – return trade-off is not attractive anymore justifying a downgrade to neutral.

Less support from monetary policy: Inflation in many EM economies was on a downward trend until recently. The Iran strikes and the closure of the Hormuz straight is putting upward pressure on inflation in Emerging markets and especially in Asia. We see less potential for rate cuts.

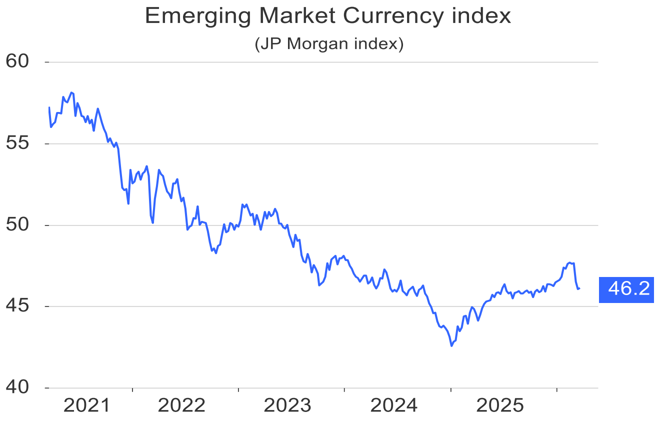
Currency valuations attractive against the dollar: We have revised our dollar outlook and see less depreciation potential. This is not good news for Emerging economies as bonds are often issued in US dollars. The risks have thus been rising, and this is not priced at this stage.

Downgrade Corporate yield bonds to negative:

The risk-return trade-off has deteriorated further as the probabilities of an alternative scenario with oil prices remaining above USD 100 have risen. Indeed, the chart below shows the risk premium as measured by the so-called high yield corporate spread has seen a quite moderate rise despite the changing risk environment. We downgrade corporate high yield to negative and fallen angels and rising stars to neutral.

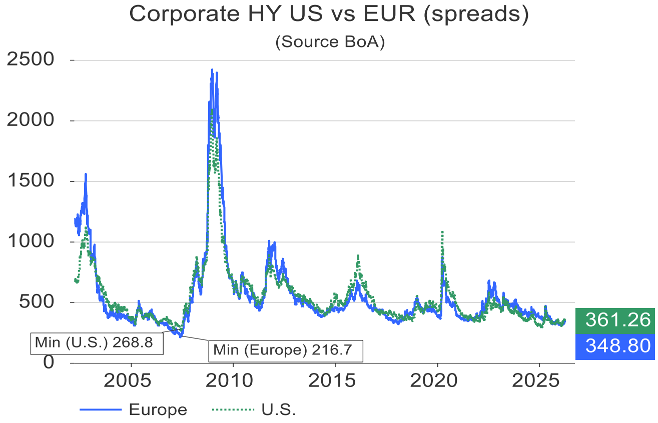
Even in our base case scenario with a de-escalation, we see a limited downside for oil prices with only a partial pull-back to 80$. Uncertainty could stay high for a longer period of time. Recent statistics on default rates suggest that they are on the rise for leveraged loans, especially in the US. Spreads on BB are particularly low relative to history. Also note that the spread of high yield relative to investment grade remains low and does not reflect the rise in risk.

EM CURRENCIES AT RISK AGAIN



Source: LSEG Datastream, 20/03/2026

HIGH-YIELD RISK PREMIUM STILL CLOSE TO RECORD LOW



Source: LSEG Datastream, 20/03/2026

INVESTMENT CONCLUSION

We downgrade corporate high yield to negative and fallen angels as well as rising stars to neutral. We also downgrade emerging market bonds (local currency) to neutral. The main reason for those changes is that the probabilities of an alternative scenario with oil prices remaining above USD 100 for 2-3 months have risen. This is not reflected in the risk premium of those assets at this stage.

Our Investment Recommendations

Asset class	Zone	Our opinion	
Government bonds	Germany and core eurozone	=	Looking to upgrade if the 10-year Bund yield break above 3%. Prefer 5-7 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 United States	+ =	• 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. • We downgrade convertible bonds to neutral.
Corporate bonds High Yield (HY)	Eurozone and United States	-	• We downgrade corporate HY bonds to negative. • We downgrade fallen angels and rising stars to neutral.
Emerging bonds	In hard currency	=	Neutral on EM hard currency bonds (sovereign and corporate).
	In local currency	=	We downgrade EM local currency government bonds to neutral.

Market Data

	10-year rate (%)	Spread to bund (bp)	Spread change 1 month (bp)
United States	4.27	---	
Germany	2.94	---	
France	3.60	66	9
Italy	3.74	80	19
Spain	3.44	50	7
Portugal	3.38	44	8
Greece	3.74	80	19

19/03/2026

Source: Refinitiv Datastream

	Yield (%)	Spread (bp)	Spread change 1 month (bp)
Corporate bonds IG EUR	3.51	86	10
Corporate bonds IG USD	5.08	91	13
Corporate bonds HY EUR	5.66	301	35
Corporate bonds HY USD	7.20	316	33
Emerging government bonds in hard currency	6.80	240	21
Emerging government bonds in local currency	6.24	237	21

19/03/2026

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	3.51	86	119	71	127	3	10	8	
Single-A	3.43	79	102	64	116	2	10	8	
Euro High Yield	5.66	301	382	256	429	11	35	31	
BB	4.59	193	281	158	303	10	26	24	

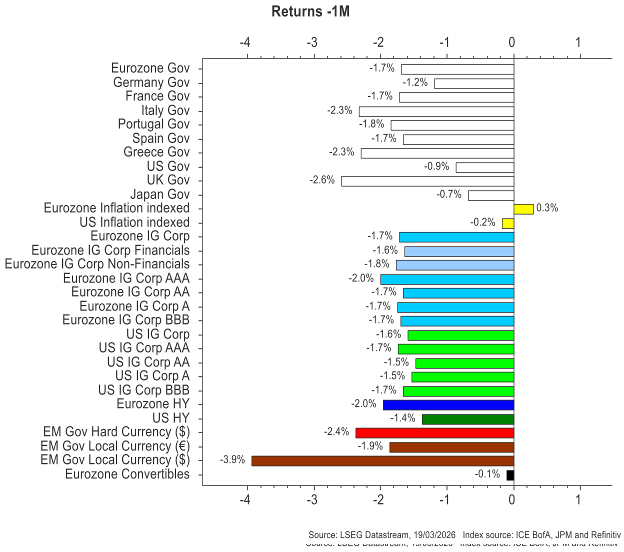
* Z-score 2y is based on the spread Source: LSEG Datastream , BNP Paribas WM, 18/03/2026

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	5.08	91	119	73	121	3	13	12	
Single-A	4.92	76	95	59	102	3	12	11	
US High Yield	7.20	316	395	258	456	11	33	40	
BB	6.08	200	260	156	306	10	30	31	
EM HY ($)	6.80	240	350	219	379	10	20	9	

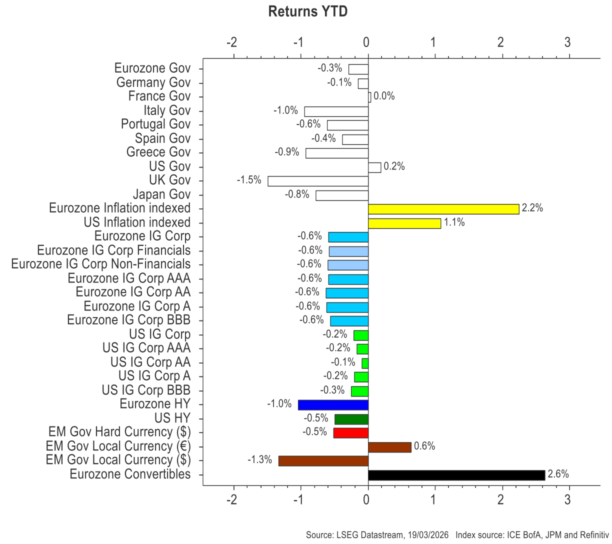
* Z-score 2y is based on the spread Source: LSEG Datastream , BNP Paribas WM, 18/03/2026

Return

OVER ONE MONTH



SINCE 01/01/2026



THE INVESTMENT STRATEGY TEAM

FRANCE

Edmund SHING
Global Chief Investment Officer

Hiba MOUALLEM
Investment Strategist

Isabelle ENOS
Senior Investment Advisor

Charles GIROT
Senior Investment Advisor

ITALY

Luca IANDIMARINO
Chief Investment Advisor

BELGIUM

Philippe GIJSELS
Chief Investment Advisor

Alain GERARD
Senior Investment Advisor, Equities

Patrick CASSELMAN
Senior Investment Advisor, Commodities

GERMANY

Stephan KEMPER
Chief Investment Strategist

LUXEMBOURG

Guy ERTZ
Deputy Global Chief Investment Officer

ASIA

Prashant BHAYANI
Chief Investment Officer, Asia

Grace TAM
Chief Investment Strategist

Dannel LOW
Investment Services Analyst

CONNECT WITH US

wealthmanagement.bnpparibas

DISCLAIMER

This marketing document is communicated by the Wealth Management Métier of BNP Paribas SA, a French limited liability company whose registered office is located at 16 boulevard des Italiens, 75009 Paris, France, registered with the Paris Trade and Companies Registry under number 662 042 449, registered in France as a bank by the European Central Bank ("ECB") and in France with the French Autorité de Contrôle Prudentiel et de résolution ("ACPR") and regulated by the French Autorité des Marchés Financiers ("AMF") (hereinafter "BNP Paribas").

As marketing material, it has not been prepared in accordance with legal and regulatory requirements aimed at ensuring the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. It has not been submitted to the AMF or any other market authority.

This document is confidential and intended solely for the use of persons to whom this document has been delivered. It may not be distributed, published, reproduced or disclosed by any recipient to any other person, nor may it be quoted or referred to in any document, without the prior consent of BNP Paribas.

This document is provided solely for the purpose of providing general information and shall not constitute an offer, a solicitation or an investment advice nor shall it form the basis of or be relied upon in connection with any investment. In addition, this document and its content shall not in any way be construed as an advertisement, inducement or recommendation of any kind or form whatsoever. It is not, and under no circumstances is it to be construed as, a prospectus.

Although the information provided herein may have been obtained from published or unpublished sources considered to be reliable and while all reasonable care has been taken in the preparation of this document, BNP Paribas does not make any representation or warranty, express or implied, as to its accuracy or completeness and does not accept responsibility for any inaccuracy, error or omission nor any liability for the use of or reliance on this document or any part of the information contained herein. .

BNP Paribas gives no warranty, guarantee or representation as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (either legal, regulatory, tax, financial, accounting or otherwise) of any product or transaction. Investors should not place undue reliance on any theoretical historical information regarding such theoretical historical performance.

This document may contain or refer to past performance; past performance is no guarantee for future performance.

The information contained in this document has been drafted without prior knowledge of your personal circumstances, including your financial position, risk profile and investment objectives.

Prior to entering into a transaction each investor should fully understand the financial risks, including any market risk associated with the issuer, the merits and the suitability of investing in any product and consult with his or her own legal, tax, financial and accounting advisors before making his or her investment. Investors should be in a position to fully understand the features of the transaction and, in the absence of any provision to the contrary, be financially able to bear a loss of their investment and willing to accept such risk. Investors should always keep in mind that the value of investments and any income from them may go down as well as up and that past performance should not be seen as an indication of future performance. Any investment in a product described herein is subject to the prior reading and understanding of the legal documentation concerning the product, and in particular the one which describes in details the rights and obligations of investors as well as the risks inherent to an investment in the product. Save as otherwise expressly agreed in writing, BNP Paribas is not acting as financial adviser or fiduciary of the investor in any transaction. The information, opinions and projections expressed herein reflect the opinion of their author at the time of writing; they are not to be relied upon as authoritative or taken in substitution for the exercise of judgment by anyone, and are subject to change without notice. Neither BNP Paribas nor any BNP Paribas Group entity accepts any liability whatsoever for any consequences that may arise from the use of information, opinions or projections contained herein.

As distributor of the products described herein, BNP Paribas may receive distribution fees on which you can obtain more information upon specific request. BNP Paribas, their employees or administrators may hold positions in these products or have dealings with their issuers.

By accepting this document, you agree to be bound by the foregoing limitations.

Pictures from Getty Images.

BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world