Morgan Stanley

INVESTMENT MANAGEMENT

Global Fixed Income Bulletin

Built on Demand

MACRO INSIGHT | BROAD MARKETS FIXED INCOME TEAM | February 2026

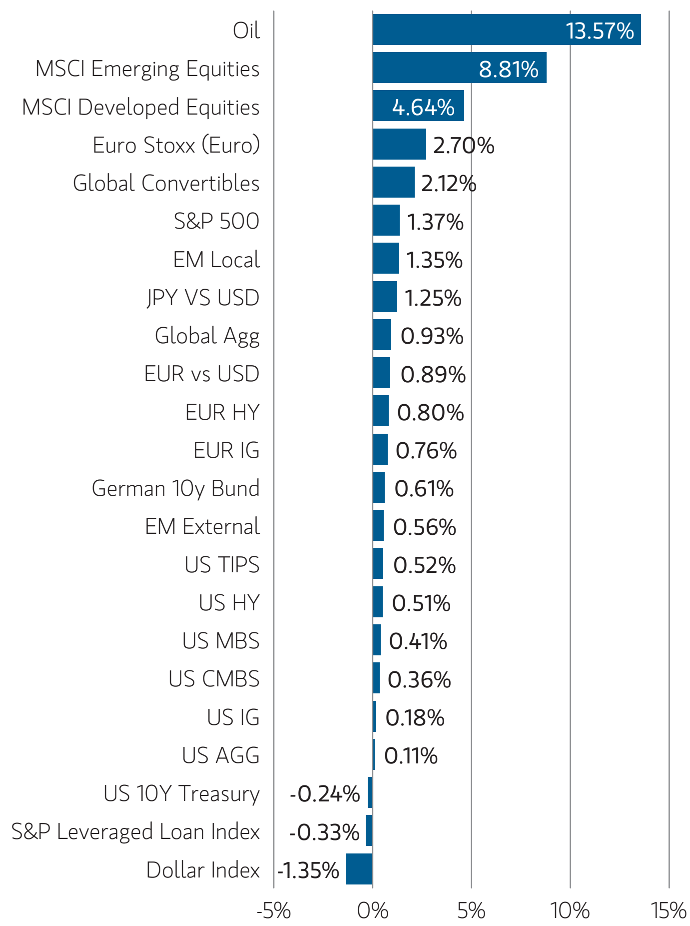
January opened the year with a notably calm macro backdrop and strong technical demand across fixed income markets. Despite concentrated pockets of idiosyncratic stress, both geopolitical and financial, spreads generally tightened or proved resilient, supported by abundant liquidity, heavy reinvestment flows, and a sizable pool of sidelined cash following year-end de-risking. Elevated supply across sectors was readily absorbed, reinforcing a constructive technical environment and limiting downside pressure on spreads.

A key macro development during the month was the announcement of Kevin Warsh as the next Federal Reserve Chairman, which helped reduce tail risks around Fed independence. The appointment reversed a nascent market narrative that had begun to price a near-term inflation shock, triggering a sharp unwind in inflation-sensitive assets and contributing to a calmer global rates backdrop. Curve steepening persisted during the month—driven by improved policy credibility further out the curve and structural shifts in long-duration demand—but proved broadly supportive for yield-oriented fixed income sectors amid stable macro conditions and contained volatility.

Investment grade credit had a very strong January across both U.S. and European markets, with spreads tightening by roughly 5 basis points (bps) in the U.S. and 4 bps in Europe,

DISPLAY 1

Asset Performance Year-to-Date



Note: USD-based performance. Source: Bloomberg. Data as of January 31, 2026. The indexes are provided for illustrative purposes only and are not meant to depict the performance of a specific investment. **Past performance is no guarantee of future results.** See pages 6-7 for index definitions.

leaving both indices near the 73–74 bps level. Record January issuance was well absorbed as strong inflows and elevated cash balances from December de-risking provided highly supportive technicals.[1] Financial issuers dominated supply and outperformed, benefiting from limited duration exposure, strong earnings, and resilient balance sheets, keeping investment grade (IG) spreads tight and range-bound despite the heavy calendar.

High yield delivered solid returns during the month, though performance was uneven as idiosyncratic volatility picked up across select sectors. Spreads finished January largely unchanged around 265 bps, while yields edged modestly higher to 6.58%. Weakness in packaging, software, healthcare, and select financial issuers highlighted the importance of security selection in a low-beta environment. Software-related volatility, driven by isolated negative headlines and fast-money flows, led to exaggerated price moves even among fundamentally sound BB credits, underscoring how quickly sentiment can shift despite manageable net issuance and supportive technicals.

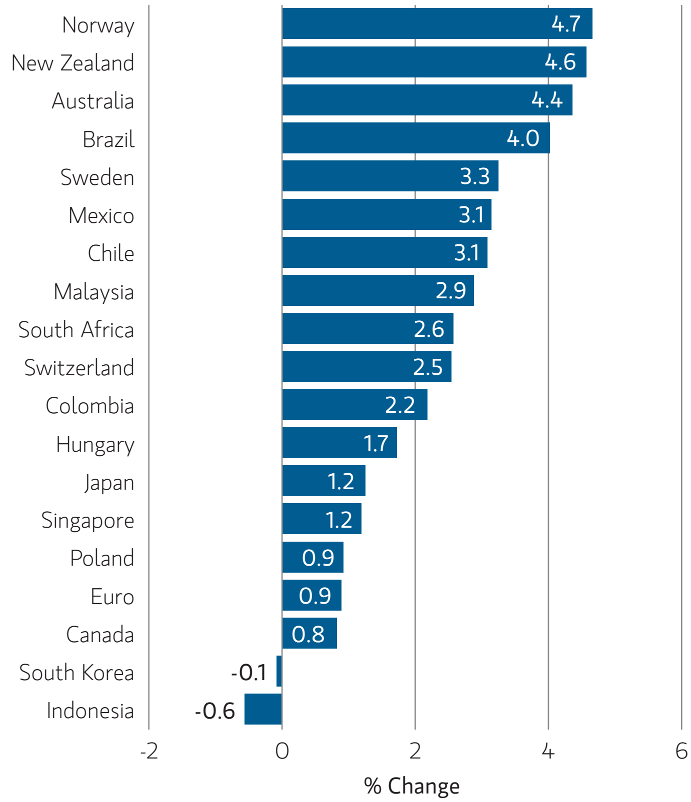
Emerging markets (EM) remained resilient in January, with limited drawdowns and a consistent pattern of dips being bought, reflecting strong underlying demand across both hard-currency credit and local markets. Flows continued to benefit from diversification away from U.S. assets, supported by improved self-funding discipline following several years of capital scarcity. Country-specific developments drove dispersion, with China's continued pivot toward tech-led growth supporting targeted exposure, Indonesia facing pressure following an MSCI downgrade, and India's less-conservative-than-expected budget prompting an 8–10 bps sell-off in local rates.

Securitized markets delivered another strong month, with spreads tightening broadly across subsectors despite a heavy January issuance calendar. Robust inflows supported oversubscribed deals, many of which priced 5–10 bps tighter than expectations. Agency mortgage-backed securities (MBS) benefited early in the month from policy headlines around a $200bn government-sponsored enterprise (GSE) purchase program, leaving spreads meaningfully tighter year-to-date despite some retracement. Improving sentiment in Commercial MBS, stable housing fundamentals, and limited impact from political rhetoric reinforced a technical-driven environment in which demand continued to outweigh supply.

DISPLAY 2

Currency Monthly Changes versus USD

(+ = appreciation)



Note: Positive change means appreciation of the currency against the USD.
Source: Bloomberg. Data as January 31, 2026.

[1] Source: Bloomberg, as of January 31, 2026

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DISPLAY 3

Major Monthly Changes in 10-Year Yields and Spreads

COUNTRY	10-YR YIELD LEVEL (%)	MONTH CHANGE (BPS)	10-YR SPREAD (BPS)	MONTH CHANGE (BPS)
			(SPREAD OVER USTS)	
United States	4.24	7		
United Kingdom	4.52	4	29	-3
Germany	2.84	-1	-139	-8
Japan	2.25	19	-198	12
Australia	4.81	7	57	0
Canada	3.42	-2	-82	-8
New Zealand	4.61	21	37	14
EUROPE			(SPREAD OVER BUNDS)	
France	3.43	-14	58	-13
Greece	3.45	1	61	2
Italy	3.46	-10	61	-8
Portugal	3.20	5	36	6
Spain	3.21	-8	37	-6
EM	**10-YR LOCAL YIELD (%)**	**MTD CHANGE (BPS)**	**SPREAD (BPS)**	**MTD CHANGE (BPS)**
EM External Spreads			222	-9
EM Corporate Spreads			175	-14
EM Local Yields	5.85	-1		
			(SPREAD OVER USTS)	
Brazil	13.59	-15	935	-22
Colombia	12.39	-25	815	-32
Hungary	6.54	-23	230	-30
Indonesia	6.32	27	208	20
Malaysia	3.51	0	-73	-7
Mexico	8.86	-24	463	-31
Peru	5.78	-1	154	-7
Poland	5.08	-8	84	-15
South Africa	8.03	-16	380	-23
CREDIT			**SPREAD (BPS)**	**MTD CHANGE (BPS)**
U.S. IG			73	-5
EUR IG			74	-4
U.S. HY			265	-1
EUR HY			257	-8
SECURITIZED				
Agency MBS			100	-10
U.S. BBB CMBS			598	5

Positive Neutral Negative

Source: Bloomberg, JPMorgan. Data as of January 31, 2026.

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Broad Markets Fixed Income Global Asset Allocation and Outlook

Developed Market Rate/Foreign Currency

(NEUTRAL DURATION, CURVE STEEPENERS AND USD UNDERWEIGHT)

Following the recent repricing of inflation risk and a stabilization in global rates volatility, we maintain a neutral duration stance across developed markets, complemented by targeted regional expressions. The announcement of Kevin Warsh as the next Fed Chair has helped reduce tail risks around Federal Reserve credibility, reinforcing a backdrop in which rates are more likely to trade within established ranges rather than reprice sharply. Within this environment, carry is expected to remain the dominant driver of returns, though opportunities to harvest carry vary meaningfully by region.

In the U.S., we are neutral on outright Treasury duration and currently neutral on the curve, reflecting the view that much of the steepening driven by rising term premia has already been priced. Our working range for the U.S. 10-year remains 3.95–4.25, and despite yields sitting near the top of that band, we are holding off on adding duration. While curve steepening pressures remain structurally intact—driven by persistent fiscal deficits, elevated issuance, and reduced central bank balance-sheet demand—near-term risk-reward has become more balanced following the recent repricing.

The U.S. macro backdrop entering 2026 remains strong, with real GDP growth consistently exceeding expectations and high-frequency indicators pointing to elevated nominal growth supported by resilient consumption, healthy real income growth, and highly expansionary fiscal conditions. Against this backdrop, market pricing for the Fed appears slightly too dovish, with close to two cuts priced for 2026 that would leave policy only marginally restrictive—an outcome we do not expect to be fully realized. In inflation-linked markets, we are now neutral on U.S. breakevens following the unwind in inflation-hedge positioning, while retaining flexibility to re-engage should valuations become more attractive.

Outside the U.S., we continue to hold curve steepeners in Germany and France, primarily in the 5s–30s and 10s–30s segments, where structural forces continue to pressure the long end and offer more attractive carry and roll dynamics than in U.S. rates. Similar steepening structures remain in place in the UK and Australia, where fiscal dynamics and issuance profiles continue to support curve-based expressions over outright duration. In Japan, we are neutral on duration following the repricing of policy normalization expectations earlier in the year. While the market has adjusted meaningfully to the Bank of Japan's trajectory, weaker technicals and elevated issuance needs continue to differentiate Japan from other developed rates markets.

In foreign exchange, we remain tactically bearish the U.S. dollar, reflecting earlier Fed easing relative to peers, tariff-driven inflation dynamics, and a shift in foreign financing toward U.S. equities that weakens traditional USD demand. We have increased exposure to higher-carry emerging market FX, with positioning primarily in the Mexican peso in select aggregate accounts and more broadly in the Brazilian real. These positions reflect our view that, in a benign volatility environment, carry-driven FX strategies can continue to perform, while remaining selective given ongoing policy and geopolitical risks.

Emerging Market Debt

(OVERWEIGHT)

Emerging market sovereign and corporate debt remains an attractive opportunity for 2026, particularly in a benign global macro environment where carry and income are likely to be key drivers of returns. Lower inflation, elevated real yields, and credible reform momentum across several countries underpin a supportive backdrop, while valuations—especially in local markets—remain attractive. Many EM currencies also remain undervalued relative to the U.S. dollar, reinforcing the case for selective exposure. Dispersion across countries remains high, making policy discipline and country selection critical, with preference for markets exhibiting credible monetary frameworks, improving fundamentals, and attractive real yield differentials versus developed markets.

Corporate Credit

(UNDERWEIGHT IG, SMALL OVERWEIGHT HY)

We remain underweight investment grade credit, reflecting tight valuations and asymmetric risk rather than any near-term deterioration in fundamentals. While balance sheets remain healthy—characterized by strong liquidity, low downgrade risk, and conservative leverage—spreads are tight by historical standards, leaving little margin for error. January's exceptionally strong technical backdrop and well-absorbed issuance have reinforced spread resilience, but at current levels, even modest spread widening could materially erode excess carry, particularly given longer spread duration.

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Looking ahead, elevated issuance of long-dated debt to fund AI-related capital expenditure, alongside an active M&A pipeline, has the potential to challenge technicals over time, especially if volatility normalizes or investor demand softens. Regionally, we prefer Europe over the U.S., supported by more balanced supply dynamics. From a sector perspective, we favor financials—particularly banks—given strong capital positions, resilient earnings, and limited net supply, while remaining underweight single-A non-financials where M&A risk is more acute.

We maintain a modest overweight to select high-yield issuers in both the U.S. and Europe. Fundamentals remain supportive, with improved average credit quality, low default rates, and manageable leverage. While spreads are near post-crisis tights, the higher carry, shorter spread duration, and increased issuer dispersion continue to create opportunities for security-level positioning. Recent episodes of idiosyncratic volatility underscore the importance of selectivity, but defaults are expected to rise only modestly and remain contained, supporting ongoing investor demand.

Leveraged Loans

(UNDERWEIGHT)

We expect heavier net supply and rising dispersion in leveraged loans. While CLO demand remains a key technical support, economically sensitive sectors are showing signs of strain, contrasting with strength in software and technology-linked issuers. Given expectations for Fed rate cuts, we prefer fixed-rate exposure over floating-rate assets and remain underweight the asset class.

Securitized Products

(OVERWEIGHT)

Agency mortgage-backed securities (MBS) and non-agency residential mortgage-backed securities (RMBS) remain our highest-conviction overweight for 2026. Our overweight to agency MBS delivered strong absolute, excess, and relative returns in 2025, supported by favorable curve dynamics, low implied volatility, and a steady improvement in market technicals. Entering 2026, agency MBS continue to offer an attractive spread pickup relative to both historical levels and other core fixed income sectors, providing compelling relative value versus investment grade corporates and cash alternatives.

Technical factors remain the dominant driver of performance. Demand for agency MBS is supported by strong money manager interest in high-quality collateral with attractive carry, alongside a measured and well-telegraphed pace of Federal Reserve balance sheet runoff that has limited net supply pressure. While policy rates may remain restrictive, the predictability of the policy path and contained volatility have reinforced a supportive environment for spread sectors such as agency MBS.

Non-agency RMBS also offers an attractive opportunity set, underpinned by stable home prices, low loan-to-value ratios, and historically low delinquency rates. Supply-demand dynamics remain favorable, with limited new issuance and minimal refinancing risk given the high proportion of borrowers locked into low mortgage rates. These factors continue to support the sector's resilient credit profile and attractive carry characteristics.

Within commercial mortgage-backed securities (CMBS), fundamentals remain resilient, particularly in higher-quality segments, and sentiment has continued to improve. We see attractive opportunities in hospitality—especially luxury and trophy properties—where demand trends and cash flows have stabilized. Office CMBS presents selective value, supported by improving occupancy trends and a more stable rate environment, while logistics, storage, and high-quality multifamily assets continue to exhibit strong operating performance. Dispersion across property types and geographies is increasing, making selectivity critical, with a focus on the SASB (single-asset, single-borrower) market to maintain transparency and control over underlying cash flows.

Lastly, we remain constructive on Danish covered bonds. The market's depth, strong legal framework, and backing by a politically stable economy and resilient housing market support its defensive characteristics. Valuations remain compelling for high-quality assets, and the steep Danish government curve continues to offer attractive USD-hedged yields for global investors.

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Risk Considerations

Diversification neither assures a profit nor guarantees against loss in a declining market.

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to **market risk**, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g., natural disasters, health crises, terrorism, conflicts, and social unrest) that affect markets, countries, companies, or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g., portfolio liquidity) of events. Accordingly, you can lose money investing in a portfolio. **Fixed-income securities** are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. **Longer-term securities** may be more sensitive to interest rate changes. Certain **U.S. government securities** purchased by the strategy, such as those issued by Fannie Mae and Freddie Mac, are not backed by the full faith and credit of the U.S. It is possible that these issuers will not have the funds to meet their payment obligations in the future. **Public bank loans** are subject to liquidity risk and the credit risks of lower-rated securities. **High-yield securities (junk bonds)** are lower-rated securities that may have a higher degree of credit and liquidity risk. **Sovereign debt securities** are subject to default risk. **Mortgage- and asset-backed securities** are sensitive to early prepayment risk and a higher risk of default and may be hard to value and difficult to sell (**liquidity risk**). They are also subject to credit, market, and interest rate risks. The **currency market** is highly volatile. Prices in these markets are influenced by, among other things, changing supply and demand for a particular currency; trade; fiscal, money and domestic or foreign exchange control programs and policies; and changes in domestic and foreign interest rates. Investments in **foreign markets** entail special risks such as currency, political, economic and market risks. The risks of investing in **emerging market** countries are greater than the risks generally associated with foreign investments. **Derivative instruments** may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, and correlation and market risks. **Restricted and illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). Due to the possibility that prepayments will alter the cash flows on **collateralized mortgage obligations (CMOs)**, it is not possible to determine in advance their final maturity date or average life. In addition, if the collateral securing the CMOs or any third-party guarantees are insufficient to make payments, the portfolio could sustain a loss.

DEFINITIONS

Basis point (bp): One basis point = 0.01%.

INDEX DEFINITIONS

The indexes shown in this report are not meant to depict the performance of any specific investment, and the indexes shown do not include any expenses, fees, or sales charges, which would lower performance. The indexes shown are unmanaged and should not be considered an investment. It is not possible to invest directly in an index.

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The **Bloomberg Euro Aggregate Corporate Index (Bloomberg Euro IG Corporate)** is an index designed to reflect the performance of the euro-denominated investment-grade corporate bond market.

The **Bloomberg Global Aggregate Corporate Index** is the corporate component of the Bloomberg Global Aggregate index, which provides a broad-based measure of the global investment-grade fixed income markets.

The **Bloomberg US Corporate High Yield Index** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes emerging market debt.

The **Bloomberg US Corporate Index** is a broad-based benchmark that measures the investment grade, fixed-rate, taxable, corporate bond market.

The **Bloomberg US Mortgage-Backed Securities (MBS) Index** tracks agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon, and vintage. Introduced in 1985, the GNMA, FHLMC and FNMA fixed-rate indexes for 30- and 15-year securities were backdated to January 1976, May 1977, and November 1982, respectively. In April 2007, agency hybrid adjustable-rate mortgage (ARM) pass-through securities were added to the index.

Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care.

Euro vs. USD—Euro total return versus U.S. dollar.

German 10YR bonds—Germany Benchmark 10-Year Datastream Government Index; **Japan 10YR government bonds**—Japan Benchmark 10-Year Datastream Government Index; and **10YR US Treasury**—US Benchmark 10-Year Datastream Government Index.

The **ICE BofAML European Currency High-Yield Constrained Index (ICE BofAML Euro HY constrained)** is designed to track the performance of euro- and British pound sterling-denominated below investment-grade corporate debt publicly issued in the Eurobond, sterling.

The **ICE BofAML US Mortgage-Backed Securities (ICE BofAML US Mortgage Master) Index** tracks the performance of US dollar-denominated, fixed-rate and hybrid residential mortgage pass-through securities publicly issued by US agencies in the US domestic market.

The **ICE BofAML US High Yield Master II Constrained Index (ICE BofAML US High Yield)** is a market value-weighted index of all domestic and Yankee high-yield bonds, including deferred-interest bonds and payment-in-kind securities. Its securities have maturities of one year or more and a credit rating lower than BBB-/Baa3 but are not in default.

The **ISM Manufacturing Index** is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders, and supplier deliveries. A composite diffusion index is created that

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monitors conditions in national manufacturing based on the data from these surveys.

Italy 10-Year Government Bonds—Italy Benchmark 10-Year Datastream Government Index.

The **JP Morgan CEMBI Broad Diversified Index** is a global, liquid corporate emerging markets benchmark that tracks US-denominated corporate bonds issued by emerging markets entities.

The **JPMorgan Government Bond Index**—emerging markets **(JPM local EM debt)** tracks local currency bonds issued by emerging market governments. The index is positioned as the investable benchmark that includes only those countries that are accessible by most of the international investor base (excludes China and India as of September 2013).

The **JPMorgan Government Bond Index Emerging Markets (JPM External EM Debt)** tracks local currency bonds issued by emerging market governments. The index is positioned as the investable benchmark that includes only those countries that are accessible by most of the international investor base (excludes China and India as of September 2013).

The **JP Morgan Emerging Markets Bond Index Global (EMBI Global)** tracks total returns for traded external debt instruments in the emerging markets and is an expanded version of the EMBI+. As with the EMBI+, the EMBI Global includes US dollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least $500 million.

The **JP Morgan GBI-EM Global Diversified Index** is a market-capitalization weighted, liquid global benchmark for US-dollar corporate emerging market bonds representing Asia, Latin America, Europe, and the Middle East/Africa.

JPY vs. USD—Japanese yen total return versus US dollar.

The **Markit ITraxx Europe Index** comprises 125 equally weighted credit default swaps on investment grade European corporate entities, distributed among 4 sub-indices: Financials (Senior & Subordinated), Non-Financials and HiVol.

The **Nikkei 225 Index (Japan Nikkei 225)** is a price-weighted index of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange.

The **MSCI AC Asia ex-Japan Index (MSCI Asia ex-Japan)** captures large- and mid-cap representation across two of three developed markets countries (excluding Japan) and eight emerging markets countries in Asia.

The **MSCI All Country World Index (ACWI, MSCI global equities)** is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and emerging markets. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The performance of the Index is listed in US dollars and assumes reinvestment of net dividends.

MSCI Emerging Markets Index (MSCI emerging equities) captures large- and mid-cap representation across 23 emerging markets (EM) countries.

The **MSCI World Index (MSCI developed equities)** captures large and mid-cap representation across 23 developed market (DM) countries.

Purchasing Managers Index (PMI) is an indicator of the economic health of the manufacturing sector.

The **Refinitiv Convertible Global Focus USD Hedged Index** is a market weighted index with a minimum size for inclusion of $500 million (US), 200 million (Europe), 22 billion Yen, and $275 million (Other) of Convertible Bonds with an Equity Link.

The **Russell 2000® Index** is an index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The **S&P 500® Index (US S&P 500)** measures the performance of the large-cap segment of the US equities market, covering approximately 75 percent of the US equities market. The index includes 500 leading companies in leading industries of the U.S. economy.

S&P CoreLogic Case-Shiller US National Home Price NSA Index seeks to measure the value of residential real estate in 20 major US metropolitan areas: Atlanta, Boston, Charlotte, Chicago, Cleveland, Dallas, Denver, Detroit, Las Vegas, Los Angeles, Miami, Minneapolis, New York, Phoenix, Portland, San Diego, San Francisco, Seattle, Tampa and Washington, D.C.

The **S&P/LSTA US Leveraged Loan 100 Index (S&P/LSTA Leveraged Loan Index)** is designed to reflect the performance of the largest facilities in the leveraged loan market.

The **S&P GSCI Copper Index (Copper)**, a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark for investment performance in the copper commodity market.

The **S&P GSCI Softs (GSCI soft commodities) Index** is a sub-index of the S&P GSCI that measures the performance of only the soft commodities, weighted on a world production basis. In 2012, the S&P GSCI Softs Index included the following commodities: coffee, sugar, cocoa, and cotton.

Spain 10-Year Government Bonds—Spain Benchmark 10-Year Datastream Government Index.

The **Thomson Reuters Convertible Global Focus USD Hedged Index** is a market weighted index with a minimum size for inclusion of $500 million (US), 200 million euro (Europe), 22 billion yen, and $275 million (Other) of convertible bonds with an equity link.

U.K. 10YR government bonds—U.K. Benchmark 10-Year Datastream Government Index. For the following Datastream government bond indexes, benchmark indexes are based on single bonds. The bond chosen for each series is the most representative bond available for the given maturity band at each point in time. Benchmarks are selected according to the accepted conventions within each market. Generally, the benchmark bond is the latest issue within the given maturity band; consideration is also given to yield, liquidity, issue size and coupon.

The **US Dollar Index (DXY)** is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of US trade partners' currencies.

The **Chicago Board Options Exchange (CBOE) Market Volatility (VIX) Index** shows the market's expectation of 30-day volatility.

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