Fixed Income Weekly

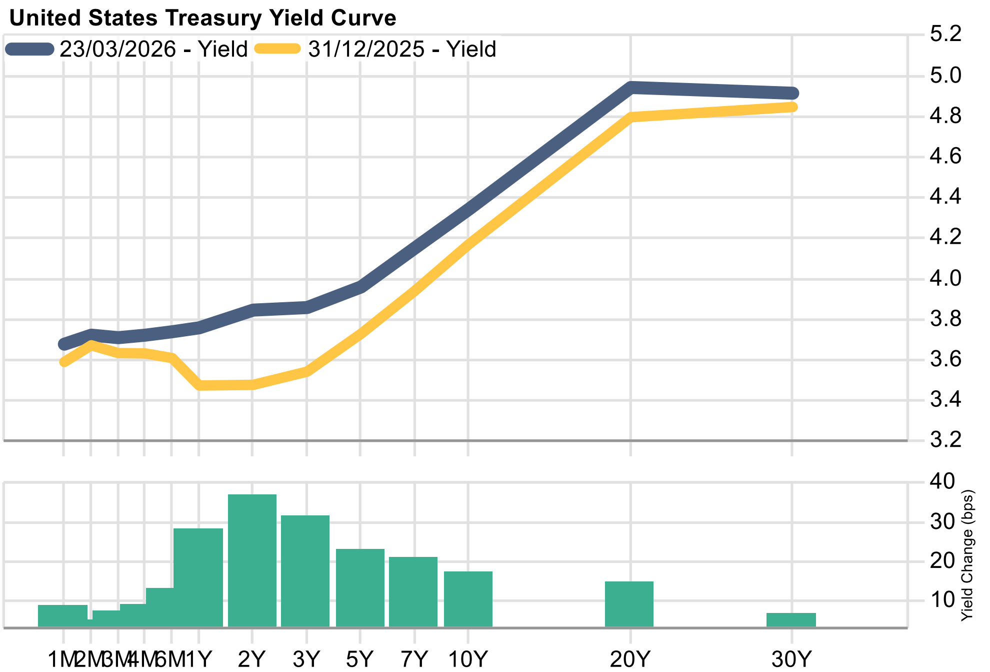
Global rates remain driven by oil prices

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

The oil price shock continues to feed through global rate level and monetary policy expectations, while credit markets show resilience

The Chart of the Week

A "bear flattening" led by a sharp repricing of short and medium term USD rates



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The recent oil price shock has triggered a broad repricing across the USD rates complex. Anticipated inflationary pressures in the coming months have materially shifted the outlook for short-term interest rates, effectively erasing expectations of continued Fed rate cuts in 2026 and 2027. As Jerome Powell noted last week, with inflation still above the central bank's 2% target, progress on inflation is required before further easing. And the surge in energy prices has jeopardized such prospects for the time being.

As a result, the adjustment in rate expectations has been most pronounced at the front end of the curve, where prior expectations for rate cuts had been concentrated. The US 2-year Treasury yield has risen by 37bps since the start of the year, reaching its highest level since July 2025. Medium and long-term rates have also been rising but to a lesser extent, as the inflationary shock is still expected to be temporary for the time being. Indeed, the USD yield curve does not yet signal expectations of a sustained inflationary dynamic for the US economy.

What happened last week?

Central banks

Global central banks broadly maintained a cautious "wait-and-see" stance last week, though with a clearer hawkish tilt emerging as energy-driven inflation risks intensify. The Federal Reserve held rates at 3.50–3.75%, in line with expectations, with Jerome Powell emphasising that further "progress on inflation" is required before any easing. While the median dot in the Summary of Economic Projections continues to signal one rate cut this year, upward revisions to inflation and firmer growth assumptions point to a more cautious policy path. Notably, only Stephen Miran dissented in favour of a cut, underlining broad committee consensus. Powell's tone suggested that while cuts remain more likely than hikes, the case for easing has weakened.

In Europe, the European Central Bank left rates unchanged, with Christine Lagarde stressing vigilance around second-round inflation effects. Markets have increasingly priced the risk of a near-term hike should energy shocks persist. The Bank of England delivered a notably hawkish hold, with a unanimous vote and a shift away from an easing bias, reinforcing expectations that policy could tighten if inflation expectations drift higher.

In Asia, the Bank of Japan kept rates steady but signaled that further tightening remains firmly on the table. Elsewhere, the Swiss National Bank and the Riksbank also kept their rate unchanged, with the former highlighting its readiness to intervene in FX markets amid Swiss franc strength.

Overall, central banks are increasingly wary of inflation persistence and future markets' expectations have been pricing in a rising probability of a hawkish pivot in the weeks ahead, with potential rate hikes in Europe and even possibly in the US by the end of the year. Those expectations continue to fluctuate along with the evolution of the geopolitical situation in the Middle East and oil price movements.

Rates

Sovereign bond markets came under broad pressure last week, as escalating tensions in the Middle East drove a sharp rise in oil prices and intensified stagflation concerns. Brent crude oil surged nearly 9% to a post-2022 high above $112/bbl, reinforcing expectations of persistently elevated energy costs and renewed inflationary pressures.

Against this backdrop, investors rapidly repriced the global policy outlook following broadly hawkish holds from the Federal Reserve, European Central Bank, Bank of England and Bank of Japan. Markets moved to price out rate cuts and, in some jurisdictions, began to anticipate renewed tightening.

This repricing triggered a significant sell-off in government bonds. US Treasury yields rose across the curve, with the 10-year reaching 4.38% (+10bps) and real yields climbing in tandem, pointing to tighter financial conditions. In Europe, the 10-year German Bund yield rose above 3% for the first time since 2011, while peripheral spreads widened modestly, led by Italy (+18bps). UK gilts underperformed, with 10-year yields jumping 17bps to near 5%, a multi-decade high.

Bond returns reflected the sell-off, with losses increasing along the duration spectrum in both US and euro area markets. Overall, the combination of higher oil prices and shifting policy expectations drove a synchronized global rate repricing.

Credit

USD and EUR corporate credit spreads, across both investment grade and high yield, ended last week effectively unchanged. This resilience came despite a sharp rise in government bond yields, driven by increasingly hawkish central bank expectations amid higher energy prices.

Brent crude closed at $112.2 per barrel, its highest level since June 2022. In contrast, Dutch TTF gas prices increased only moderately to €59/MWh last Friday, before easing back to €54/MWh on Tuesday, well below the 2022 peak of €341/MWh.

French credits are expected to be more resilient than corporates in neighbour countries, reflecting the country's energy mix predominantly nuclear, a dynamic already observed during the 2022 energy shock.

That said, negative total returns across credit markets last week were entirely driven by the rise in Treasury and Bund yields. As a result, yields moved higher across the board: USD investment grade reached 5.2%, US high yield 7.5% (the highest since June 2025), while EUR investment grade rose to 3.7% and EUR high yield to 5.9%.

At the sector level, real estate underperformed, as expected in a rising yield environment.

EUR investment grade and high yield funds recorded another week of outflows, after 36 consecutive weeks of inflows. Money market funds also saw outflows.

In corporate developments, UniCredit announced a full takeover bid for Commerzbank. The transaction is hostile and widely viewed as unlikely to succeed.

Private credit remains firmly in focus.

Several private credit funds, including Ares Strategic Income Fund, have capped quarterly redemption at 5%. This highlights a structural tension: semi-liquid fund structures are often misunderstood. Private credit loans are illiquid by design. Syz Blog: Private credit under fire: why the headlines tell only half the story

Among European banks, Barclays and Deutsche Bank show the highest exposure, at approximately 5.5% of total loans, but still very manageable.

In the U.S., loans to non-depository financial institutions (NDFIs) average 6.4% across major banks, ranging from 0% at BNY Mellon to around 10% at Wells Fargo. These NDFIs include private credit funds, business development companies (BDCs), and hedge funds that originate and hold loans outside the traditional banking system.

Ultimately, as credit spreads tend to follow earnings over time, a more challenging environment is likely to lead to greater dispersion across companies in the coming months.

Emerging market

Emerging Market (EM) sovereign valuations came under pressure, as surging oil prices triggered a broad risk off move. The selloff was most pronounced in EM high yield, led by Ukraine, Bahrain, Argentina and Egypt. Colombia stood out as an outperformer.

EM sovereign USD bonds led the decline, falling 1.3% last week, while the J.P. Morgan EM Local Currency Bond ETF and EM corporate USD bonds declined by 0.8%.

EM debt recorded a second outflow in a row, the largest in ten weeks.

On a more constructive note, EM credit spreads have remained relatively resilient in recent weeks. Latin American funds continue to attract inflows year-to-date. Brazil, as a net oil exporter, benefits from higher prices. While Chile and Peru are exposed to rising energy costs, both economies are supported by strong commodity exports. Chile as the world's largest copper exporter, and Peru as a key producer of copper, gold, silver and zinc. In Chile, the upcoming general and presidential elections scheduled for April 12 are expected to provide greater political clarity and support growth.

In contrast, concerns around higher commodity prices have weighed on Asian EM, leading to outflows. Approximately half of Asia's energy imports originate from the Middle East, increasing vulnerability to supply disruptions and price spikes.

At the sector level, EM telecoms outperformed, reflecting their defensive characteristics and limited exposure to energy costs. Energy companies also performed well, supported by higher prices. Conversely, sectors exposed to cyclical demand and rising input costs, such as transport, metals and mining, underperformed.

Traffic through the Strait of Hormuz remained severely disrupted, with only a limited number of tankers, from China, India, Pakistan and Greece, continuing to transit.

An interesting development, Iran has reportedly begun imposing ad hoc charges on certain commercial vessels, in some cases reaching up to $2 million per voyage.

Looking ahead, persistently elevated oil prices will continue weighing on energy-importing economies.

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 remain tight, 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 still 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.