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Active Fixed Income Perspectives Q4 2026: **Looking through the fog**

Big picture: A justified increase in yields

What changed: Markets began the year expecting rate cuts, but have shifted direction due to a more resilient economic backdrop. This firm growth environment, combined with higher energy prices and surging global bond issuance, has forced global yields higher and increased dispersion across fixed income markets.

Why it matters: Despite ongoing uncertainty around inflation, deficits, geopolitics, and interest rates, the case for fixed income has strengthened. Higher yields provide attractive income and have materially improved prospective returns.

Rates and credit: Selectivity matters

Base case: Looking forward, we expect growth to remain strong and the labor market to remain stable. As inflation remains elevated, we expect the Fed to remove the insurance cuts delivered in 2025 while remaining sensitive to incoming data. With U.S. yields around fair value, we're neutral on U.S. duration while volatility and dispersion are creating opportunities for relative value across regions and sectors.

Mortgage-backed securities (MBS): We continue to find attractive opportunities in MBS and have increased our overweight, particularly in structures with more predictable cash flows and less extension risk.

Credit issuance surge: Record bond issuance has created sector dispersion, particularly in technology. We continue to favor investment-grade credit for its combination of yield, quality, and resilience.

Global rates: Dispersion creates opportunity

Global rate dynamics: Policy normalization in Japan and diverging fiscal dynamics in Europe are creating relative value across global rates markets. In Japan, the BoJ's continued tightening has pushed government bond yields higher and flattened the yield curve as investors price a faster pace of normalization. In Europe, persistent inflation and renewed fiscal concerns have increased dispersion across sovereign bond markets, with France at the center of the repricing.

Active positioning: We remain underweight France and Italy relative to Germany amid elevated fiscal and political risks and continue to favor German Bunds relative to U.S. Treasuries. In Japan, we maintain a short-duration, curve-flattening bias while remaining overweight European inflation-linked exposure.

French OAT spread over German bunds



Source: Bloomberg, as of September 30, 2026.

Takeaways to consider:

- **Rates:** Through mortgage-backed securities and global rates markets, opportunities for relative value and diversification have improved.
- **Credit:** Investment-grade fundamentals remain solid, with higher yields providing attractive income even as spreads remain relatively tight.

For more information about active fixed income, speak with your financial advisor.

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