MUFG Asset Management

Global Fixed Income Monthly

GARY HUTCHINGS
HEAD OF INVESTMENT

HIROYUKI HIGUCHI
SENIOR PORTFOLIO MANAGER
HEAD OF FIXED INCOME AND CURRENCY

NOVEMBER 2026

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

Monthly Macro View

- Broad factors can be split into three areas: populism, AI and structural.
- Populism is negative for growth and markets. There is higher uncertainty, damage to the integrity of state machinery, less economic competition, inefficient allocation of resources, corruption. It can be slow moving damage or rapid, with the invasion of Iran being an example of the latter. It makes investment positioning tentative due to potentially illogical and inconsistent decision-making.
- AI is seeing huge investment. This is causing competition for the available supply of savings. This can be seen in the rise in longer term interest rates, albeit there are other factors involved, as well as crowding out effects. We have moved away from the period in the late 1990s to pre-Covid where real interest rates became lower than what was seen as the norm. Assuming markets believe we will return over the longer run to around the inflation target of two per cent real interest rates are now back at the lower level of that previous period.
- Structural issues are high government debt levels combined with strong demands on government spending. Those demands are an ageing population, defence spending, climate change and health care.
- In addition to that are the usual slings and arrows of outrageous fortune which cause economies to shift from steady state.
- Populism has suffered setbacks in numerous areas: Poland, Hungary, Netherlands, Sweden, Slovenia, Brazil and of course the US. That doesn't mean it is over: in 2025 Poland a populist president was elected and, in the US, despite the mid-terms being called the most consequential election in a generation (historian Timothy Snyder) only forty-nine per cent of the electorate voted. Nonetheless, these results should lower risk premia to some extent, albeit markets never sold off to the extent that might have been justified on the populist shift anyway. So, a relatively small change but the Iran war is now more likely to be resolved which will be a more significant market event and positive for a decline in bond yields.
- It is generally accepted that AI will be transformative, but the question is will it be quick enough to provide sufficient returns for the current enormous investment and where will the returns materialise? Our take is that the AI structure has sufficient capital and sufficient profitability to weather a pull-back, but that there is currently overinvestment that will need to be addressed which will make equity returns more challenging and demand for capital less intense. Both factors argue for lower bond yields.
- Structural issues, on the other hand, remain in place. The is upward pressure on government spending and little appetite to address the painful decisions on taxes and hard spending choices which are necessary for markets to reassess their current negative views here. Risk premia should therefore remain elevated.
- Therefore, we are positive on bond yields, but don't expect a return to pre-Covid levels.
- Currencies are dependent on the war as well as the relative strength of the US economy. The US economy is relatively solid, but we are optimistic that the Iran war will be resolved. That should hit the resource currencies, and we would therefore be negative on those.
- Spread remains tight. Healthy corporates, little sign of concentrations of risk, a much greater supply of treasury paper and less trust in governments themselves are all likely contributing to this. Disillusionment with AI hopes could damage this but they have already widened out so we have less concern in this area. For the moment we keep a low but positive profile with a gradually increasing involvement in hyperscalers.

Portfolio Positioning

- Rates and Duration

  High interest rates have begun to strain the cash flow of some “neo-cloud” (emerging AI cloud) companies, such as CoreWeave and Nebius. During the stock market correction, U.S. Treasuries were chosen as a safe haven, which capped the rise in U.S. interest rates. Given that the level above 5% has become a ceiling for interest rates, this outcome was largely within expectations. Our duration-long strategy, centred on Australia and New Zealand, has proven successful. Going forward, we plan to adjust duration while closely monitoring the stock market correction and its economic ripple effects. Furthermore, amid political and fiscal instability in France, coupled with high energy prices, Nordic currencies—led by the Norwegian krone—were heavily bought as an alternative to the euro, which also played out as anticipated. The events in France stem from underlying issues of high energy and inflation costs, as well as immigration concerns—challenges common across Europe. We remain vigilant regarding the risk of these issues spreading to Italy, Spain, and other countries.

  As noted in last month’s strategy, there are increasing instances where interest rates of 5% in developed countries are acting as a brake on economic growth. Furthermore, despite concerns over a large-scale attack on Iran by the Trump administration, Iran’s negotiating stance is becoming clearer. Considering that an administration that attacked Iran suffered a crushing defeat in an election due to the Iran-driven surge in energy prices, one of Iran’s objectives has been achieved. From this point forward, the dynamics leading to a war with Iran and a ceasefire in the Russia-Ukraine war are likely to become more pronounced; consequently, interest rates are likely to decline alongside falling energy prices. We expect to maintain or expand long positions, primarily in Australia and New Zealand. Regarding overweights in resource-rich countries, we are adopting a profit-taking stance. For non-government bonds, we plan to increase holdings, focusing on high-credit-quality issues as spreads widen.

  In Euro area, we maintain a neutral stance on short-term rates, broadly in line with current market pricing of further hikes towards a terminal deposit rate a little above 3.00%. At its most recent meeting, the ECB unanimously held on 29 October after debating a hike, leaving the deposit rate at 2.50%, with December conditional on the data. On the one hand October flash inflation reached 4.0%, with services at 3.3%; while wage data remained on the soft side, and bank credit standards have tightened.

  In the UK, Long-term gilts continue to offer value where the elevated term premium still appears to compensate, and looks more a demand-structure phenomenon than a verdict on a debt level near the G7's lower end. Furthermore, the DMO decision to cut long gilt sales and the BoE's pause in active gilt sales until April 2027 adds a technical tailwind.

  In the JGB market, we expect upward pressure on yields to persist across maturities. Further monetary policy normalisation by the Bank of Japan, together with growing concerns about fiscal sustainability and future government borrowing, should continue to weigh on bond prices. At the same time, reduced BoJ purchases and weaker demand from some domestic institutional investors mean that private investors will need to absorb more duration risk. This is likely to keep term premium elevated, particularly at the long end, reinforcing our expectation of higher JGB yields across the curve.

- Currencies

  As previously mentioned, we remain broadly neutral on currency although we maintain a modestly bullish view on the Australian Dollar because of the divergence of monetary policy between Australia and the US.

  For the Japanese yen, we continue to see structural headwinds for the yen.
  Higher energy import costs are weighing on Japan’s terms of trade, while wide interest rate differentials continue to encourage investment overseas. Although the authorities have intervened to support the currency, such measures are unlikely to reverse the underlying trend. Instead, intervention is more likely to limit excessive volatility and slow the pace of depreciation.

  Further intervention remains a risk if yen weakness becomes disorderly, but any resulting appreciation is likely to be temporary unless accompanied by a meaningful narrowing of interest rate differentials.
  We therefore expect the yen to weaken gradually over the medium term, although further monetary tightening by the BOJ could provide some support.

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.