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FIXED INCOME IN FOCUS

JUNE 2026 WEBCAST

Are the Hawks Back?

In brief

- **Global monetary policy has shifted from easing to holding or hiking, reducing the case for broad duration bets**
- **With credit valuations stretched across markets, defensive carry and diversification matter more than chasing beta or mispriced premia for duration, credit, or liquidity risks**
- **A truly global, multi-sector approach is best placed to find dispersion across countries, curves, sectors, and issuers**

Global fixed income is entering a new phase. The hawks are back and credit valuations look stretched across most segments, while inflation, geopolitics, and the AI investment cycle continue to add layers of complexity. In our view, the challenge is no longer about timing the next move in rates or spreads. It's about constructing portfolios that can navigate a market where directional opportunities are limited and where value lies in diversified carry, liquidity, and security selection that takes advantage of dispersion.

The hawks are back: A new global rate regime

The global monetary cycle has decisively shifted as central banks are growing more hawkish and those that were expected to ease, notably the Fed and the Bank of England, appear to be on hold. We believe this shift is unlikely to reverse quickly: labor markets remain resilient, inflation is sticky, and even expectations around the new Fed chair have moved in a more hawkish direction.

With most central banks now fairly priced, we believe that broad directional duration bets are no longer where the opportunity sits. Instead, we think investors increasingly need to do some of the work that central banks have stepped back from, particularly around forward guidance. This will mean focusing on yield curves and country-level relative value rather than overall directional duration.

Risk radar: Inflation, geopolitics, and the AI complex

Three risks dominate our 12-month horizon. Inflation remains the most important: how persistent it proves to be, and what second-order effects it generates, will determine how long the central banks need to be more restrictive.

Geopolitics remain a constant concern, with the Strait of Hormuz unresolved and political cycles approaching in the US and France. Each of these could cause supply shocks or policy uncertainty.

FEATURING

Pilar Gomez-Bravo, CFA
Co-CIO, Fixed Income,
Portfolio Manager

Benoit Anne
Senior Marketing Director,
Head of Marketing Insights

The third key risk is related to the AI investment complex. The risk extends beyond fixed income supply: an equity market correction could meaningfully weigh on the higher-income consumption that has been supporting US growth. These risks are interconnected, and we believe that monitoring them holistically — particularly where AI, credit, and equity markets intersect — is increasingly important.

Carry vs. compression: Navigating stretched valuations

Credit looks expensive almost everywhere. In our view, it is difficult to argue that any version of credit — public or private, US or European, investment grade or high yield — is cheap. With limited room for spread compression, returns will rely more heavily on carry, but carry, as we often say, works until it doesn't. The key question becomes how defensive the carry actually is. The objective is to construct a portfolio of defensive carry together with targeted compression ideas in order to earn income from solid fundamentals globally. Short-duration US high yield in certain sectors, IG barbells, and selected positioning in emerging markets all offer ways to earn yield without overreaching. In mortgages, we are more selective, finding value in specific derivatives rather than new commercial mortgage-backed securities deals. We prefer exposure in the senior part of the capital structure, focusing on intermediate maturities and reducing spread duration, with a focus on liquidity.

Where dispersion lives: Sectors, quality, and security selection

In a market with few obvious beta opportunities, dispersion is increasingly what differentiates outcomes. Within IG, sector dispersion is modest, but there are still differences in sector valuations in US versus Europe that provide some relative value opportunities. While the macro fundamental backdrop is more supportive in the US, the technicals are more supportive of European credit exposure. In high yield, dispersion is largely a quality story, and we would caution against reaching too far down into lower-rated names.

At the sector level, energy has become more compelling following developments around the Strait of Hormuz, with earnings tailwinds and reasonable valuations. We continue to like financials, utilities, and energy, and we prefer to avoid more cyclical areas such as autos. AI exposure, in our view, is often better expressed through selective datacenter or other project finance than long-duration investment grade.

Global multi-sector positioning: Defensive, diversified, liquid

We believe that our highest-conviction ideas come from working closely with analysts to identify the right issuers within the right themes. Currently, we are particularly focused on defensive, diversified, and liquid positioning given the uncertainty facing fixed income markets.

Credit

We continue to favor credit carry, but not at maximum overweight, recognizing that valuations leave limited room for spread compression. Within **investment grade**, we maintain a constructive bias but look to express it through barbells and selective regional tilts, with dispersion between US and European IG offering some opportunity. In **high yield**, we remain modestly underexposed relative to neutral and are working with our analysts to extract higher-conviction, shorter-duration positions in selective sectors rather than reaching for broad market beta. Within **emerging markets**, we prefer sovereigns over corporates. This is not because corporates lack merit, but because in our view, liquidity matters at this point in the cycle, and sovereign exposure leaves us better placed to provide liquidity when corrections occur. We also see value in crossover positioning rather than pushing too far up in quality. In **securitized**, mortgages are largely serving as a source of funds for more attractive opportunities elsewhere; we do not see significant room for rates to fall further, and we find better risk-adjusted value in selective mortgage derivatives than in new CMBS deals or agency pass-throughs.

Duration

We are slightly overweight duration overall, but the more important point is how that duration is expressed. Rather than taking a broad directional view, we are emphasizing country and curve positioning. We continue to like Canada as a place to take duration risk and are looking at Australia, where the central bank has already moved meaningfully. In Japan, we have some long-end exposure to Japanese government bonds while remaining underweight the country overall. In the US, we still see merit in 2s10s flattener exposure, though Fed dynamics may argue for a more steepener-oriented stance going forward.

Currency

We have been underweight the US dollar to varying degrees for some time but are tactically looking to reduce that underweight. Monetary policy divergence, weaker European growth indicators, and crowded bearish positioning all argue for less negative dollar exposure. The dollar also offers some defensive characteristics in risk-off scenarios, providing an additional reason to lean less negative at the margin. The longer-term secular case for the dollar remains less clear, however, and we would caution against turning structurally overweight.

Conclusion

Global fixed income today demands a different mindset. With directional rate trades less compelling and credit broadly expensive, success depends on constructing portfolios that combine defensive carry, genuine diversification, and the flexibility to act when dislocations occur. The opportunity set is global, but it is dispersed and increasingly idiosyncratic. In our view, those who can stay invested while preserving liquidity, and who can find dispersion across countries, curves, sectors and issuers, will be best placed to navigate what comes next.

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