Fixed Income Weekly

Rates decline with US labor market concerns

Syz Fixed Income Research – Week from 02 to 06 February 2026

US rates edged lower amid labor market concerns while credit markets were impacted by equity market volatility

The Chart of the Week

US Treasury 2-year yields are rangebound since the Fed resumed its rate cut cycle

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USD rates declined last week after the release of soft labor market data. Ahead of the delayed release of the January Employment Report, the JOLTS report for December showed last week a significant slowdown in job openings at the end of last year, to their weakest level in more than five years.

As a result, future markets raised their Fed rate cut expectations for this year: two 25bp cuts were already fully priced in ahead of the report but the probability of a third 25bp by December 2026 rose to 40% following the release.

As a result, all US Treasury rates declined last week. However, since the Fed has resumed its rate cut cycle in September last year, USD rates have essentially evolved in a range. The 2-year rate has hovered around 3.5%. A significant change in the growth or inflation outlook will be required to initiate an upward or downward trend in US rates this year.

What happened last week?

Central banks

Following last week's rate decision and the Warsh nomination, Fed speaks was limited, with Richmond Fed President Barkin stressing that persistent above-target inflation is a concern.

The ECB held its policy meeting that proved to be largely uneventful. It kept the deposit rate at 2% as expected and reinforced a message of policy stability. President Lagarde repeatedly argued that inflation is in a "good place", downplaying January's 1.7% print as energy base effects and noting that an inflation undershoot in 2026 has long been part of the ECB's forecasts. She also dismissed recent euro moves as irrelevant for the outlook. Markets continue to see rates on hold for the rest of the year, with risks skewed toward a cut.

In contrast, the Bank of England triggered a sharp market response. Rates were held at 3.75%, but a narrow 5–4 vote and guidance that rates are "likely to be reduced further" underscored a clear dovish tilt. With inflation risks seen as easing and labor market slack building, BoE rate cut expectations increased, with the expected policy rate at the end of 2026 down -10bp to 3.25%.

Earlier in the week, the RBA had moved the other way, raising the cash rate by 25bp to 3.85% amid resurgent inflation. With headline and core inflation projected to rise further and growth holding up, the Bank signaled that additional tightening may yet be required. Future markets currently price one more 25bp rate hike by the summer, and a 50% probability of another 25bp hike in the second half of the year.

The central bank of Poland and the Reserve Bank of India held their key rate unchanged, respectively at 4.00% and 5.25%.

Rates

Global government bond markets delivered a mixed performance last week, with diverging dynamics between the US and Europe. In the US, softer labour market data reinforced expectations of monetary easing later this year. The December JOLTS survey showed job openings falling to their lowest level since 2020, strengthening the narrative of cooling labour demand. As a result, markets increased the amount of Fed rate cuts priced by the December meeting by around 3bps to 56bps. Treasury yields edged lower across the curve, led by the belly: 2yr and 5yr yields declined by 2–3bps, while the 10yr yield fell 3bps to 4.21%. Real yields and breakeven inflation also moved modestly lower, suggesting the rally was driven more by growth expectations than inflation concerns.

In Europe, rate markets were far more stable. German Bund yields were effectively unchanged across maturities after the ECB left policy rates on hold, with the 10yr ending the week at 2.84%. Peripheral spreads were broadly steady, though long-end yields in France, Italy, Spain and Portugal drifted 1–2bps higher. Swiss yields bounced back up after their end-January decline, particularly in the 5yr sector, while UK and Japanese yields edged slightly lower.

From a performance perspective, global aggregate bonds posted a small negative return last week (-0.22%). In the US, returns improved with duration, with long-dated Treasuries outperforming. Euro government bond ETFs were mixed, while euro inflation-linked bonds underperformed as inflation expectations softened.

Credit

U.S. credit spreads edged wide following a software-led sell-off, triggered by reports that a newly unveiled AI model could disrupt parts of the legal software industry. The move marked a shift in investor focus from macro uncertainties to micro-level fundamentals within technology.

For months, corporate credit spreads barely had any outsized moves, despite a persistent backdrop of event risk surrounding Fed independence, tariff threats and geopolitical tensions. Last week, sentiment pivoted toward software. Sector divergence was pronounced in U.S. high yield, where Tech & Electronics and Telecom materially underperformed.

Even so, coupon carry continued to do heavy lifting in total return. Both US investment grade and high yield segments delivered positive weekly returns of +0.1%, underscoring the importance of income in a range-bound spread environment.

In Europe, EUR investment grade spreads were unchanged, though higher German Bund yields weighing on total return slightly negative (-0.1%). Fund flows remain a supportive technical. EUR investment grade credit inflows continue uninterrupted, while government bond funds saw a third week of ouflows. EUR high yield funds posted a fourth straight week of inflows, led by Euro-focused strategies, while U.S.-focused funds experienced outflows.

Against the backdrop of EUR policy rate being in a good place, the steep front-end yield curve has been supporting plentiful demand for credit via fixed-maturity funds. Besides, the surge in German domestic manufacturing orders create a favourable backdrop for German credits. Valuation of German utilities, telecom and insurance appear attractive.

Emerging market

Emerging market (EM) credit markets delivered another strong week of performance, led by Ukraine, amid tentative progress in peace talks with Russia. Both EM sovereign USD bonds (iShares EM Sovereign USD Bond ETF) and local-currency sovereign bonds (The J.P. Morgan EM Local Currency Bond ETF) advanced +0.6% on the week (+0.2% for EM corporate USD bonds).

Against this constructive backdrop, Moody's revised Indonesia's Baa2 outlook from Stable to Negative, citing concerns over President Prabowo Subianto's plans to scale up public spending. That said, Indonesia's fiscal deficit is not high, at around 3% of GDP, while debt-to-GDP ratio stands at 41% of GDP, well below the EM average of 57%. On this basis, Indonesia should remain within investment grade territory, currently rated mid-BBB by all three agencies.

In Brazil, minutes from the central bank pointing to easing inflation dynamics have fuelled expectations of a potential rate cut as early as the March meeting, an outcome that would be supportive for credit markets.

While overall EM sovereign spreads are trading at multi-year tights, tactical opportunities exist. Turkey's BB- rating was placed on Positive Outlook last month, reflecting reduced external vulnerabilities, a projected decline in inflation (to 19.5% by end-2027, from currently 31%), and a debt-to-GDP ratio expected to remain low (25% by end-2027, half of Fitch's BB sovereign median).

That said, isolated credit risks persist. Last week saw sharp selloffs in Brazilian companies CSN and Raizen. In this environment, rigorous credit selection remains paramount.

Our view on fixed income

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.

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.

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.

EM

NEUTRAL, with opportunities

We advocate for a careful selection of issuers to benefit from attractive absolute yields. Global growth dynamic, a weaker US dollar, contained public debt & corporate leverage along with strong flows are supportive for EM debt 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 and medium-duration opportunities while remaining Neutral on the broad EM debt asset class in a multi-asset portfolio context.