



Outlook 2026 - Fixed Income



Emmanuel Petit

General Partner, Head of Fixed Income

What should we take away from 2025 in fixed income markets?

The standout feature of 2025 was the continued steepening of yield curves, which is beginning to open interesting prospects for sovereign debt. After a 2024 where steepening was concentrated on the short end of the curve, in a context of monetary easing by central banks giving economies fresh momentum, it is now the long end that steepened significantly in 2025—a phenomenon observed globally.

This development reflects the introduction of a risk premium (term premium) that markets are imposing on governments in a context of rising debt and increased refinancing needs, even as central banks have reduced their support by shrinking their balance sheets. This dynamic was accompanied by stronger correlation between different curves, with Japanese volatility recently impacting Europe—illustrating the growing interconnection of markets.

The credit market showed resilience, despite a bout of volatility during “Liberation Day.” Ultimately, risk was rewarded. Risk premiums are now at historically low levels, particularly in the United States. However, thanks to the sovereign rate component, credit market yields remain attractive and help cushion sovereign debt volatility. Supported by solid fundamentals, the asset class attracted significant inflows, while net primary issuance remained broadly in line with previous years’ averages, boosted by a particularly prolific November.

What is your central scenario for 2026?

The recent period was marked by a notable shift in the Fed's stance, aimed at mitigating refinancing risk and thus volatility. After a year of **Quantitative Tightening**¹, the U.S. central bank could restart **Quantitative Easing**², as suggested by the announcement made at the last December FOMC meeting: purchases of \$40 billion in **T-bills**³ per week. This decision, combined with a risk analysis now focused more on the labor market than on inflation, represents significant support for sovereign debt. In a context where yield curves have returned to a strongly positive slope, the question of renewed interest in this asset class arises.

In Europe, most strategists anticipate monetary stability and a rebound in growth, driven by Germany's massive investment stimulus. The rest of the continent will have to contend with tight budget constraints, limited growth, and inflation close to target.

On credit, the outlook also appears clear. Weaknesses observed in 2025, notably in private debt, remained isolated. The defaults of **First Brands** and **Tricolor** were contained, but they revealed sometimes risky risk management at certain systemic institutions, as well as persistent opacity in this asset class. Also noteworthy are significant refinancings due in 2028 in private debt and **High Yield**⁴. There are two years to complete them, but this issue is amplified by the impact of AI, which disrupts business models and profitability for many companies, while generating massive financing needs for U.S. tech infrastructure. These factors, combined with increased debt supply, could weigh on the market.

Thus, we operate in a market where low risk premiums justify a cautious approach. Add to this the supply-related risk: potential appears limited. If macro conditions hold, yields will drive most of the performance. However, volatility cannot be ruled out and could offer the best opportunities in 2026.

What headwinds and tailwinds do you identify?

For bond investors, the main tailwind lies in the slope of yield curves, combined with real rates becoming attractive again. For example, the German real rate at **0.85%**⁵, an unprecedented level in 15 years.

The risk to this scenario is that the U.S. **dovish**⁶ bias proves premature and inflation remains poorly controlled—it still hovers around 3%⁵ and is expected to temporarily rise under the effect of tariffs. This could trigger a de-anchoring of inflation expectations, excessive curve steepening, followed by a sharp Fed reversal forced to tighten again.

Regarding credit, the current **Goldilocks**⁷ scenario—solid U.S. growth, German stimulus in Europe, controlled inflation—is ideal. If inflation remains contained and central banks continue easing, the cycle can extend, albeit with a risk of excesses. These excesses could materialize through M&A operations increasing leverage, in addition to the investment needs of **hyperscalers**⁸. These factors are sources of volatility for the **Investment Grade**⁹ credit market.

Consulte este documento en nuestro sitio web



-
- [1] Monetary policy aimed at reducing the size of a central bank's balance sheet, generally by stopping asset purchases or selling assets it holds, in order to withdraw liquidity from the financial system.
- [2] An "unconventional" monetary policy measure involving large-scale purchases of government and corporate bonds by a central bank to prevent deflation.
- [3] T-bills (Treasury bills) are short-term debt securities issued by the U.S. government to finance its cash needs.
- [4] "High Yield" bonds (or high-yield debt) are issued by companies or governments with a high credit risk. Their credit rating is below BBB- according to Standard & Poor's scale.
- [5] Source: Bloomberg, 11/28/2026
- [6] A stance favoring a less restrictive monetary policy.
- [7] An economic scenario marked by moderate growth, controlled inflation, and stable interest rates, creating a favorable environment for financial markets.
- [8] Players providing cloud computing and data management services.
- [9] Debt securities issued by companies or governments with a rating between AAA and BBB- according to Standard & Poor's scale.

Disclaimer

Advertising Communication. The information, comments, and analyses contained in this document are provided for informational purposes only and should not be considered as investment advice, tax advice, a recommendation, or investment counsel by Rothschild & Co Asset Management. The information/opinions/data mentioned in this document, deemed legitimate and accurate on the date of publication in accordance with the prevailing economic and financial environment at that time, are subject to change at any time. While this document has been prepared with the utmost care using sources considered reliable by Rothschild & Co Asset Management, no guarantee is provided as to the accuracy or completeness of the information and evaluations it contains. These are indicative in nature and may be modified without notice. Rothschild & Co Asset Management has not independently verified the information contained in this document and therefore cannot be held responsible for any errors or omissions, nor for the interpretation of the information contained herein. All data has been established based on accounting or market information. Not all accounting data has been audited by a statutory auditor. Please note that past performance is not a reliable indicator of future performance and is not consistent over time. Additionally, given the subjective nature of certain analyses, it should be emphasized that any information, projections, estimates, anticipations, assumptions, and/or opinions mentioned are not necessarily implemented by the portfolio management teams of Rothschild & Co Asset Management or its affiliates, who act based on their own convictions. Certain forward-looking statements are prepared based on specific assumptions, which may partially or entirely differ from actual outcomes. Any hypothetical estimate is inherently speculative, and it is possible that some or all of the assumptions underlying these hypothetical illustrations may not materialize or may significantly diverge from current determinations. This analysis is only valid at the time of drafting this report. Published by Rothschild & Co Asset Management, a portfolio management company with capital of €1,818,181.89, located at 29 Avenue de Messine – 75008 Paris, AMF license No. GP 17000014, Paris Trade and Companies Register No. 824 540 173. Any partial or total reproduction of this document is prohibited without the prior authorization of Rothschild & Co Asset Management and is subject to legal action.

Acerca de la división de gestión de activos de Rothschild & Co

La división especializada en gestión de activos del grupo Rothschild & Co ofrece servicios personalizados de gestión a una amplia clientela de inversores institucionales, intermediarios financieros y distribuidores. Articulamos nuestro desarrollo alrededor de una gama de fondos abiertos aprovechando nuestras aptitudes y competencias de gran recorrido en gestión activa y convicción, así como en gestión delegada. Con sede en París y delegaciones en 10 países de Europa, gestionamos más de 50 mil millones de euros y contamos con un equipo de 200 colaboradores⁽¹⁾.

Más información en: www.am.eu.rothschildandco.com

(1) Fuente: Rothschild & Co Asset Management, 31/07/2026.

France

29, Avenue de Messine
75008 Paris
+33 1 40 74 40 74

Bélgica – Países Bajos – Luxemburgo

Rue de la Régence 52
1000 Bruxelles
+32 2 627 77 30

Suiza

Rothschild & Co Bank AG
Rue de la Corraterie 6
1204 Genève
+41 22 818 59 00

Italia

Passaggio Centrale 3
20 123 Milano
+39 02 7244 31

Alemania – Austria

Börsenstraße 2 - 4
Frankfurt am Main 60313
+49 69 299 8840

España

Paseo de la Castellana 40 bis
28046 Madrid
+39 02 7244 31

