

Fixed Income asset class overview

March 2026



Fixed income markets underperformed in March, driven mostly by higher rates. The war in Iran caused growing inflation fears as Brent Crude oil surged c.50% over the month, beyond \$100 per barrel. The Strait of Hormuz, a critical route for global oil shipments, was effectively shut, leading to a spike in energy prices. There are fears of potential stagflation given the ongoing deterioration of growth in developed markets.

Month in review

Amid heightened market volatility, central banks acknowledged the impact of the war-driven inflation shock led by higher energy prices and signalled caution around the growth outlook. As a result, major central banks, including the European Central Bank (ECB), Bank of England (BoE), Federal Reserve (Fed) and Bank of Japan (BoJ), left policy rates unchanged. However, this was accompanied by firm messaging that central banks stand ready to tighten policy further should inflationary pressures persist. This was a marked change from the end of February when future markets were pricing two cuts from the BoE and Fed to the end of the year.

US data released in March indicated the economy was still expanding but losing momentum late in the cycle. Activity indicators such as PMIs remained expansionary, yet labor markets data showed softer hiring figures. European data suggested a more fragile backdrop, with PMIs signalling near-stagnation, particularly in services. While headline manufacturing numbers improved, this was largely driven by supply disruptions and rising input costs, rather than a meaningful pickup in demand. The combination of slowing growth and renewed inflation pressures has reinforced stagflation concerns.

March was a poor month for sovereign bond markets, as yields soared particularly at the front end of the curve. Traditionally, energy shocks, such as we are currently experiencing, may have been seen as having a one-time price impact that markets should look through with an emphasis on the growth impact, which would be expected to be negative. However, this time the inflation narrative has won out, and front-end yields in particular suffered, with the bond market pricing out interest rate cuts and beginning to price in rate hikes.

Investment grade (IG) credit faced renewed volatility in March as escalating Middle East tensions and higher oil prices drove a risk-off backdrop, pushing government bond yields higher and prompting modest spread widening from early-year tights. Despite this, spreads across regions remained close to historically tight levels by month-end, underpinned by resilient demand and solid fundamentals. US IG spreads widened only marginally by c.5 bps, with

heavy but well-absorbed record Q1 issuance supported by strong technicals and reinvestment flows. European IG underperformed, with spreads widening more meaningfully amid greater sensitivity to the energy shock and disrupted primary supply, though valuations remained contained and ECB policy support helped anchor demand. UK IG proved comparatively resilient, with only modest spread widening of c.5 bps, although higher gilt yields were the main driver of negative total returns for the month. Rising rates pushed IG total returns into further negative territory in March.

High yield (HY) markets were volatile and broadly weaker in March, with spreads moving in a wider range as geopolitical risk, higher energy prices and persistent rates volatility weighed on sentiment and drove de-risking in higher-beta credit. In this risk-off backdrop, the ICE BofA Global High Yield Index fell 1.6% over the month. HY FRNs outperformed fixed-rate HY falling 0.6%, thanks to their near-zero duration (limited impact from rising yields) and lower spread beta. Within fixed-rate markets, US HY was more resilient than European and emerging market (EM) HY markets. European credit was more directly exposed to the Iran-conflict via higher energy prices and a jump in rates volatility, which fed through into more pronounced risk-off positioning alongside wider spreads. EM HY also lagged, as the same geopolitical/energy shock pushed US treasury yields higher weighing on hard-currency debt and EM risk appetite as the conflict escalated.

EM debt posted losses over the month, with negative returns across all segments as geopolitical tensions escalated and volatility increased. Risk sentiment deteriorated as conflict risks around Iran intensified, pushing energy prices higher and lifting global inflation expectations. These developments drove a selloff in developed market bonds and strengthened the US dollar, placing further pressure on EM assets. In hard currency markets, higher US treasury yields were the dominant drag on both sovereign and corporate performance. While credit spreads did widen as risk appetite weakened, they played a smaller role than rates in driving overall returns. Corporate bonds held up better than sovereigns, supported by their shorter duration profile. Local currency sovereign bonds were the weakest segment, largely reflecting EM FX depreciation amid a stronger dollar and rising energy related inflation concerns.

Developed market sovereigns

March was a poor month for sovereign bond markets, dominated by the conflict in Iran and the knock-on impacts into oil and energy markets. Traditionally, this may have been seen as a one time price impact that markets should look through with an increased emphasis on the growth impact (weighing negatively on growth). However, the inflation narrative won out, and front end yields in particular suffered, with the bond market pricing out rate cuts and beginning to price in rate hikes. All four major developed central banks kept their policy rates on hold this month, not being tempted to act too hastily in reaction to geopolitical events. Although this was a painful month for sovereign bond yields, this may, in our view, have created an attractive entry point into the asset class for investors, in our view.

The initial sell-off was fairly indiscriminate across sovereign bond markets, but the market then adjusted to focus on geographies most affected by the energy price shock and the potential impact on growth. The US saw a partial reversal as investors repriced in light of the US being less exposed to oil imports from the Gulf. The euro area priced towards a stagflationary environment and a more hawkish ECB. The UK suffered the most aggressive sell-off, partially driven by hedge fund activity and investors running for the door at the same time. Japan, which has experienced a significant rise in yields over the past six months, saw yields rise further due to energy price concerns. Japan is highly exposed to the situation in the Middle East given that it imports around 95% of its oil from the region. However, Japan also has one of the largest strategic petroleum reserve systems in the world, somewhat insulating it from the impact.

Over the month in the US, yields rose to their highest level since mid-2025 as investors priced higher and persistent inflation. However, towards the end of the month Fed Chair Powell said that longer term inflation expectations appeared 'well anchored'.

US CPI inflation print for February remained stable at 2.4%. In light of this, the Fed left rates on hold at 3.50%-3.75% in its March meeting. Prior to the events of this month, we were of the view that the US was more likely to experience a deflation problem than an inflation problem. Given the change in geopolitics, we watch carefully to see what dominates the rates story – inflation or growth.

In the euro area, sovereign bonds experienced a similar inflation-driven sell off. The 10-year bund yield reached the highest it has been since 2011 at 3.1%, and similarly French 10-year government bonds (OATs) reached their highest yield in the same period at 3.76%.

ECB President Lagarde indicated that the ECB would be prepared to raise rates, even in spite of a temporary

inflation shock. This led to markets moving away from pricing a benign 'on hold' scenario towards pricing three hikes to the end of 2026. This was against the backdrop of a firmer March inflation print at 2.5%, rising from 1.9% in February.

In the UK, the gilt market was the worst affected major sovereign bond market as a result of its exposure to energy prices and already high cost of borrowing. The 10-year gilt passed 5.0% for the first time since 2008.

The Spring Statement was a relatively lowkey affair, but gilt issuance for 2026/27 skewed towards the short (39%) and medium (31%) part of the curve. The DMO have also retained a 12% unallocated reserve, which allows flexibility to shift issuance to areas of the curve where there is most demand.

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	4.3	-1.8	0.1
Bunds	3.0	-2.0	-0.3
Gilts	4.9	-4.0	-1.8

Source: Bloomberg, 31 March 2026

Investment grade credit

The escalating conflict in the Middle East and surging oil prices triggered a risk-off tone, driving a modest widening of spreads from their early-year lows and pushing government bond yields higher. Even so, IG spreads remained near historically tight levels by month-end, reflecting the market's resilience amid geopolitical uncertainty.

In the US, IG spreads widened modestly in early March, then stabilised towards the end of the month, widening by (+5bps). The primary market hit a Q1 record, with \$625 billion of issuance, including \$231 billion in March. Non-financials dominated, accounting for over 78% of monthly supply. Half of this issuance came in early March with a \$115 billion in just one week. This was absorbed well due to strong technicals, while fund flows reversed later in the month (from +0.4% to -0.3% of AUM). Investors reinvesting coupons and proceeds from maturities and sell side dealers remaining short of risk helped contain US IG spread widening, which peaked at 94 bps mid-month before retracing into quarter-end.

In March, Euro IG credit saw a more pronounced spread widening (14 bps). EUR IG underperformed other regions due to its higher sensitivity to the oil shock; however, even after spreads widened, valuations remained relatively

contained at around 18th percentile of the past decade (up from 4th percentile pre-war). March primary euro IG issuance came in at €49 billion, falling short of expectations amid the ongoing Middle East conflict. The slowdown was particularly pronounced in the financials universe which saw only €12 billion of issuance throughout the month. In contrast non-financials were more resilient, issuing €47 billion, a solid outcome given the geopolitical backdrop. Issuance was supported by Amazon's record sized euro bond, which almost accounted for a third of the month's issuance. Demand remained supportive, with year-to-date (YTD) IG inflows positive and a cautious ECB stance providing a tailwind. Euro IG spreads ended March near multi-year highs, though YTD performance is roughly flat.

The sterling IG market widened only modestly in March (5 bps) and finished the month with spreads still near their historically tight range. Wider spreads and rising gilt yields meant that sterling IG delivered a negative total return for March, reversing the prior month's gains. After an exceptionally busy February (~£10 billion issued), sterling primary activity dropped sharply in March, to £2 billion, where financial issuers pulled back more aggressively than non-financial issuers. Nevertheless, domestic demand (from UK insurers and others) remained steady, helping GBP credit weather the global turmoil with just a slight spread drift by quarter-end.

In short, in March 2026 IG credit spreads widened modestly across regions, with European IG seeing the largest impact, while US and UK IG spreads rose only slightly from record-tight levels. Spreads overall stayed near multi-year lows thanks to solid investor demand and limited net supply, but rising interest rates flipped total returns into the red across the board.

Past performance is not a guide to future performance.

Investment grade total returns

	Credit spread (bps)	Total return % (1m)	Total return % (ytd)
US IG	90	-2.0	-0.4
Euro IG	95	-2.3	-1.0
UK IG	95	-3.4	-1.9

Source: Bloomberg, 31 March 2026

High yield credit

High yield (HY) markets were volatile and broadly weaker in March, with spreads moving in a wider range as geopolitical risk, higher energy prices and persistent rates volatility weighed on sentiment and drove de-risking in higher-beta credit. In this risk-off backdrop, the ICE BofA Global High Yield Index fell 1.6% over the month. HY FRNs outperformed fixed-rate HY falling 0.6%, thanks to their

near-zero duration (limited impact from rising yields) and lower spread beta.

Within fixed-rate markets, US high yield proved relatively resilient (-1.1%), supported by energy and more defensive sectors, while European high yield underperformed (-2.7%) due to greater sensitivity to energy costs and inflation, particularly in single-B issuers.

HY spreads have widened from historically tight levels rather than dislocating, and yields have, in our view, become more attractive at around 7.5% in the US and 6% in Europe, which could help stabilise demand following recent outflows. A more pronounced widening was seen in high yield FRNs largely reflecting the unwind of negative convexity rather than any deterioration in underlying fundamentals. As a result, valuations in FRNs are now, in our opinion, the most attractive they have been for some time, and we are gradually averaging into risk, with spreads around 400–450 bps and all-in yields above 8% in USD terms.

Sector dispersion continued in March. Consumer and Air Transport were laggards, again reflecting energy input costs with consumers exposed to higher gas process in the US. Interestingly, the Tech sector, having sold-off materially in the previous months on AI disruption fears, held-in well, with a lot of the negative news/fears mostly priced-in before things flared-up in the Middle East. Primary markets remained active despite volatility, driven by large, long-planned multi-currency M&A financings. We participated selectively in sizeable deals from Electronic Arts and Nexstar, while other transactions, such as Sealed Air, faced notable investor pushback on structure and terms.

Outlook

- We expect a range-bound but volatile environment for HY, with elevated rates volatility, geopolitical uncertainty and AI-related disruption keeping dispersion high.
- Valuations have improved and we are gradually averaging into risk, but remain cautious and selective.
- Spreads look reasonable, while yields are increasingly attractive at around 7.5% in the US and 6% in Europe, reinforcing the importance of carry.
- Key risks include any re-acceleration in inflation and further headline-driven volatility.
- In this environment, disciplined stock selection, a quality bias and flexibility to add risk opportunistically during periods of dislocation remain central themes into Q2.

Past performance is not a guide to future performance.

High yield total returns

	Credit spread (bps)	Total return % (1m)	Total return % (ytd)
US HY	328	-1.1	-0.5
Euro HY	349	-2.7	-1.6

Source: Bloomberg, 31 March 2026

Emerging market bonds

EM debt posted losses over the month, with negative returns across all segments as geopolitical tensions escalated and volatility increased. Risk sentiment deteriorated as conflict risks around Iran intensified, pushing energy prices higher and lifting global inflation expectations. These developments drove a sell-off in developed market (DM) bonds and strengthened the US dollar, placing further pressure on EM assets. In hard currency markets, higher US Treasury yields were the dominant drag on both sovereign and corporate performance. While credit spreads did widen as risk appetite weakened, they played a smaller role than rates in driving overall returns. Corporate bonds held up better than sovereigns, supported by their shorter duration profile. Local currency sovereign bonds were the weakest segment, largely reflecting EM FX depreciation amid a stronger dollar and rising energy-related inflation concerns. Local rates also moved higher, weighing on returns, as tighter global financial conditions led markets to reassess the pace and extent of policy easing across several emerging economies.

Looking ahead, uncertainty remains elevated, with markets highly sensitive to further geopolitical developments and energy supply dynamics. While the reopening of the Strait of Hormuz has helped alleviate some immediate concerns, the situation remains fragile and prone to renewed volatility, keeping risk premia elevated across rates, currencies, and credit. As a result, near-term market moves are likely to remain driven more by headlines and macro positioning than by underlying fundamentals. From a macro perspective, it will take time to assess how higher energy prices feed through to inflation, growth, and external balances across emerging markets.

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. At the same time, continued US dollar strength and higher global real rates remain key headwinds for EM assets. 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, EM debt 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 DM 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 DMs, 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 some of the most compelling opportunities in local currency debt, where policy credibility, improving fiscal discipline and reform momentum remain supportive.

The main downside risk would be a prolonged escalation in the Middle East that disrupts energy supply, keeps oil prices elevated and weighs on global growth. In such a scenario, EM local markets would likely come under pressure, while credit spreads would offer limited near-term protection.

That said, this also highlights how much EM has changed. Many countries have built resilience through stronger fiscal frameworks, credible and independent monetary policy, and improved institutions, allowing markets to remain more differentiated than in past cycles.

While we are cautious near term and not adding risk as geopolitical tail risks rise, we believe the medium-term EMD story remains intact. Ongoing fiscal stress and political uncertainty in DMs make it difficult to be structurally bullish the USD, supporting EMD over time.

Past performance is not a guide to future performance.

Emerging market bonds total returns

	Credit spread (bps)	Total return % (1m)	Total return % (ytd)
Local currency government	n/a	-1.1	-2.2
Hard currency government	295	-3.3	-1.3
Hard currency corporate	249	-1.8	-0.2

Source: Bloomberg, 31 March 2026

The views expressed in this document should not be taken as a recommendation, advice or forecast.

Currencies

The US dollar strengthened sharply over March, with the DXY index rising 2.4% over the month and extending gains to 1.2% YTD. The move marked a decisive rebound in the dollar, driven by a pronounced rise in geopolitical risk following the escalation of tensions around Iran. This renewed demand for typically safe-haven assets, alongside higher global yields and firmer inflation expectations, reinforced dollar strength and reversed much of the earlier weakness seen at the start of the year. Across G10, dollar strength was broad-based but uneven. The dispersion reflected differing sensitivities to higher energy prices, interest rate differentials, and evolving expectations around monetary policy paths in major economies.

EM currencies faced a more challenging environment. The stronger dollar, combined with higher energy prices and elevated volatility, weighed on EM FX overall, particularly in countries with larger external financing needs or higher sensitivity to global risk conditions. While select markets with strong carry or supportive domestic fundamentals proved relatively resilient, the dominant driver over the month was broad USD strength rather than idiosyncratic EM factors. As a result, FX performance across EMs was increasingly shaped by global macro forces rather than local developments.

Key currency pairs

	Change % (1m)	Change % (ytd)
GBP/USD	-1.9	-1.8
GBP/EUR	0.3	-0.2
EUR/USD	-2.2	-1.6

Source: Bloomberg, 31 March 2026

The value of investments will fluctuate, which will cause prices to fall as well as rise and you may not get back the original amount you invested.



Marketing Communication for Professional Investors only. Not for onward distribution. No other persons should rely on any information contained within.

This information does not constitute an offer or a solicitation to buy shares in any of M&G's funds.

This document reflects M&G's present opinions reflecting current market conditions. They are subject to change without notice and involve a number of assumptions which may not prove valid. It has been written for informational purposes only and should not be considered as investment advice, a forecast or guarantee of future results, or as a recommendation of any security, strategy or investment product. Where relevant, any reference to individual companies is for illustrative purposes only and should not be considered a recommendation to buy or sell securities of those companies.

Information is derived from proprietary and non-proprietary sources which have not been independently verified for accuracy or completeness. While M&G Investments believes the information to be accurate and reliable, we do not claim or have responsibility for its completeness, accuracy, or reliability. Statements of future expectations, estimates, projections, and other forward-looking statements are based on available information and management's view as of the time of these statements. Accordingly, such statements are inherently speculative as they are based on assumptions which may involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such statements. All forms of investments carry risks. Such investments may not be suitable for everyone.

This document has not been reviewed by any regulatory authority.

For Australia only: This document is intended for wholesale clients as defined under the Corporations Act 2001.

For Hong Kong only: This document is for professional investors only.

For Singapore only: This document is for institutional investors as defined under the Securities and Futures Act (Cap. 289) of Singapore only.

For Taiwan only: This document is for institutional investors only.

For Japan only: This document is for Institutional Investors only. This document is provided to you for the purpose of providing information with respect to investment management business capabilities of M&G Investments Japan Co., Ltd (the 'Company') and its offshore group affiliates.

For the Republic of Korea only: This document is for Qualified Professional Investors only.

For China only: For Eligible Investors only (e.g. qualified domestic institutional investors). The materials contained herein are introductory and are not intended to solicit or induce the audience to enter into commercial arrangement with M&G.

For the United States only: M&G Investment Management Limited is registered as an investment adviser with the Securities and Exchange Commission of the United States of America under US laws, which differ from UK and FCA laws.

For Canada only: Upon receipt of these materials, each Canadian recipient will be deemed to have represented to M&G Investment Management Limited, that the investor is a 'permitted client' as such term is defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations.

In the UK, the United States, Canada and Australia, this Financial Promotion is issued by M&G Investment Management Limited, registered in England and Wales under number 936683, registered office 10 Fenchurch Avenue, London EC3M 5AG. M&G Investment Management Limited is authorised and regulated by the Financial Conduct Authority. In Hong Kong and Korea, this financial promotion is issued by M&G Investments (Hong Kong) Limited. Office: Unit 1002, LHT Tower, 31 Queen's Road Central, Hong Kong; in Singapore by M&G Investments (Singapore) Pte. Ltd. (UEN 201131425R), regulated by the Monetary Authority of Singapore; In Taiwan, independently operated by M&G Investments (Taiwan) Limited, regulated by Financial Supervisory Commission of Taiwan, R.O.C. (113-gingwantougu-009). Address: Rm B1, 33F., Taipei 101 Tower, No. 7, Sec. 5, Xinyi Rd., Xinyi Dist., Taipei, 110, Taiwan. Tel: +886-02-81010600; in Japan by M&G Investments Japan Co., Ltd. Investment Management Business Operator, Investment Advisory and Agency Business Operator, Type II Financial Instruments Business Operator Director-General of the Kanto Local Finance Bureau (Kinsho) No. 2942. Membership to Associations: Japan Investment Advisers Association, Type II Financial Instruments Firms Association. Elsewhere, issued by M&G Luxembourg S.A. Registered Office: 16, boulevard Royal, L-2449, Luxembourg. 1708001