

Fixed Income asset class overview

January 2026



Markets delivered strong overall performance in January, despite elevated geopolitical risk from events from Venezuela, Iran and Greenland. This contributed to significant volatility in commodity markets which led the Brent crude oil price to spike +16.2% and precious metals to continue their strong 2025 performance into 2026.

Month in review

In part, upside global data surprises continued to support risk sentiment and strengthen risk assets. In the US, macroeconomic data remained resilient. The ISM Services Index rose to a 14-month high of 54.4 for December, signalling robust activity, while labour market data showed the unemployment rate ticking down to 4.4%. At the end of the month, Kevin Warsh was announced as Trump's nominee to succeed Jerome Powell as Chair of the Federal Reserve (Fed). In Europe, inflation was weaker than expected, which meant expectations rose that the European Central Bank (ECB) might deliver another interest rate cut this year. Japan experienced some significant market moves in the month. Following the announcement of a snap election, the accompanying campaign pledges for further consumption tax cuts resulted in a sharp sell-off in Japanese government bonds (JGBs).

Investment grade (IG) credit markets had a strong start to 2026, with credit spreads grinding tighter to historically low levels despite a surge in new bond supply. The surge of new issuance was met with robust investor demand. US IG spreads reached their tightest levels since 1998, supported by strong inflows. European IG also enjoyed a positive month, with spreads around five basis points (bps) tighter in January. UK IG spreads were stable to slightly tighter, supported by steady investor demand and a more dovish Bank of England (BoE) outlook.

High yield (HY) markets had a solid start to the year, returning 0.7% for the Global HY index from a combination of carry and moderately tighter spreads. HY floating rate notes (FRNs) lagged, returning -0.1%, driven by spread widening on the back of technicals and heavy new issuance. Rating-wise, lower-quality CCCs outperformed. There was heavy issuance in January, which has been readily absorbed by the market.

Emerging markets (EM) had a positive month. The hard currency sovereign bonds index delivered 0.7%. Spreads tightened the most within countries benefiting from specific stories, such as Venezuela, Sri Lanka, Argentina and Ukraine. Widening spreads were modest, with the likes of Ethiopia, Iraq, and China bearing the brunt. Gulf Cooperation Council (GCC) countries such as Bahrain, Oman, Saudi Arabia, and UAE saw spreads widen throughout the month. Venezuela was the strongest

performing country, returning just under +30% during the month, off the back of Maduro's arrest paving the way for an improved relationship with the US and global markets.

Developed market sovereigns

January provided an eventful start to 2026, with geopolitical tensions being the main theme. Venezuela, Greenland and Iran were the headlines, with a knock-on impact into commodity markets. Brent crude experienced its largest monthly jump in four years, rising 16.2%. Events in Iran produced a clearer reaction, despite Venezuela sitting on 17% of the world's crude reserves. Precious metals continued where they left off, with gold advancing 13.3% and silver 18.9%.

In the middle of the month, President Trump claimed that "The United States needs Greenland for the purpose of national security", subsequently threatening 10% tariffs that would rise to 25% if a deal was not reached to place Greenland in American hands. This led to a risk-off market tone and fears of a strong European retaliation. Although no formal deal has been agreed, Trump has claimed a 'framework' has been reached and that the threatened tariffs would not take place.

January saw significant newsflow and price action in Japan too. A snap election was announced for 8 February, and JGBs sold off, particularly at the long end, as fears around Japan's fiscal sustainability increased after announcements of further stimulus. The 30-year JGB yield reached 3.86%, the highest ever since that maturity was first issued, a move that included a 30 bps spike in one session.

The Fed was also in the spotlight as the Department of Justice launched a criminal investigation against Jerome Powell, reviving questions about the US central bank's independence. This contributed to the continued strong performance of precious metals and a slide in the dollar. The Federal Open Market Committee (FOMC) kept rates on hold as expected in its first meeting of 2026. At the end of the month, Trump nominated Kevin Warsh to succeed Powell as Fed Chair. Market pricing has not moved much on this, with two rate cuts to the end of 2026 still priced in.

Consumer prices inflation remained at 2.7% in December, in line with expectations and the same as November. US growth looks to be resilient. Atlanta GDPNow suggests real

GDP stands at 4.2%. The labour market seems to be stabilising, with unemployment falling to 4.4%.

Some US Treasury yields rose modestly in January, with carry meaning the index finished flattish on the month.

In the euro area, there was volatility intra-month in the price action, but bonds ended the month broadly where they started. The long end in particular saw most of this volatility. European periphery spreads remain compressed. The Italian BTP- German bund spread, for example, is around historically tight levels. Inflation was below expectations at 1.9%, indicating an increased chance of a cut in interest rates in 2026.

In the UK, inflation came in slightly higher than expected, at 3.4% (expected 3.3%). There was no Bank of England Monetary Policy Committee meeting in January. Flash PMI numbers for January (53.9 versus 51.5 expected) showed the fastest private sector expansion in nearly two years, signalling improving confidence.

Past performance is not a guide to future performance.

Government bond total returns (in local currency)

	10-year yield %	Total return % (1m)	Total return % (ytd)
Treasuries	4.2	0.1	0.1
Bunds	2.8	0.4	0.4
Gilts	4.5	-0.1	-0.1

Source: Bloomberg, 31 January 2026

Investment grade credit

Global IG credit markets had a strong start to 2026, with credit spreads grinding tighter to historically low levels despite a surge in new bond supply. Heavy January issuance across regions was met with robust investor demand – evidenced by persistent fund inflows.

The US IG market was positive in January. Corporate spreads tightened over the month, pushing option-adjusted spreads to multi-decade lows. By late January, US IG spreads were at their tightest levels since 1998, a reflection of strong investor appetite. Lower-quality IG names benefited the most: BBB rated debt outperformed higher grades. The US IG primary market was extremely active. Companies raised an estimated US\$210–220 billion worth of new IG bonds during January, making it one of the largest January issuance totals on record.

European IG credit enjoyed a positive month as well. Spreads in EUR IG tightened in January, while total returns were boosted by a mild fall in underlying euro yields. Sector-wise cyclical sectors like automotives led the performance, along with life insurance and

pharmaceuticals. The euro-denominated IG primary market was extremely active, more so than many expected. About €103 billion worth of euro IG bonds were issued, making this the busiest January in years. Banks and financial institutions dominated issuance. Like in the US, euro IG funds had steady inflows through the month. The reach for yield remained a theme and the backdrop of declining eurozone inflation and the ECB on hold supported confidence in credit.

UK IG spreads followed the global trend: stable to a touch tighter. The sterling primary market restarted after the holidays with a decent volume of new issuance, although not as record-breaking as the US or euro markets. Investor demand in sterling IG was solid, if a touch more measured than in US dollar and euro markets. The backdrop of a more dovish BoE outlook – markets are increasingly pricing in dovishness, given softer UK inflation and growth trends – supported sterling credit.

In short, across all regions, January was characterized by tightening credit spreads, high issuance, and strong inflows. Global IG markets demonstrated remarkable resilience – spreads improved amid record supply – thanks to investors' continued hunger for yield and a benign macroeconomic backdrop. The combination of heavy new issuance and unwavering demand suggests that, for the month in review, technical factors firmly trumped any macro noise.

Past performance is not a guide to future performance.

Investment grade total returns

	Credit spread (bps)	Total return % (1m)	Total return % (ytd)
US IG	75	0.4	0.4
Euro IG	73	0.8	0.8
UK IG	80	0.3	0.3

Source: Bloomberg, 31 January 2026

High yield credit

HY markets had a solid start to the year. Despite a flurry of geopolitical and macroeconomy headlines, markets remained relatively calm, and the combination of carry and moderately tighter spreads supported gains. HY FRNs lagged, driven by spread widening on the back of technical factors and a heavy new issuance.

US HY underperformed as geopolitical and Fed-related volatility pushed front-end yields higher and spreads widened very slightly. Spread dynamics were more supportive for euro and EM HY markets, although both saw some weakness towards month-end due to supply pressures. Within European HY, building materials, metals and mining were among the outperformers in January, while technology was the notable underperformer on the

back of software and AI-adjacent concerns. Rating-wise, US CCCs underperformed while higher quality BBs and Bs were broadly aligned. Primary markets were exceptionally active, with €12.6 billion printing in Europe and US\$28.7 billion in the US, not record numbers, but very strong. So far, issuance has been readily absorbed by the market and many new issues are offering minimal price concessions, thanks to yield-hungry buyers.

Outlook

- **Valuations fair but, we believe, supported by a constructive macroeconomic backdrop:** HY spreads remain at historically tight levels, reflecting a broadly positive macroeconomic outlook, particularly in the US, where growth is underpinned by fiscal support and expectations of Fed easing. While yields are not elevated, carry remains compelling versus other asset classes, in our view, and the market has shown resilience to recent geopolitical tensions. In a carry-driven environment, we believe this supports the potential for mid-to-high single-digit returns as monetary policy remains broadly supportive.
- **Defaults are expected to remain benign:** Default activity has ticked up modestly, but it is concentrated in isolated distressed exchanges. Broader distress levels remain low and consistent with a sub-3% default rate over the next 12–18 months, supported by generally healthy corporate fundamentals. With spreads compressed, we believe that avoiding security-specific risk is paramount – an area where our analyst team continues to add significant value.
- **Supply/demand technicals easing but still supportive:** Primary markets in both the US and Europe have rebounded, with US issuance projected to rise ~15% this year. Increased M&A activity is likely to further support supply as companies revisit transactions delayed by tariff-related uncertainty. Despite the pick-up, new issuance is being well absorbed, highlighting strong demand for high yielding assets.
- **Cautious, balanced positioning:** We maintain disciplined stock selection. Valuations are not compelling enough to materially increase risk, but to us the constructive macroeconomic backdrop does not justify being underweight either, given the importance of carry. Key risks to monitor include any re-acceleration in inflation driven by accommodative fiscal conditions and a more compliant Fed. Our risk stance remains anchored in fundamental, bottom-up, value-driven security selection, keeping us fully engaged while preserving flexibility to seek to capitalise on market dislocations.

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High yield total returns

	Credit spread (bps)	Total return % (1m)	Total return % (ytd)
US HY	288	0.5	0.5
Euro HY	276	0.7	0.7

Source: Bloomberg, 31 January 2026

Emerging market bonds

Emerging market debt (EMD) began the year on a strong footing, with risk sentiment proving resilient despite an intense geopolitical backdrop. The month opened with big headlines: the US administration ordered the arrest of Venezuela's president on Venezuelan soil, protests in Iran raised the risk of deeper US regional involvement, and rhetoric escalated around US territorial claims over Greenland. Yet, while volatility remained elevated, robust global economic data underpinned a constructive tone across risk assets, allowing all major EMD segments to deliver positive returns. Local currency sovereign bonds once again led the asset class, returning 2.2% in January as EM currencies appreciated against a softer US dollar.

Hard currency corporate bonds delivered a positive return in January, with most of this return coming from spreads tightening. Hard currency sovereign bonds registered another month of gains, with spreads the drivers of returns. Spread performance was driven by rallies in several distressed or previously dislocated markets. High-yielders once again materially outperformed. Returns exceeded 3% in Argentina, Ecuador, and Ukraine, while Venezuela surged more than 30%, helping fuel a sharp rally in distressed names such as Lebanon, which gained around 25%. Africa produced a mixed picture: Gabon rose 9%, Egypt lagged, and Côte d'Ivoire ended the month broadly flat. Asia and the Middle East underperformed the index due to their IG bias, which limited upside amid a strong HY-led tightening.

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Emerging market bonds total returns

	Credit spread (bps)	Total return % (1m)	Total return % (ytd)
Local currency government	n/a	2.2	2.2
Hard currency government	250	0.7	0.7
Hard currency corporate	224	0.7	0.7

Source: Bloomberg, 31 January 2026

Currencies

The US dollar extended its weakening trend into January, with the DXY index falling a further 1.35%, deepening the softness that characterised much of 2025. The decline accelerated mid-month during a sharp four-day selloff, its steepest since the “Liberation Day” episode last April, spurred on by President Trump’s laissez-faire approach towards USD weakness. Markets stabilised shortly thereafter, aided by Treasury Secretary Bessent’s reaffirmation of the traditional ‘strong dollar policy’.

Overall, the dollar weakened against every other G10 currency in January. The euro briefly traded above US\$1.20 for the first time since 2021 before settling at US\$1.185 into month-end.

G10 currency performance was broadly stronger against the dollar, continuing the dynamics seen late last year. The Japanese yen, which had struggled through most of the fourth quarter, also participated in the January rebound, although its gains remained modest compared with other G10 peers. Market focus remained on the evolving interaction between Japanese fiscal policy and the Bank of Japan’s tightening trajectory.

Emerging market FX delivered another strong month, supported by a combination of a weaker US dollar, renewed risk appetite, and attractive carry. The Brazilian real, Russian ruble, Mexican peso, and Chilean peso were among the best-performing EM currencies in January. By contrast, the Indian rupee, Turkish lira, and Indonesian rupiah underperformed against the dollar, lagging broader EM momentum.

Key currency pairs

	Change % (1m)	Change % (ytd)
GBP/USD	1.6	1.6
GBP/EUR	0.7	0.7
EUR/USD	0.9	0.9

Source: Bloomberg, 31 January 2026

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