Market Views: How are diverging rate paths shaping fixed-income markets in 2026?

Heather Ng
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Industry experts share their outlook on bond markets and what to expect from the Fed, Bank of Japan and other major central banks.

After years of synchronised monetary easing, global policy paths are now decisively diverging—reshaping the fixed income landscape with both new opportunities and heightened risks.

In the US, renewed Fed rate cuts alongside fiscal expansion are bolstering front-end Treasuries and high-quality credit, though vulnerabilities remain at the long end of the curve.

Europe's uneven growth and mounting fiscal pressures demand a more tactical stance, while emerging markets look set to benefit from easing cycles and strengthening local currencies.

Against this backdrop, *AsianInvestor* asked industry experts how global diverging rate paths are shaping fixed income markets.

Swa Wu, head of Asia ex-Japan investment specialists for fixed income
JP Morgan Asset Management

We anticipate the Bank of England will join the Fed in cutting rates as UK inflation aligns with other developed markets and a softer labour


Swa Wu

market tempers wage growth. In contrast, the European Central Bank is likely to remain on hold, with inflation at target but fiscal spending on the rise. Meanwhile, the Reserve Bank of Australia and the Bank of Japan may hike rates, given persistent growth and inflation pressures.

China remains a key focus in emerging markets, but opportunities are broadening elsewhere. China's record goods surplus will continue to export deflation globally, while domestic consumption softness is likely to be offset by fiscal stimulus, supporting fixed asset investment and a projected 4.5% GDP growth next year.

Globally, the economy has shown resilience in absorbing tariffs, and the capital expenditure required for AI infrastructure is expected to boost both short-term growth and long-term productivity. We believe the broader disinflationary trend will persist, creating a favourable macroeconomic backdrop.

In this environment, we see a compelling case for fixed income allocations. We favour carry-oriented strategies, including investment grade, leveraged and convertible credit, as well as emerging market and securitised debt such as agency mortgages and commercial real estate-backed securities.

Findlay Franklin, portfolio manager
RBC Bluebay Asset Management


Findlay Franklin

Firstly, the backdrop remains supportive for emerging markets debt. While global growth is slowing modestly, we believe emerging economies are positioned to outperform developed markets, underpinned by resilient domestic demand, improving fiscal discipline, and stronger policy credibility. Inflation across most emerging markets remains contained, allowing central banks to maintain a cautious easing bias without compromising macro stability.

In the US, although the backdrop remains broadly favourable for credit, with rate cuts an element of that, it is worth reflecting that US IG supply could hit $1 trillion this year, thanks to abundant issuance from the hyperscalers. This compares to around $650bn last year. This should lean on spreads with all else being equal.

We see the Eurozone economy struggling to grow, and risks to inflation more prevalent to the downside than the upside. The ECB may be wary of cutting rates, at a time when fiscal policy is also trending looser, and it is hard to get too excited in the outlook for bunds. However, we are more inclined to think that returns over the next couple of months could exceed cash returns, helped by inflation surprises to the downside in the near term. There is a bifurcation between the core and periphery we'd look to capitalise on.

Lastly, after years of taking a backseat in the global macro space, Japan has more back to the fore. While the expectation in Japan is that the BOJ will get rates close to 2% the next two years, with inflation overshooting and normalising around 2%, the real driver of markets will be from political and fiscal reforms in the shorter term.

Alexis Lavergne, executive director and fixed income specialist
Janus Henderson Investors

Alexis Lavergne

Greater scrutiny is likely to arise over whether cuts are justified (responding to weakness in growth or employment) or seen as pro-cyclical (easing despite strong growth or above-target inflation). Recent actions by the White House toward the Federal Reserve are likely to reinforce this perspective.

We favour the front end of the curve – which would benefit from cuts – while the long end remains uncertain, as term premiums may rise on concerns over Fed independence and persistent fiscal deficits.

As a result, we prefer shorter-dated securities, with duration managed tactically. Furthermore, securitised spreads continue to look attractive relative to corporates, and we therefore favour assets such as AAA CLOs.

Globally, we expect further cuts from the Bank of England, while the ECB likely stays on hold. Brazil should see reductions, whereas the Bank of Japan stands out as raising rates though policy normalisation.

Overall, we believe that income will be the key driver of fixed income returns in 2026, and that active management will be essential to capturing opportunities while avoiding pitfalls.

Ecaterina Bigos, CIO (Asia Ex-Japan) of core investments,
AXA IM – part of BNP Paribas Asset Management

We start the year with easier global conditions, with many central banks maintaining an easing bias, but by and large deem to be in the "good place" with regards to their policy rates, accounting for the inflation and growth dynamics. A resilient global economy and policy measures should keep fiscal concerns in check, allowing yields across the curve to reflect the growth and inflation outlook. This core scenario is positive for credit markets notwithstanding tight credit spreads and signs of increasing leverage.

Ecaterina Bigos

Looking forward, what will determine credit market performance is whether investors continue to value diversified exposure to corporate risk more highly than balance sheet-challenged sovereign debt. In which case, prevailing yields in credit markets are attractive and should deliver attractive income-driven total returns, justifying allocation on a cross-asset basis.

In the absence of a growth or credit shock, carry will be the major theme for bond investors, delivering most of the total return. As such, higher yielding and emerging market bonds continue to be interesting from a total return perspective. Investors need to be mindful of valuations, but improved credit quality in high yield and better macroeconomic performance in emerging markets are positives for those markets.

Significant drawdowns in fixed income markets tend to only occur in response to a growth or credit shock. Neither is in our core scenario for 2026 which means investors should be able to benefit from solid bond income returns.

Robert Li, head of APAC investment strategy
Barings

Robert Li

The latest data suggests that the US economy remains resilient. Downside risks to labour market and upside risks to inflation due to tariffs could be milder than market expectations, suggesting a gradual and paced approach to rate cuts. However, the "jobless expansion" could introduce uncertainties as we head closer to the midterm elections. In Europe, the labour market continues to be solid, but a disinflationary trend is emerging, potentially allowing the ECB to deliver the next cut before the Fed.

With moderating pressure from the Fed's rate cycle, emerging market economies are adopting fiscal and monetary policies based on domestic conditions, supporting the economy or exercising fiscal prudence wherever appropriate.

Ongoing geopolitical uncertainties on multiple fronts could mean more fiscal expansion by most of the world's largest economies. A soft outlook on energy prices and USD could be supportive for EM economies as well.

Given the current macroeconomic and geopolitical environment, selection is key. While credit spreads are at some of the tightest levels over the past 20 years, many are justified with strong fundamentals. Meanwhile, there has been an improvement in underlying credit quality of issuers. From credit selection perspective, beneficiaries of fiscal expenditures, structural trends, and government policies do well.

Lauren van Biljon, senior portfolio manager, rates and FX
Allspring Global Investments


Lauren van Biljon

Widening gaps between key rates across regions can create noise at both the sovereign and corporate levels, resulting in relative value opportunities for active managers to exploit. Yield curves globally are materially steeper from a year ago and -- while policy inflection points can be volatile – we are seeing more value in duration outside of the US. Valuations across emerging markets are tighter but there are still attractive opportunities.

In Europe, for instance, the consensus is that the European Central Bank (ECB) has completed its easing cycle. However, on balance, we judge that the risks to European inflation lie to the downside, potentially from imported disinflation, and this could provide support to the region's fixed income markets.

Japan's status as one of the rare nations actively raising interest rates is proving troubling for the bond market, and we believe the near-term tone on JGBs could remain dour. The cautious pace of hikes is a poor counterpoint to the upside fiscal spending risks and suggests yields could have further to rise.

Yuen Ho, senior portfolio manager
Bank of Singapore


Yuen Ho

We expect the macro environment in 2026 to remain broadly supportive of risk assets. With spreads at historically tight levels, we anticipate greater regional dispersion, which reinforces our preference for quality issuers and a neutral stance on overall portfolio duration.

The Federal Reserve is likely to maintain an easing bias as rates move toward neutral, while the ECB is expected to stay on hold and the BOJ may proceed with hikes. These divergent monetary and fiscal policies across major economies could lead to higher currency volatility and uneven yield curve dynamics, making relative valuation analysis increasingly important. Diversification and active management will be essential to navigate volatility and reduce drawdowns.

Emerging markets can play a valuable role as diversifiers within global bond portfolios. Selective exposure to EM local and hard currency bonds offers risk diversification, and we see Latin America as particularly attractive given valuations and the potential for more market-friendly leadership following 2026 elections.

In summary, credit selection, regional and sector diversification, and active duration management will be key drivers of performance in the year ahead, rather than broad index or beta exposure.

Hersh Oberoi, global research department director
Balfour Capital


Hersh Oberoi

As inflation trends, growth dynamics and fiscal positions increasingly diverge across regions, returns are being driven less by broad duration exposure and more by relative value, curve positioning and country-specific fundamentals.

In the United States, a slower growth outlook and a gradual easing bias support front-end duration and high-quality credit. Longer-dated bonds, however, remain constrained by elevated fiscal deficits and heavy issuance. This has reinforced a steeper and more volatile yield curve, making maturity selection more important than simple duration bets.

Europe faces uneven growth and ongoing fiscal pressure, leading to wider dispersion across sovereign and credit markets. Investors are therefore gravitating toward core markets and higher-quality issuers, with income stability and resilience taking priority over directional risk.

Emerging markets are benefiting from earlier easing cycles, moderating inflation and relatively attractive real yields. Select local-currency bonds are drawing interest as investors seek diversification and income beyond developed markets.

Overall, policy divergence in 2026 is turning fixed income into a more fragmented, opportunity-driven asset class that rewards active management and disciplined risk control.

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