



# Global Fixed Income Strategy

APRIL 2026

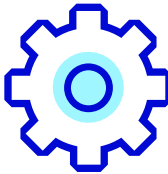
## In this issue



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#### Europe faces another energy shock – what it means for growth, inflation and markets

The Iran war-driven energy shock has hit Europe particularly hard, worsening its terms of trade, increasing inflationary pressures and threatening to dampen growth.



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#### Higher energy prices support European energy and utility credits, but a prolonged conflict raises risks

Despite severe disruptions to Strait of Hormuz transit, we believe the major European energy issuers will see net credit benefits if transit normalizes within two to four weeks.



### 10 Rates and currency outlook

#### Major rates and currencies 3-month outlook

We are neutral US, European, Chinese and UK rates. We are underweight Japanese rates and overweight Australian rates. In currency, we are neutral on the US dollar and euro. We are overweight the Japanese yen, Chinese renminbi and Australian dollar. We are underweight the British pound.



### 13 The bottom line

#### Navigating an energy shock and Fed uncertainty – and why the intermediate curve matters in 2026

We speak with investment grade portfolio managers Matt Brill and Todd Schomberg about navigating the current backdrop of geopolitical, energy and Fed uncertainty.

## Executive summary

- **The Iran war hits European energy costs especially hard** – worsening its terms of trade, intensifying inflationary pressures and weakening growth prospects.
- **Surging oil and gas prices elevate headline inflation**, and risk second-round effects, such as higher longer-dated forward gas prices.
- **Central banks are prioritizing inflation risks amid this uncertainty**, monitoring labor-market sensitivity and guarding against persistent second-order inflation pressures.
- **Markets have priced aggressive ECB tightening**, but are potentially misjudging policy timing and potential fiscal pressures.

The Iran war has delivered an immediate shock to global energy markets, hitting Europe—already highly dependent on imported energy—especially hard. While parts of Southeast Asia are structurally more exposed to Middle East disruption due to their energy import dependence, liquefied natural gas (LNG) spot exposure and thinner buffers, Europe represents the dominant channel through which the Middle East conflict translates into global market volatility, credit stress and portfolio-relevant outcomes. Europe remains the clearing market for global LNG and marginal gas pricing (TTF). Any disruption in Middle East supply, shipping routes, such as the Strait of Hormuz and the Red Sea, or risk premia is first expressed through European gas and power prices, which then cascade globally. We look at the impact of the current disruption on the European economy and, in the Credit section that follows, look at its impact on energy issuers.

## Impact on European growth

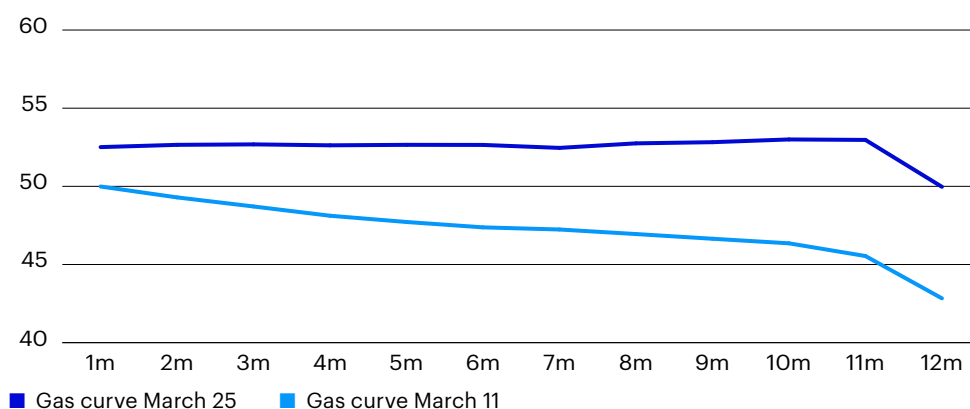
An energy shock weakens growth in Europe through several channels. First, as a major net importer of energy, Europe faces an income transfer from domestic consumers and firms to foreign energy producers. This deterioration in the terms of trade reduces national income. Second, higher energy prices raise operating costs across the economy. Firms either pass these costs to consumers—adding to inflation—or absorb them, eroding profit margins and reducing capacity for investment and hiring. Both responses dampen economic growth. Third, higher inflation squeezes real household incomes. Because energy demand is relatively inelastic, households have little choice but to pay higher prices for heating, electricity, and transportation, reducing discretionary spending elsewhere.

Rule-of-thumb estimates help illustrate the potential magnitude of the shock. A 10% rise in oil prices typically subtracts about 0.1–0.2 percentage points from GDP over the subsequent year. With Brent crude up roughly 40% since the war began—albeit with substantial day-to-day volatility—the implied drag on European growth is approximately 0.4–0.8% of GDP. This effect will likely vary across economies depending on their energy mix and reliance on gas. The UK, Italy, and Germany appear among the most exposed, with the UK particularly vulnerable given its dependence on gas for heating and the fact that gas often sets the marginal price of electricity.

## Impact on European inflation

Energy shocks feed swiftly into headline inflation. In principle, an energy-driven price increase is a one-off level shift, meaning its contribution to year-over-year inflation should fade after 12 months. In practice, however, indirect and second-round effects can prolong the inflationary impulse. Rising energy costs ripple through supply chains, from transport and manufacturing to food and services. Higher inflation expectations can also influence wage-setting, amplifying the initial shock.

**Figure 1: Eurozone TTF gas futures prices (euros/megawatt-hours)**



Source: Bloomberg, Data from 25 March and 11 March 2026. **Note:** TTF is the Title Transfer Facility, a virtual natural gas trading point in the Netherlands. It has become the primary price reference for natural gas across the eurozone and the wider European Union.

Rule-of-thumb estimates are again useful. A 10% rise in oil prices typically adds 0.1–0.2 percentage points to headline inflation, while a similar increase in gas prices adds around 0.1 percentage points, though pass-through varies by market structure. With European gas prices up roughly 70% and Brent up about 40%, headline inflation could push into the high-3% range. The role of forward markets is critical: because many utilities hedge energy costs months ahead, the inflation outlook will depend not only on spot prices but also on the trajectory of longer-dated gas futures. A renewed rise in forward prices would elevate inflation risks further, particularly if the conflict is prolonged.

## Implications for central banks

Recent Bank of England (BoE) and European Central Bank (ECB) meetings underscored policymakers' heightened uncertainty. Three themes emerged: First, central banks are grappling with exceptionally wide scenario ranges, reflecting the unpredictable evolution of the conflict; second, near-term focus has shifted toward managing inflation risks, even as growth headwinds intensify; and third, policymakers remain in "wait-and-see" mode, watching closely for signs that the energy shock may spark broader second-round effects.

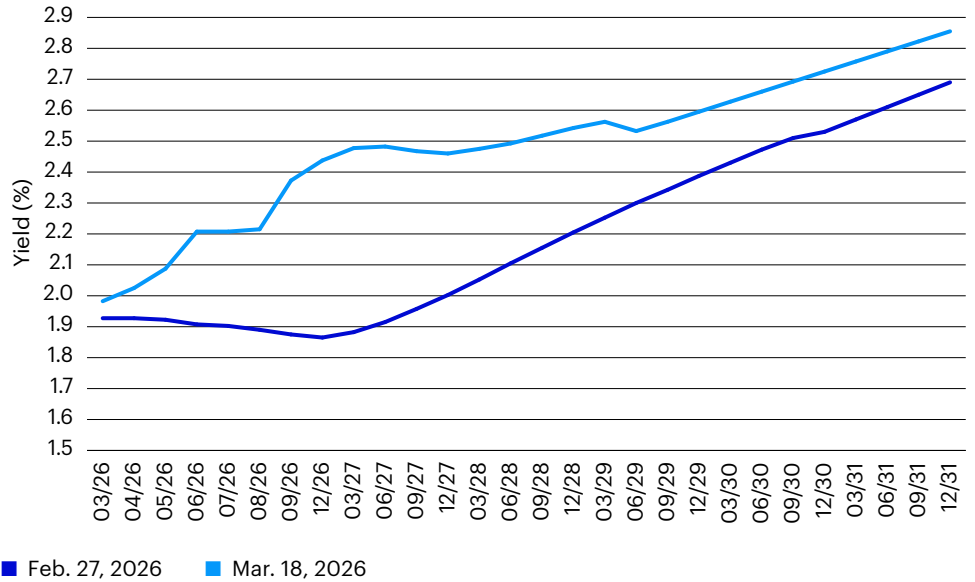
Labor-market dynamics will likely be crucial. In 2022, tight labor markets, elevated savings, and fiscal expansion contributed to a prolonged inflation episode while mitigating the hit to growth. Today's environment is different. The memory of the 2022 inflation shock could increase the sensitivity of expectations to new price rises, arguing for a more forceful central bank response. But weaker labor markets and reduced pricing power could mean limited second-round inflation effects, implying a larger hit to activity rather than persistent inflation.

For the ECB—now close to a neutral policy stance and facing a relatively tight labor market—the prudent approach, in our view, is to remain on hold unless clear evidence of second-round effects emerges, in which case hikes are needed. For the BoE, where policy is already restrictive and labor-market conditions have softened, the hurdle for further tightening appears higher.

## Interest rates, market pricing, and the euro

The surge in energy prices has driven a substantial repricing across eurozone interest-rate markets and foreign-exchange markets. Prior to the conflict, markets expected no change in ECB rates this year. By mid-March, futures markets were pricing roughly 80 basis points of tightening by the end of 2026, with expectations of a 25-basis-point hike as early as the April ECB meeting. The bulk of this repricing reflects higher inflation expectations rather than stronger growth prospects. Markets now expect inflation to average around 2.8% over two years and roughly 2.3% over five years—substantially higher than pre-crisis expectations.

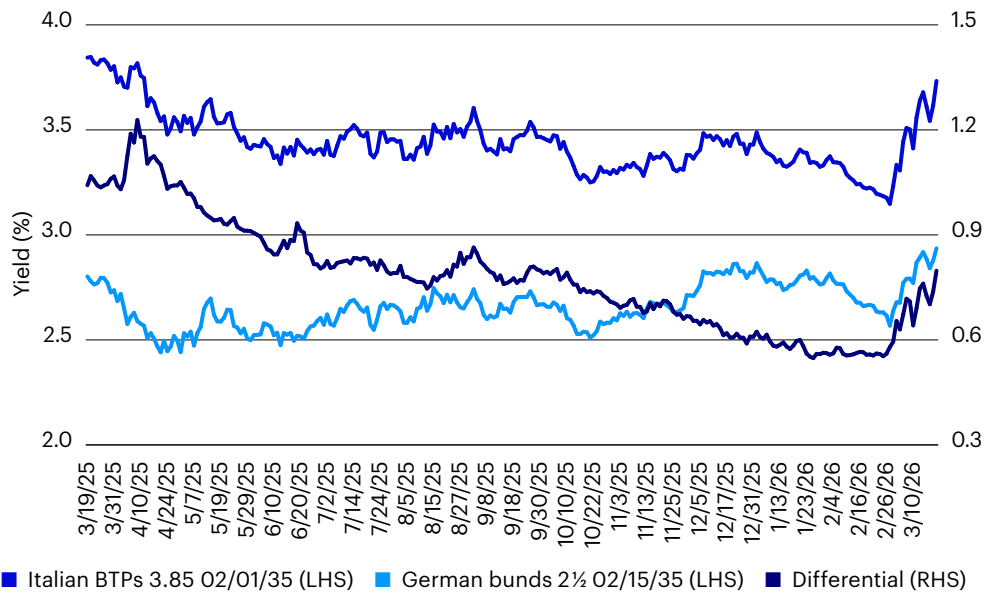
**Figure 2: Euro Overnight Index Swap forward rates**



Source: Bloomberg L.P. Data from March 3, 2026 to March 18, 2026. **Note:** The euro Overnight Index Swap (OIS) reflects near risk-free euro interest rates, because 1) it uses overnight money-market rates, which have minimal credit risk and 2) there is no exchange of principal—only interest payments. This makes the OIS curves the cleanest measure of the euro area’s risk-free yield curve. Euro OIS rates capture market expectations for ECB policy rate changes- i.e., the OIS curve is used to infer where policy rates are expected to be in the future.

Sovereign-bond markets have also reacted. The spread between Italy and Germany has widened modestly as investors differentiate among eurozone fiscal positions. With Italy more exposed to imported energy shocks, its spread appears particularly vulnerable if the crisis deepens.

**Figure 3: Italy vs. Germany government bond yield differential**

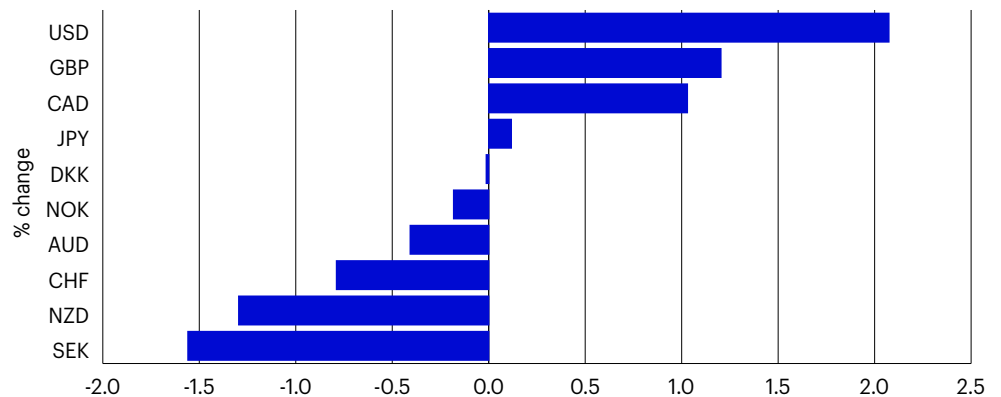


Source: Bloomberg L.P. Data from March 19, 2015 to March 19 2026.

On foreign-exchange markets, the euro has depreciated against the US dollar and Canada (CAD), reflecting Europe’s negative terms-of-trade shock relative to energy-producing economies in North America (Figure 4).

Surprisingly, the euro has also weakened against the British pound, and the Swiss franc has not outperformed it—even though the Swiss currency is viewed as a safe haven—likely due to Swiss National Bank intervention to limit franc appreciation.

**Figure 4: Currency performance since Feb. 27 (% chg vs euro)**



Source: Bloomberg L.P. Data as of March 23, 2026. US dollar, Norwegian krone, Canadian dollar, British pound, Australian dollar, Japanese yen, Danish krone, Swiss franc, New Zealand dollar, Swedish krone

**What might markets be getting wrong?**

Market pricing currently reflects a very front-loaded ECB hiking cycle, with most hikes concentrated in the second half of 2026. However, a June hike looks excessive, in our view. The ECB is unlikely to move quickly without greater clarity on both the scale and duration of the energy shock and its effects on core inflation. President Lagarde has emphasized that conditions differ from 2022: Inflation was already 6% pre-Russia-Ukraine war, labor markets were tighter, and policy was far below neutral. In contrast, current policy is much closer to neutral, meaning any hike would likely mean a shift into restrictive territory.

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The focus of repricing at the front end of the curve also risks underestimating fiscal pressures. If governments step in with large support packages—as they did in 2022—higher bond issuance could put upward pressure on long-term yields, especially in uncertain times when these assets have not served as reliable hedges. Fiscal capacity varies widely across the eurozone: Germany retains room for additional fiscal easing, while Italy and France face more constraints. A prolonged crisis would likely widen these divergences.

On the currency front, the euro is likely to remain under pressure against the dollar and commodity currencies as long as the terms-of-trade shock persists. While diversification away from US assets could modestly limit the dollar's strength, energy dynamics are likely to dominate in the near term. Against Asian currencies such as the yen, yuan, and won—where authorities may intervene to limit depreciation—the euro could also underperform. These economies may rely more on alternative energy sources or emergency reserves than Europe. And although the euro has recently weakened relative to the pound, a more severe crisis could reverse this trend, given the UK's weaker fiscal starting point and balance-of-payments vulnerabilities.

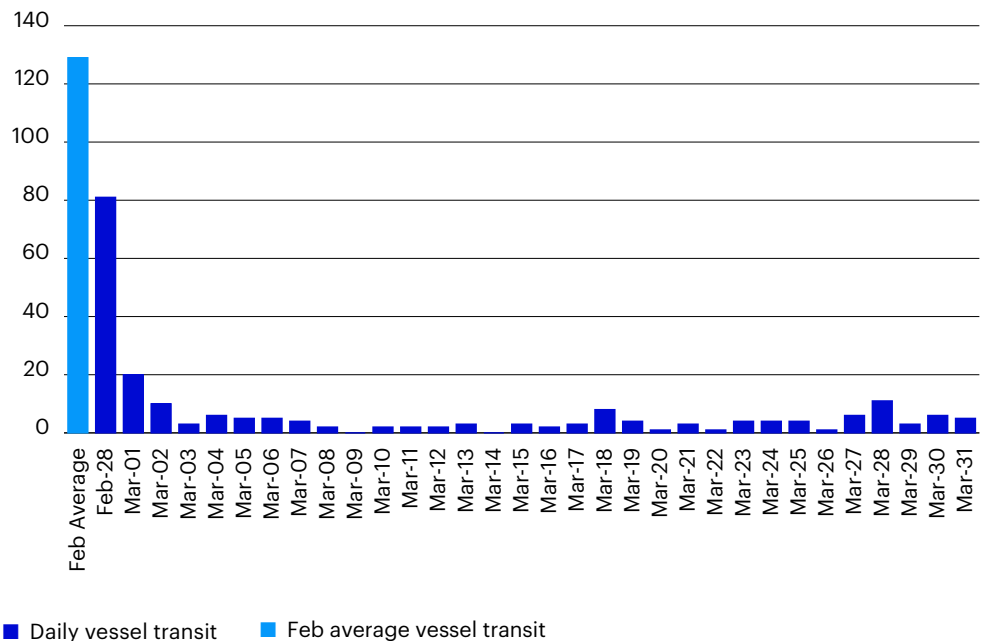
## Executive summary

- **Restricted Hormuz traffic and strikes on energy facilities** have heightened global energy market volatility.
- **Despite severe disruptions**, we believe the major European energy issuers will see net credit benefits if Hormuz transit normalizes within two to four weeks.
- **Gas markets face greater structural risk than oil**, although we do not expect a 2022-style gas crisis in Europe as its import dependence on Hormuz is less than on Russia pre-2022.

One month into the Iranian crisis, heightened geopolitical risk in the oil rich gulf region and heavy restrictions on passage through the Strait of Hormuz have heightened global energy market volatility. But despite ongoing military escalation and significant uncertainty, we assess the overall credit impact on European energy majors and utilities as net-positive, provided that Hormuz transit normalizes within two to four weeks, which is our base case scenario.

Iran has declared the channel closed to Western-aligned shipping and has attacked multiple merchant vessels. Tanker and LNG traffic has collapsed; only a limited number of selectively permitted transits—primarily China-linked—have occurred, leaving most vessels waiting outside the Gulf. Vessel-tracking data indicate a 97% decline in tanker movements, from a February daily average of 129 vessel transits to a March daily average of four vessel transits, with near-standstill conditions at times.<sup>1</sup> Figure 1 illustrates traffic volumes through the Strait of Hormuz before and after the outbreak of the war.

Figure 1: Hormuz daily vessel transit before and after Iran War



1. Source: UNCTAD (UN Trade and Development, based on data provided by Clarksons Research Shipping Intelligence Network); Windward Maritime Intelligence Daily (windward.ai). Data as of March 31, 2026.

Source: Source: UNCTAD (UN Trade and Development, based on data provided by Clarksons Research Shipping Intelligence Network); Windward Maritime Intelligence Daily (windward.ai). Data from Feb. 1, 2026 to March 17, 2026.

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## Oil and gas price response

Brent crude prices have been extremely volatile, trading in a USD95–110/bbl range with intraday spikes approaching USD119/bbl, as the conflict widened to include energy infrastructure.<sup>2</sup> Price action reflects both physical supply risk and a rising geopolitical risk premium, particularly given Israel's strike on Iranian-controlled sections of the South Pars gas field—the world's largest.

The shock has been more pronounced in gas markets. Europe's TTF benchmark has surged by over 100% since the start of the war, including daily gains of 30–35% on Thursday, 19 March, following renewed infrastructure attacks.<sup>3</sup> Damage to South Pars and Iranian retaliatory strikes that impaired Qatar's Ras Laffan complex—the world's largest LNG export facility—have tightened global gas balances. QatarEnergy has declared force majeure, with approximately 17% of national LNG capacity offline, potentially for multiple years, due to damaged liquefaction trains and a gas-to-liquids unit.<sup>4</sup> Given that roughly 20% of global LNG exports normally transit the Strait of Hormuz, predominantly from Qatar, the gas shock is structurally larger and more likely to persist than the oil shock.<sup>5</sup>

## Strategic importance of the Strait of Hormuz

The Strait of Hormuz facilitates around 20–25% of global seaborne oil trade and approximately 20% of global LNG supply.<sup>6</sup> While Saudi Arabia and the UAE can partially reroute crude oil through cross-peninsula pipelines to the Red Sea, no such bypass exists for LNG. As a result, any prolonged restriction on Hormuz is disproportionately bullish for gas markets.

Europe entered March with approximately 29% gas storage fullness at the European Union aggregate level—significantly lower than last year—and at the start of its seasonal refill period. Lower inventories increase the burden of summer refilling just as flexible LNG (able to be redirected) availability tightens globally. Data from the European Network of Transmission System Operators for Gas, the Aggregated Gas Storage Inventory platform (ENTSOG/AGSI), and independent storage trackers corroborate sub-30% storage levels.<sup>7</sup>

European policymakers have focused on strategic stock releases, demand flexibility, and fuel switching. The International Energy Agency has announced a 400 million barrel coordinated emergency oil draw, the largest in history. However, the elevated war risk premium, insurance costs and disrupted logistics mean physical supply availability remains uncertain until either a secure naval corridor is established or hostilities subside.

## Credit impact on European energy majors

From a credit perspective, we view the net impact on major European energy issuers as positive in aggregate. Oil and gas price gains of 50–60% since the war began significantly exceed potential upstream volume losses (estimated at up to 20% for affected Middle East production), assuming the Hormuz disruption lasts weeks rather than months.<sup>8</sup>

That said, impacts are uneven. Companies with greater Middle East exposure face elevated operational risk, working capital swings and marketing disruptions. Equity markets have broadly supported this assessment: European energy majors and independent exploration and production (E&P) only companies have gained 15–30%, while independent E&P only players have rallied 20–30% since the conflict escalated.<sup>9</sup>

Among the majors, certain issuers have significant Middle East exposure across upstream and LNG. The forced Qatar LNG outages and shipping paralysis primarily affect LNG offtake and marketing portfolios. However, stronger crude prices, improved refining margins, and diversified asset bases help offset these pressures at the group level. Nevertheless, a pro-longed crisis and elevated energy prices would be negative for energy issuers over the long term, as under such a scenario, we would likely see demand destruction.

2. Source: Bloomberg L.P., Brent ICE Generic 1st "CO" Future. Data from March 1, 2026 to March 31, 2026.

3. Source: Bloomberg – next Dutch TTF Gas Spot Price. Note: TTF is the Title Transfer Facility, a virtual natural gas trading point in the Netherlands. It has become the primary price reference for natural gas across the eurozone and the wider European Union.

4. Source: Reuters, "Exclusive: Iran attacks wipe out 17% of Qatar's LNG capacity for up to five years, QatarEnergy says", March 19, 2026.

5. Source: CNBC, "Analysis: A new oil shock is building. The next few weeks of war will be decisive for the economy." March 28, 2026.

6. Source: IEA, The Middle East and Global Energy Markets-Topics. April 1, 2026.

7. Source: European Gas Flow Dashboard by ENTSOG. April 1, 2026.

8. Source: Bloomberg L.P., Brent ICE Generic 1st "CO" Future & Bloomberg – next Dutch TTF Gas Spot Price. Data as of March 31, 2026.

9. Source: Bloomberg L.P. Data as of March 31, 2026.

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## Utilities and gas market implications

Gas markets present greater risk implications. LNG systems are structurally tighter than oil markets, and restarts at facilities such as Ras Laffan are significantly more complex and time-consuming than crude export resumptions. TTF has traded in the €50–75/MWh range, with repeated spikes following headlines reporting infrastructure attacks.<sup>10</sup> Under scenarios in which Hormuz remains restricted for a month without offsets, several pricing models place TTF near €70–74/MWh.<sup>11</sup>

Higher TTF prices are generally credit-positive for the European energy majors, while impacts on European utilities are mixed, but on balance positive. Integrated utilities and power generators tend to benefit, as European power prices are positively correlated with gas pricing, and these companies' trading divisions often capture volatility-driven profits.

Conversely, LNG-dependent utilities and importers face cost pressures from disrupted shipments and the need to procure replacement volumes in the spot market. Force majeure at QatarEnergy also affects certain companies to varying degrees. However, for most diversified utilities, these negatives are more than offset by higher power prices and trading gains.

The key tail risk remains a prolonged Hormuz disruption (more than four to six weeks) combined with sustained damage to Gulf LNG capacity. Under such conditions, the gas risk premium would remain elevated, potentially prompting policy responses, such as accelerated reserve draws, demand curtailment or temporary market interventions—including price caps like those imposed on Électricité de France, France's state-backed electricity utility during Europe's 2022 energy crisis.

10. Source: Bloomberg – next Dutch TTF Gas Spot Price. Data from March 1, 2026 to March 31, 2026.

11. Source: European Council/Consilium gas import breakdown for 2025–26: “Where does the EU's gas come from?”. April 1, 2026.

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**Interest rate outlook**

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**US: Neutral**

We have shifted to a neutral position on US interest rates, as the market is no longer pricing in Federal Reserve (Fed) cuts this year, a position that appears reasonable given the inflationary pressures from higher energy prices due to the Iran war. Looking ahead, the balance of risks is likely to be more symmetric: an end to the conflict or a shock to economic growth could push rates lower, while continued inflationary pressure, especially if energy prices rise further, may drive rates higher.

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**Europe: Neutral**

The rapid rise in energy costs has upended the outlook for eurozone growth and inflation, and raised the prospect that the European Central Bank (ECB) will be forced to hike policy rates to prevent inflationary effects from spreading. However, the market has already priced a very front-loaded hiking cycle, with almost 80 basis points of hikes priced in for 2026, with a probability that tightening will start as soon as the ECB's April meeting. This seems overly aggressive, as policymakers will likely want to see the duration and intensity of the current crisis and the extent of pass-through effects on inflation before acting. The short end of the yield curve, therefore, has some value, in our view, especially relative to the US curve, which is still pricing the Fed to remain on hold or even cut rates. Even with attractive value in the very front end of the yield curve, we maintain a neutral stance on longer-term European sovereign yields because the longer-term outlook for European fixed income is more mixed. Higher energy prices will likely increase calls for fiscal support, and the impotence of European governments in the current crisis will likely increase the incentive to raise defense and energy transition-related spending, all of which would likely increase long-end bond risk premia.

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**China: Neutral**

We maintain a neutral stance on onshore Chinese rates but expect a relatively flatter yield curve in the months ahead. Inflation expectations among local households and investors are likely to recover further, on the back of higher oil and gas price adjustments, and the international market has recently started to scale back its expectations for the timing of rate cuts. Since late last year, we have been expecting a price-level recovery and more restrained monetary policy relative to market expectations.

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**Japan: Underweight**

Japanese government bond yields (JGBs) rose in March, largely following moves in other major developed bond markets. Before the crisis, growth and inflation were aligning with the Bank of Japan's expectations for a rate hike, potentially as early as April. Although the BoJ held rates steady in March, Governor Ueda kept the option of an April hike open. Higher energy prices, new fiscal stimulus, and a weaker yen—especially against the US dollar—should add upward pressure on inflation and support policy normalization. Unlike other central banks, the BoJ is starting below the estimated neutral rate, which is near 0%, making a pause harder to justify if wage negotiations confirm stronger domestic price momentum. Fiscal risks also weigh on JGBs, with rising energy subsidies, potential US pressure to boost defense spending, and likely higher expenditure on energy-resilience measures, such as reopening nuclear plants and the deployment of alternative energy.

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### **UK: Neutral**

The Middle East crisis has sharply altered the near-term UK inflation outlook and expectations for Bank of England (BoE) policy. Before the crisis, markets assigned nearly an 80% chance of a 25 basis point cut at the March meeting and anticipated about 50 basis points of cumulative cuts over 2026. Now, markets price roughly 85 basis points of cumulative hikes through 2026, with a 70% probability of an April hike.<sup>12</sup> The hawkish tone of the March BoE minutes contributed to this shift: policymakers unanimously kept rates on hold, surprising expectations that dovish members would continue voting for cuts, while some, such as Mann, noted tightening could be needed if inflation becomes more entrenched. The BoE remains sensitive to signs of persistence, including sticky wage-expectation surveys. Still, markets may be front-loading the BoE's reaction. Policymakers will likely assess the crisis's scale and duration, but higher yields, energy-price relief demands, and potential political shifts add fiscal risks for gilts. The potential for a more left-leaning prime minister if PM Starmer faces a leadership challenge after May's local election could further boost the fiscal risk premium across the gilt curve.

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### **Australia: Overweight**

The Reserve Bank of Australia (RBA) raised rates by 25 basis points to 4.10% at its March meeting, marking a second consecutive hike in 2026. The decision passed narrowly, though Governor Bullock stressed that all members agreed further tightening was needed, differing only on timing. Even before the recent surge in energy prices, the RBA had grown more concerned about upside inflation risks amid solid growth and a tightening labor market. Markets now price in around 40 additional basis points of hikes by end-2026, which would fully reverse 2025's easing cycle and push policy back into restrictive territory.<sup>13</sup> As a result, long-end forwards are unlikely to rise much further, given that wage and core inflation trends are less intense than in 2022–23. Additional RBA tightening should therefore flatten the yield curve. On a cross-market basis, Australian government bonds and swaps appear attractive given Australia's stronger fiscal position (thus less bond supply), supported by high commodity prices.

12. Source: Bloomberg L.P. Data as of March 20, 2026.

13. Source: Bloomberg L.P. Data as of March 17, 2026.

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## Currency outlook

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### USD: Neutral

We have upgraded to a neutral stance on the US dollar in the short term. The current level of uncertainty has driven a flight into the dollar, and the US economy is less exposed to energy market disruptions. However, we maintain a structural negative view of the US dollar relative to a broad spectrum of developed and emerging markets. Once the path of the conflict becomes clear, we think investors will be further catalyzed to diversify their US dollar exposure.

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### EUR: Neutral

The eurozone is particularly exposed to energy market disruptions if the current uncertainty persists, with inflation likely to be higher and growth challenged. The ECB is attentive to inflation risks and had already finished its cutting cycle. The chance of rate hikes is now high. We think the euro could remain under pressure versus the US dollar while markets remain at such a high level of uncertainty but we maintain a positive view of the euro on a cross basis versus smaller currencies like the British pound.

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### RMB: Overweight

We are overweight the renminbi over the medium term. Central Bank Governor Pan said at the China Development Forum that China has no need or intention to use currency depreciation to gain a trade advantage. China will likely facilitate more international investors to invest in Chinese capital markets and further improve arrangements for renminbi cross-border use. In our view, this could indicate that China may use the window of US dollar strength to keep the USD/RMB pair relatively stable, while potentially showing strength against other major currencies. This is in addition to the substantial trade surplus recorded year-to-date.

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### JPY: Overweight

As an energy importing nation, higher prices are a negative terms of trade shock for Japan relative to energy exporting nations, such as the US and Canada, limiting its strength against those two currencies. However, the yen might be in a better position than the euro or British pound. The Japanese authorities are more likely to intervene to support the yen, potentially limiting its downside as we approach 160 versus the US dollar. Furthermore, Japan has more scope to deploy oil reserves and fiscal policy than countries like the UK. As the market starts to focus on the downside growth consequences of higher oil prices, risk aversion may lead to the unwinding of yen shorts and the repatriation of Japanese capital invested in the US and Europe.

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### GBP: Underweight

The jump in energy prices represents a negative terms of trade shock for the UK, which will likely weigh on the British pound, especially versus currencies of energy exporters, such as the US dollar, Canadian dollar and the Norwegian krone. The risk aversion and fiscal costs emerging from the current crisis are also a potential headwind for the pound. Investors will likely favor the currencies of countries or blocs with current account surpluses, such as the yen or euro, since they are more likely to benefit from capital repatriation. In addition, the UK's weak fiscal position and messy politics, with a likely shift to a more left-wing PM after the May local elections, may be a vulnerability. Calls for relief from higher energy prices will likely be harder for the UK to finance than states with better fiscal starting points, such as Germany, Sweden or Australia.

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### AUD: Overweight

The RBA's hawkish policy stance and buoyant commodity prices are supportive of the Australian dollar. RBA Governor Bullock emphasized that a stronger exchange rate can function as a shock absorber in the context of higher imported inflation. In addition, by supporting natural gas prices, the Middle East crisis will likely further boost Australia's terms of trade, resulting in income gains for Australia versus energy importers in Europe and Asia. The Australian dollar, therefore, looks well supported, with more scope to outperform energy importing currencies than the US dollar in the near term.

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## Panelist



**Matt Brill**

Head of North America  
Investment Grade



**Todd Schomberg**

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## The bottom line

### Navigating an energy shock and Fed uncertainty - and why the intermediate curve matters in 2026

We speak with investment grade portfolio managers Matt Brill and Todd Schomberg about navigating bond markets against the current backdrop of geopolitical, energy and Fed uncertainty.

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**Q: The Iran situation is currently the dominant macro headline. What is its main impact on bond markets right now?**

**Matt:** For markets, the clearest transmission channel is through energy and shipping. Concerns over supply disruptions and their spillover to oil prices, inflation expectations, and risk appetite all matter for bond markets. Even if the conflict's path is uncertain, the inflation impulse can arrive faster than a growth hit, and bonds will likely trade based on that sequence in the near term. We've already seen these concerns bleed through to markets with a shift toward higher yields. While longer-term yields have simply erased their rally from earlier in the year, the front end of the yield curve has risen more sharply, with the two-year US Treasury yield up around 60 basis points in March.<sup>14</sup>

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**Q: How does an energy-driven shock change the conversation around the next Fed move and the shape of the yield curve?**

**Matt:** It complicates the Fed's job because it can pull inflation and growth in opposite directions. Energy shocks are typically inflationary in the near term but can become growth-negative if they persist. Layer that on top of the uncertainty around incoming Fed Chair Kevin Warsh and there is added uncertainty—what will his policy agenda be and what can he accomplish with the current committee? In a world where energy volatility keeps inflation “sticky” at the margin, Warsh may not be able to deliver the additional cuts that many market participants expected earlier in the year. At the same time, longer maturities may stay volatile if the term premium rises on uncertainty, such as geopolitics, supply chains, and fiscal and balance-sheet considerations.

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**Q: If the front end is caught between growth fears and inflation noise—and the long end is volatile—where do you see the best risk-adjusted part of the curve?**

**Todd:** This question is exactly why many investors are revisiting the intermediate part of the curve. On the front end, if policy can't be eased quickly because of active inflation risks, we may not get the “easy” rally people expect. On the long end, rates might be attractive, but there is more risk of duration or term-premium volatility, and those moves can be abrupt when macro uncertainty rises. We believe the belly of the curve offers a more balanced profile: meaningful income, reasonable sensitivity to rates if growth slows, and typically less drawdown potential than the long end of the curve if the term premium spikes. In other words, it's a part of the yield curve that can work across a wider range of scenarios: soft landing, mild slowdown, or a risk-off episode driven by geopolitics.

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**Q: Credit spreads were tight earlier in the year. With geopolitics now front and center, what matters most in credit selection?**

**Todd:** When spreads start from tight levels, the margin for error is smaller. So, we focus less on “beta” and more on resilience. For example, balance sheet durability: Which issuers can live with higher input costs or weaker demand? Refinancing risk: Which issuers need capital markets access soon? And liquidity and market depth: In times of stress, which positions could we adjust quickly without paying a big penalty in terms of price? Geopolitical shocks can also create sector-level dispersion. In an energy shock, some sectors can benefit, such as certain energy-linked credits, while others can face cost pressures, such as transportation names and industrial issuers facing higher input costs. The goal in a multi-sector or “core-plus” strategy isn't to make one big macro bet—it's to build diversified return drivers that can hold up amid various challenges.

14. Source: Bloomberg L.P. Data as of March 18, 2026.

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**Q: In the current environment—energy shock, policy uncertainty— are there opportunities out there for a multi-sector, or core-plus, strategy?**

Toward the end of 2025 and continuing into this year, we've been deliberately risk-off across our multi-sector portfolios. We've reduced overall exposure to credit and brought portfolio-level risk down to some of the lowest levels these strategies have seen historically. That shift reflects our view that, when uncertainty rises, preserving flexibility and resilience becomes more important than stretching for incremental yield.

That said, periods of volatility can create opportunity at the margin. We've recently seen new issue activity in high-quality investment-grade corporates come at more attractive concessions, and the recent bout of market volatility has begun to open up selective pockets of value. We're engaging in those opportunities cautiously and selectively, rather than broadly re-risking portfolios.

Our bias remains toward quality and balance. That means emphasizing higher-quality corporates, being very selective in high yield—focused on shorter-duration, higher-quality names—and using securitized sectors to help diversify income streams. The flexibility embedded in our core-plus approach allows us to adjust exposures as conditions evolve, without locking portfolios into any single macro outcome. Our goal is to continue delivering durable income while maintaining portfolios that can hold up across a wide range of growth, inflation, and policy scenarios. And with the recent backup in interest rates and credit spreads, yields on the corporate index are back above 5%, a level last seen in July 2025, allowing investors to once again find potentially attractive yields.<sup>15</sup>

15. Source: Bloomberg US Corporate Index. Data as of March 18, 2026.

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Non-investment grade bonds, also called high yield bonds or junk bonds, pay higher yields but also carry more risk and a lower credit rating than an investment grade bond.

The risks of investing in securities of foreign issuers, including emerging market issuers, can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.

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