

NOVEMBER 2026

Fixed Income Focus

Summary

1. **More rate hikes to come:** We expect the Fed to hike in December and January while the ECB would hike in December. The Bank of England hiked their policy rate in November (as largely expected). The Bank of Japan is expected to hike about every quarter with a terminal rate around 2.5% in 2028.
2. **We hold on to our bond yield targets despite renewed volatility:** US, Japanese and German 10-year sovereign bond yields broke their steady upwards march despite sticky inflation. Recent doubts regarding the effects of AI on potential growth have pushed real yields lower across the board. The move is probably exaggerated, especially in the United-States. We keep our 12-month targets at 4.75%, 3% and 4.65% for the US, Germany and the UK respectively.
3. **We remain positive on core Eurozone govies:** The 10-year German Bund yield is around 3.30%, while the Eurozone average 10-year yield is around 3.75%.
4. **We also keep a positive view on UK bonds :** U.K. Yields on 10-year government bonds hover around 5.20%. The government has given more signals on its commitment for fiscal discipline. Yields remain attractive.
5. **Selective opportunities in corporate bonds:** US elections should have a limited direct impact on credit. We prefer EUR and UK IG corporate bonds (Positive view) over USD IG bonds (Neutral view).
6. **We keep a neutral opinion on high yield corporate and Emerging Market bonds:** Spreads remain quite low and expected return are not attractive. For EM bonds, the three primary drivers—valuation, currency outlook, and monetary policy expectations— are not supportive at this stage.

Writing completed on November 5th 2026

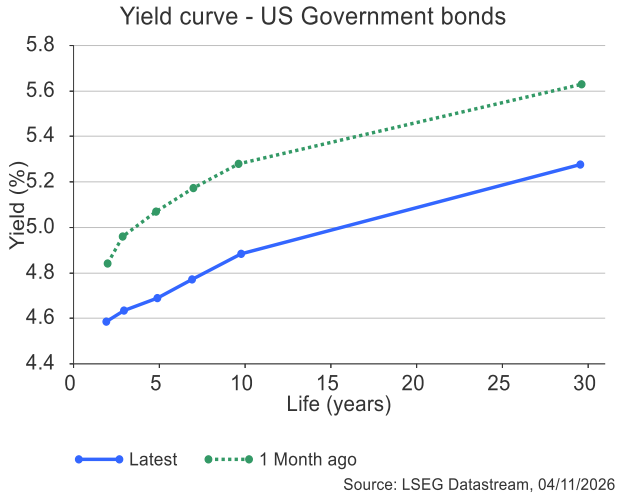
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US BOND YIELDS LEAD THE WAY DOWN



Source: LSEG Datastream, 04/11/2026

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BNP PARIBAS WEALTH MANAGEMENT

The bank for a changing world

Central banks

One rate hike expected for the ECB and two for the Fed.

European Central Bank (ECB)

As expected, the ECB kept interest rates unchanged in October. However, its statement revealed a nuanced shift in perspective compared with September. The Governing Council now presents a more balanced risk assessment, acknowledging both upside risks to inflation and downside risks stemming from tighter financial conditions. Notably, it dropped its previous assertion that inflation would remain well above target for an extended period. A more significant shift was evident in its assessment of economic growth. The ECB highlighted three main headwinds: the energy shock, potential second-round inflation effects, and increasingly restrictive financing conditions. In addition, Lagarde described the rise in sovereign bond yields as a global phenomenon that is contributing to a further tightening of financial conditions.

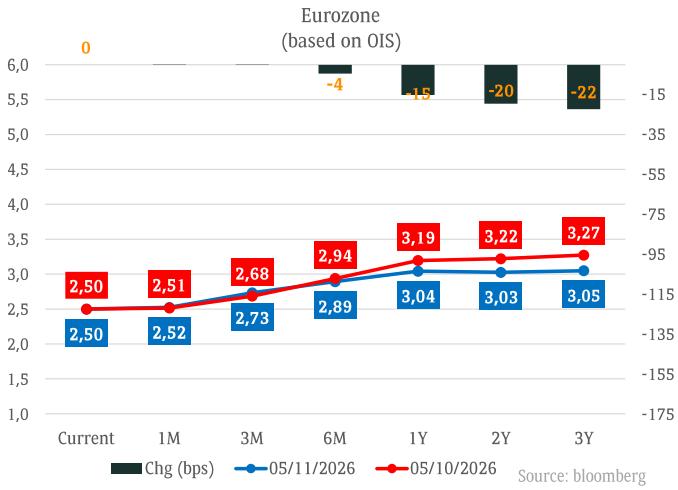
Outlook: Uncertainties remain high due the high oil and especially gas prices. Consequently, we maintain our outlook for the ECB and anticipate one rate hike in December. In contrast, markets are currently pricing around 2 (see chart below).

US Federal Reserve (Fed)

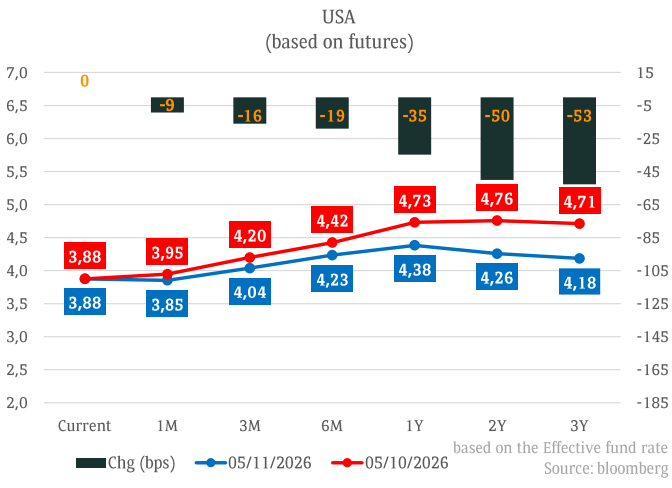
At its October meeting, the FOMC kept interest rates unchanged, citing concerns that the rapid tightening in financial conditions could lead to an excessive slowdown in economic activity. During the press conference, Kevin Warsh signaled a balanced approach to monetary policy, stressing the need to avoid both excessive tightening and an overly accommodative stance. In addition, Warsh announced a reduction in the number of meetings at which rate decisions will be taken, from eight currently to seven in 2027 and six in 2028. The meetings freed up by this change would allow the Committee to devote more time to "strategic deliberations" and longer-term policy issues. Internal divisions within the FOMC were also evident. Governor Lisa Cook surprised observers by dissenting in favor of a rate hike, joining Beth Hammack in advocating additional monetary tightening.

Outlook: We anticipate a rate increase in December and other one in January. The key assumptions are resilient economic growth, sustained high energy prices and high-interest rate volatility. Market expectations have come down. They are currently pricing in approximately 2 hikes (see chart below).

MARKET PRICING FOR THE ECB



MARKET PRICING FOR THE FED



INVESTMENT CONCLUSION

We anticipate another 25 bp rate increase in December for the ECB. This is less compared to market expectations. For the US, we expect a rate hike of 25bp hike in December and January. The market also expects two rate hikes.

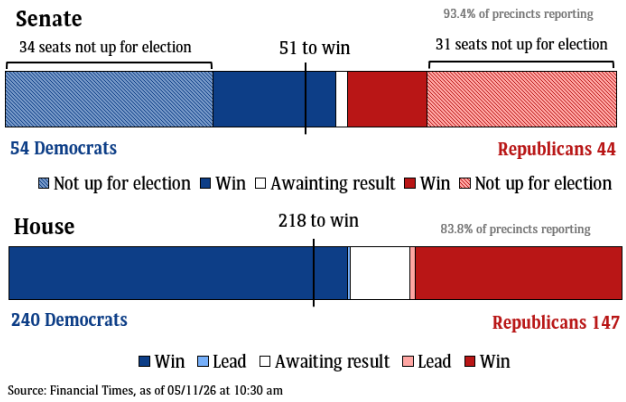
Topics in Focus

US elections: limited impact on corporate bonds but US government bond yield could rebound

The US midterm elections delivered a Democratic sweep, with larger margins than markets had anticipated. An important issue for bonds is the fiscal outlook. Political compromise could result in additional spending and larger deficits, putting upward pressure on Treasury yields. This would create a more challenging environment for longer-duration US investment-grade bonds.

For corporate bonds, however, history suggests that midterm elections themselves tend to have little lasting impact on credit spreads. On average, previous elections have been followed by a modest relief rally. This time, such a scenario appears plausible as investors had already reduced credit risk considerably ahead of the vote. The removal of political uncertainty could therefore encourage some re-risking and spread compression in the near term. For US corporate bonds, politics matter through rates and AI. The longer-term consequences are more nuanced. Despite Democratic control of Congress, President Trump retains veto power, pointing to legislative gridlock. Major changes to tariffs and other policies controlled by the executive therefore appear unlikely. Another important channel is artificial intelligence. Democratic control of the House could bring greater scrutiny of AI companies and infrastructure investment, although meaningful federal regulation appears unlikely given presidential veto power. State-level restrictions may be more consequential, particularly for data centers, creating greater dispersion among high-yield infrastructure issuers. For investment-grade hyperscale's, the volume of new bond issuance should remain the dominant driver of spreads. For European corporate bonds, the election has fewer direct implications. The main transmission channels are likely to be US interest rates and global risk sentiment. Overall, we keep our constructive view on European investment grade. With solid corporate fundamentals and less direct exposure to the US political and AI financing themes, European credit continues to offer an attractive combination of carry and resilience.

MID-TERM ELECTION RESULTS



Source: Financial Times, as of 05/11/26 at 10:30 am

MID-TERM ELECTIONS AND SPREADS

Midterm Elections Date	IG Spreads 1-day before election	IG Spreads 1-week after election	Spread Move 1W After Election (bps)	Spread Move 1W After Election (%)
05/Nov/2002	238	234	-4	-2%
07/Nov/2006	91	90	-1	-1%
02/Nov/2010	169	162	-7	-4%
04/Nov/2014	118	121	3	3%
06/Nov/2018	116	122	6	5%
08/Nov/2022	149	138	-11	-7%
03/Nov/2026	TBD	TBD	TBD	TBD
Max	//	//	6	5%
Min	//	//	-11	-7%
Average	//	//	-2	-1%
Median	//	//	-3	-1%

Source: BNP Paribas, Bloomberg

INVESTMENT CONCLUSION

US elections should have a limited direct impact on credit, but the expected fiscal expansion could push Treasury yields higher. European IG remains attractive, while US credit faces greater rate and AI risks.

Government Bond yields

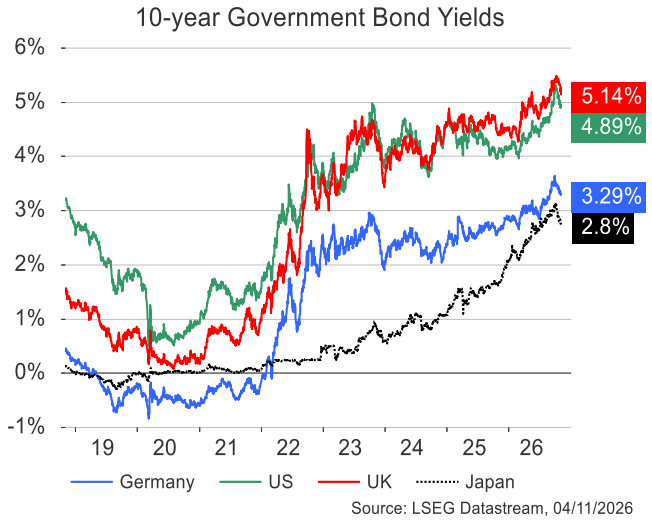
Stay positive on core eurozone and UK Govies

Neutral Stance on US Government Bonds: U.S. 10-year yields fell sharply, driven by doubts regarding the demand for capital especially AI-related. The move seems excessive and we could break again the 5% threshold in the coming weeks. Too early to come back.

We stay positive on Core Eurozone government bonds: The 10-year German Bond Yield fell back to 3.3%. The amplitude of the move was more moderate compared to the US. As we believe the German Bund's fair value remains around 3%, we still expect attractive returns at current levels. We favor maturities of 7-10 years.

We also like UK Government Bonds: U.K. government bond Yields are also lower and hover around 5.10%. Fiscal risks have fallen over recent weeks. Current yield levels are attractive again as we forecast a yield level at 4.65% next year.

TREND IN BOND YIELDS



	Maturity (years)	06/10/2026	3-month target	12-month target
USA	Policy rate	4	4.50	4.50
	2	4.50	4.50	4.50
	5	4.60	4.70	4.50
	10	4.83	5	4.75
	30	5.24	5.50	5.10
Germany	Policy rate	2.5	2.75	2.75
	2	2.96	2.90	2.85
	5	3.03	3	2.90
	10	3.24	3.20	3
	30	3.63	3.60	3.40
UK	Policy rate	4	4	4
	2	4.75	4.35	4.20
	5	5	4.45	4.40
	10	5.15	4.90	4.65
	30	5.60	5.50	5.20
Japan	Policy rate	1.25	1.50	1.75
	2	1.82	2	2.1
	5	2.21	2.30	2.5
	10	2.75	2.90	3
	30	3.85	3.90	3.90

Source: Refinitiv Datastream, BNP Paribas WM

Investment Conclusion

The recent fall in government bond yields has been driven by falling real yields via lower expectations related to AI investments and doubts about related productivity gains. We keep our 12-month yield targets at 4.75%, 3% and 4.65% for the US, Germany, and the UK respectively. We keep a preference for core-eurozone and UK government bonds.

Outlook for credit market

Prefer eurozone and UK high grade corporate bonds

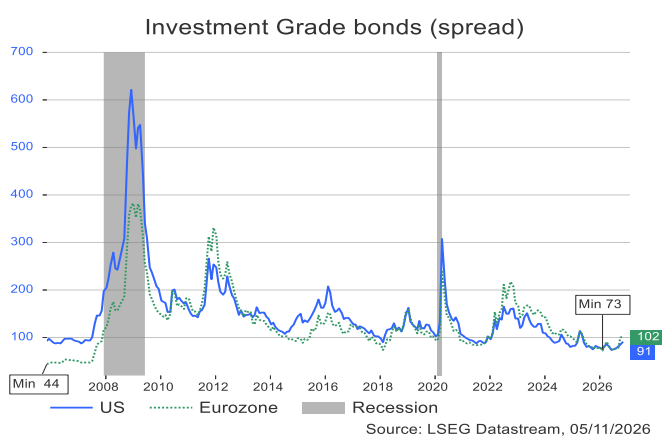
The global credit cycle remains supportive. Corporate fundamentals are resilient, earnings are holding up and default rates remain contained. However, the cycle is maturing. Elevated rates, rising refinancing needs and heavier bond supply could gradually pressure weaker issuers. Yields spreads were generally up in recent weeks. We therefore remain constructive on credit, while favoring quality, carry and greater selectivity.

Positive view on European investment grade: We remain constructive on European investment-grade credit, particularly after the recent widening in spreads. Corporate fundamentals remain resilient. Leverage is broadly stable, balance sheets are solid and the credit cycle remains in a recovery phase. At the same time, investors have significantly reduced risk, leaving positioning light. Combined with more attractive valuations, this creates scope for a near-term rebound in credit. We like core-eurozone and UK investment grade corporate bonds.

Neutral US investment grade: Fundamentals remain robust, underpinned by strong earnings growth, while yields close to 6% continue to attract institutional and international demand. With investor positioning having fallen sharply and spreads having widened, conditions appear favorable for some spread compression in the near term. Yet the medium-term picture is becoming more challenging, and we remain quite selective.

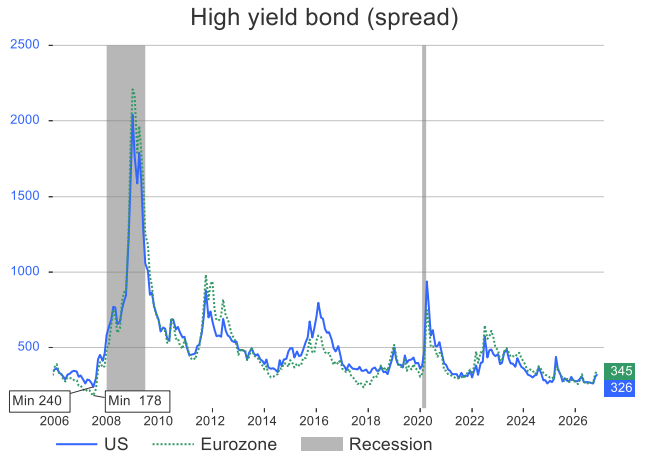
Neutral High yield corporate bonds: In Europe, default risk appears manageable and a high carry is supportive. In the US, fundamentals remain resilient, but higher rates warrant selectivity. Spreads remain low compared to historical averages. Any deterioration in the economic or interest rate environment could have a disproportionate impact on valuations. We do not expect these bonds to outperform on a risk-adjusted basis.

INVESTMENT GRADE CORPORATE BONDS



Source: LSEG Datastream, 05/11/2026

CORPORATE HIGH YIELD BONDS



Source: LSEG Datastream, 05/11/2026

INVESTMENT CONCLUSION

Credit fundamentals remain resilient, but the cycle is maturing. We favour eurozone and UK IG bonds. We remain neutral on US IG and high yield corporate bonds. We recommend to focus on quality, carry and selectivity.

Our Investment Recommendations

Asset class	Zone	Our opinion	
Government bonds	Germany and core eurozone	+	We remain positive on core Eurozone govies. Yields remain well above our targets and the expected return is attractive. We favor maturities of 7-10 years.
	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 corporates. We are 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	=	• Neutral 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	4,89	---	
Germany	3,29	---	
France	4,82	154	12
Italy	4,36	108	-9
Spain	3,87	58	-6
Portugal	3,74	45	-9
Greece	4,17	88	-11

04/11/2026

Source: Refinitiv Datastream

	Yield (%)	Spread (bp)	Spread change 1 month (bp)
Corporate bonds IG EUR	4,17	102	2
Corporate bonds IG USD	5,76	91	6
Corporate bonds HY EUR	6,67	345	16
Corporate bonds HY USD	8,07	326	20
Emerging government bonds in hard currency	6,97	219	32
Emerging government bonds in local currency	6,48	179	32

04/11/2026

Source: Refinitiv Datastream, Bloomberg

Valuation

	Yield	Spread	10yr Avg Spread	2yr Spread Range		Spread Change			2yr Z-Score*
				Min	Max	Chg 1W	Chg 1M bp	Chg YTD	
Euro Corporate	4,17	102	116	71	125	-1	2	24	
Single-A	4,06	93	100	64	113	-2	1	22	
Euro High Yield	6,67	345	372	248	429	-4	16	75	
BB	5,51	225	273	155	303	0	1	56	

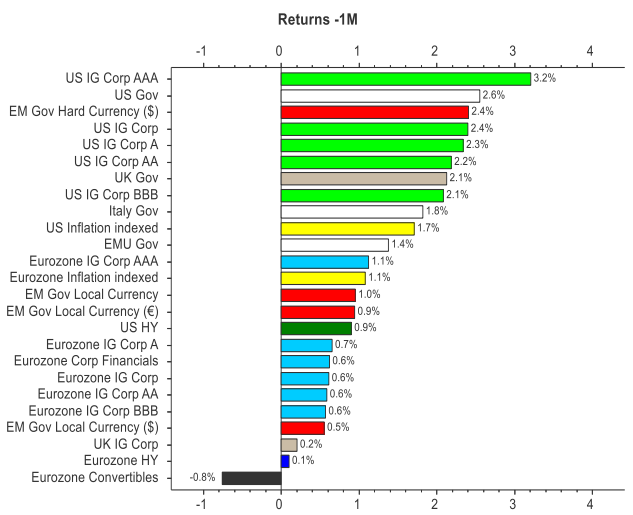
* Z-score 2y is based on the spread Source: LSEG Datastream , BNP Paribas WM, 04/11/2026

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	5,76	91	114	73	121	5	6	12	
Single-A	5,59	75	92	59	102	3	3	10	
US High Yield	8,07	326	377	256	456	18	20	50	
BB	6,86	199	248	150	306	15	8	30	
EM HY ($)	6,97	219	339	207	354	0	0	-12	

* Z-score 2y is based on the spread Source: LSEG Datastream , BNP Paribas WM, 04/11/2026

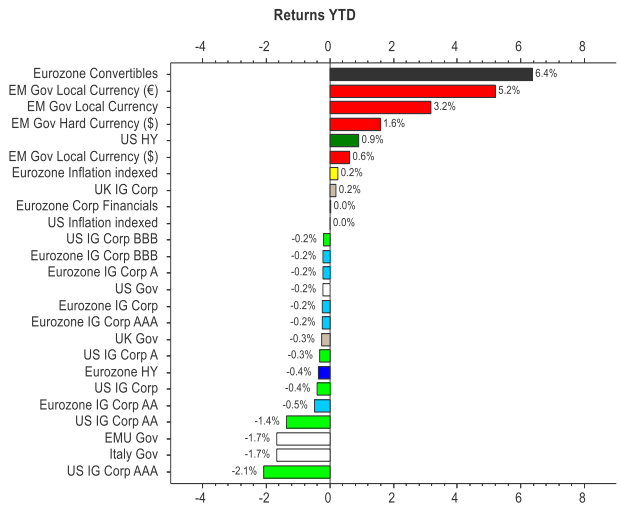
Return

OVER ONE MONTH



Source: LSEG Datastream, 04/11/2026 Index source: JPMorgan for Government Bonds and Emerging Markets (EM); Bloomberg Barclays for Investment Grade (IG) credit; ICE BofA for High Yield (HY) credit; Exane for Convertibles.

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Source: LSEG Datastream, 04/11/2026 Index source: JPMorgan for Government Bonds and Emerging Markets (EM); Bloomberg Barclays for Investment Grade (IG) credit; ICE BofA for High Yield (HY) credit; Exane for Convertibles.

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