
Fixed Income Weekly



Rates drop on lower oil prices while credit absorbs record supply

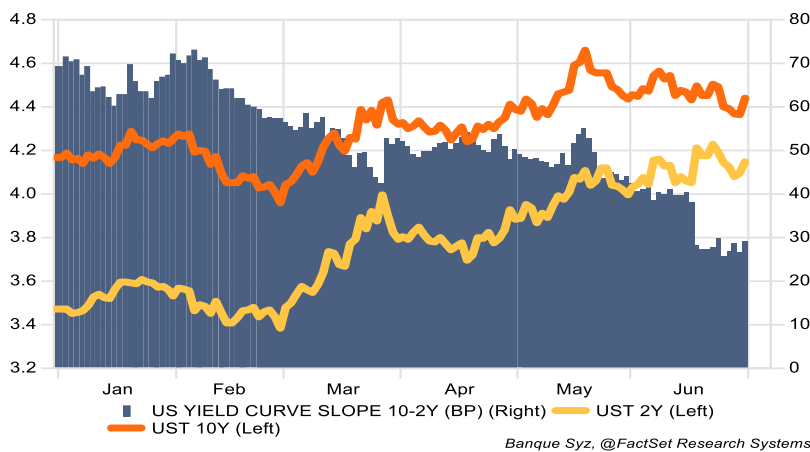
Syz Fixed Income Research – Week from 22 to 26 June 2026

Oil prices down to their pre-conflict levels drive rates and expectations for central banks lower, credit markets digest record issuance in June

The Chart of the Week

A flatter curve as Warsh's Fed is unexpectedly deemed credible in fighting inflation

US Yield Curve slope and US Treasury 2-year & 10-year rates



What a difference six months make. Entering 2026, markets penciled in two Fed cuts and the US yield curve was quite steep as the US 10-year was anchored around 4.2%. Today, future markets price at least one Fed hike before year-end, after a significant repricing of the front end. Meanwhile, the recent decline in the US 10-year rate toward 4.4% leaves the US yield curve almost flat, with less than 30bp between the 2y and 10y rates.

The catalyst? At first, the oil price shock of March, and then a combination of resilient economic growth, sticky inflation, and Kevin Warsh's debut as Fed Chair on June 17. The Fed sent a clear hawkish message, signaling its readiness to act to bring back inflation toward its 2% target.

This has driven short-term rates and the front end of the curve higher, while the credibility of the Fed's stance has eased the fears of a sustained inflationary spiral, cooling down upward pressures on long-term rates.

The coming weeks might be decisive for the shape of the US yield curve: a re-steepening, if resilient growth and inflationary pressures revive upward pressures on long-term rates in a context of worrying public debt dynamics? Or a continuation of the flattening dynamic at play in the recent months, if inflation and growth finally show sign of slowdown over the summer. Watch out!

What happened in the last ten days?

Central banks

Investors are digesting the more hawkish-than-expected first FOMC meeting under Chair Kevin Warsh, with officials maintaining a strong focus on persistent inflation risks. Treasury Secretary Scott Bessent expressed confidence in Warsh's leadership, arguing that growth can accelerate without reigniting inflation as geopolitical pressures ease. However, policymakers remain cautious. Austan Goolsbee warned that core inflation is still running well above target and trending in the wrong direction, while John Williams described inflation as "unquestionably elevated," citing tariffs, higher energy costs and AI-driven investment demand. Williams expects inflation to ease only gradually, returning to target by 2028. Future market expectations for Fed Fund rates slightly eased last week, from a 60% chance of two 25bp hikes by the end of 2026 to a 40% probability. One rate hike remains fully priced in for October.

Ahead of the ECB's Sintra symposium, policymakers broadly signaled that inflation is likely to remain above target for longer, while resisting calls for an aggressive tightening response. Christine Lagarde argued that medium-term inflation expectations remain anchored despite the Middle East shock, allowing the ECB to respond flexibly as conditions evolve. Philip Lane, Isabel Schnabel and Boris Vujcic all warned that inflationary pressures, particularly through energy, food and services, remain persistent and could justify further rate increases. Still, market expectations for future ECB rates eased last week, with now no more than one 25bp rate hike priced for 2026.

Bank of England officials also adopted a cautious stance. Alan Taylor argued that rates should remain on hold until geopolitical uncertainty fades, while leaving the door open to faster easing if inflation undershoots. Market expectations for future BoE rates eased in this context, with now a 25bp rate hike in 2026 not even seen as granted (85% probability).

Rates

Government bond markets rallied last week as easing geopolitical tensions and a sharp decline in oil prices reduced concerns about a renewed inflation shock and the need for more aggressive central bank tightening. Sentiment was reinforced by softer-than-expected US inflation data, with headline PCE rising just 0.4% month-on-month in May, below the 0.5% consensus forecast. US Treasury yields moved lower across the curve, with the 2-year yield declining 9bp and the benchmark 10-year yield falling 8bp to 4.37%.

European sovereign bonds outperformed alongside a similar repricing of ECB expectations. Markets reduced the amount of additional ECB tightening priced by year-end, supporting a broad rally in core government debt. German 2-year and 10-year Bund yields declined 13bp over the week.

UK gilts also posted strong gains, outperforming peers after Prime Minister Keir Starmer's resignation announcement helped reduce political uncertainty, with Andy Burnham emerging as the uncontested frontrunner to succeed him. The 10-year gilt yield declined 11bp over the week despite a modest rise on Friday.

Credit

Investment grade (IG) credit outperformed high yield (HY) last week as lower U.S. Treasury and German Bund yields more than offset modest spread widening. Total returns remained positive across US IG (+0.6%) and EUR IG (+0.4%), but slightly negative among US high yield (HY, -0.1%) and EUR HY (-0.1%). Credit spreads widened across all credit segments, driven by exceptionally heavy June primary issuance.

U.S. IG month-to-date issuance reached a record USD 184 billion for June, temporarily weighing on valuations. Nevertheless, all-in yields remain attractive at 5.1%, still above the one-year average.

Since peace talks now take the centre stage of the US-Iran conflict, investors' concern for AI bubbles is back, in a Bank of America's credit survey, but paradoxically, only 2% of the respondents say private credit spillovers are their top concern.

SpaceX has just issued USD 25 billion bonds with maturities up to 30-year, upsized from planned \$20 billion to repay a USD 20 billion bridge loan, almost 3 times oversubscribed, but below the average this year of 4 times for USD IG bond issuance.

Fund flows remained constructive, with continued inflows into EUR IG, EUR HY.

U.S. bond issuance is expected to slow towards July 4th, the U.S. Independence Day, and during the silence period before U.S. Big Banks begin reporting from mid-July. Lower bond supply should provide a supportive technical for credit spreads.

Looking ahead, Market technicals should be more supportive over the coming weeks, especially for the U.S. going into July 4th, the national day, and the silence periods before the U.S. banks will kick up earnings in mid-July. As such, healthy all-in yields, resilient inflows and improving market technicals should continue to offset modest spread volatility during the summer months.

Emerging market

Fund flows into emerging market (EM) debt remained positive despite the asset class underperforming developed market credit last week. EM sovereign hard currency, local currency and corporate debt all posted a negative weekly total return of -0.2%, reflecting weakness in energy-related issuers rather than broader deterioration in fundamentals.

Overall, EM debt was weighed down by oil-exporting sovereigns and energy companies as Brent crude retreated to low USD 70 per barrel, back to pre-conflict levels. Oil prices continued to decline as the ceasefire in the Persian Gulf broadly held despite isolated shipping incidents, with markets increasingly pricing out the risk of a re-escalation.

Uzbekistan received a Moody's upgrade to Ba2, reflecting improvements in its institutional strength and economic outlook. Real GDP growth could continue to grow above 6% annual in 2026-27. The country also maintains a statutory debt ceiling of 60% of GDP, with mandatory corrective measures triggered once debt reaches 50%. Current ratio has been around 30%.

The Bank of Mongolia and the People's Bank of China extended their bilateral currency swap agreement for another three years, reinforcing financial cooperation between the two countries. Around 90% of Mongolia's exports are destined for China.

EM corporates delivered a strong first-quarter earnings season, with revenues rising 15% and EBITDA increasing 31% year-on-year. However, the robust performance was concentrated in a

handful of sectors: industrials, metals and mining, and oil and gas, while most other sectors reported high-single-digit earnings growth as expected.

Looking ahead, negotiations between the US and Iran are expected to drag on for some time. Nevertheless, financial markets appear pricing out the risk of a significant re-escalation, a supportive backdrop for EM assets.

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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