MAY 2026

Fixed Income Focus

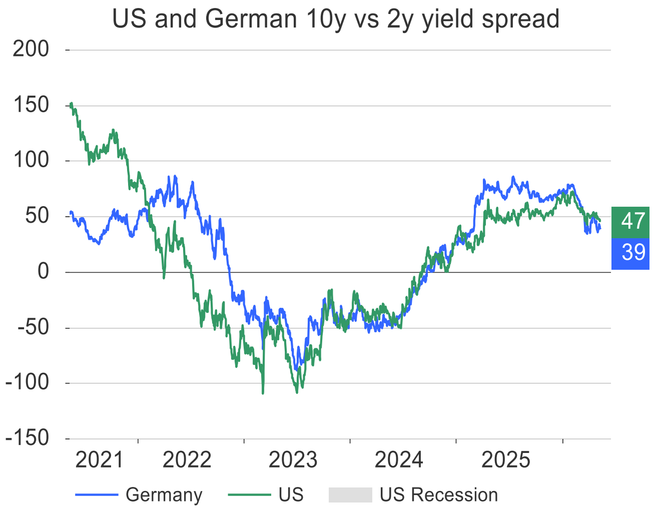
Summary

1. **The Fed moved to a symmetric view:** The April job report was again solid, and the risks for inflation are clearly tilted to the upside. The Fed should be on hold this year.
2. **ECB under pressure:** We continue to expect the policy rate of the ECB to remain unchanged this year. We do however see rising risks for a rate hike if we do not see a de-escalation of the conflict by the end of the month.
3. **Opportunities in core eurozone govies:** Positive stance on core eurozone govies. We favour maturities of 7-10 years.
4. **Positive opinion on UK bonds:** Yields pushed higher by the political crisis after the local elections. We keep a 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:** Yield spreads fell back further and 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 and this is not supportive for this asset class. The risk premium is not sufficient at this stage.

Writing completed on 13 May 2026

Contents

CHART OF THE MONTH: YIELD CURVE FLATTENING OVER?



Source: LSEG Datastream, 12/05/2026

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 still feel the heat

European Central Bank (ECB)

The fact that the conflict in the Middle-east is not coming to an end remains a headache for the monetary authorities and especially for the ECB. The key will be to monitor second-round effects as companies could pass on energy cost increases. The latest wage data showed that underlying wages are not re-accelerating. The rise in the headline path through 2026 mainly reflects the fading drag from past one-off payments, not fresh wage pressures. The evolution of inflation remains as expected. Headline inflation rose above 3% while core inflation has yet to show some effects. Producer prices remain low, but the supply chain pressure index suggest an imminent rise.

Outlook: The balance of risks has turned less favorable. We are not yet seeing second-round effects, but long-term inflation expectations are under pressure. We continue to expect the policy rate of the ECB to remain unchanged this year. We do however see rising risks if we do not see a de-escalation of the conflict by the end of the month.

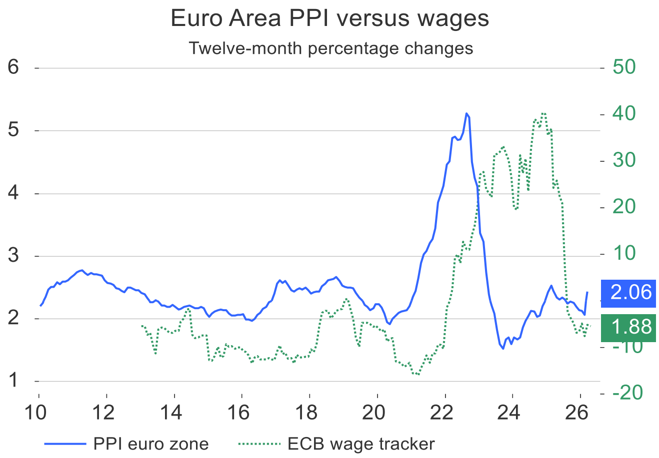
US Federal Reserve (Fed)

We believe the bias has moved to a symmetric one. The employment report was stronger-than-expected especially in terms of job creation. Initial jobless claims have been falling top record lows. Other indicators such as job openings and the consumer perception on whether jobs are plentiful versus hard to get are less optimistic. Unusual effects on labor supply linked to immigration are making it more difficult to have a clear view on the underlying trend. Wage grow remains well behaved and the Atlanta Wage tracker remains on a downward trend. Expectations about the future path of rates has changed somewhat after the job report. Based on futures, the market expects no rate moves this year.

US long-term inflation expectations remain anchored. Market measures of inflation expectations and consumer surveys are close to the long-term average.

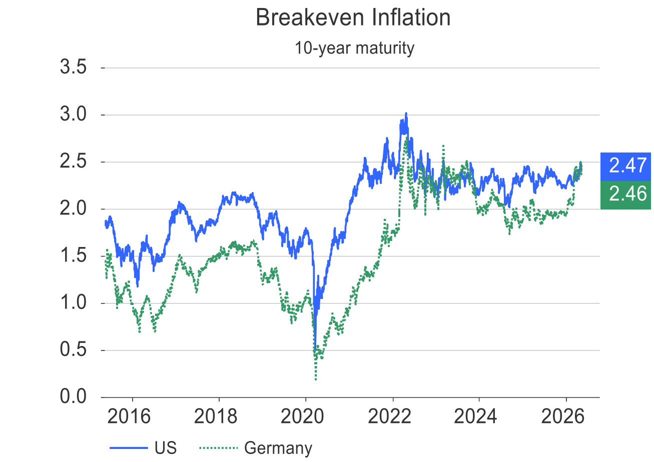
Outlook: Ultimately, we continue to believe that monetary policy will be determined by the outlook, and the policy rate will be on hold this year.

LITTLE WAGE PRESSURE IN THE EZ



Source: LSEG Datastream, Mar 26

LONG-TERM INFLATION EXPECTATIONS



Source: LSEG Datastream, 13/05/2026

INVESTMENT CONCLUSION

We anticipate that the Fed will keep its policy rate at 3.75 % unchanged for the rest of the year given the more symmetric bias. Job market data surprised again to the upside. Structural inflation risks continue to linger in the US. The ECB is expected to maintain rates close to 2 % throughout the year. Second-round effects are still muted while wage indicators suggest moderation. Long-term inflation expectations are under pressure, but there are no evident signs of a de-anchoring.

Topics in Focus

Risk assessment related to AI investment boom

We forecast that the supply from IG AI hyperscalers will reach $250 bn. Their capital spending (Capex) is being repeatedly revised upward. After the first quarter earnings updates from issuers, we now expect 2026 Capex to be $725 bn—almost double the level of mid 2025. Capex is growing faster than operating cash flow, which creates higher funding needs. Already this year, IG AI hyperscaler supply has passed the 2025 record and is on track to meet our $250 bn target for 2026.

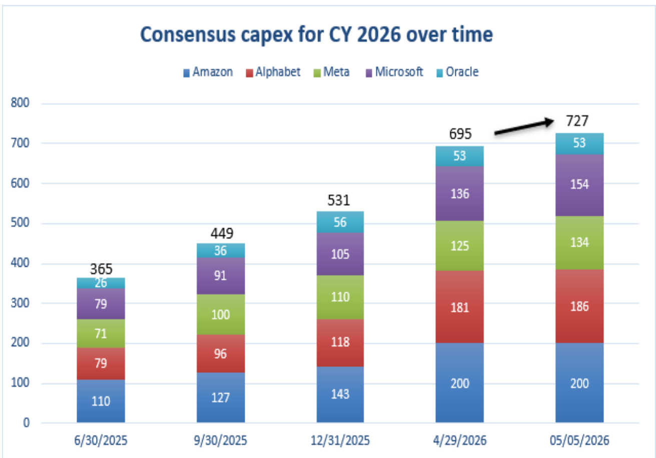
For the United States, BNP estimates $1.8 trn of IG supply in 2026. We expect corporate spending to lift supply by about $1.2 trn, driven largely by AI related Capex. We consider the supply risk manageable through careful sector and curve allocation. Supply from Technology, Media and Telecommunications (TMT) is already very well flagged and may be near its peak.

Rising risks and low US corporate spreads: The US corporate-bond market is still driven by the AI theme It is not only about re-leveraging but also its potential to disrupt other sectors.

At the same time, the technology sector as a whole is under stress, as investors question the extreme equity valuations. Nevertheless, spreads are still close to, or even below, historical lows. In this environment we see more value in high-quality investment-grade corporates than in high-yield issuers, especially in the eurozone and the U.K.

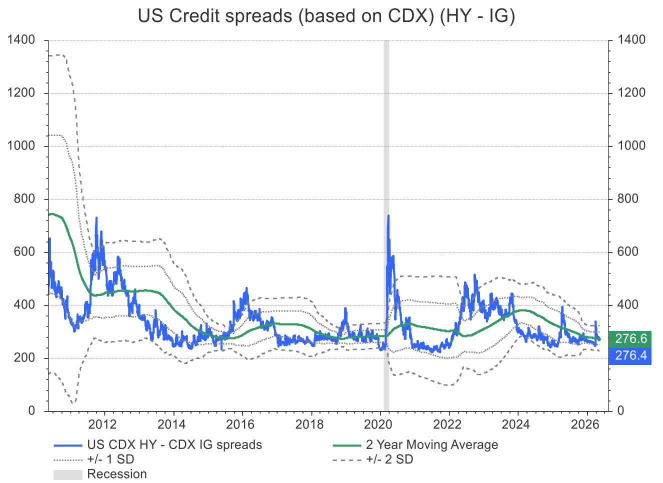
What do we need to monitor? The key indicator to watch is the relative spread between high-yield (HY) and investment-grade (IG) bonds in the US (see chart below). An increase in debt-raising by some tech firms, or doubts about the returns from AI-related investments, could push this spread higher. Although the EU has less direct exposure to AI, the disruptive effect may still materialize, so the situation should be monitored closely. The other key indicators will be the evolution of IPO's and the potential for major M&A at a high premium.

UPDATE ON AI INVESTMENT BOOM



Source: BNP Paribas CIB

THE CANARY IN A COAL MINE



Source: LSEG Datastream, 13/05/2026

Investment Conclusion

The US corporate-bond market is still driven by the AI theme. It is not only about re-leveraging but also its potential to disrupt other sectors. IG AI hyperscaler supply has passed the 2025 record and is on track to meet our $250 bn target for 2026. We expect corporate spending to lift supply by about $1.2 trn, driven largely by AI related Capex. We consider the supply risk manageable. The key indicator to watch is the relative spread between high-yield (HY) and investment-grade (IG) bonds in the US.

Government Bond yields

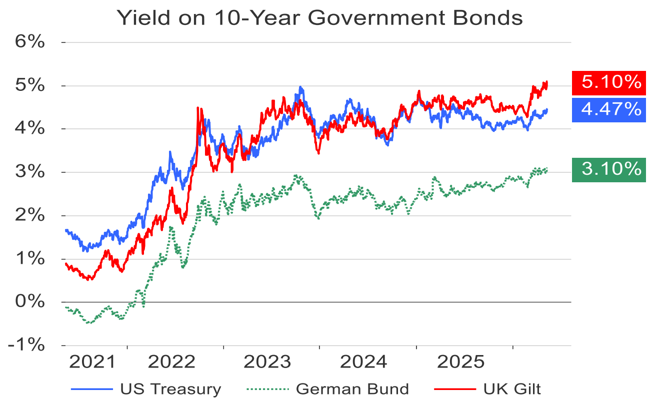
Positive eurozone and UK

Buying opportunities in core eurozone long-dated bonds: We saw the 10-year government bond yield in Germany coming back closer to 3.10%. This is still well above our forecast of 2.75%. As discussed in the section on the ECB, we do not expect core inflation to rise durably. The recent move in breakeven rates seems exaggerated (see previous page). We favor maturities of 7-10 years.

Positive stance on UK government bonds: The municipal elections brought sweeping losses for traditional parties. The two most likely scenarios are the status quo and a fiscally responsible shift to the left. Volatility would remain high, but we do not expect a further rise in yields. We thus keep a positive recommendation.

Neutral stance on US government bonds: The 10-year yield has been hovering in the range of 4.25-4.40%. Inflation expectations, as measured by the breakeven inflation, remain relatively 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% but risks are to upside.

10-YEAR GOVERNMENT BOND YIELDS



Source: LSEG Datastream, 13/05/2026

	Maturity (years)	13/5/2026	3-month target	12-month target
USA	Policy rate	3.75	3.75	3.75
	2	4	3.80	3.80
	5	4.13	4	4
	10	4.45	4.35	4.25
	30	5	4.90	4.90
Germany	Policy rate	2.00	2.00	2.00
	2	2.70	2.50	2.25
	5	2.80	2.70	2.70
	10	3.04	2.90	2.75
	30	3.60	3.40	3.25
UK	Policy rate	3.75	3.75	3.75
	2	4.48	4.25	4
	5	4.65	4.30	3.90
	10	5	4.80	4.50
	30	5.70	5.40	5.10
Japan	Policy rate	0.75	1.00	1.00
	2	1.37	1.40	1.40
	5	1.90	1.70	1.80
	10	2.55	2.50	2.50
	30	3.62	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 started to increase but the expected returns, are too low considering the risk of a rising premium related to higher sovereign debt.

Selective Opportunities in Corporate bonds

Prefer quality in Europe

Positive view on Corporate investment grade bonds eurozone and UK:

In In the euro area, fundamental risks are still expected to be low because several “shock absorbers” are in place. The fourth quarter 2025 earnings showed that the deleveraging trend kept going, with net leverage improving and overall leverage staying structurally low. EBITDA growth remains strong, and balance sheets look healthy, so we think the euro zone’s fundamental risk will stay low. The main thing that could change this outlook is a longer lasting blockage of the Strait of Hormuz, which would hit oil supplies and markets. Because of the solid data, we feel more comfortable concentrating on high quality. € BBB has lagged recently, but sits near generational tights to Single-A. In the United States, the fourth quarter 2025 earnings report showed that liquidity – measured by cash to debt – was unchanged and leverage remained stable at the low levels that have persisted since the 2021 deleveraging wave. The pressure could be rising for the Fed and this risk is not really priced.

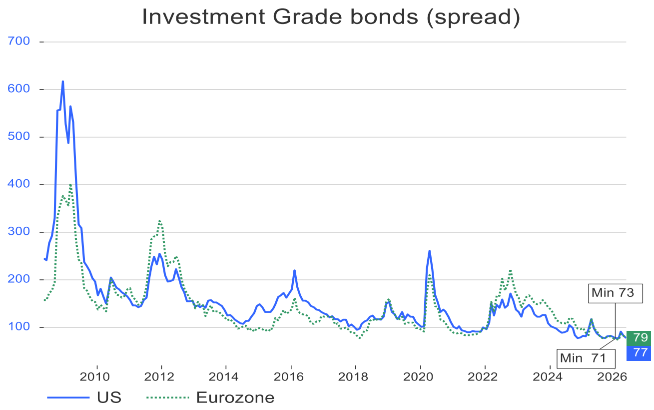
High frequency indicators such as initial jobless claims suggest the economy remains relatively insulated from the Middle East energy shock. The risk of higher inflation is however underpriced. Spreads are extremely low in the US and do not remunerate well for the risk.

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.

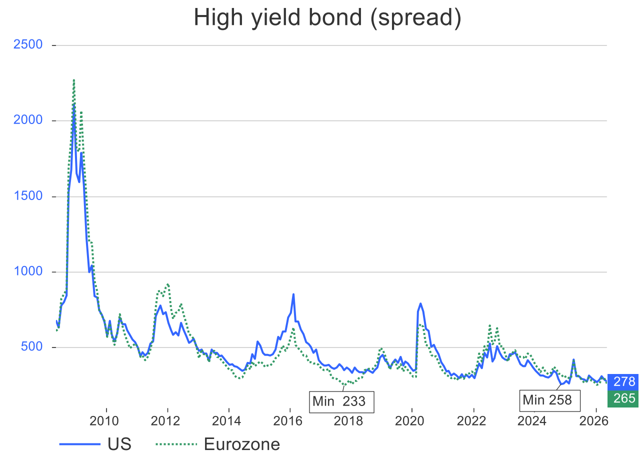
We maintain our negative view on corporate high-yield bonds and neutral stance for both fallen-angel and rising-star issuers.

INVESTMENT GRADE CORPORATE BONDS



Source: LSEG Datastream, 12/05/2026

CORPORATE HIGH YIELD BONDS



Source: LSEG Datastream, 12/05/2026

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. We maintain our negative view on corporate high-yield bonds and neutral stance for both fallen-angel and rising-star issuers.

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. Neutral 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. • Neutral on convertible bonds.
Corporate bonds High Yield (HY)	Eurozone and United States	-	• 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	4.46	---	
Germany	3.10	---	
France	3.73	64	-1
Italy	3.88	78	0
Spain	3.53	43	-2
Portugal	3.49	39	-2
Greece	3.82	72	-3

12/05/2026

Source: Refinitiv Datastream

	Yield (%)	Spread (bp)	Spread change 1 month (bp)
Corporate bonds IG EUR	3.64	79	-3
Corporate bonds IG USD	5.17	77	-5
Corporate bonds HY EUR	5.51	265	-33
Corporate bonds HY USD	7.07	278	-11
Emerging government bonds in hard currency	6.74	215	-6
Emerging government bonds in local currency	6.26	214	-6

12/05/2026

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	3.64	79	118	71	127	-1	-3	1	
Single-A	3.55	71	101	64	116	-1	-2	0	
Euro High Yield	5.51	265	379	256	429	-10	-33	-5	
BB	4.61	172	279	158	303	-8	-11	3	

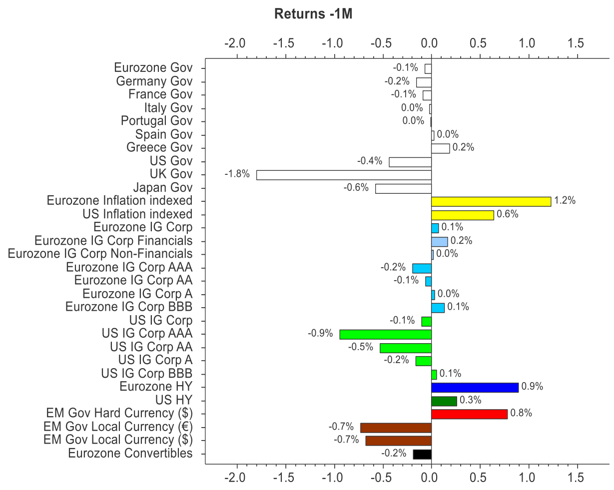
* Z-score 2y is based on the spread Source: LSEG Datastream , BNP Paribas WM, 12/05/2026

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	5.17	77	118	73	121	-2	-5	-2	
Single-A	5.03	64	94	59	102	-1	-4	-1	
US High Yield	7.07	278	390	258	456	5	-11	2	
BB	6.03	172	256	156	306	3	-5	3	
EM HY ($)	6.74	215	347	214	379	-4	-16	-16	

* Z-score 2y is based on the spread Source: LSEG Datastream , BNP Paribas WM, 12/05/2026

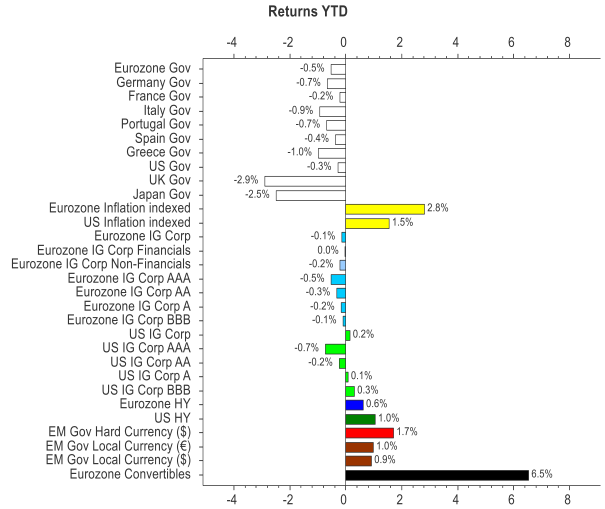
Return

OVER ONE MONTH



Source: LSEG Datastream, 12/05/2026 Index source: ICE BofA, JPM and Refinitiv

SINCE 01/01/2026



Source: LSEG Datastream, 12/05/2026 Index source: ICE BofA, JPM and Refinitiv

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

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