

Fixed Income Weekly

Rising energy prices push rates higher

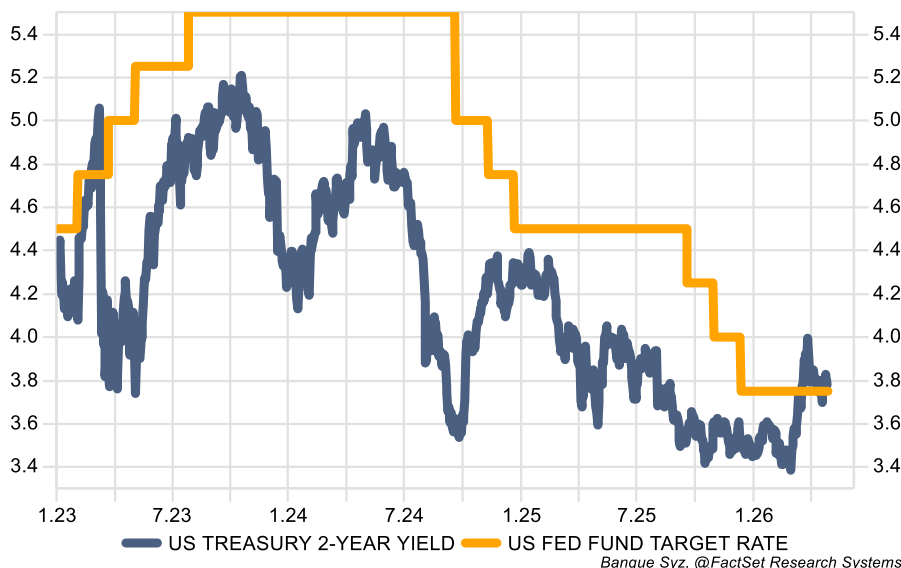


Syz Fixed Income Research – Week from 20 to 24 April 2026

Fixed Income markets face downward pressures from higher inflation expectations

The Chart of the Week

No Fed rate cut expected anymore in the US, even if the path for Warsh's nomination is clearing



Since March 2023, the US 2-year Treasury yield has traded below the Fed funds rate, signalling that investors expected the Fed to reverse part of its 2022–2023 tightening cycle.

That view proved broadly correct. From the second half of 2024, the Fed began cutting rates from its 5.5% peak. As recently as early 2026, markets were still pricing in further easing, against a backdrop of moderating inflation, softer growth, and the anticipated replacement of Jerome Powell as Fed Chair.

However, the recent surge in energy prices has clouded the inflation outlook. In response, the Fed has adopted a more cautious, balanced stance, one it is likely to reiterate at its April 29 meeting.

Markets have adjusted swiftly. Rate cuts are no longer expected in 2026, with only a 23% probability of a 25bp move by year-end at the time of writing. Consistently, the US 2-year yield has moved back above the Fed funds rate since mid-March.

Even the closure of the Department of Justice investigation into Jerome Powell, potentially paving the way for Kevin Warsh as the next Fed Chair, has done little to shift this narrative. With inflation and inflation expectations edging higher, the bar for renewed rate cuts in the US now appears significantly higher.

What happened in the last ten days?

Central banks

All central banks are holding a monetary policy meeting in this last week of April. On Wednesday 29th, the Federal Reserve will likely keep its key rate unchanged and future markets are still hesitant on the possibility for the US central bank to cut rate before the end of the year due to ongoing energy-led inflationary pressures (only a 25% probability of a 25bp rate cut by December 26). This is even though the Justice Department decided to end its investigation into Jerome Powell, removing a key obstacle to Kevin Warsh's nomination as Chair. Indeed, Senator Thom Tillis has now dropped his opposition, paving the way for a confirmation by the Senate Banking Committee where Republicans hold a 13-11 majority. On the same day, the Bank of Canada will also hold its monetary policy meeting and is expected to keep its rate unchanged at 2.25% too.

The ECB will also likely keep its rates unchanged on Thursday 30th, as policymakers have recently signaled caution amid heightened geopolitical uncertainty and despite rising inflation expectations. Officials including Yannis Stournaras and Gediminas Šimkus argue against a rate hike at the upcoming meeting, citing unclear economic fallout from the Iran conflict. Rate hikes might come later in the year, with future markets still pricing in almost three 25bp rate hike by December 2026.

On the same day, the Bank of England is also expected to stay on hold, amid dissensions within the monetary policy committee. Beyond this meeting, recent stronger-than-expected PMI data have pushed back market expectations toward more tightening ahead, with between two and three rate hikes now priced by year-end.

Today the Bank of Japan opened this "central bank week" with a decision to keep rates unchanged 0.75%. Interestingly, it was a split decision, with 3 votes in favor of an immediate hike but Governor Kazuo Ueda highlighted increased uncertainty to stay on hold for the time being. The probability of a rate hike at the June meeting stands at 66%.

Rates

Sovereign bond markets faced a challenging week as rising oil prices fueled stagflation concerns and pushed inflation expectations higher. US and Eurozone inflation swaps moved sharply upward, pushing back up expectations of a more hawkish policy response from major central banks.

Against this backdrop, core government bond yields moved higher across most maturities. US Treasury yields rose along the curve, with the 2-year and 5-year both up 7bps to 3.78% and 3.91%, while the 10-year climbed 5bps to 4.30%. Notably, the US 10-year breakeven inflation rate increased 6bps to 2.43%, highlighting the inflation-driven nature of the selloff, while real yields were broadly stable.

In Europe, the move was more pronounced at the front end, with German and French 2-year yields rising 14bps. EUR peripheral spreads remained contained, while UK gilts underperformed, with the 10-year yield jumping 15bps to 4.91%.

Reflecting the rate backup, government bond ETFs posted negative returns across most segments, while inflation-linked bonds outperformed, benefiting from rising inflation expectations.

Credit

Credit markets posted negative returns across segments, primarily driven by higher Treasury and Bund yields early last week, while credit spreads remained broadly stable.

The upward move in yields was partly linked to renewed oil supply concerns, which pushed Brent crude above \$100 per barrel, as this added to inflation expectations.

Within EUR investment grade, real estate outperformed. In EUR high yield, chemicals sector posted the largest total return gain because Chinese chemical products cannot go through the Straits of Hormuz to Europe. Conversely, the transportation sector underperformed amid rising fuel costs.

European airlines are navigating elevated jet fuel prices, with jet fuel trading at a significant premium to crude at above \$200 per barrel due to widening crack spreads (the refining margin and logistics costs between crude oil and jet fuel).

Jet fuel costs typically account for 20–40% of airline operating expenses, but hedging strategies differ across carriers. Easyjet and Air France-KLM hedge against jet fuel costs while Deutsche Lufthansa hedges against crude oil and gasoil prices, less effective in periods of elevated jet fuel crack spreads.

Air France-KLM has further strengthened its fuel hedging policy from 68% to 87% over the next four quarters, while also raising long-haul fares and reallocating capacity toward Asia. On the other hand, Lufthansa just cut 20,000 short-haul flights for summer 2026 (or ~1% of capacity).

On the flow side, EUR high yield funds have staged a strong rebound last week, second consecutively weekly inflow after 7 weeks of outflows. EUR investment grade (IG) experienced outflows primarily on long-duration strategies. If rate volatility stabilises, inflows into EUR IG could resume.

Emerging market

Emerging market (EM) sovereign debt posted negative returns last week, with EM sovereign local-currency bonds underperforming USD sovereigns, as oil-price volatility and renewed Middle East risk weighed on FX-sensitive assets. US–Iran/Israel negotiations remained stalled, and traffic through the Strait of Hormuz stayed constrained.

EM USD corporates were the most resilient segment, with total returns broadly flat.

EM debt funds recorded their largest weekly inflows since December 2025.

Peter Magyar's recent election victory in Hungary has been supportive to Ukraine sovereign bonds.

The Hungarian government has withdrawn its objection to the EU90 billion EU aid package for Ukraine. The first tranche of EU loan could be disbursed in early June. In parallel, Ukraine has allowed Russian oil flows to Hungary and Slovakia via the Druzhba pipeline to resume, easing regional fuel supply concerns. The political shift is meaningful, as pro-Russia Viktor Orbán's outgoing government had repeatedly opposed EU assistance to Ukraine.

In China, Q1 GDP growth was strong at 5.0% year-on-year, at the upper end of the government's 4.5–5.0% target range for 2026. The top leadership will hold the April Politburo policy-setting meeting this week to discuss economic policies for the coming months. However, analysts do not

expect a major additional easing package at this stage. Like many central banks in developed markets, Chinese policymakers are awaiting greater clarity on the Middle East situation, oil prices and external-demand risks.

Our view on fixed income

Rates

NEGATIVE in current environment

We maintain a Negative stance on government bonds. Renewed price pressures from the surge in oil & gas prices and prospects of more profligate fiscal policies reduce the attractiveness of long-term government bonds as a potential hedge for economic downturn. Reduced prospects of further central banks' rate cuts and unattractive yield curve slopes at the front-end also lower 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, and 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 continue to find Investment Grade corporate bonds attractive, given their yield level and our still constructive economic scenario over the medium term. However, tight credit spreads reduced the margin for safety. 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 dynamics, contained public debt & corporate leverage in many EM economies along with strong flows are supportive for EM debt. However, risks persist, with rich valuations and unpredictable Trump's 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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