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OPPORTUNITIES IN FIXED INCOME AND CURRENCY

MARCH 2026

BNY | INVESTMENTS

ADRIAN GREY, GLOBAL CHIEF INVESTMENT OFFICER

Adrian joined Insight in April 2003 as Head of European Fixed Income following the acquisition of Rothschild Asset Management Limited, which he joined in 1994. In September 2003, he was appointed Deputy Head of Fixed Income and in 2005 became Head of Fixed Income. Adrian joined the Executive Management Committee in October 2012 and in 2016, he became Chief Investment Officer – Active Management. In September 2018, Adrian took on his current role as Global Chief Investment Officer responsible for the oversight of the firm's investment management teams. He has a BA honours degree in Economics and Politics from Warwick University and an MA in International Economics and International Relations from Johns Hopkins University in the US.

FRANCESCA FORNASARI, HEAD OF CURRENCY SOLUTIONS

Francesca joined Insight in June 2019. She is responsible for the oversight of Insight's dedicated team of currency investment professionals which provides currency solutions ranging from foreign exchange hedging to currency alpha. Prior to Insight, Francesca was a Senior FX and Fixed Income Portfolio Manager at Goldman Sachs Asset Management (GSAM). She started her career at The World Bank in Washington then spent time as an FX strategist at both Lehman Brothers and Morgan Stanley, before joining GSAM in 2006. She graduated from the Université de Geneve in Switzerland with a degree in Monetary and Financial Economics. She also holds a Masters and PhD in Economics from Georgetown University in the US.

ROBERT GALL, HEAD OF MARKET STRATEGY

Robert joined Insight in October 2003 as Co-Head of UK Fixed Income. In 2007, he moved to Insight's Financial Solutions Group as Head of Market Strategy, responsible for the discretionary hedge management process. He began his career at Schroders managing UK and European fixed income and in 2001 he was appointed Head of UK Fixed Income. He was appointed Head of European Fixed Income at Schroders in 2003, prior to joining Insight. Robert graduated from Queens' College Cambridge in 1992 where he read Economics and has been an Associate of the CFA Society of the UK since 1996. He is a member of the Bank of England SONIA Stakeholder Advisory Group.

EXECUTIVE SUMMARY

Fixed income markets entered 2026 in an unusual and complex environment defined by resilience on the surface but growing structural tensions lurk underneath.

While valuations for many risk assets appear stretched and macro conditions remain fragile, we believe opportunities across government bonds, credit, securitised markets, and currencies remain substantial. In our view there are some key themes for investors to consider:

- Aim to build resilience into portfolios in the face of ongoing uncertainty.
- Keep some powder dry to deploy as opportunities present themselves.
- Look to capture relative value opportunities where they may appear, over attempting to be successful in identifying market directionality.

A FRAGILE MACRO EQUILIBRIUM: RESILIENCE MASKING UNDERLYING STRAIN

2025 was characterised by considerable macro 'noise', ranging from US tariff escalation to an unsettled geopolitical backdrop. However, following 'Liberation Day' in early April, markets largely looked through the headlines. Equity markets performed strongly, credit spreads tightened further, and volatility in risk asset pricing eased, reflecting a macro landscape that proved surprisingly stable. Inflation continued to generally moderate, the Federal Reserve resumed easing, and AI-related capital expenditure provided a powerful support to US growth.

Yet that has brought its own challenges. Risk valuations appear to be fairly extended. For example, if equity prices are to keep rising, it seems likely that earnings will need to remain strong to underpin those valuations. It may be questionable whether companies can easily maintain their earnings growth profiles.

The underlying policy and structural forces point toward what Insight describes as an unstable equilibrium. While the strength of the AI investment boom is generating meaningful wealth effects and supporting consumption, tariffs, political uncertainty and weakening non-tech investment threaten the durability of that momentum.

In addition, the US continues to exhibit structural fiscal deterioration. Debt is rising at an accelerating pace, and Treasury issuance is increasing in both volume and complexity. Meanwhile, foreign demand for Treasuries, traditionally dominated by China, Japan and Europe, has weakened or become less reliable. In contrast, other major economies face their own challenges: the eurozone's fiscal fragility (notably France), Japan's slow shift away from ultra loose policy, and the UK's concerns around debt sustainability.

The broad overview seems clear: macro fundamentals remain supportive enough to avoid recession the near term, but the medium-term outlook may be less secure.

GOVERNMENT BONDS OUTLOOK: A YEAR FOR OPPORTUNISM, NOT BROAD DURATION CALLS

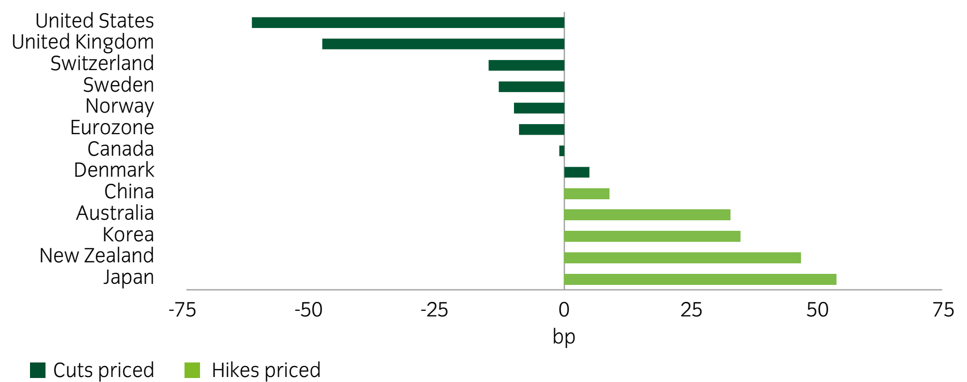
We believe government bond markets may offer some of the most interesting opportunities, not because of clear directional trends but because of relative value dislocations created by central bank desynchronisation and unusual supply dynamics.

DIVERGING POLICY CYCLES

Central banks are no longer moving in parallel with the US and UK seemingly on track for further rate cuts, the eurozone likely to remain on hold for longer, while in Japan additional tightening is expected.

Of course, since the Iran conflict began in early March, pricing around rate hikes has changed dramatically and become increasingly volatile.

Figure 1: Divergence in expectations for central bank policies[1]



Notwithstanding recent volatility in market expectations for rate movements, given this divergence, Insight does not regard 2026 as a year for taking high conviction positions on market duration. Short-dated yields are anchored by monetary policy while long end yields face pressure from rising term premia. Intermediate maturities will likely remain range bound.

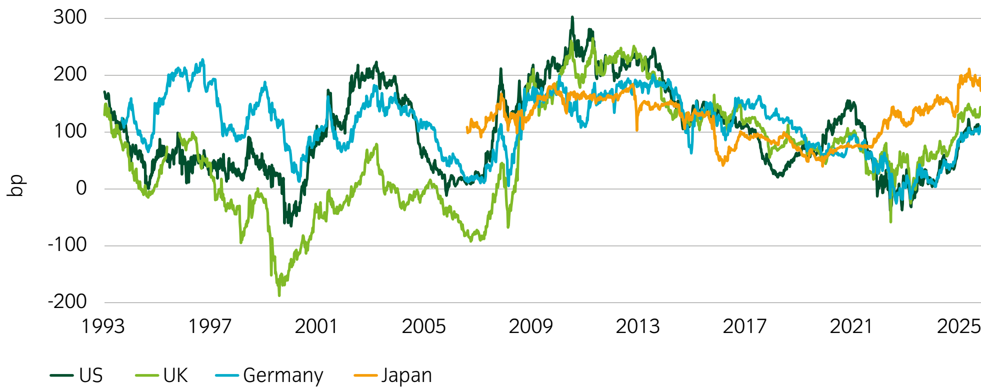
Instead, some investors may focus on curve opportunities and cross market anomalies:

- US curve steepening appears the line of least resistance, reflecting heavy issuance, deteriorating debt dynamics and limited foreign absorption capacity.
- Japan's yield curve, already steep, could flatten as domestic yields rise and repatriation flows accelerate.
- Sterling-hedged Japanese long bonds currently offer a yield pickup versus comparable gilts or Treasuries.
- German government spending is increasing materially, and French sovereign debt is seen as particularly vulnerable to fiscal slippage and political uncertainty.

Together, these factors raise the question of who is going to step up to purchase the amounts of Treasuries expected to be issued and, in our view, suggest the yield curves could continue to steepen further (Figure 2).

[1] Source: Bloomberg as at 18 February 2026.

Figure 2: Yield curves may steepen further[2]



Overall, the message is that bond markets present selective, tactical opportunities rather than a simple long duration or short duration narrative.

CREDIT MARKETS: KEEP IT SIMPLE, SHORTEN DURATION, AND FOCUS ON RESILIENCE

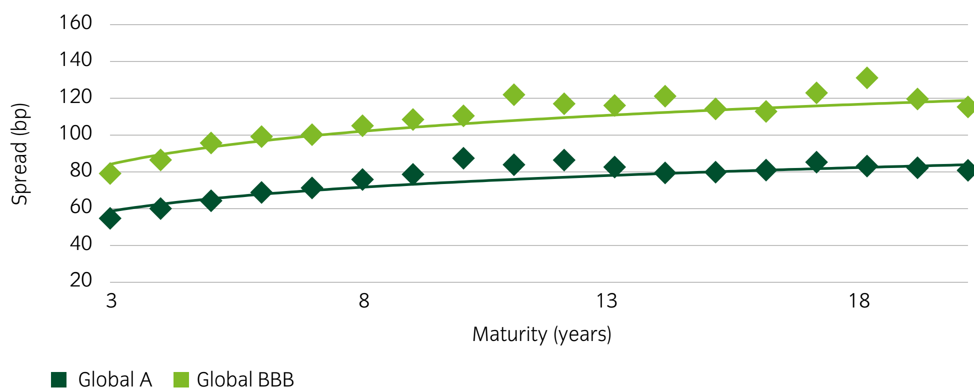
Across credit markets, spreads are notably tight, hovering near 20-year lows, yet absolute yields remain closer to their highest in two decades thanks to elevated underlying government bond yields. This creates a familiar tension: valuations offer limited compensation for late cycle risks, but all-in yields still provide compelling income.

SHORT-DATED CREDIT AS THE ANCHOR

One approach may be to keep it simple by focusing on short-dated investment grade credit. The rationale being:

- Credit curves are exceptionally flat, so extending to longer-dated bonds provides little extra income, as Figure 3 shows.
- Shorter maturities reduce default and downgrade risk, while also lowering volatility in the portfolio.
- Visibility on corporate fundamentals is higher over nearer horizons.

Figure 3: Flat credit curves promote shorter-dated holdings[3]



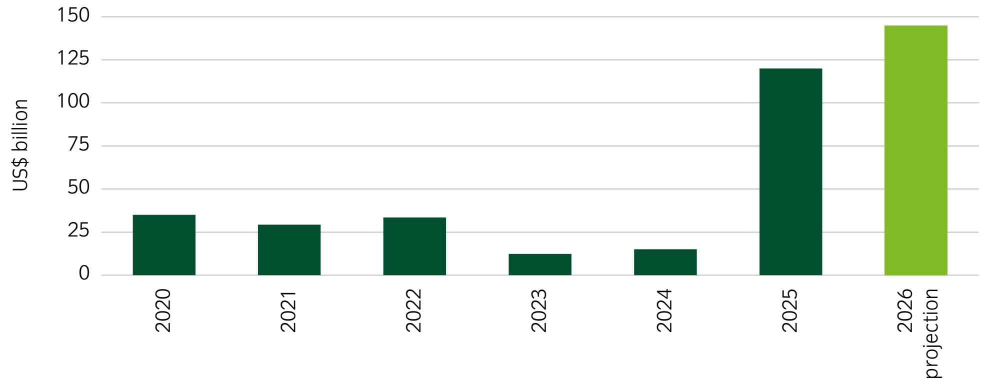
Investors in shorter maturity credit are often able to capture the bulk of available yields, while potentially reducing some of the risks associated with the long end of the curve, in our experience.

[2] Source: Insight, Bloomberg. As at 18 February 2026. 5yr – 30yr government yield curve spreads.
[3] Source: Insight, Bloomberg. As at 27 February 2026. Average spread of senior issues in Bloomberg Global Aggregate Corporate Index.

THE AI INFRASTRUCTURE WAVE AND ITS IMPLICATIONS

We believe AI-related capex is likely to exceed US$1 trillion over the next five years. Tech companies historically issued little debt, but the scale of required investment in data centres, networks and computing power has meant they have needed to tap bond markets to a much greater extent recently, as Figure 4 shows.

Figure 4: Bond issuance by big AI tech companies[4]



We expect this issuance surge is likely to:

- Increase the tech sector's weight within global credit indices.
- Create clear winners and losers (e.g. platform beneficiaries, infrastructure providers over disrupted legacy models).
- Reward bottom-up analysis and active credit selection.

THE RESILIENCE PREMIUM: ABSOLUTE RETURN AND MULTI-SECTOR FLEXIBILITY

From a risk/return perspective, we believe the current environment of volatile yields, tight credit spreads, and relatively high interest carry, favours absolute return fixed income strategies and flexible multi-sector approaches. In addition to elevated cash rates, these strategies may be able to benefit from investments in emerging markets, which we believe can offer attractive country risk premia, as well as potentially benefit from a softer US dollar and improving growth differentials. Strategies using these approaches may also have the ability to harvest volatility through the application of relative value trades.

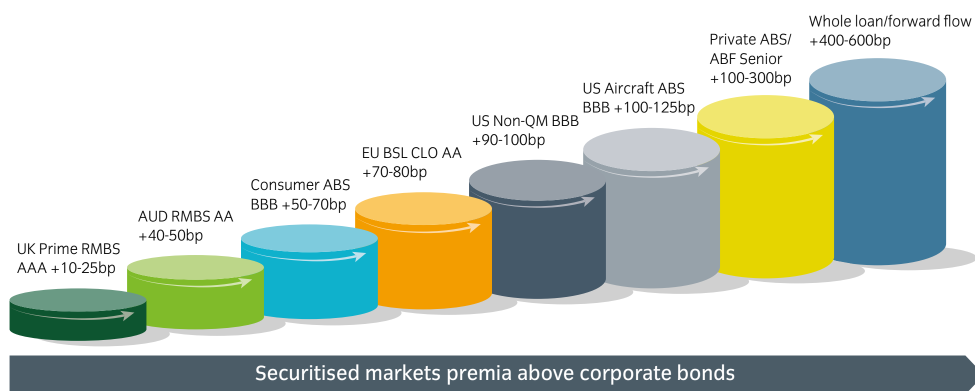
SECURITISED MARKETS AND ABS: COMPLEXITY PREMIA LOOK APPEALING AMONG CREDIT RISK COMPONENTS

Relative to recent history, the credit spreads associated with complex products such as securitised instruments, or asset-backed securities (ABS), appear to be relatively cheap compared to other contributing factors such as subordination or default risk premia.

Regulatory capital charges and market complexity typically provide persistent yield premia over and above comparably rated corporate bonds. Those premia may be available for capture through the application of specialist expertise and careful underwriting, offering potential reward across a broad spectrum of risk and prospective return (Figure 5).

[4] Source: Bank of America. Data include Alphabet, Amazon.com, Meta Platforms, Microsoft and Oracle as at 31 December 2025.

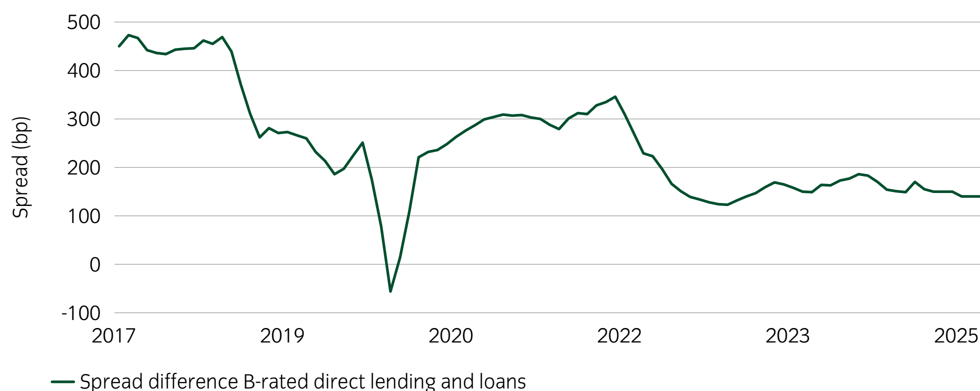
Figure 5: Extracting the ABS premium[5]



PRIVATE CREDIT: SHRINKING YIELD PREMIUM

Despite its rapid growth, private credit no longer offers the substantial yield pick-up seen prior to 2019. Heavy inflows have compressed spreads while deployment challenges have increased. Although the asset class remains valuable, selectivity and underwriting discipline are critical.

Figure 6: Compressed illiquidity premium[6]



> Securitised markets have a range of potential return opportunities over corporate bonds across a broad risk spectrum.

[5] For illustrative purposes only. Source: Insight. Based on spread levels observed in the various markets.
[6] Source: Lincoln International VOG, Pitchbook LCD, Morgan Stanley Research as at June 2025.

CURRENCY MARKETS: THE US DOLLAR'S UNSTABLE EQUILIBRIUM

The onset of conflict in the Middle East has introduced a notable amount of uncertainty and volatility in many financial markets including currencies. However, we believe the structural picture shows how the US dollar remains dominant across an array of facets that may be indicative of a currency's status.

- Invoicing – large proportions of global trade continue to be invoiced in USD.
- Reserve status – although declining, the share of USD in global FX reserves remains high.
- Capital market depth – the US continues to dominate global equity and bond markets in terms of market capitalisation.
- Global liquidity – the USD remains key to global capital flows.
- 'Safe haven' status – US Treasuries and the dollar have historically been destinations for capital seeking security during periods of market volatility and uncertainty.

THE STRUCTURAL POSITION PUTS PRESSURE ON THE USD…

The historical structural hegemony of the USD could be being slowly eroded due to:

- persistent US fiscal deterioration,
- geopolitical fragmentation, and
- diversification efforts by foreign reserve managers.

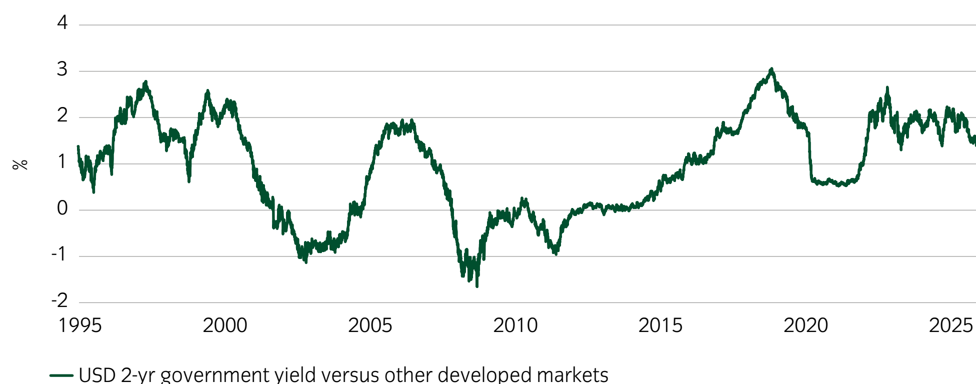
To us, this suggests there are long-term headwinds that may challenge any future dominance of the USD.

…BUT THE CYCLICAL PICTURE REMAINS SUPPORTIVE

Cyclically, the dollar still enjoys material support, because:

- the performance of the US economy remains robust relative to peers,
- interest rate differentials continue to favour the dollar, even after Fed rate cuts (Figure 7), and
- the higher interest carry makes implementing short positions in the USD expensive for investors.

Figure 7: Relative monetary policy outlook is consistent with moderate US dollar strength[7]



With these factors in mind, we believe 2026 is likely to feature moderate USD softness, not a disorderly decline. A decisive shift lower would likely require global conditions where the US no longer outperforms other economies. Though there may be clear opposing structural and cyclical influences on the USD, this scenario is, at best, an outlier, some way beyond our central case expectations.

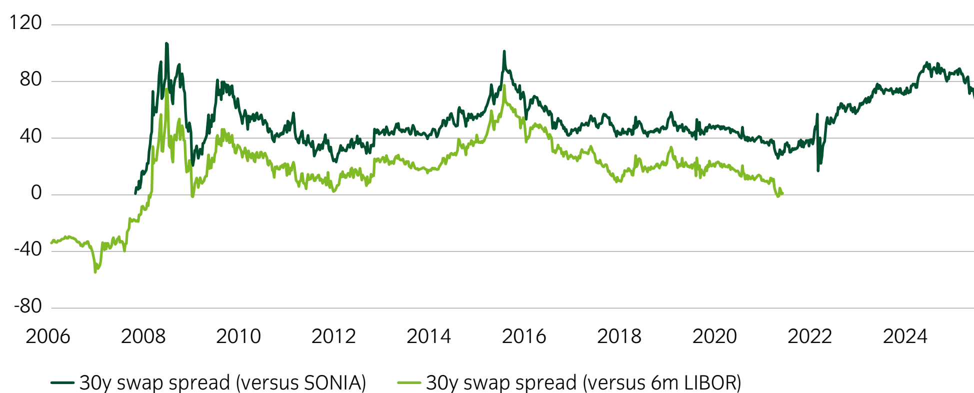
[7] Source: Macrobond as at 7 January 2026.

UK FIXED INCOME: FISCAL CONCERNS, BUT VALUE IN GILTS

When we consider the UK's economic, fiscal, and monetary positions, the evidence suggests:

- UK fiscal risk is fully priced, with 30-year gilt swap spreads at levels that appear wide by historic standards (Figure 8).
- Demand for gilts has stabilised following the LDI-related dislocations of 2022.
- The shift to issuing more shorter-dated gilts has been a good thing from the government's perspective. We believe issuance with maturities around 10 years and less is more affordable compared to longer-term debt.

Figure 8: Fiscal risk appears largely priced into gilts



Consequently, from an investment perspective, we believe long-dated gilts remain attractive as hedging assets for pension schemes. Moving away from them on a structural basis may prove to not be as much of a risk-mitigating approach than investors might otherwise assume.

CONCLUSION: FOCUS ON RESILIENCE, SELECTIVITY AND RELATIVE VALUE

We believe, in an uncertain economic, political, and geopolitical backdrop, a number of conclusions can be drawn.

- The stability of the global economy is fragile, with it being susceptible to a range of potential negative risks, strengthening the rationale for making resilience an essential objective.
- Strengthening portfolio resilience may be underpinned through the use of shorter-dated credit, flexible strategies, and focusing on capturing selective opportunities.
- Accurately predicting any point of transition is extremely difficult, making a focus on identifying relative value opportunities key. We believe those opportunities remain abundant across government bonds, securitised assets, emerging markets and currencies.

The essence of today's fixed income opportunity set is not broad beta, but targeted, careful deployment of risk in a world defined by instability and divergence.

[8] Source: Bloomberg as at 3 March 2026.

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