

# Fixed Income asset class overview

April 2026



**Headlines regarding the conflict in Iran dominated markets in April, driving significant moves in asset prices. Oil prices remained volatile but elevated with Brent crude spiking above \$120/bbl intraday for the first time since 2022. This backdrop fuelled stagflation fears, leading to yields hitting multi-year highs across various developed market sovereign bond markets. The Japanese Government Bond (JGB) 10-year yield reached its highest level since 1997, the UK 10-year hit its highest since 2008, and the German 10-year hit its highest since 2011.**

## Month in review

March's economic indicators suggest the pressures of the energy shocks are feeding into headline inflation in the latest CPI prints across regions. US month on month inflation came in at 0.2% (the biggest monthly increase since June 2022). In the euro area, the flash CPI print for April reported headline CPI up to 3.0%, the highest since September 2023.

March's PMI surveys highlighted a clear divergence between US and Europe. US data reported a composite rise to 50.3, with manufacturing 52.7 and services 54.0. Sub-indices indicated rising price pressures. By contrast, the Euro Area PMIs displayed a much weaker picture, the composite fell to 48.6 (vs 50.1 expected), a 17 month low firmly in the economic contraction zone. This reinforced concerns of a stagflation hit from higher energy prices, with input costs rising at the fastest pace since December 2022 and output prices at their highest since March 2023.

Stagflation remained prominent as markets increasingly priced in further central bank rate hikes amid a persistent hawkish tone. Meanwhile, the Federal Reserve (Fed) kept interest rates on hold as expected, but three regional Fed presidents disagreed against the easing bias in the statement.

All four major developed central banks kept their policy rates on hold again this month, not being tempted to act too hastily in reaction to geopolitical events. However, in the various press conferences and central banker speeches, confidence of rate cuts this year continued to fall, and rate hikes were priced in for the European Central Bank (ECB) and Bank of England (BoE). Yields remaining elevated and in some cases edging higher has maintained an attractive entry point into the asset class.

In April, investment grade credit spreads recovered, with European and US IG outperforming sterling IG spreads. Spreads overall stayed near multi-year lows thanks to solid technicals from investor demand and limited net supply, but rising interest rates means total returns remain vulnerable, sterling notably still 1.7% negative year-to-date.

The value of investments will fluctuate, which will cause prices to fall as well as rise and investors may not get back the original amount invested. Past performance is not a guide to future performance. The views expressed in this document should not be taken as a recommendation, advice or forecast

High yield (HY) markets delivered strong positive returns of c 1.9% in April, helped by an improvement in risk sentiment as the Middle East conflict intermittently shifted towards de-escalation. Despite that relief rally, the macro backdrop became more challenging: oil stayed elevated, reigniting inflation fears and nudging markets to price a more hawkish higher-for-longer path for central banks. Against this backdrop, HY assets proved resilient as lower duration, carry and spread tightening supported returns through the month. This environment was also constructive for HY floating rate notes (FRNs), which delivered 1.4% for the month (USD-hedged). Regionally, European HY modestly outperformed the US, marking a reversal of the pattern seen in recent months when the US had tended to lead on relatively stronger growth expectations and less direct exposure to Europe's energy sensitivity. This month, the US market was held back by a less supportive rates backdrop as higher oil rekindled inflation/stagflation fears and pushed a more hawkish repricing in Treasuries. April saw all sectors outperform, led by Healthcare and Media, while Cable and Transportation lagged. Valuations-wise, Leisure and Cable sectors still sit close to their 12-month wides, while Energy, Healthcare and Retail are close to their tights.

Emerging market debt (EMD) posted losses over March, but April provided a bounce back. The April ceasefire in Iran (and Lebanon) was the primary catalyst for this. Credit spreads rebounded back to pre-war levels in hard currency and EM FX, with EM rates retracing some of the losses. The longer it takes for the Straits of Hormuz to reopen fully, the more fragile EM rates and FX are. Higher inflation prints have started to come in, and EM central banks are now on hold, if not considering hikes. The latest data set isn't the main problem as most activity and expectations are fully priced, it is the forward-looking expectations that have yet to be absorbed into prices. Also the Fed's reaction will be important for EMD. For energy importers, the inflationary impulse risks delaying or limiting the scope for policy easing, while energy exporters may see some near term support, albeit against a more volatile global backdrop. Policy clarity will be critical in the months ahead. EM central banks are likely to proceed cautiously as they reassess the inflation outlook and the durability of recent disinflation trends, particularly in countries where FX weakness and

higher fuel costs risk re-anchoring inflation expectations. Until there is greater visibility on the trajectory of geopolitical risks, global rates, and policy responses, EMD markets are likely to experience ongoing volatility, with differentiation across countries increasingly driven by policy credibility, external buffers, and inflation dynamics.

## Developed market sovereigns

The dominant story in developed market sovereigns continues to be the conflict in Iran and the knock-on impacts into energy markets and inflation. The oil price saw bouts of high volatility, reaching a low of \$90 per barrel and a high \$120 per barrel for the first time since 2022. The market continues to wrestle with the inflation impacts against the growth impacts, and indeed a potential stagflationary shock. Central bankers find themselves in an unenviable position of balancing the tightrope between weaker growth and deteriorating economic data, and stronger inflation prints. Potentially, we may not see inflation fall from this for another 6-12 months from the point at which the Strait of Hormuz reopens due to damaged infrastructure that needs repairing, and mines in the Strait that need to be cleared. All this fed into yields hitting multi-year highs across various DM markets, including the JGB 10-year yield reaching its highest since 1997, the UK 10-year hitting its highest since 2008, and the German 10-year hitting its highest since 2011.

All four major developed central banks kept their policy rates on hold again this month, not being tempted to act too hastily in reaction to geopolitical events. However, in the various press conferences and central banker speeches, confidence of rate cuts this year continued to fall, and rate hikes being priced in for the ECB and Bank of England. Yields remaining elevated and in some cases edging higher has maintained an attractive entry point into the asset class.

Over the month in the US, yields rose modestly higher as resilient activity data met higher inflation prints and mounting fears. The US one-year inflation swap finished the month at 3.42%, and the monthly inflation print showed CPI at 0.9% over the month. The March inflation print rose to 3.3% on a year-on-year basis. This was largely driven by fuel prices, including a 12.5% jump in energy. Futures markets priced out rate cuts, with only a 5% chance of a cut to the end of the year.

The Fed left rates on hold at 3.50%-3.75% in their April meeting. The unemployment rate was little changed at 4.3% (previously 4.4%), and sentiment indicators marginally better. The US remains the standout of the DM markets in terms of stronger growth, mostly boosted by technology related sectors.

In the Euro area, inflation breached 2.5% for the first time in over 12 months in the March print, with the flash April

number showing headline CPI at 3.0% for the first time since September 2023. Similarly to the US, this was driven by sectors most sensitive to fuel prices such as transport. Europe is more exposed to the energy price shock caused by the conflict in Iran due to its position as a net energy importer, whereas the US is more insulated as a net energy exporter. These fears continue to be priced into short term inflation markets, with the euro one-year inflation swap up to 3.81% in April.

Growth remains a concern in the euro area, with real GDP numbers showing only 0.1% of growth quarter on quarter in Q1. As of the end of April, swaps markets were pricing in almost three hikes from the ECB to the end of the year.

In the UK, the gilt market was the worst affected major sovereign bond market as a result of its exposure to energy prices, already high cost of borrowing, and ongoing concerns around fiscal credibility/sustainability. The 10 year gilt yield reached a post-2008 high of 5.07%.

UK CPI was higher, moving to 3.3% year-on-year in March, up from 3.0%. The BoE held rates at 3.75% at the end of the month with an 8-1 vote. Although the UK is struggling with stickier inflation, the weaker economic data in the UK and fiscal sustainability concerns mean that any stimulation required in the economy will have to come through the monetary policy lever. On a relative value basis, gilts look attractive to Treasuries.

Past performance is not a guide to future performance.

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### Government bond total returns (in local currency)

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	10-year yield %	Total return % (1m)	Total return % (ytd)
Treasuries	4.4	-0.1	0.0
Bunds	3.0	0.0	-0.3
Gilts	5.0	-0.5	-2.3

Source: Bloomberg, 31 April 2026

## Investment grade credit

In April, spreads ground tighter as geopolitical risk subsided. IG spreads remained near historically tight levels by month-end, reflecting the market's resilience amid geopolitical uncertainty. Worth mentioning is the impact of rates on total returns, as expected, in sterling IG in particular, still in negative territory due to continual rising in gilt yields.

US IG spreads compressed over April largely driven by the improvement in geopolitics. This translated through into IG corps, then stabilised towards the end of the month-end, leaving only a few basis points of net widening (2 bps) for the year. Fixed-rate gross IG supply for April was about \$186.4 billion, including \$156 billion in corporates and \$30.4 billion in financials. This was absorbed well due to the continuation of strong technicals, with investors

reinvesting coupons and proceeds from maturities and sell side dealers remaining short of risk which helped contain US IG spread widening which peaked at 87 bps on 1 April and tightened over the month. The low touched 79 bps, ending at 81 bps.

In Europe, credit also tightened in a straight line into month end, from a high of 91 bps ending at 80 bps, with the lows touching 77 bps mid month. EUR IG outperformed other regions in terms of spread compression and benefitted from only moderate government bond yield moves. April's supply of €58 billion landed below market expectations (€70 billion) as issuers contended with Easter holidays and earnings-related blackout periods. Issuance was well balanced between financials (€30 billion) and non-financials (€28 billion), after financials had lagged substantially in March. Digging into the details, subordinated debt accounted for a relatively large share of issuance (22% or €13 billion), with April being the busiest month for corporate hybrid issuance since 2020. Demand remained supportive, with year-to-date IG inflows positive and a cautious ECB stance providing a tailwind.

The sterling IG market tightened only modestly in April underperforming both EUR and USD IG. It finished the month with spreads still near their historically tight at 89 bps. However, rising gilt yields meant that sterling IG delivered a meagre total return for April. Sterling issuance was in line with market expectations in April (£4 billion). Activity was concentrated in financial issuers (£3.3 billion), after they pulled back sharply in March. The busy month has seen financial issuers catch up after lagging in Q1, with year-to-date supply well balanced between the financials and non-financials. Nevertheless, domestic demand (from UK insurers and others) remained steady, helping GBP credit weather the global turmoil.

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### Investment grade total returns

	Credit spread (bps)	Total return % (1m)	Total return % (ytd)
US IG	81	0.6	0.1
Euro IG	80	0.9	0.0
UK IG	89	0.2	-1.7

Source: Bloomberg, 31 April 2026

## High yield credit

HY markets delivered strong positive returns of 1.9% in April, helped by an improvement in risk sentiment as the Middle East conflict intermittently shifted towards de-escalation. Despite that relief rally, the macro backdrop became more challenging: oil stayed elevated, reigniting inflation fears and nudging markets to price a more hawkish higher-for-longer path for central banks.

Against this backdrop, HY assets proved resilient as lower duration, carry and spread tightening supported returns

through the month. This environment was also constructive for HY FRNs, which delivered 1.4% for the month.

Regionally, European HY modestly outperformed the US, marking a reversal of the pattern seen in recent months when the US had tended to lead on relatively stronger growth expectations and less direct exposure to Europe's energy sensitivity. This month, the US market was held back by a less supportive rates backdrop as higher oil rekindled inflation/stagflation fears and pushed a more hawkish repricing in Treasuries.

April saw all sectors outperform, led by Healthcare and Media, while Cable and Transportation lagged. Valuations-wise, Leisure and Cable sectors still sit close to their 12-month wides, while Energy, Healthcare and Retail are close to their tight.

Primary market activity rebounded sharply, particularly in the US, where issuance reached nearly \$40 billion (55% year-on-year), driven by heavy AI and data-centre supply (~\$20 billion). This included several mega deals, such as MERIDI (\$5.7 billion) and TRACTD (\$4.5 billion), underscoring the sector's growing importance (now ~1.5% of the Global Index).

## Outlook

- **Fair-valued market with resilient backdrop:** HY markets have remained resilient despite global turmoil and inflation concerns. While spreads and yields widened at the onset of hostilities in Iran, both have since retraced, with spreads now tighter than at the start of the conflict. The US has outperformed Europe, supported by strong growth drivers including AI demand, fiscal support and lower energy dependency. Valuations look fair, while yields remain reasonably attractive relative to other asset classes.
- **Benign defaults expectations:** Defaults remain below historical averages and are limited to idiosyncratic distressed exchanges and restructurings. We expect defaults and liability management exercises (LMEs) will continue to be constrained to specific, cyclical and rate-sensitive issuers and subsectors. Any contagion from credit deterioration within the private credit space remains highly unlikely. With spreads compressed, avoiding idiosyncratic risks is essential – an area where deep credit work matters.
- **Constructive technicals despite more supply:** Primary supply is rising in the US and Europe, fuelled by AI demand and revived M&A. Markets continue to absorb new supply without disruption. Demand for HY remains robust which supports spreads, whilst relatively attractive yields continue to attract income-seekers.

- Cautious and selective positioning:** Having added risk on the onset of the software-selloff and Iran conflict, valuations are no longer compelling enough to add materially, particularly given inflation risks linked to higher input costs. However, market resilience argues against a meaningful underweight. A broadly neutral stance with dry powder for selective additions remains appropriate, with performance driven by careful credit selection.

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### High yield total returns

	Credit spread (bps)	Total return % (1m)	Total return % (ytd)
US HY	283	1.7	1.1
Euro HY	294	1.9	0.3

Source: Bloomberg, 31 April 2026

## Emerging market bonds

EMD posted losses over March, but April provided a bounce back. The April ceasefire in Iran (and Lebanon) was the primary catalyst for this. Credit spreads rebounded back to pre-war levels in hard currency and EM FX, with EM rates retracing some of the losses.

The longer it takes for the Straits of Hormuz to reopen fully, the more fragile EM rates and FX are. Higher inflation prints have started to come in, and EM central banks are now on hold, if not considering hikes. The latest data set isn't the main problem as most activity and expectations are fully priced, it is the forward-looking expectations that have yet to be absorbed into prices. Also the Fed's reaction will be important for EMD.

Looking ahead, the situation is very similar to March. Uncertainty remains elevated, with markets highly sensitive to further geopolitical developments and energy supply dynamics, the situation remains fragile and prone to renewed volatility.

For energy importers, the inflationary impulse risks delaying or limiting the scope for policy easing, while energy exporters may see some near-term support, albeit against a more volatile global backdrop. Policy clarity will be critical in the months ahead. EM central banks are likely to proceed cautiously as they reassess the inflation outlook and the durability of recent disinflation trends, particularly in countries where FX weakness and higher fuel costs risk re-anchoring inflation expectations. Until there is greater visibility on the trajectory of geopolitical risks, global rates, and policy responses, EMD markets are likely to experience ongoing volatility, with differentiation across countries

increasingly driven by policy credibility, external buffers, and inflation dynamics.

### EM outlook

EMD has shown notable resilience through recent geopolitical volatility, holding up well versus developed market rates, US high yield and equities. This suggests EM is increasingly being assessed on its own fundamentals rather than as a pure risk asset. Compared with developed markets, many EM economies now exhibit stronger growth, lower inflation, similar labour market strength, better fiscal discipline, and more credible central banks.

High real policy rates provide an important buffer, leaving EM better positioned in a more stagflationary global environment. Despite ongoing uncertainty and volatility, our favourable view on EM is unchanged, particularly relative to DM. We continue to see the most compelling opportunities in local currency debt, where policy credibility, improving fiscal discipline and reform momentum remain supportive.

Needless to say, the geopolitical environment remains extremely fragile. It's not just the Iran war but also what could come up next (Cuba, Greenland and everything else we are not anticipating!). In this environment, diversification is so important.

Regionally, we see Latam as a winner, versus other regions. To varying degrees they produce food, fertiliser and oil, and are also more remote from geopolitical risk. That said, election risk remains (Colombia, Peru and Brazil).

In the Middle East, spreads have retraced a lot versus the March widening. There is little value overall, but some countries have lagged this recovery – Saudi Arabia for example. The UAE exiting OPEC is credit neutral, but does bring with it some more geopolitical noise.

In Asia, local currency markets have repriced significantly (except China, which is strong: CNY the only net-oil-importing currency which appreciated in March). Hard currency corporate spreads remain broadly unattractive versus other regions but this is explained by robust fundamentals and an IG skew. We are more constructive on central Asia with some countries seen as net beneficiaries of the conflict, for example Kazakhstan.

In Africa, we believe the situation will be more about stock picking than over weighting frontier markets. Selective Oil and Gas companies are attractive and some sovereign credits, but possible announcements of food and fuel subsidies will likely impact fiscal policy and make for a tough second half of 2026, in our opinion. Taking a medium-term view, we believe the EMD story will stay intact (better fiscal, better growth, strong central bank credibility etc), whilst there are still 2.5 years of unpredictable Trump administration to navigate. With the fiscal outlook and the geopolitical issues including the US

mid-terms, plus the issues in Western Europe all ahead of us, it is hard to be bullish about the USD.

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### Emerging market bonds total returns

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	Credit spread (bps)	Total return % (1m)	Total return % (ytd)
Local currency government	n/a	2.8	0.5
Hard currency government	256	2.9	1.6
Hard currency corporate	224	1.6	1.4

Source: Bloomberg, 31 April 2026

## Currencies

The US dollar index (the DXY) lost -1.9% over the month, reaching -0.3% year-to-date. Across the G10, the dollar weakened against every currency marking the biggest monthly decline since August 2025. Of the major EM currencies, only a handful were weaker: Peru, Turkey, Philippines and Indonesia.

Year-to-date, the Latam currencies dominate the top performers versus the USD, partly due to remoteness of the Iran issues, partly due to being fuel, fertiliser and food producers.

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### Key currency pairs

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	Change % (1m)	Change % (ytd)
GBP/USD	2.9	1.0
GBP/EUR	1.3	1.1
EUR/USD	1.5	-0.1

Source: Bloomberg, 31 April 2026



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