Fixed Income Weekly

Inflationary fears maintain upward pressures on long-term rates

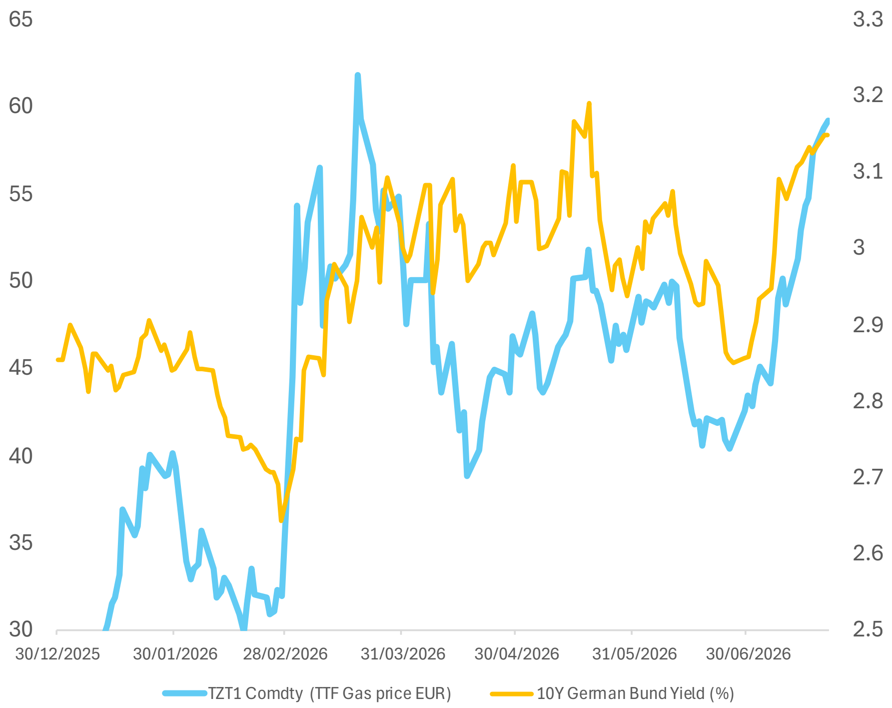
Syz Fixed Income Research – Week from 13 to 17 July 2026

Rising energy prices amid renewed tensions in the Middle East, and fiscal policy fears in the UK keep long-term rates under pressure

The Chart of the Week

Commodities: EU Nat Gas futures exploded last week

TTF Gas price and German Bund 10-year yield last six months



Source: Banque Syz, Bloomberg

European TTF gas futures surged last week, rising to EUR57 MWh (megawatt hour), their highest level since the spike in March following the outbreak of the U.S.-Iran conflict, and it continues to rise this week. Prices were driven by fears of renewed disruptions to liquefied natural gas (LNG) shipments through key maritime trade routes.

At the same time, the European heatwave reduced nuclear power generation as elevated river temperatures and limited cooling water constrained the output of several nuclear plants.

What happened in the last ten days?

Central banks

U.S. inflation came in below expectations, strengthening the case for the Fed to keep rates unchanged on 29 July. Headline CPI eased to 3.5% and core CPI to 2.6% year-on-year. Nevertheless, Kevin Warsh's remained cautious on inflation, stressing that the FOMC can afford to remain patient and requires evidence that US inflation is cooling sustainably. The recent rebound in energy prices adds to upside inflation risks.

We do not expect the ECB to hike rate in July. However, risks are clearly tilted to the upside as renewed tensions in the Middle East have lifted both oil and natural gas prices. While euro area inflation has continued to moderate, ECB speakers warn to remain vigilant against any spill-over effects from higher energy costs. Markets now price around 1.7 hikes by year-end.

UK gilt yields underperformed after U.K. Prime Minister Andy Burnham signalled a cost-of-living package and hinted at greater flexibility within fiscal rules, raising concerns over fiscal discipline. The appointment of John Healey as Chancellor provided some reassurance, but markets continue to seek clarity on how new spending commitments would be financed.

Rates

The long end of government bond curves moved higher last week as renewed escalation in the Middle East lifted energy prices and inflation risk premia across developed markets. Meanwhile, the U.S. AI race continued to support safe-haven demand at the front end following the launch of Kimi's K3 model, which now rivals offerings from Anthropic and OpenAI.

As a result, the U.S. Treasury curve steepened, with the 2-year yield falling 3 bp to 4.18% while the 30-year yield rose 1 bp to 5.07%.

The long end consequently underperformed as investors reassessed the inflation outlook and the likelihood that restrictive monetary policy will remain in place for longer.

A similar pattern emerged as last week in Europe, where German Bunds and other core sovereign bonds underperformed U.S. Treasuries as higher oil prices rekindled inflation concerns. The 10-year German Bund yield rose 7 bp, while the 10-year UK gilt yield increased 8 bp. Higher benchmark yields weighed on total returns across most fixed income segments.

Looking ahead, the Fed is expected to place less emphasis on explicit forward guidance and adopt a more data-dependent communication strategy. Kevin Warsh's preference for a smaller balance sheet remains clear, although implementation is likely to be gradual. More importantly, the Fed's inflation task force could reshape the policy framework by broadening its inflation toolkit and placing greater weight on monetary, credit and financial indicators.

Credit

Total returns were negative across all credit segments except U.S. investment grade (IG) as credit spreads widened modestly across most markets. EUR HY was the only segment to tighten. Rising geopolitical tensions in the Middle East kept energy markets volatile, with Brent crude fluctuating sharply following several days of U.S. strikes on Iran and Tehran's retaliation. This Monday, U.S. and Iranian mediators reportedly exchanged new proposals before Yemen's Houthis threatened a maritime blockade on Saudi Arabia through the Red Sea.

All-in yields rose higher in Euro IG and Euro high yield (HY), driven by higher Bund yields. Markets have increasingly priced another 25 bp ECB rate hike in September. Fund flows remained supportive for EUR IG, while EUR HY recorded its first weekly outflow after four consecutive weeks of inflows.

U.S. banks delivered another strong second-quarter earnings season. Goldman Sachs, Morgan Stanley, JPMorgan and Bank of America all exceeded expectations, supported by strong investment banking activity, record equity trading and equity underwriting. Fixed-income trading was healthy but lagged equities. JPMorgan and Bank of America raised full-year 2026 net interest income guidance, though profit growth should normalize in the second half.

AI is likely to increase issuer dispersion, favouring companies with tangible assets and mission-critical business models while challenging more labour-intensive sectors. Despite rapid issuance, hyperscalers still represent only a small share of the USD 15 trillion global IG market, well below the concentration reached by TMT issuers in the early 2000s or HY energy issuers in 2014. (TMT: Technology, Media and Telecom)

Looking ahead, we expect credit spreads to remain range-bound, given the resilient inflows and favourable technicals. Reverse Yankees, US companies issuing in EUR market, may continue to benefit from stronger US corporate earnings.

Emerging market

EM sovereign and corporate USD credit remained resilient last week, outperforming local-currency debt. EM corporates continued to benefit from stable credit fundamentals and attractive carry, while a firmer U.S. dollar weighed on local-currency bonds. Renewed geopolitical tensions in the Middle East and higher oil prices also supported EM energy issuers.

Inflation remained a key focus for EM central banks. The Bank of Korea raised its policy rate by 25 bp to 2.75%, its first hike since January 2023, as higher energy prices and a weaker won exacerbated the inflationary pressure. Attention now turns to Bank Indonesia, where markets increasingly expect another 25 bp hike to 6.0% following 100 bp of cumulative tightening since May, amid persistent pressure on the rupiah and rising inflation expectations.

Arguably, EM corporate spreads remain historically tight, below their previous cycle low in mid-2007, leaving limited scope for further tightening. Nevertheless, the investment case is increasingly driven by attractive all-in yields amid higher global interest rates. Positive technicals including resilient fund inflows and limited EM corporate issuance should keep spreads broadly range bound.

Inflows are expected to be supported by asset managers rebuilding underweight positions after three years of outflows (2022–2024), and a potential rotation from private credit into EM debt.

In our base case of stable spreads and resilient fundamentals, we expect EM corporates to deliver solid returns in 2026.

Our view on fixed income

Rates

NEGATIVE in current environment

We maintain a Negative stance on government bonds. Government bonds now face a less negative outlook with the decline in oil prices and the commitment of central banks to contain inflationary pressures. However, they still appear less attractive than IG credit in a scenario of rangebound rates. Government bonds still don't bring true diversification in multi-asset portfolios.

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.

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 still find value in subordinated debt.

EM

NEUTRAL, with opportunities

EM debt remains our favored segment of the Fixed Income market. EM debt faces the recent strengthening of the USD and the impact of lower oil prices on Energy producers, but it remains supported by robust fundamentals. Global growth dynamics, contained public debt & corporate leverage are supportive for EM debt. This is largely reflected in current tight spreads' levels. In this context, we stay selective, favoring short and medium-duration opportunities within EM Debt.

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