

# Global Fixed Income Views

## Themes and implications from the Global Fixed Income, Currency & Commodities *Investment Quarterly*

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### In brief

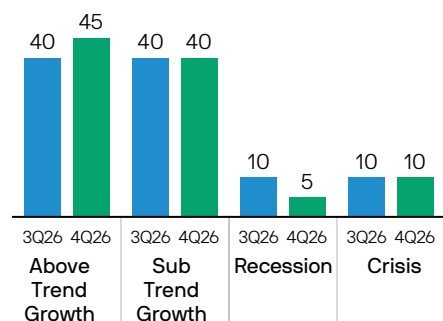
- Against a backdrop of loose fiscal policy, strong private sector balance sheets, capex strengthening beyond artificial intelligence (AI) only partially offset by oil above USD 100 per barrel, and accelerating central bank action, we raise the probability of expansion to 85%. We lift Above-Trend Growth to 45% and lower Recession probability to 5%.
- Recent central bank rate hikes should help stabilize the long end of government bond markets. We expect a couple of rate hikes from here and then for the Federal Reserve to follow the economic data. Ten-year U.S. Treasury yields could retrace to 4.5%–4.75%, aided by easing geopolitical tensions and with much of the hiking cycle already priced in.
- The primary risks: reaccelerating growth that tightens labor markets and stokes broader inflation, and the populist pushback against AI.
- Our best ideas include securitized credit, AAA-rated collateralized loan obligations, emerging market debt and currencies and long government and municipal bonds. With diligent credit research, high single-digit returns over the next 12 months are probable.

Our September *Investment Quarterly (IQ)* was held in London during a busy week that included a series of central bank meetings. We met just a couple of months before the U.S. midterm elections, and with escalating tensions in the Middle East resulting in oil prices back over USD 100 per barrel, long-dated government bond yields had risen to highs not seen in the last 20 to 30 years.

Nonetheless, our conversations maintained a healthy optimism about the prospects for both the global economy and bond markets. The group believed that two much needed things were happening: One, central banks had stopped talking about inflation vigilance and started doing something about it; two, the U.S. administration was focused on finding a resolution to the Middle East conflict before the midterm elections—even if it was a partial or temporary one.

The challenge was making sense of the many disconnects and inconsistencies across markets. Although government bond yields had risen dramatically, equity markets remained within a couple of percent of their all-time highs. While central banks were focused on inflation, given oil prices' more than 50% increase since the lows of June, the rise in bond yields was mostly driven by expanding real yields rather than heightened inflation expectations. Despite the tremendous amount of debt coming from the hyperscalers, corporate bond spreads in the aggregate had remained relatively stable. And even as the U.S. administration struggles with war and dimming prospects after the midterms, the U.S. dollar has remained range bound.

### Scenario probabilities (%)



Source: J.P. Morgan Asset Management.  
Views are as of September 17, 2026.

While economic data and corporate profitability looked solid, policies from the official sector were clouding things. Central banks were less willing to be transparent and give forward rate guidance, creating some confusion about what their reaction functions were. Treasury officials were intervening not only in their own bond market but also in foreign currencies. And plans for fiscal spend kept expanding. Further, the geopolitics of ending the war in the Middle East appeared intractable. We concluded that the expansion in real yields and the anomalies across markets could be at least partially attributed to this policy volatility.

## Macro backdrop

Perhaps investor concerns about a lack of central bank credibility in developed markets were most responsible for higher real yields. Central bankers' constant delay in mounting any meaningful response to higher energy prices was a market frustration that stoked fears of a repeat of the 2022–23 hiking cycle. That changed when the European Central Bank hiked rates on September 10 and the Federal Reserve (Fed) followed suit on September 16. The Reserve Bank of Australia had already started its rate hiking cycle and the Bank of Japan was expected to move from semiannual to quarterly rate hikes on September 18.

With these actions, the long end of government bond markets has begun to stabilize. The independence and inflation fighting credibility of the central banking community was now plainly evident.

The next thing the bond market would need to see to help lower government borrowing yields would be a geopolitical resolution in the Middle East that would ease energy costs. This is challenging; most military strategists see the conflict continuing for some time. But with the U.S. midterm elections less than two months away, the administration will likely focus on finding an exit ramp, even if it's a temporary one. Were that to happen and were oil prices to fall to USD 70–USD 80 per barrel, global bond yields could retrace one-third to one-half of their recent sell-off.

The broader macro picture was again a mosaic of offsets and contradictions. Somewhat surprisingly, growth had held up well in the face of higher energy costs. Some enduring support had come from loose fiscal policy, strong private sector balance sheets and the artificial intelligence (AI) build-out. Capex also appeared to be broader than AI- and technology-related projects. Investment in energy security, defense, onshoring manufacturing and healthcare was occurring globally. All these combined to provide a nice tailwind to the economy.

But there are also headwinds to navigate. Oil was over USD 100 per barrel, central banks have just begun to hike interest rates, higher real yields affect all borrowers and the AI build-out is facing some political challenges. However, in the end, the group believed the tailwinds were likely to be more powerful.

We expect central banks to hike rates a couple more times and then to go where the economic data leads them. A Fed hiking cycle of 50–75 basis points would be minor by historical standards but perhaps is all that is needed. The hikes could easily be viewed as a reversal of the three “insurance” rate cuts that occurred at the end of 2025. Since the market has already priced this in, plus even more, the 10-year U.S. Treasury looks vulnerable to a retracement to 4.5%–4.75%.

## Scenario expectations

The group again raised the probability of expansion by another 5%, to 85%. Above-Trend Growth rose to 45%, and Sub-Trend Growth remained unchanged at 40%. The broadening of fiscal stimulus beyond the U.S., the robust capex spending by corporations that extends beyond AI and a resilient consumer all look poised to power the global economy through year-end and into 2027. There was some reticence to reduce Sub-Trend Growth and increase Above-Trend Growth because of the uncertainty surrounding energy prices, and the recognition that higher real yields and central bank tightening are formidable braking mechanisms.

Recession was reduced by 5 percentage points, to 5%, and Crisis was left unchanged at 10%. Their combined likelihood, of 15%, is consistent with the long-term average probability of economic contraction. It also reflects our view that the balance of risks is such that a contraction would more likely appear as a disorderly unwind rather than a traditional, garden-variety recession. The complicated cocktail of policies on the fiscal, political, geopolitical and monetary fronts will be tough for the global economy to stomach. If it all goes wrong, unintended consequences could be significant.

## Risks

The primary risk is a reacceleration in growth that tightens labor markets and stokes core inflation pressures, which would cause the central banks to pursue a far more aggressive tightening cycle than markets have currently priced in. A tremendous amount of money remains sloshing around in the system and the cost of capital is hardly a barrier to businesses, households or governments. A simultaneous pickup in corporate capex and global fiscal spending could stretch resources, leading to a broader inflation spike. For now, we believe this is only a tail risk.

The populist pushback on AI is also a rising risk. Municipalities no longer want data centers in their backyards competing with local residents for resources. The additional fears of job displacement and loss of control (advanced AI models beginning to act against human interests) are causing politicians to consider restrictive legislation. A slowdown in AI capex would be a significant hit to the global economy.

## Strategy Implications

The group's best ideas were well-rounded, across credit, foreign exchange and duration, including securitized credit; AAA-rated collateralized loan obligations (CLOs); emerging market debt, including their currencies; the long end of government bond markets, including the U.S. and Australia, as well as municipal bonds. The significant rise in yields over the last six months and the resiliency of the global economy guided us to lean into all three elements of a bond portfolio: duration, yield and carry.

## Closing thoughts

The pessimism on bonds had simply gone too far and created quite a few investment opportunities. The group does not want to miss the chance to invest at yield levels last seen 20–30 years ago. Of course, at this point in the cycle, reliance on our credit research teams is more important than ever. High single-digit returns over the next 12 months are probable.

GFICC scenario probabilities and investment expectations: 4Q 2026

|                                        | Expansion                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                   | Contraction                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                        |
|----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                        | <b>Above-Trend</b><br>Global GDP growth >3.5%<br>Inflation >2%                                                                                                                                                                                                                                                                                                                                                   | <b>Sub-Trend</b><br>Global GDP growth 2%–3.5%<br>Inflation ~2%                                                                                                                                                                                                                                                                                                                                    | <b>Recession</b><br>Global GDP growth <2%                                                                                                                                                                                                                                                                                                                            | <b>Crisis</b><br>A disorderly movement in markets causes systemic impact                                                                               |
| <b>Probability</b>                     | <b>45%</b>                                                                                                                                                                                                                                                                                                                                                                                                       | <b>40%</b>                                                                                                                                                                                                                                                                                                                                                                                        | <b>5%</b>                                                                                                                                                                                                                                                                                                                                                            | <b>10%</b>                                                                                                                                             |
| <b>Change from last quarter</b>        | <b>+5%</b>                                                                                                                                                                                                                                                                                                                                                                                                       | <b>Unchanged</b>                                                                                                                                                                                                                                                                                                                                                                                  | <b>-5%</b>                                                                                                                                                                                                                                                                                                                                                           | <b>Unchanged</b>                                                                                                                                       |
| <b>Drivers</b>                         | Economic activity remains resilient, including corporate fundamentals and earnings. Capex supports productivity gains and raises capacity utilization<br><br>Accelerating labor demand results in faster hiring, which could increase wage pressure<br><br>Consumption continues to surprise to the upside, supported by strong wealth effects<br><br>Above-trend growth keeps inflation sticky and above target | Growth remains positive, but is capped by higher energy prices and elevated real yields<br><br>The U.S. labor market is in a low-hire, low-fire equilibrium, keeping wages and cyclical price pressures benign<br><br>Consumer spending moderates as tax refunds fade and energy costs remain elevated<br><br>Core inflation maintains a benign trend, despite higher energy prices               | Higher real yields, elevated energy prices and tighter central bank policy cause businesses and governments to scale back their capex plans and investors reevaluate near-term prospects for returns<br><br>A substantial drawdown in equity markets could disrupt the wealth effect, posing downside risks to consumption and upside risks to the unemployment rate | A financial shock, which could emanate from geopolitics or AI displacement, results in an abrupt slowdown in bank lending and a period of deleveraging |
| <b>Monetary and fiscal environment</b> | Central banks maintain a more prolonged hawkish posture as the economy runs hotter, causing central banks to reassess neutral rates<br><br>Fiscal policy across the globe promotes growth through initiatives to build out defense, energy security and AI competitiveness                                                                                                                                       | Central banks are tightening policy in response to higher energy prices, but the magnitude of the hiking cycle should be limited as long as second round impacts are manageable, the labor market remains in balance and inflation expectations stay well-anchored<br><br>Fiscal stimulus is neutral, in aggregate, as the fading benefit of tax refunds in the U.S. is offset by global stimulus | Central banks are forced to respond with rate cuts to offset weaker growth and labor market conditions<br><br>Automatic stabilizers from counter-cyclical programs help manage growth                                                                                                                                                                                | Neither central bank easing nor fiscal policy is sufficient to forestall systemic impact                                                               |
| <b>Market and positioning</b>          | Risk assets, especially public and private high yield credit, CLOs, and emerging market debt, including their currencies, outperform                                                                                                                                                                                                                                                                             | Securitized and investment grade credit outperform<br><br>Term premium stabilization confirms value in the long-end of government bond markets                                                                                                                                                                                                                                                    | Core government bonds and agency mortgage-backed securities outperform<br><br>Intermediate duration serves as an effective positive carry hedge                                                                                                                                                                                                                      | Cash and alternative reserve currencies outperform as right-way correlations break down                                                                |

Source: GFICC Investment Quarterly; as of September 17, 2026. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections and other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.

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