MUFG Asset Management

# Global Fixed Income Monthly

**GARY HUTCHINGS**
**HEAD OF INVESTMENT**

**FEBRUARY 2026**

**Mitsubishi UFJ Asset Management (UK) Ltd.**
A member of MUFG, a global financial group

## Monthly Macro View

- The political background to the US (and for that matter populist movements everywhere) remain troubling given the shift away from the liberal democracy model that had prevailed previously. The impact is on geopolitics (who would have thought the US would be supporting Russia and attacking the EU), on challenges to having faith in the rule of law and the possible application of non-standard economic policies. There are a long, long list of examples, but they are sufficiently widespread such that we hardly need to list them. Thus far markets have remained calm but the risks of displeasing outcomes have clearly increased. The UK example of Brexit and the brief Liz Truss episode demonstrates the potential for poor outcomes. There is in the US case the likelihood of its risk-free status being diminished and therefore risk premia rising.

- The economic numbers look fine overall, bar concerns about the details in employment. Inflation is elevated due to tariffs, but thus far the pass-through has been lower than expected and the impact should fade over time thus lowering pressures on rates. That assumes the economy is not strong enough to entrench the higher levels, but this seems not to be the case. The consumer should be reasonably healthy, real wages are positive, and tax cuts are coming through. Investment spending should be supported by the OBBA (One Big Beautiful Bill). The question is low consumer confidence and the low hiring rates in the employment data. Assuming employment weakly holds up then fixed income markets should see a couple of rate cuts this year as inflation gradually come down and longer rates may not move much given fiscal risks but should perform better than cash on carry with the risks being more on somewhat lower than higher rates.

- The rest of the world is likely to price itself off this. The EU should see decent economic growth but remains constrained in the longer run by structural issues. That argues short rates stable and probably somewhat higher long rates unless there are signs of less fiscal pressure. The UK has inflation that has proved more tenacious than elsewhere, but we think the economy is under more pressure than most believe, and that the UK bond market should outperform this year. Politics remain a caveat to this. The Australian economy is healthy, but we don’t think yields should be higher than in the US, especially since debt scenarios very heavily favour the former. China has structural issues of over saving and this leads to a vast current account surplus. This rest of the world has to absorb this which leads to lower inflation and lower interest rates. Japan is currently in a sweet spot with interest rates below inflation thus leading to a shrinking debt/GDP ratio. However, the equilibrium here is fragile and should that dynamic reverse focus will be on fiscal sustainability.

- Risks remain. Equity prices are elevated and the promise of AI needs to come through to justify them. The geopolitical background is fragile with the US threatening Greenland and at best neutral with regard to Russia. Europe is to some extent on its own and badly prepared for such which is leading to severe tensions between generous welfare support and planning for an ageing population with the need for a much stronger military and more significant global voice. Events may not wait on them. The strange worship of populism is an ever-present worry given its negative impact on economies over time when such parties gain power.

- Spread is likely, given calm economic waters, to provide carry over the coming year. However, spreads are historically tight and leverage is rising, bank regulation is being pulled back and shocks by definition are unexpected and typically negative. Positioning if long will be modest to ensure an ability to add to positions if spread moves out.

# Portfolio Positioning

- Rates and Duration

  Maintaining overall longer duration and an underweight position in dollar-based currencies relative to Euro-related currencies. While the ECB appears to have completed its cutting cycle and the front end is priced for an extended hold, QT continues to reduce balance-sheet support as duration supply rises, reinforcing upward pressure on term premia.

  Market volatility in UK gilt yields remains notable, highlighted by a late-Q3 global bond sell-off and domestic supply pressures that pushed UK long-term yields to multi-decade highs, though they have since eased back amid a more dovish policy skew and improving disinflation expectations. Even so, long-term gilts continue to offer value as domestic inflation moderates from its peak and monetary policy leans cautious-dovish at the margin, notwithstanding near-term tail risks from energy and trade-policy shocks. The UK’s term premium stands out as relatively high despite contained long-run inflation expectations and with a focus on fiscal consolidation alongside the BoE’s cautious approach, this bolsters the case for a long-duration stance.

  In the JGB market, the trend toward flattening is expected to continue, as the BOJ is anticipated to continue rate hikes. Against this backdrop, buying of ultra-long-term bonds by Japanese pension funds and life insurers is anticipated. Furthermore, given the possibility that the BOJ will maintain a relatively hawkish stance, we believe it remains appropriate to maintain a bias toward a flatter yield curve.

  As we expect long-term and ultra-long-term interest rates to remain difficult to lower due to Mr. Trump's high-pressure diplomacy toward other countries, duration is shifted towards NZ, Australia, Poland, and Mexico where rates have room to fall. For the US, focus on the mid-term zone with a slightly longer duration. Expand Mexico OW as its relationship with the US improves. For NZ, use cross-hedging to maintain a longer duration without taking currency positions. For Australia, focus on the inverse correlation between rates and currency, aiming for lower rates while securing carry income through longer duration and currency OW.

- Currencies

  Underweight USD-area currencies while overweighting countries with favourable international political and geopolitical positions. Our core strategy involves underweighting the euro, overweighting Norway, Sweden, and Poland, underweighting China, overweighting the U.S., and overweight Mexico and Israel.

# Important Information

*This document is issued by Mitsubishi UFJ Asset Management (UK) Ltd. ("MUFG AM (UK)") which is authorized and regulated in the UK by the Financial Conduct Authority (“FCA”) No. 121816. Information within this document may contain material that may be interpreted by the relevant authorities in your country as a financial promotion or an offer to purchase securities. Accordingly, this information is only intended for persons who fall outside the scope of any law that seeks to regulate financial promotions in the country of your residence. The information provided in this document is not intended for any United States person or any person in the United States, any state thereof, or any of its territories or possessions. This report is prepared for professional investors and is not intended for retail clients as defined in the FCA rules.*

*The information contained in this report has been taken from sources which we deem reliable, but we do not represent that such information is accurate or complete in part or in whole. Any opinions expressed here reflect our judgment at this date and are subject to change. Although we have taken all reasonable care that the information contained within this document is accurate at the time of publication, we make no representation or warranty (including liability towards third parties) express or implied, as to its accuracy, reliability or completeness. If you rely on this document, you do so at your own risk. We expressly disclaim any duty of care which we might otherwise owe to any person relying on this material. Any opinions expressed here reflect our judgment at this date and are subject to change.*

*Any reference to past performance should not be taken as a guide to future performance. The value of investments may go down as well as up.*

*Companies in the Mitsubishi UFJ Financial Group and connected persons may have positions in or may perform or seek to perform advisory or banking services to companies whose securities are mentioned herein. Mitsubishi UFJ Asset Management (UK) Ltd. or related companies may have used researched material before publication and may have positions in or may be materially interested in any of the securities mentioned.*

*This brochure does not constitute an offer or a solicitation of an offer to buy a security. Neither MUFG AM (UK) nor any of its related companies accept any liability whatsoever for any direct or indirect or consequential loss arising from any use of information or material contained herein.*

*MUFG Asset Management is a brand of Mitsubishi UFJ Trust and Banking Corporation, Mitsubishi UFJ Asset Management Co., Ltd., Mitsubishi UFJ Real Estate Asset Management Co., Ltd., Mitsubishi UFJ Asset Management (UK) Ltd. and Mitsubishi UFJ Alterative Investments Co., Ltd.*