

1Q26 Market Outlook: Quarterly CIO Webcast

FEATURING



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In 2026, we expect global fixed-income markets to benefit from improving growth and fiscal stimulus. Reduced tariff uncertainty should also provide support, while inflation is broadly at target except in the US, where further progress is likely. Central banks are nearing the end of their easing cycles, with labor market softness a key risk but not yet recessionary. Although valuations are tight, they are supported by robust fundamentals. Given this macro backdrop, we currently favor consistent, predictable income from high-quality spread sectors and are positioned to take advantage of attractive credit opportunities—particularly those arising from AI-driven capital needs, elevated M&A activity, and select areas like commercial real estate and CLOs.

Global Economic Outlook

- Global growth is expected to improve in 2026, supported by easier financial conditions and fiscal stimulus across major economies.
- Tariff uncertainty has receded, removing a key headwind from 2025 and contributing to a more constructive outlook.
- Labor market softness is evident globally but is not yet signaling recession, with central banks remaining attentive.
- Geopolitical risks and fiscal sustainability remain important watchpoints for the year ahead.

US Economic Outlook

- US growth is projected to be aided by the Big Beautiful Bill Act, which delivers tax refunds and business incentives, alongside ongoing deregulation.
- The labor market has softened, with unemployment rising from 4.0% to 4.6% since January 2025, but remains at historically low levels.
- The Federal Reserve (Fed) is highly focused on labor market trends, with further policy easing possible if conditions deteriorate.
- Risks to full employment have overtaken inflation as the Fed's primary concern within its dual mandate.

Inflation

- Global headline inflation is at or near central bank targets, with expectations well anchored.

- US inflation is making progress toward target, though some near-term flare-ups are possible as tariffs are passed through to consumers.
- Services disinflation is expected to continue, driven by cooling shelter costs and wage growth.
- Chinese inflationary pressures remain subdued, contributing to a benign global inflation backdrop.

Central Banks

- Most central banks are nearing the end of their easing cycles, with the Fed and Bank of England as notable exceptions.
- The Fed remains responsive to labor market weakness, with further rate cuts possible if unemployment rises.
- The European Central Bank is expected to hold rates steady, as inflation is close to target and growth is supported by German fiscal stimulus.
- The Bank of Japan has tightened policy, but concerns about further tightening and fiscal expansion are likely overdone.

Investment Themes

- **Investment-Grade Credit:** A wave of new issuance is expected as companies raise capital for AI-related infrastructure, with high-quality issuers likely to offer attractive levels in 2026.
- **High-Yield Credit:** Fundamentals remain strong, with new issuance primarily used for refinancing rather than aggressive expansion. M&A activity is generally positive, as acquired companies tend to be upgraded in quality.
- **Corporate Credit:** We are gradually reducing exposure to corporate credit due to tight valuations, but strong fundamentals persist. Anticipated supply from AI-driven infrastructure and elevated M&A activity may create attractive opportunities to add high-quality credit.
- **Private Credit:** Leverage is higher than public credit, but remains manageable and below prior peaks.
- **Structured Products:** Collateralized loan obligations (CLOs) and select tranches offer attractive relative value, and we believe agency mortgage-backed securities (MBS) can be used as effective portfolio hedges. Commercial real estate may be the most compelling opportunity at this time, with prices rebounding and spreads remaining wide relative to corporate credit.
- **Emerging Markets (EM):** High real yields and supportive local rate environments encourage long positions in EM debt, with active issue selection favored in high-beta and frontier markets.

Q&A Highlights

- The recent US intervention in Venezuela caused limited market volatility, but long-term implications could include increased oil supply and downward pressure on inflation if stability is achieved.
- Our portfolio hedges include duration overweights, a higher quality bias in tight valuation environments, agency MBS and curve steepeners to manage risk.
- The team remains vigilant of risks from labor market deterioration, fiscal sustainability and geopolitical developments, but sees a positive backdrop for fixed-income investing in 2026.



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