

# Fixed Income Weekly



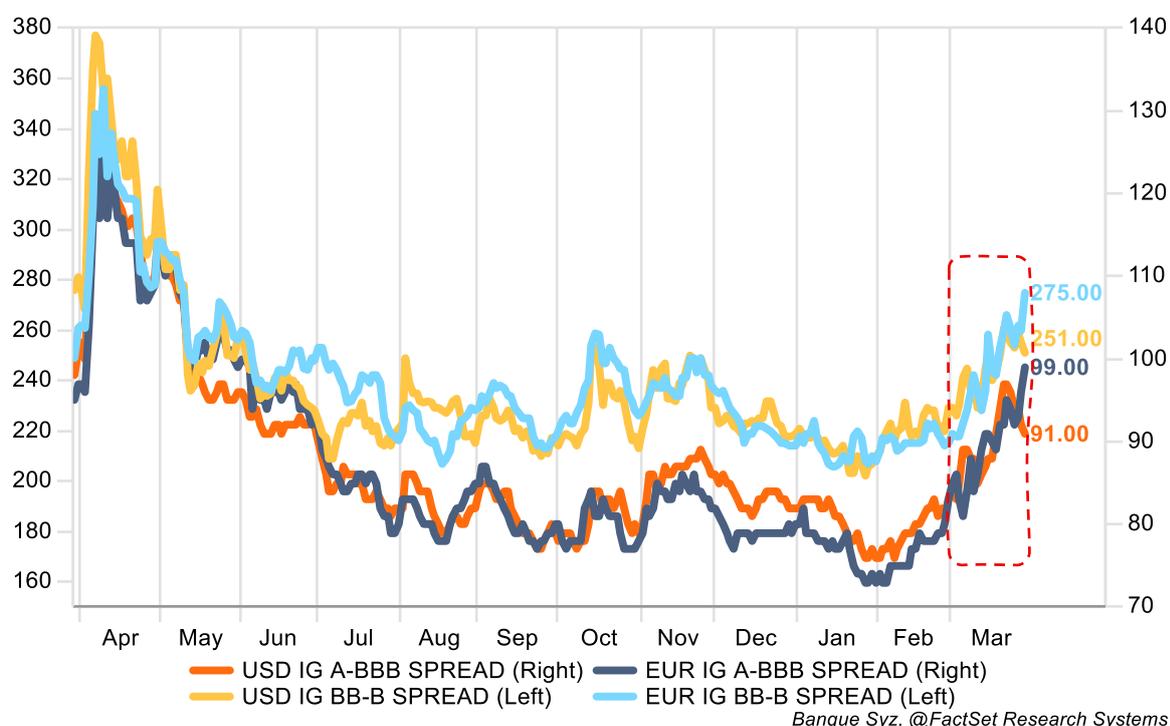
From inflation fears to growth scare

Syz Fixed Income Research – Week from 23 to 27 March 2026

**New highs in oil prices and softer economic data weighed on fixed income markets, as concerns about slowing growth began to balance ongoing inflation fears.**

## The Chart of the Week

**Credit markets have so far shown resilience to March's turmoil and remain below levels hit a year ago after the "Liberation Day"**



The Middle East conflict and surge in energy prices were initially viewed through an inflation lens, triggering a sharp repricing of central bank expectations and a broad rates shock in fixed income markets.

While credit spreads have widened in this risk-off environment, the move has remained relatively contained, especially given how tight spreads were at the start of 2026. Even after the March widening, spreads remain well below the levels seen less than a year ago after the 'Liberation Day' tariff shock.

However, with no clear de-escalation in sight between the US and Iran, investors are beginning to reassess the growth impact of a prolonged conflict. A shift from inflation to growth concerns could see market pressure move from rates toward credit spreads.

# What happened last week?

## Central banks

Central bank pricing turned marginally more dovish last week, with markets scaling back expectations for near-term tightening. The probability of a December rate hike by the Federal Reserve declined to 24% (from 29%), while expectations for an April hike by the ECB dropped notably from 80% to 52%.

In the US, the Fed is still expected to hold rates steady in April, although upside risks to further tightening are building. Policymakers delivered mixed signals: some emphasized persistent inflation risks, while others highlighted the importance of labor market conditions and policy flexibility. Although longer-term inflation expectations remain well anchored, elevated energy prices and geopolitical uncertainty continue to pose upside risks.

Similarly, ECB communication remained cautious and data-dependent. While officials acknowledged that tightening remains a “live option” (Nagel), there is a clear preference to wait for more clarity on the magnitude and persistence of the energy shock (Lagarde, Schnabel). For now, no policy change is expected in April, though the likelihood of a pre-emptive hike increases should fiscal responses amplify inflationary pressures.

The Swiss National Bank reiterated its readiness to intervene in FX markets to counter excessive franc strength. In the UK, Bank of England officials (Breedon, Taylor and Greene) downplayed the risk of second-round inflation effects, signaling a higher bar for intervention despite market expectations for further hikes.

The South Africa Reserve Bank kept its key rate unchanged last week to 6.75% as expected and raised its CPI inflation forecast for 2026 to 3.7% (from 3.3%). Mexico’s central bank cut its Overnight Rate by 25bp to 6.75%, extending the rate cut cycle initiated in 2024.

## Rates

Government bond markets saw a renewed sell-off last week, with yields moving higher across most major economies amid early signs of inflation pressures and despite weaker growth data. Indeed, March flash PMIs on activity disappointed on both sides of the Atlantic, with the Euro Area composite falling to a 10-month low of 50.5 and the US composite to an 11-month low of 51.4. However, survey data pointed to rising input prices and reinforced inflation concerns.

In the US, Treasury yields rose across the curve, led by the long end. The 10-year yield increased by 5bps to 4.43%, while the 30-year rose to 4.96%. Notably, real yields climbed sharply (+11bps), while breakeven inflation declined, suggesting markets are increasingly pricing tighter real financial conditions more than sustainably higher inflation prospects.

European bond markets followed a similar pattern. German 10-year Bund yields rose 5bps to 3.09%, reaching their highest level since 2011. Peripheral spreads widened modestly, with Italian 10-year yields up 9bps to 4.05% and French yields rising 8bps. This indicates some renewed fragmentation risk amid fiscal and inflation uncertainty.

Elsewhere, Japanese 10-year yields jumped 11bps, continuing their upward trend, while UK gilt yields edged slightly lower. Swiss yields remained broadly stable.

Fixed income returns were negative across most segments, particularly in longer-duration ETFs, reflecting the adverse impact of rising yields on bond prices.

## Credit

Credit spreads widened as sentiment fluctuated amid the highly fluid situation in the Middle East: U.S. Investment Grade spreads widened by +5bp, U.S. High Yield by +21bp, while EUR Investment Grade spreads experienced a +10bp widening last week (+16bp for EUR High Yield). In terms of sectors within the EUR Investment Grade space, healthcare, telecom and energy outperformed, while real estate lagged.

A de-escalation scenario, combined with a relatively shallow ECB hiking cycle, could support European real estate. The sector enters this phase with improved balance sheets and lower leverage following two years of adjustment.

In financials, Barclays is reportedly scaling back asset-based lending following losses linked to Tricolor and Market Financial Solutions. These exposures relate to broadly syndicated loans rather than private credit. Barclays and Deutsche Bank, both hold around 5.5% exposure to private credit, highest among European banks but manageable. Meanwhile, Ares Capital imposed a 5% redemption gate after 11.6% quarterly outflows to protect net asset value. Fitch recently reiterated that Ares Capital's liquidity will be sufficient to absorb several quarters of redemptions.

Redemption-driven headlines may continue to weigh on the listed private credit firms' equity valuations. So far, the earnings of their underlying business remain resilient. Rating agencies also take comfort in their strong asset coverage and relatively low financial leverage of the top-tier private credit platforms.

Only four weeks into the conflict, it remains premature to assess the full impact of the energy shock. Input costs are rising, and if firms cannot pass these on, margin compression will become a key risk. As seen in 2022, energy-intensive sectors such as industrials and capital goods are most exposed. Governments have already responded with fuel duty cuts, price caps and targeted support measures. Domestic pressure is mounting on President Trump to de-escalate, as the conflict fuels an affordability squeeze—elevated gasoline and diesel prices, alongside 30-year mortgage rates reaching 6.4%.

## Emerging market

Emerging Market Debt delivered only a moderately negative performance over the past week, essentially impacted by the broader backdrop of rising global yields and persistent inflation uncertainty. Hard currency sovereign bonds were relatively resilient, with the Bloomberg EM Hard Currency Aggregate Index declining by just -0.3%, while the iShares EM Sovereign Bond ETF fell -0.2%. EM debt spreads remained broadly stable (CDX EM USD -2bp).

Corporate credit underperformed slightly, with the iShares EM Corporate Bond ETF down -0.4%, pointing to some investor caution amid a more challenging global growth outlook. In Asia, risk sentiment was weaker, as reflected in the sharper -0.8% decline in the iShares USD Asia HY Bond ETF, highlighting continued fragility in the high-yield segment.

Local currency bonds showed relative resilience, with the VanEck J.P. Morgan EM Local Currency Bond ETF slipping just -0.2%. This performance was supported by relatively stable EM currencies, even as US real yields moved higher.

Overall, EM debt markets remain caught between their attractive yield and global geopolitical and growth headwinds. While resilient spreads and the carry offer some support, tighter global financial conditions and elevated geopolitical risks continue to cap upside in the near term.

# Our view on fixed income

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## 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.

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