

# Fixed Income Weekly



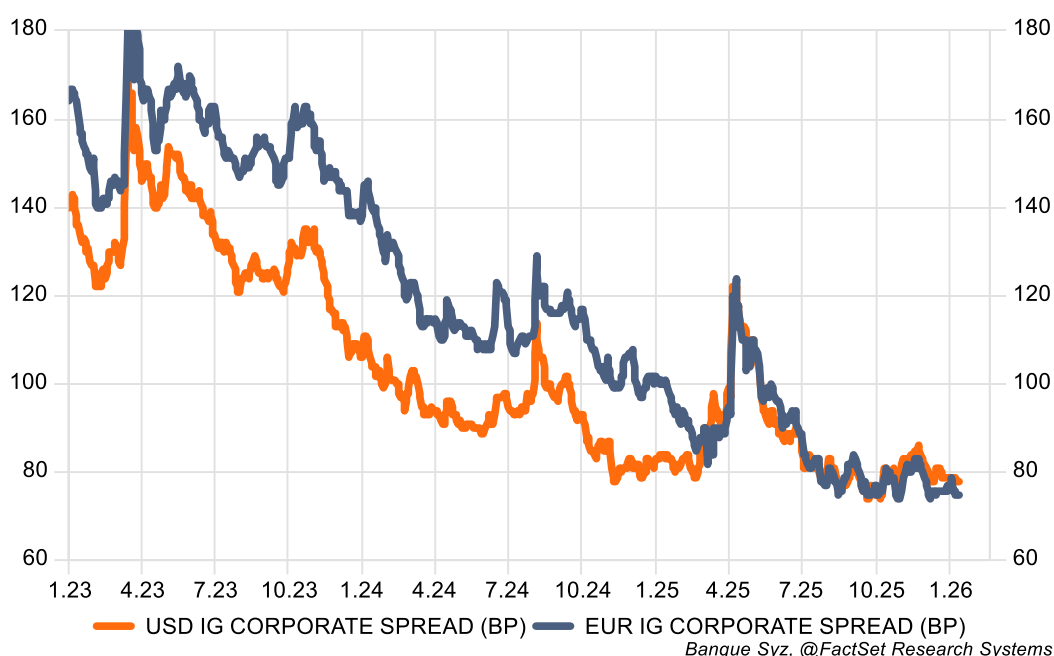
*Bond markets start 2026 on a positive note*

Syz Fixed Income Research – Week from 05 to 09 January 2026

**Long term rates decline and credit spreads tighten amid an eventful start of the year**

## The Chart of the Week

**IG credit spreads are back close to their lows despite heavy new bond issuance**



The Corporate Credit bond market started 2026 on a positive dynamic, despite heavy supply from the primary market.

Credit spreads are back close to their lows of Q3 last year in the Investment Grade space, both in USD and EUR markets.

A constructive economic growth outlook for this year and still attractive absolute yield levels continue to drive investors' appetite for Credit in the first weeks of 2026.

# What happened last week?

## Central banks

Central bank developments have been dominated by the escalation of tensions between Jerome Powell and the Trump administration, that may be seen as a challenge to Federal Reserve independence. Fed Chair Jerome Powell stated that the Department of Justice had issued a subpoena related to his June Senate testimony on the renovation of Federal Reserve buildings. Powell warned the move risks politicizing monetary policy and framed it as an attempt to influence rate-setting decisions.

The central bankers' community has voiced support for central bank's independence in setting monetary policy. Political reactions also emerged from within the Senate Republicans' rank and the episode also raised the likelihood that Powell could remain at the Fed as one of the Board members beyond his chair term to defend Fed's independence from within. Tensions between the Fed and the Trump administration continue to rise ahead of the end of Jerome Powell's term as Chair and of the Supreme Court's decision on Lisa Cook due on January 21<sup>st</sup>.

On policy, some Fed officials struck a cautious tone. San Francisco Fed President Mary Daly described the Fed as being in a "fine-tuning" phase, while Atlanta Fed President Raphael Bostic stressed the need to keep inflation firmly on track toward 2%. Future markets are currently pricing two 25bp rate cuts by the end of the year.

Elsewhere, the Bank of Israel cut rates by 25bp, UK inflation expectations eased, and ECB policymakers signaled stability ahead even if markets priced in a slightly higher probability of an ECB rate cut this year following lower-than-expected inflation data for December.

## Rates

Sovereign bond markets saw a drop in long term rates last week, driven by shifting macro signals in the US and Europe and a reassessment of near-term policy expectations. In the US, economic data sent mixed messages. Manufacturing remained soft, with the ISM index falling to a 14-month low of 47.9, but more domestically focused indicators were firmer as services activity surprised to the upside at 54.4. Labour market data were mixed but broadly reassuring, easing fears of a sharp slowdown. As a result, expectations for an imminent Fed rate cut were pushed back.

This repricing drove a notable flattening of the Treasury curve. The 2-year yield rose around 6bp to 3.53%, while the 10-year fell slightly to 4.17% and the 30-year declined 6bp, supported by lower real yields despite a modest rise in breakeven inflation. Long-duration Treasuries outperformed, as reflected in strong gains in 10-20y and 20y+ ETFs (respectively +0.8% and +1%) while shorter-maturity US Treasury ETFs were basically flat.

In Europe, softer CPI and PMI data drove EUR sovereign yield curves lower. Core and peripheral bonds rallied, with Bund yields down and peripheral spreads tightening (Germany 2-year -3bp to 2.11%, 10-year -4 bp to 2.86%, Italy 10-year -12bp to 3.50%). Gilt yields dropped 16bp to 4.37%, their lowest level in a year.

## Credit

Credit markets opened 2026 on an exceptionally strong footing, with total returns in both U.S. and European credit across investment grade and high yield turning higher of between +0.4% to +0.5% last week. Credit spreads have compressed further, while long term government yields drifting lower — collectively the best start to a year since 2010.

The new year issuance boom came as markets largely shrugged off the dramatic U.S. capture of Venezuelan President Nicolas Maduro given the solid corporate credit fundamentals.

U.S. investment grade issuance exceeded \$95 billion in the first full week of January, across 55 issuers — the busiest weekly start on record and the highest volume since 2020, reflecting ample market liquidity and very strong investor demand.

Corporates were able to tap markets with multiple times oversubscription, with the new 5-year Air France-KLM nearing six times oversubscribed.

Precious metals such as gold, silver and platinum have extended the gains into 2026 amid geopolitical risks. Glencore and Rio Tinto resumed talks on a potential mega merger to create the world's largest mining company. Glencore credit spreads could potentially tighten towards Rio Tinto's if the merger materializes.

2026 is set to bring downward pressure on oil prices. Average gasoline prices in the US have now fallen to just above \$2.80, the lowest since early 2021, supportive for U.S. consumers.

In Europe, credit spreads — though tight — now appear less stretched relative to U.S. peers, and EUR investment-grade inflows continue. 2026 started with more inflow into medium term funds than shorter term funds. With the high yield, inflows have been more prevalent towards EUR-focused high yield funds than global high yield and U.S. high yield funds.

Overall, primary issuance has been met with strong investor demand, with coupon carry remaining a central pillar of investment strategy.

## Emerging market

After the US driving regime change in Venezuela, Trump put some other Latin American countries on notice. EM suffered an outflow last week on heightened regional political risks.

Even against this backdrop of heightened headline risk, Emerging market corporates issued a surprisingly robust \$28 billion in hard currency bonds last week, rising to \$72 billion when sovereign issuance is included - the largest first week of the year in over the past decade. Primary markets absorbed this heavy supply with broadly stable credit spreads, implying investor comfort with corporates' balance sheets and cash holdings.

In terms of the performance, local-currency sovereigns lagged last week amid USD strength. The J.P. Morgan EM Local Currency Bond ETF fell -0.1%, contrasting with +0.5% of EM hard-currency sovereign debt (iShares EM Sovereign USD Bond ETF) and +0.3% of EM USD corporates.

Looking ahead, a blend of geopolitical events, resilient corporate fundamentals and supportive technical factors will continue to shape sentiment in emerging markets.

# 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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