

# Fixed Income Weekly

Global rates surge and lead to a bond market selloff

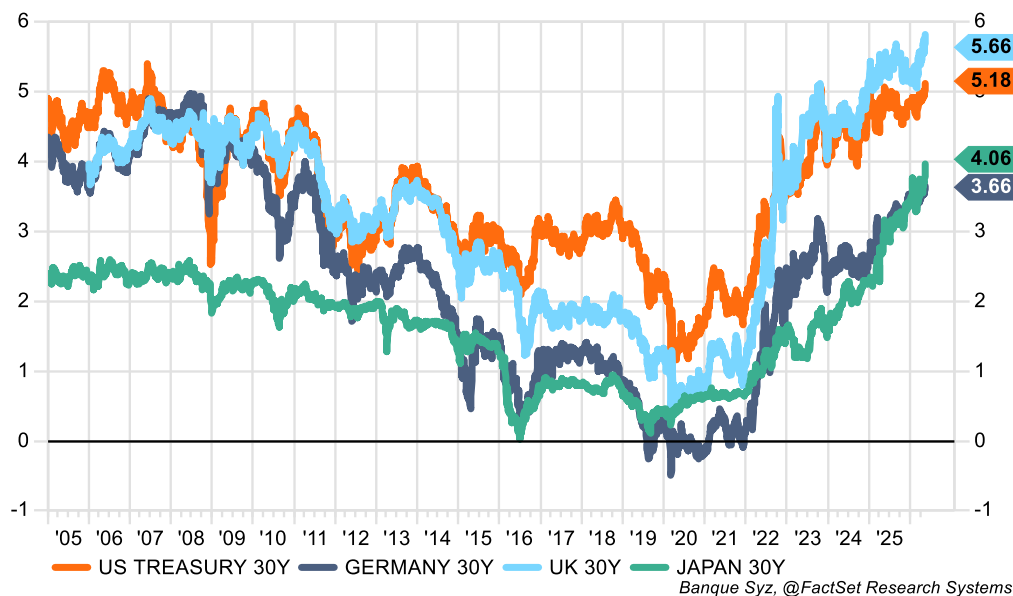


Syz Fixed Income Research – Week from 11 to 15 May 2026

Global rates surge and weigh on bond markets across the board.

## The Chart of the Week

Long-term yields surge to new highs



Thirty-year yields across the G4 are at levels not seen in over a decade. Last week, they moved sharply higher still. The US 30-year Treasury hit a post-2007 high of 5.18%, Germany's long end surged to levels last seen in 2011. UK Gilts, battered by both inflation fears and political chaos in Westminster, closed at a post-2008 high of 5.17%.

The catalyst? A toxic cocktail of geopolitical stalemate, rising oil prices, hot US CPI and PPI prints, and markets starting to price a Fed rate hike probability this year. Markets appear to price the possibility of a sustained regime shift.

The chart of 30-year government rates crystallises the repricing underway in sovereign debt markets. US 30-year Treasury yields hit at a post-2007 high, German 30-year Bunds reached their highest level since 2011, UK and Japan 30-year yields climbed to multi-decade highs.

# What happened in the last ten days?

## Central banks

Federal Reserve officials adopted a more hawkish tone after April's stronger-than-expected inflation data. Chicago Fed President Austan Goolsbee warned persistent services inflation may reflect an overheating economy, while Boston Fed President Susan Collins argued rates should remain restrictive for "some time." Kansas City Fed President Jeff Schmid also described inflation as the economy's key risk. Meanwhile, attention also focused on leadership transition dynamics as the nomination of Kevin Warsh as the next Fed Chair was confirmed by the Senate but outgoing Chair Jerome Powell was temporarily reappointed pending the swearing-in of his successor. In this context, future markets began pricing in the possibility of a Fed rate hike by the end of the year (60% probability), a stark reversal from the rate cuts priced only since the beginning of the year.

ECB officials signaled rising concern that the Iran conflict could require further monetary tightening. Bundesbank President Joachim Nagel said rate hikes are becoming more likely as energy-driven inflation pressures intensify, warning second-round effects could spread beyond fuel prices. Finnish central bank governor Olli Rehn cautioned that euro-area data increasingly point toward stagflation, with weak growth alongside accelerating inflation. Policymakers nevertheless stressed that June's decision will remain data dependent, even if future rate markets see a June rate hike as highly likely (87% probability) and still expect three 25bp hikes by the end of 2026.

At the Bank of England, hawkish policymakers strengthened calls for tighter policy amid concerns over second-round inflation effects from the Middle East energy shock. Chief Economist Huw Pill advocated a "modest but prompt" rate increase, arguing inflation expectations have become more sensitive after repeated supply shocks. MPC member Megan Greene similarly warned central banks must respond proactively to changing wage- and price-setting behaviour. Future rate markets mostly expect the BoE to remain on hold in June (32% probability of a 25bp rate hike) to announce a 25bp rate hike at the July 30<sup>th</sup> meeting.

## Rates

Last week was dominated by a sharp global bond selloff as geopolitical tensions and renewed inflation fears pushed sovereign yields to fresh highs across major markets. The Strait of Hormuz remained blocked, while President Donald Trump warned the US-Iran ceasefire was on "massive life support," driving Brent crude up +7.9% on the week to \$109.26/bbl. Stronger-than-expected US CPI and PPI releases further reinforced expectations of tighter monetary policy.

Against that backdrop, sovereign bonds came under broad pressure. US Treasury yields moved sharply higher across the curve, with the 10Y yield rising +24bps to 4.59%, its highest level in a year (the sharpest weekly increase in 6 months). The entire yield curve shifted upward, with the 2Y up +18bps to 4.07%, and the 30Y reaching 5.12%, its highest level since 2007. German 10Y Bund yields climbed +16bps to 3.17%, while peripheral spreads also widened modestly. UK gilts underperformed as they were impacted by heightened political instability on top of the global factors mentioned above: the Gilt 10Y yields surged +26bps to 5.17%, a post-2008 high. Bond ETF performance reflected the duration-led selloff, with long-dated US Treasury ETFs losing up to -2.8% over the week.

## Credit

Corporate credit spreads were remarkably resilient last week despite the broad sell-off across GBP, USD, EUR rate markets. Total returns were negative across all credit segments purely driven by higher U.S. Treasury yield and German Bund yields. Credit spreads were supported by corporate fundamentals, with no clear signs of underlying business weakness.

Sovereign bond yields now reached new cycle highs across Europe and the UK amid rising Brent oil prices (+8% week-over-week). Between investment grade (IG) and high yield (HY), the HY saw less severe losses, as its shorter duration and callable feature make it less sensitive to rising interest rate than IG.

In EUR IG, credit spreads tightened across the board. The cost structural of many European corporates have become more resilient to energy price volatility than during the 2022 episode of energy shock.

EUR IG and EUR HY continued to attract inflows last week, while EUR government bond also recorded strong inflows. In contrast, money market funds indeed struggled as steep yield curves incentivised investors to reach to medium-term yield.

First quarter earnings across EUR HY have been steady, with Italian and French HY corporates showed further improvement in leverage metrics.

While corporate credit spreads are at multi-year tight, all-in yields continue to screen attractively relative to historical average. In addition, significant spread dispersion across sectors and issuers create opportunities for active investors. Higher policy rates have effectively become the market's primary driver for carry.

## Emerging market

Emerging market (EM) bonds were down last week, pressured by higher US Treasury yield and global inflation concerns.

EM USD corporates were notably more resilient (-0.7% total return) than EM USD sovereigns (-1.5%) and EM sovereign local currency (-1.9%) in the broader market weakness.

Nigeria was upgraded by S&P to mid-B with a Stable outlook. The Agency expects stronger GDP growth supported by higher oil production and prices, increased domestic refining capacity, and the 2023 FX liberalisation reforms. The government ruled out reintroducing fuel subsidies, helping contain fiscal deficits and pressure on foreign currency reserves.

Conversely, Mexico's rating outlook was revised from Stable to Negative on its mid-BBB rating, although the country remains two-notches above non-investment grade. This reflects weak economic growth, budgetary constraints, and rising public debt, forecast to reach 59% of GDP by 2029. Nonetheless, S&P expects a pragmatic approach to USMCA (United States-Mexico-Canada Agreement) negotiations, supporting continued trade stability across North America. By 1 July 2026, these countries could extend the agreement for another 16 years. Without agreement by that date, they could switch to annual reviews until an agreement is reached.

Take a step back, EM corporates have entered the current energy shock with stronger credit fundamentals than in previous crisis: improved EBITDA growth in 4Q2025, financial leverage well

below U.S. HY peers, and strengthened liquidity position, with cash-to-short term debt at 2.1 times. That has resulted in more upgrades than downgrades of EM issuers over the past two and a half years.

The combination of all-in yields, improved credit quality and a more resilient external debt profile of many EM countries, remains favourable from a risk-adjusted standpoint, even with tighter spreads.

# 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.

---

## Disclaimer

This marketing document has been issued by Bank Syz Ltd. It is not intended for distribution to, publication, provision or use by individuals or legal entities that are citizens of or reside in a state, country or jurisdiction in which applicable laws and regulations prohibit its distribution, publication, provision or use. It is not directed to any person or entity to whom it would be illegal to send such marketing material. This document is intended for informational purposes only and should not be construed as an offer, solicitation or recommendation for the subscription, purchase, sale or safekeeping of any security or financial instrument or for the engagement in any other transaction, as the provision of any investment advice or service, or as a contractual document. Nothing in this document constitutes an investment, legal, tax or accounting advice or a representation that any investment or strategy is suitable or appropriate for an investor's particular and individual circumstances, nor does it constitute a personalized investment advice for any investor. This document reflects the information, opinions and comments of Bank Syz Ltd. as of the date of its publication, which are subject to change without notice. The opinions and comments of the authors in this document reflect their current views and may not coincide with those of other Syz Group entities or third parties, which may have reached different conclusions. The market valuations, terms and calculations contained herein are estimates only. The information provided comes from sources deemed reliable, but Bank Syz Ltd. does not guarantee its completeness, accuracy, reliability and actuality. Past performance gives no indication of nor guarantees current or future results. Bank Syz Ltd. accepts no liability for any loss arising from the use of this document.

---

Welcome to Syzerland®

---