

# Fixed Income Weekly

*Bonds pull back ahead of the Fed meeting*

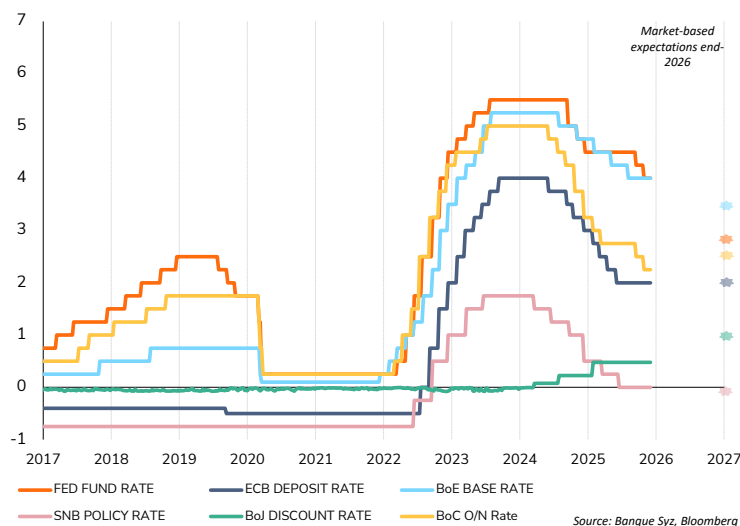


Syz Fixed Income Research – Week from 01 to 05 December 2025

*A shift in the 2026 central bank outlook contributes to driving rates higher, as fiscal policy supports growth and inflation prospects across all major regions.*

## The Chart of the Week

**The global central bank rate cycle about to reverse?**



Following this week's widely anticipated 25bp cut, the Federal Reserve is still expected to lower rate further in 2026. Current market pricing suggests two additional 25bp cuts next year. The Bank of England is also expected to implement two 25bp cuts in the next 12 months.

But the outlook for other major central banks increasingly leans toward a reversal of the easing cycle and some actual rate hikes down the road. Solid employment data last week in Canada led to a sudden adjustment in the outlook for Bank of Canada rates, with one rate hike in the second half of 2026 being swiftly priced in. In Europe, a growing number of ECB officials' comments mention a rate hike as the most likely next change in ECB rate policy. Upward inflationary pressures in Australia are likely to lead the RBA to hike rate later next year too. Meanwhile, the Bank of Japan has embarked on a slow-paced rate hike cycle that appears due to extend in 2026.

Strong fiscal policy support across all main economic areas is undermining the case for further monetary policy easing. By supporting economic growth and potentially fueling demand-driven inflationary pressures, governments are limiting the potential for lower rates. Shifts in Fed's short-term rate expectations have been driving USD bond markets recently, but the global rate tide may be about to reverse in 2026 after the broad-based easing of the past two years.

# What happened last week?

## Central banks

Major central banks head into a pivotal week marked by heightened policy divergence. In the US, expectations that Kevin Hassett will be nominated as the next Fed Chair continue to firm, with prediction markets now assigning nearly 90% odds. Attention is now squarely on Wednesday's FOMC, where the Fed is widely expected to deliver a final 25bp cut for 2025. With dissent likely from both hawks and doves, markets will scrutinise Powell's tone for confirmation that the bar for further easing in early 2026 is high.

The Bank of Canada is expected to stay on hold this week, and resilient labour data last week pushed markets to price a hike next year. The SNB also meets with no change anticipated despite softer-than-expected inflation data. The bar for a return to negative rates appears still high for the SNB.

In Europe, ECB officials have struck a more hawkish tone recently. Chief Economist Lane emphasised two-sided inflation risks, while Isabel Schnabel signalled comfort with expectations that the next move could be a hike, citing resilient growth and persistent services inflation.

Meanwhile, BoJ officials appear prepared to raise rates to 0.75% this month, the highest since 1995, as government resistance fades. Elsewhere, India's RBI and Poland's NBP delivered modest cuts ahead of a busy week of global decisions.

## Rates

Global government bond markets endured a broad-based sell-off last week as investors repriced the medium-term policy path. While a December Fed cut remains more than 95% priced, conflicting US data triggered a hawkish shift further out the curve, reducing the amount of easing priced next year by 9bps. Treasury yields rose sharply, with the 2-year up +7bps to 3.56% and the 10-year +12bps to 4.14%, its largest weekly increase since April. Long-dated yields underperformed, with 30yr Treasuries rising +13bps to 4.79%, contributing to notable ETF declines: iShares Treasury 1–3yr (-0.37%), 3–7yr (-0.70%), 7–10yr (-1.06%), 10–20yr (-1.86%) and 20yr+ (-2.26%).

Japan provided an additional catalyst as comments from BoJ Governor Ueda increased market conviction of a December hike. JGBs sold off sharply, with 10yr yields jumping +14bps to 1.95% and reaching their highest level since 2008.

Europe was not spared, with Bunds (+11bps), OATs (+11bps) and BTPs (+9bps) all moving higher. Stronger-than-expected Euro Area inflation (+2.2% YoY) and an upgraded composite PMI (52.8) reinforced upward pressure on yields. EUR government bond ETFs mirrored this weakness, with iShares EUR 3–7yr (-0.39%), 10–15yr (-0.90%), core EUR government bonds (-0.63%) and EUR inflation-linked bonds (-0.56%).

## Credit

Credit spreads tightened further across the board last week, though a rise in U.S. Treasury yield and German Bund yield weighted on total returns, particularly in investment grade. High yield outperformed investment grade, given its shorter duration nature.

U.S. investment grade declined 0.4% while U.S. high yield gained +0.2%. In Europe, investment grade slipped -0.2%, and high yield -0.1%.

Fund inflows into U.S. high yield accelerated ahead of the FOMC meeting, where market now fully priced a 25-basis point (bp) rate cut.

Primary markets were active as issuers sought to lock in lower yields. Investors have also accepted tighter final pricing: The average EUR investment grade new issue has tightened by 33 bps from initial pricing talk to final pricing.

Supply has been exceptional. Year-to-date EUR issuance has reached over EUR 625 billion in EUR investment grade, and EUR 115 billion in EUR HY, making 2025 the largest year on record for EUR investment grade, and second largest for EUR high yield.

A key driver has been the surge in Reverse Yankee issuance, U.S. corporates tapping the EUR market. However, December should be more subdued, as it is typically the second-quietest month for both IG and HY supply.

In the U.K., the Bank of England's stress-test results confirmed the resilience of major banks, with no institution required to raise additional capital.

In the U.S., the administration proposed more modest fuel-economy targets by 2031, reducing technology-cost burdens for automakers such as GM, Ford, Stellantis and Hyundai and improving their profitability over the medium term. However, we could expect to see non-cash impairments on their EV investments.

In the current context, we still find the short- to medium-term segment of the credit curve the most attractive on a risk-adjusted basis.

## Emerging market

Emerging market (EM) sovereign USD bonds traded steadily last week. Credit spreads held within a tight range, but prices fluctuating with U.S. Treasury yield moves. Sentiment remains constructive, albeit tempered by concerns over the tight spreads in EM corporates.

Performance was mixed across EM asset classes: EM hard-currency debt was flat (iShares EM Sovereign USD Bond ETF +0%), local-currency bonds outperformed slightly (J.P. Morgan EM Local Currency ETF +0.1%), EM corporates lost -0.2%, while Asian high yield gained +0.2%.

Global EM debt funds continue to attract strong inflows, having now posted gains in 32 weeks of past 33 weeks.

EM corporates began to integrate lower oil prices in their strategic plan. In Brazil, Petrobras released a more conservative 2026–2030 strategic plan, it will need Brent at roughly \$59/barrel to keep financial leverage stable. In Colombia, Ecopetrol also presented lower production

guidance for 2026 based on Brent at \$60/barrel with focus shifts toward profitability and liquidity, supportive to credit.

The attempted coup in Benin was swiftly suppressed. Nigerian forces intervened to restore order, constitutional authority has been re-established, and President Talon remains in power. Historically, market volatility around coups faded once political order is restored.

U.S. President Trump will meet Mexican President Sheinbaum on the sidelines of the 2026 World Cup draw in Washington. With the 2026 review of USMCA (United States-Mexico-Canada Agreement) approaching, the talks are expected to be constructive. The USMCA currently exempts 85% of Mexican exports from tariffs, keeping Mexico's average tariff rate near 5% (OECD data), significantly below global averages and much lower than the tariffs now applied to many Chinese exports.

Corporates with solid balance sheets and disciplined cash management should be favoured, regardless of state ownership. State-owned corporates make up a large share of EM debt, but ultimately credit fundamentals matter more than flags.

# Our view on fixed income

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## Rates

### NEGATIVE in current environment

We maintain a Negative stance on government bonds. Positive global growth dynamics, price pressures in the US and profligate fiscal policies reduce the attractiveness of long-term government bonds as a potential hedge for economic downturn and increase the risk of higher long-term yields. Limited prospects of further central banks' rate cuts and unattractive yield curve slopes at the front-end also reduce the attractiveness of government bonds on short-to-medium term maturities.

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## High Yield

### NEUTRAL, favor short maturities

We like High Yield bonds with short maturity for their attractive combination of yield and low sensitivity to interest rate movements. HY spreads have tightened, signaling economic stability and contained default risk in the short run. However, those tight spreads are not attractive for medium-to-long term maturities as they do not compensate adequately for a potential deterioration in the economic environment. As such, we hold a Neutral view for High Yield in an allocation, with a clear preference for short-duration investments. We continue to find value in subordinated debt.

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## Investment Grade

### NEUTRAL, harvest the carry

We find Investment Grade corporate bonds attractive in the current environment, given their yield level and our constructive economic scenario. However, tight credit spreads reduced the margin for safety in credit and make the asset class expensive from a valuation standpoint. As a result, we keep a Neutral stance on Investment Grade credit from an asset allocation perspective. The credit market's overall health is supported by robust demand and strategic maturity management.

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## EM

### NEUTRAL, be selective

We advocate for a careful selection of issuers to benefit from attractive absolute yields. Substantial inflows into EM debt this year have been fueled by a weak dollar along with EM corporates' solid credit metrics and support the asset class. However, risks persist, with rich valuations and unpredictable Trump's trade policies. Idiosyncratic risks also remain, notably in Brazil and India. Given this backdrop, we stay selective, favoring short-duration opportunities while remaining Neutral on the broad EM debt asset class.

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