

Fixed Income Weekly



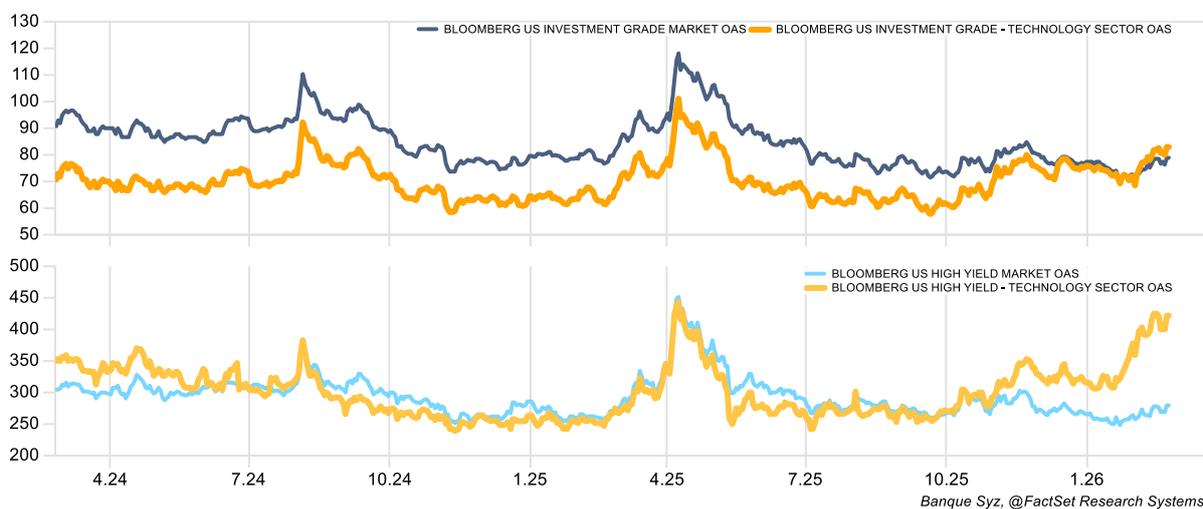
Hawkish Fed minutes push US rates higher while corporate spreads stabilize

Syz Fixed Income Research – Week from 16 to 20 February 2026

USD rates bounce up on hawkish Fed comments and solid US data, while corporate credit spreads stabilize after two weeks of Tech-driven widening

The Chart of the Week

Credit spreads of Technology sector issuers are widening in HY and IG markets as AI fears intensify



Credit markets have come under moderate pressure in recent weeks as investor sentiment has gradually cooled. After reaching new lows in January, average credit spreads in the US Investment Grade (IG) and High Yield (HY) markets have widened back toward December levels.

As in equity markets, the Technology sector is leading the move in corporate credit, as investors grow increasingly concerned about the disruptive potential of AI. Software and technology companies are at the forefront, both because of the risks AI poses to their business models and the significant capex and bond issuance it requires.

In High Yield, the Technology sector has clearly underperformed since last November. The trend accelerated sharply in mid-January, with spreads in High Yield Technology returning to their post-Liberation Day levels, while broader market spreads remain close to historical lows.

In Investment Grade, the Technology sector has historically traded at tighter spreads than the broader IG market, reflecting higher ratings, strong cash positions, and low leverage. This began to change in Q4 2025, when hyperscalers issued substantial debt to finance AI-related capex. Since then, average IG Technology spreads have trended upward and, in February, widened above the broader IG market's average spread for the first time in twenty years. AI is now reshaping long-standing equilibria in corporate credit markets.

What happened last week?

Central banks

Global central banks struck a cautious tone last week, balancing easing expectations against lingering inflation risks.

In the US, comments from Federal Reserve officials highlighted divisions over the future rate path. Minutes from the January meeting underscored renewed inflation concerns, with several policymakers open to rate hikes if price pressures persist. However, Fed members' views are not all aligned: last week, Federal Reserve Bank of Chicago President Austan Goolsbee said further rate cuts are possible if inflation continues to move toward the 2% target, describing tariff-related price pressures as potentially transitory. He signaled openness to several cuts in 2026, contingent on clearer disinflation evidence, and welcomed the prospective nomination of Kevin Warsh to succeed Jerome Powell. By contrast, Governor Michael Barr urged holding rates steady until goods inflation shows sustained improvement, warning that AI-driven productivity gains may actually lift the neutral rate. Similarly, San Francisco Fed President Mary Daly noted stronger productivity could justify higher rates. Overall, Fed minutes and firm growth and inflation data drove rate cut expectations for this year marginally lower, with the end-2026 future rate rising 8bp to 3.08%.

In Europe, leadership uncertainty emerged at the European Central Bank. A FT report suggested Christine Lagarde may step down early, though she later reaffirmed her intention to complete her term. ECB rate expectations were barely affected by the news. In the UK, data showed inflation easing to 3%, keeping the Bank of England on course for possible spring rate cuts, albeit amid sticky services inflation. BoE rate expectations marginally increased last week and future markets price two more rate cuts this year with almost certainty.

Central banks in Romania, in New Zealand and in Indonesia kept their key rate unchanged last week.

Rates

Sovereign bond markets diverged over the week, with US Treasury yields moving higher while European core debt outperformed.

In the US, although Q4 GDP surprised to the downside, an upside surprise in core PCE, solid January industrial production, lower-than-expected jobless claims and "hawkish" Fed minutes tempered expectations for near-term Fed easing. Against this backdrop, and amid renewed fiscal uncertainty, the Treasury curve bear-flattened. The 2-year yield rose 7bps to 3.48%, while the 10-year increased 3bps to 4.08% and the 30-year to 4.72%, with inflation breakevens stable last week. As a result, US government bonds ETFs posted negative total returns, especially for longer-maturity ones: the iShares Treasury 1–3y ETF fell -0.08%, while the 20y+ segment declined -0.35%.

In contrast, European bonds rallied. German 10-year Bund yields fell 2bps to 2.74%, while French OATs declined 4bps and UK gilts outperformed, with 10-year yields down 6bps to 4.35% after the release of softer-than-expected inflation data. Peripheral spreads were mixed but generally tighter. Reflecting the move, euro government bond ETFs delivered positive returns, led by longer-duration exposures.

Credit

Credit spreads ended the week marginally softer in EUR investment grade, while tightening in EUR high yield, even as escalating tensions between the United States and Iran pushed crude oil prices to seven-month highs.

U.S. trade policy returned to the forefront following a temporary easing of AI-related volatility. The U.S. Supreme Court ruled against the reciprocal tariffs introduced by the Trump administration, although the President retains alternative legal avenues to pursue similar measures. Meanwhile, the European Union may delay ratification of last July's signed trade agreement.

U.S. investment grade delivered a modest negative total return of -0.2%, driven by slightly higher Treasury yields, erasing part of the previous week's gains.

Year-to-date, EUR investment grade and high yield fund inflows have outpaced their U.S. counterparts. EUR investment grade recorded another week of positive returns and resilient demand, marking 34 consecutive weeks of inflows, supported by moderating Bund yields over the past fortnight.

European investment banks reported a 16% increase in 2025 trading income, broadly in line with U.S. peers, reflecting strong client activity amid volatile market conditions.

Both U.S. and EUR high yield posted positive weekly returns of +0.2% and +0.3%, respectively, supported by tighter spreads. EUR high yield funds extended their streak to six consecutive weeks of inflows.

Against a backdrop of tariff uncertainty, AI-related fatigue, and persistent geopolitical tensions, maintaining sectoral and geographical diversifications continue to make sense, while staying invested to capture coupon carry.

Emerging market

Emerging market (EM) dollar credit markets delivered another week of positive returns, as tighter credit spreads more than offset the drag from higher US Treasury yields. Mexico, Peru and Chile were among the outperformers.

Geopolitical risks remain elevated, with the U.S. assembling a substantial regional force around Iran. While a material escalation is not the base case, policy decisions under the Trump administration continue to introduce a high degree of unpredictability.

In Argentina, President Javier Milei is facing a general strike in opposition to his proposed labour reform bill, part of his austerity agenda aimed at reducing government spending in 2026. Successful passage of the reform could support lower interest rates and improve Argentina's prospects of returning to international bond markets.

More broadly, EM corporates have so far demonstrated greater resilience in volatile market conditions than in previous cycles, reflecting meaningfully stronger credit fundamentals.

In Colombia, majority state-owned Ecopetrol ended 2025 with proven oil reserves up 3%, corresponding to an average reserve life of 7.8 years. The company remains a strategically important issuer for the Colombian sovereign.

In China, the Lunar New Year holiday (16–24 February) is ongoing. According to the Ministry of Commerce, average daily retail sales during the first four days of the holiday increased markedly year-on-year, pointing to resilient domestic consumption.

From a performance perspective, EM local-currency sovereign bonds (the J.P. Morgan EM Local Currency Bond ETF) were flat over the week, following several consecutive weeks of gains. EM sovereign USD bonds and EM corporate USD bonds (iShares benchmarks) both returned +0.2%, supported by strong investor demand. Global EM debt funds recorded another week of inflows, the largest in seven weeks, after a volatile start to the year.

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.

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.

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.

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.

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