



Global Credit: Finding Value Beyond the Typical Bond Fund

July 2026



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In this report

We expect volatility to rise in the second half of 2026, driven by higher oil prices, lower global oil supply and renewed instability in interest rates.

Although economic activity remains resilient for now, the impact of oil shocks often appears with a lag, suggesting weaker conditions may emerge later in the year.

Risk assets are at elevated levels and credit spreads are tight, so investors should be careful in how they allocate to fixed income and credit.

The key message is selectivity: broad market exposure looks less attractive, but specific areas of credit still offer value.

Volatility is likely to rise

In the second half of 2026, we expect volatility to rise. As a consequence, we are positioning our global credit strategies in a cautious and selective way.

Since the beginning of the year, oil prices have increased by 40-50% and global oil supply has fallen by 10%. Historically, these kinds of movements have been highly recessionary. There have been five instances in which we have seen this kind of adjustment, and in all of them global growth was repriced lower by at least two percentage points over the subsequent 12 months. In four of the five instances, the global economy entered recession.

At present, we see no sign of recession: the first quarter of 2026 showed healthy economic activity and good earnings potential for companies. However, stress from oil disruption typically appears two or three quarters after the shock begins. We therefore expect a weaker second and third quarter, with weakness becoming more visible in the second half of the year.

At the same time, global interest rates are volatile again and inflation is rising. The ECB and the Bank of Japan are about to hike interest rates, and the Bank of Canada and the Bank of England may do the same. There is also a question mark around the Fed, where the new chairman could prove much more hawkish than markets currently expect.

This is an environment in which risk markets and equity markets are at highs, and credit spreads are at tights, while the potential for weaker economic activity and higher rates volatility is increasing. Overall, investors should be careful in how they allocate to fixed income and credit in the second half of the year.

Limited value in government debt and duration

This does not mean investors should ignore credit. We are in the middle of a major structural change: a reallocation from government bonds into other bond markets.

Over the past ten years, government debt in G10 markets has almost doubled, from 70% in 2008 to 120% today. Global curves are steepening as they recognise this risk. Since the market lows of 2022, global duration has sold off by another 25%, while investment grade, high yield credit and equity markets have all rallied significantly.

To us, this suggests that investors are increasingly recognising the risks embedded in government debt and are switching from government debt to other asset classes. This trend should continue as government debt remains high. Global deficits in G10 markets are now around 6%, compared with 3% just ten years ago, while inflation is rising. As a result, government debt and duration offer much more limited value compared with other areas.

The average bond is not attractive; selectivity remains key

The key message is selectivity. There is still value in credit, but not everywhere. Across the credit spectrum, we continue to see attractive opportunities in specific areas.

In the UK, more defensive sectors such as telecoms and utilities offer value after the large gilt sell-off. In Europe, single-B names remain relatively attractive. In the US, energy-related issuers are pricing in oil levels that look too low for the end of the year. European financials also remain attractive in selected areas, while emerging markets are benefiting from the depolarisation process across borders, with local markets looking extremely attractive.

Opportunities in credit markets are there and ready to be picked. They are not in the typical credit fund or the typical index. The average bond is not attractive, but very selective bonds continue to offer value.

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