
Fixed Income Weekly

A hawkish Fed sends shockwaves in rates and inflation expectations



Syz Fixed Income Research – Week from 15 to 19 June 2026

Warsh's focus on inflation fuels rate hike expectations and drives real rates higher

The Chart of the Week

When the Fed talks, inflation expectations listen

US Treasury inflation breakeven 5 & 10-year and 5-year 5-year forward inflation expectations



Crude oil did the opening act, but the Fed stole the show. Over the past six weeks, US 5-year inflation breakevens have slid a hefty 43bp from their early-May perch near 2.74% to just 2.31%, with the sharpest leg lower clustered right around the June 17 FOMC meeting. The 10-year measure tells the same story, drifting to 2.26%.

The first culprit is the familiar one: oil. Cheaper crude feeds straight into headline inflation, and markets have happily extrapolated the relief.

But the real punch came from the Fed itself. Half the dot plot now pencils in at least one more hike this year, and Chair Warsh has been banging the price-stability drum with conviction. The message landed: investors appear convinced that this Fed is serious about inflation fighting, so they're marking expected inflation down accordingly. Tellingly, the far-forward 5y5y measure has barely budged near 2.38%, so long-run expectations stay firmly anchored, exactly the outcome a credible central bank craves.

The flip side? Real yields have rocketed. The US 10-year real yield closed at 2.22%, its highest in over a year. A sign that markets are now expecting a more restrictive Fed policy ahead.

What happened in the last ten days?

Central banks

The first Fed meeting under new Chair Kevin Warsh was the main event of last week, potentially marking a turning point for US monetary policy and rate markets. The FOMC left the federal funds rate unchanged at 3.50%-3.75% but marked a notable shift in communication and policy style. The statement was sharply shortened, forward guidance was removed, and the previous easing bias disappeared. While Warsh declined to submit his own dot-plot projection, the updated projections revealed a more hawkish Committee, with nine of eighteen officials now expecting a rate hike in 2026. Warsh also strongly reaffirmed the Fed's commitment to the 2% inflation target and launched five task forces reviewing communications, the balance sheet, data sources, productivity and jobs, and the inflation framework. Markets interpreted the meeting as hawkish, pushing short-term Treasury yields and the US dollar higher. Future rate markets now fully price at least one 25bp Fed rate hike this year, and a 65% probability of two hikes before the end of December.

The day after, the Bank of England kept Bank Rate at 3.75% in a 7-2 vote. While two MPC members favoured a hike, softer inflation, weaker labour-market data and easing wage growth have shifted the focus toward slowing demand. Future markets barely reacted to the announcement and continue to price one 25bp rate hike in 2026, and a 20% probability of two.

On the same day, the Swiss National Bank also left its policy rate unchanged at 0%. Inflation remains subdued, while a favourable EUR-CHF rate differential limits appreciation pressure on the franc. Given stable inflation, moderate growth and declining energy prices, the Swiss cash rate is expected to remain unchanged for the remaining of the year, even if future markets continue to assign a small (30%) probability of one rate hike.

Last week, the Bank Indonesia raised its key rate by +25bp to 5.75% while the Banco Central do Brasil cut the Selic rate by -25bp to 14.25%. Both decisions were in line with expectations.

Rates

Government bond markets were shaped by the more hawkish tone from the first FOMC meeting under Chair Kevin Warsh. Investors brought forward expectations for further Fed tightening. This led to a pronounced flattening of the US Treasury curve, as the 2-year Treasury yield rose 10bps to 4.18%, while the 10-year yield declined 3bps to 4.45%, leaving the 2s10s spread at around 27bps. US inflation expectations moderated, with the 10-year breakeven inflation rate falling 6bps to 2.27%.

A similar pattern emerged in Europe. Germany's 2-year Bund yield increased 3bps to 2.65%, while the 10-year Bund yield edged 1bp lower to 2.99%. Peripheral bond markets were mixed, with Italian and Portuguese 10-year yields falling 3bps and 2bps respectively, while Spanish yields rose 4bps. As a result, Italian spreads versus Germany narrowed modestly over the week.

In this context of yield curve flattening, longer-duration government bonds delivered positive returns. US Treasury ETFs gained between 0.2% and 1.1%, led by the long end of the curve, while European government bond indices also posted modest gains as declining long-term yields supported performance.

Credit

Last week, credit markets extended their gains, with positive total returns across all major segments.

Investment-grade (IG) spreads were broadly stable, while high yield (HY) continued to tighten, pushing both USD HY and EUR HY to their tightest levels of the year. This resilience came despite numerous political uncertainties and periods of sharp rate volatility.

The main driver remains simple: investors continue to be attracted by elevated all-in yields. Pension funds and insurers increasingly view IG bonds as more competitive than private assets on a risk-adjusted basis. Although European credit is often considered more sensitive to energy price shocks, persistent demand for yield provides a strong support for the asset class. EUR IG funds recorded an eighth consecutive week of inflows, while EUR high yield posted its strongest weekly inflow in the past ten weeks.

Within EUR IG, autos lagged after BMW cut its 2026 margin guidance and Moody's revised the outlook on its A2 rating to Negative. However, Moody's continued to emphasize BMW's strong balance sheet. BMW has a decade-long net cash position. While BMW's shares corrected sharply, the impact on credit was relatively contained.

Nvidia issued \$25 billion of bonds—its first corporate bond sale since 2021, upsized from \$20 billion initially planned. The deal accounted for more than half of last week's U.S. IG issuance.

Average oversubscription across the U.S. primary market remained strong at 3.6x, while Hyundai's two-year bond attracted the largest order book at more than 6 times.

Beyond that, the market appears set to enter its summer playbook, too much cash chasing fewer new bond issues. However, performance remains bifurcated notably in the HY segment, with weakest CCC-rated issuers lagging the broader market, highlighting an increasingly selective HY market.

Emerging market

Emerging Market (EM) credit markets enjoyed another week of positive returns across sovereign and corporate bonds in both USD and local currencies.

EM debt resumed inflow after last week's outflow.

Argentina was among the outperformer after being upgraded to B- by S&P. Argentina's GDP growth is projected to stay positive through 2029, alongside with stable unemployment of around 7%, and stabilizing inflation.

Brent oil price traded below \$80 per barrel for the first time since early March. Monday morning, mediators Qatar and Pakistan said, the U.S. and Iran made encouraging progress in the peace discussions between US Vice President JD Vance and Iran Foreign Minister Araghchi in Switzerland. Last week, some oil tankers have passed through the Strait of Hormuz after it was reopened for a 60-day period. However, a full normalisation is estimated to take several weeks, many tankers are still awaiting clearance. Tehran appears determined to monetise transit through the Strait of Hormuz after the 60-day period.

In Colombia, the market-friendly candidate, Abelardo De La Espriella, secured a narrow victory, according to the initial count. A supporter of lower taxes, stronger security policies and the oil

sector, his election was viewed positively for the financial market and state-owned energy company Ecopetrol. Ecopetrol bonds rose modestly following the election result, as much of the positive outcome had already been priced in after significant spread tightening following the first round three weeks earlier.

For the second half of the year, hard-currency EM debt should remain well supported by improving fundamentals and attractive yields. The resilience of EM spreads through the Middle East conflict reinforces our constructive view on the asset class.

Our view on fixed income

Rates

NEGATIVE in current environment

We maintain a Negative stance on government bonds. Upward price pressures from the shock in energy prices and prospects of continuously profligate fiscal policies reduce the attractiveness of long-term government bonds as a potential hedge for economic downturn. Prospects of potential central banks' rate hikes (+ no more rate cuts ahead) and unattractive yield curve slopes also lower the attractiveness of government bonds on 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, still tight credit spreads reduce the margin for safety, especially in a more uncertain macro-economic environment. As a result, we keep a Neutral stance on Investment Grade credit from an asset allocation perspective.

EM

NEUTRAL, with opportunities

EM debt remains our favored segment of the Fixed Income market. Global growth dynamics, contained public debt & corporate leverage in many EM economies are supportive for EM debt. However, risks persist, with rich valuations, a more uncertain economic outlook and unpredictable US policies. 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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