Fixed Income Weekly

A hawkish Jackson Hole speech flattens yield curves

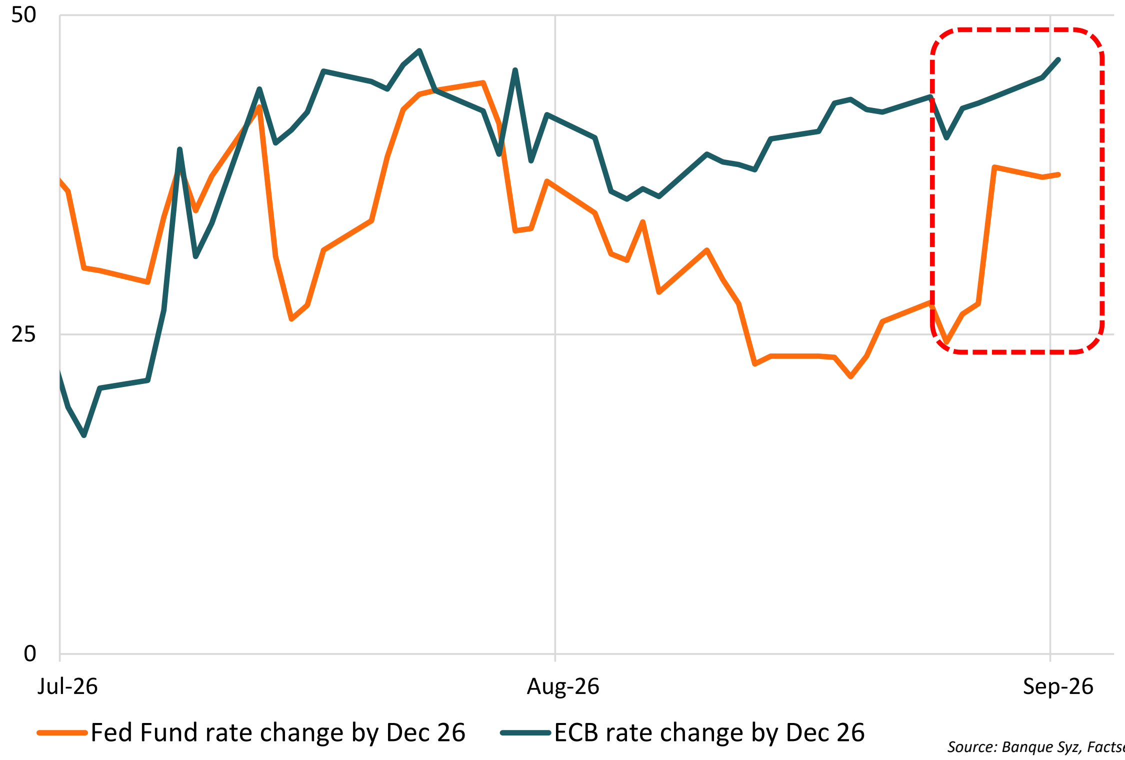
Syz Fixed Income Research – Week from 24 to 28 August 2026

With rising chances of rate hikes, short-term rates rise while long-term rates stabilize

The Chart of the Week

A hawkish Jackson Hole speech and rising energy prices fuel rate hike expectations

Expected Fed and ECB rate change by the end of 2026



Source: Banque Syz, Factset

Last week saw a clear repricing of monetary-policy expectations following Jackson Hole, with both the Fed and ECB perceived as more likely to resume tightening in September. Fed Chair Kevin Warsh struck a hawkish tone, and markets consequently lifted the probability of a September Fed hike toward 67%, from 36% before the speech. The resulting sell-off was concentrated at the front end, with the US 2Y yield rising 11bp to 4.34%, while the 30Y yield fell 6bp over the week as renewed confidence in the Fed's inflation-fighting stance limited long-end pressure.

In Europe, stronger-than-expected activity, higher August inflation and rising energy prices have similarly increased expectations of ECB hikes this year. A September 25bp hike is now almost fully priced in, and the probability of another rate hike in Q4 has increased last week.

What happened in the last ten days?

Central banks

Fed Chair Kevin Warsh's Jackson Hole address surprised with both its specificity and decidedly hawkish direction, materially changing the setup for the September FOMC meeting. Warsh clarified several points from July, reaffirming 2% PCE inflation as the Fed's target and the fed funds rate as its primary policy tool. More importantly, he delivered a detailed and hawkish assessment of inflation, arguing that the underlying trend has not improved sufficiently, that moderate wage growth does not yet provide confidence on disinflation, and that elevated inflation remains broad-based. He also stressed that commodity prices and inflation expectations warrant close monitoring. At the same time, Warsh offered a bullish assessment of the economy, highlighting strengthening activity, rapidly rising capex, healthy consumer spending and strong corporate earnings expectations. Finally, he argued that financial conditions are not restrictive, citing low credit spreads, strong issuance and loose lending conditions. Taken together, the speech signals that the Fed is prepared to tighten as early as September unless incoming data deliver a meaningful downside surprise. Rate hike expectations rose as a consequence: futures price a 67% probability of a September 25bp hike, a 100% probability of a 25bp hike before yar end, and a 50% probability of two 25bp hikes in the next four months.

The July ECB minutes revealed that policymakers viewed the economic backdrop as broadly consistent with holding rates steady. Since then, however, the policy debate has shifted. Recent comments from Executive Board member Isabel Schnabel suggest that current policy remains insufficient to return inflation sustainably to the 2% target, while stronger-than-expected growth and improving sentiment have reduced concerns over the activity outlook. At the same time, higher August inflation readings in Spain and France reinforce the upside risks to price pressures. Against this backdrop, future rate markets price (almost) fully a 25bp September rate hike, with a 80% probability of another hike in Q4 2026.

Rates

Government bond markets saw a pronounced flattening bias last week, driven by a repricing of near-term Fed tightening expectations following Chair Warsh's hawkish Jackson Hole remarks. In the US, the 2Y Treasury yield rose 11bp to 4.34%, while longer maturities rallied, with the 10Y falling 2bp and the 30Y declining 7bp. The 2Y/10Y curve flattened 13bp to 37bp, reversing much of the previous steepening as the market priced the September FOMC meeting as effectively a toss-up and almost a full 25bp hike by October.

European sovereign markets also weakened, with core yields rising across the German curve: Bund 2Y +6bp, 5Y +4bp, 10Y +2bp to 3.28%. Peripheral bonds held slightly better, with the France 10Y yield down -1bp to 4.13%. Japanese government bonds also droped, with the JGB 10Y yield rising 4bp to 2.93%.

US Treasury ETF performance reflected the pronounced flattening of the yield curve, with short-duration exposures underperforming while longer-duration segments benefited from the decline in long-end yields. The iShares 1–3Y Treasury ETF fell -0.13%, while the 3–7Y was down -0.19%. By contrast, longer-duration exposures performed positively, with the 7-10y up +0.03%, the 10–20Y ETF gaining 0.62% and the 20Y+ ETF rising 1.01%. The performance dispersion highlights the impact of the sharp rise in front-end yields versus the rally at the long end.

Credit

Credit markets ended the last full week of August on a firmer footing, with spreads tightening across the US investment-grade and high-yield segments amid a notable seasonal slowdown in primary issuance. US IG spreads tightened 2bp to 79bp, led by BBBs, which outperformed higher-rated credits with a 3bp tightening versus 2bp for A/AA-rated bonds. US HY performed more strongly, tightening 10bp to 260bp, with single-Bs again leading performance, narrowing 16bp on the week and 29bp year-to-date. CCCs also continued their recent improvement, tightening 11bp on the week and 8bp over August, although the segment remains a significant laggard year-to-date, with spreads still 141bp wider.

Primary activity was subdued as issuers and investors entered the late-summer lull: US HY has seen no new deal since August 19, while only around $6bn of US IG supply priced during the week. European credit markets were similarly supported by a constructive risk tone, with EUR IG and HY spreads broadly stable to tighter, while issuance momentum also moderated seasonally. Overall, lower-rated US credit remained the strongest-performing segment.

Emerging market

EM debt markets remained well supported in the final full week of August, with subdued volatility and sovereign bonds gaining 0.20%.

Investment grade modestly outperformed high yield (+0.22% versus +0.17%), although the narrow gap highlights increasingly compressed risk premia: sovereign HY-to-IG spreads tightened to 184bp, their narrowest level in two decades, raising concerns that valuations are becoming disconnected from global financial and geopolitical risks.

Regionally, Latin American spreads remained resilient, with Brazil at 160bp despite tight monetary policy and slow fiscal consolidation, while Colombia's 162bp offers relative value on expectations of improved fiscal dynamics.

In Asia, Indonesia and the Philippines continued to trade at tight levels of 74bp and 72bp, respectively, supported by solid fundamentals, while China remained inside USTs at -32bp amid limited liquidity. MENA spreads benefited from elevated oil prices, although Hormuz disruptions pose risks. South Africa outperformed in Africa, while Egypt remained pressured by regional tensions.

Rating actions were broadly positive, with Pakistan upgraded by both Moody's and S&P, and Kazakhstan raised to BBB by S&P.

Our view on fixed income

Rates

NEGATIVE in current environment

We maintain a Negative stance on government bonds. Government bonds remain under pressure from volatile energy prices, public debt dynamics and questions on the commitment of central banks to take necessary actions to contain inflationary pressures. They continue to appear less attractive than IG credit in a scenario of rangebound or rising 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 some geopolitical uncertainties 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 across most EM countries 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.