

Fixed Income's defensive appeal returns



Market update

15 October 2026

Summary

- ▶ The recent rally in Treasuries alongside weaker equities suggests government bonds may be re-establishing their traditional role as a defensive asset.
- ▶ Investors can lock in compelling carry today, with scope for capital appreciation if weaker growth leads markets to reassess the extent of further Fed tightening.
- ▶ Higher-quality credits have been more resilient amid recent volatility, while attractive opportunities remain in higher-yielding segments where selectivity is increasingly important.

Recent market developments

The sharp rally in US Treasuries overnight, alongside the weakness in technology equities, offers some interesting observations with potentially important implications for the fixed income outlook.

The stronger-than-expected US CPI release initially triggered another Treasury selloff, with the 10Y yield briefly touching 5.33%. However, yields subsequently reversed sharply, with the 10Y falling towards 5.10% during Asian trading today, despite the inflation surprise.

The reversal coincided with a significant selloff in US technology equities, particularly AI-related companies. Concerns surrounding the sustainability of AI capital expenditure have intensified, especially among the more leveraged AI infrastructure providers (neoclouds), where rising financing costs are increasingly challenging business models.

What is particularly interesting is the apparent shift in the underlying drivers of US Treasury performance. Since August, Treasury yields have risen substantially as markets repriced expectations for further Fed tightening in response to persistent inflation pressures. However, the recent price action suggests that concerns surrounding the growth outlook are becoming increasingly influential.

With several further Fed hikes already priced in, any meaningful deterioration in US

growth expectations weaker US growth, particularly a slowdown in AI investment, could temper extent of future tightening, potentially providing further support for Treasuries.

Importantly, the recent tendency for Treasuries to rally alongside equity market weakness suggests that government bonds may be beginning to re-establish their traditional role as a defensive asset during periods of market stress.

Observations from Asian credit markets this morning

Credit spreads have generally widened as corporate bonds struggled to keep pace with the Treasury rally. However, the widening has been more pronounced among lower-rated credits, while higher-quality credits have demonstrated greater resilience.

Importantly, the spread widening in higher-quality credits has generally been smaller than the decline in underlying risk-free yields, resulting in modest price gains. In contrast, some lower-quality credits, particularly in the high-yield segment, have experienced marginal price pressures.

On balance, we believe that lower Treasury yields should remain supportive of credit performance, provided the deterioration in growth expectations does not translate into a more significant widening of credit spreads. The combination of attractive carry income and potentially more supportive interest rates continues to underpin a relatively constructive outlook for credit, particularly in the higher-quality segments.

Implications for fixed income investors

- Renewed diversification benefits. The recent Treasury rally amid equity market weakness highlights the potential value of high-quality fixed income as a portfolio diversifier. This defensive characteristic has been less reliable during the inflation-driven selloff over recent months, but may become increasingly relevant if growth concerns intensify.
- Attractive starting yields with potential capital upside. Following the significant increase in yields since August, bonds continue to offer attractive income opportunities. Investors are receiving relatively high starting yields while retaining the potential for capital appreciation should weaker growth prompt a reversal in Fed tightening expectations.
- Resilience of higher-quality credits. The price action in Asian credit markets reinforces the merits of quality. Even with some credit spread widening, lower-beta bonds have generally benefited from declining Treasury yields. This highlights the potential for investment-grade credits to deliver a combination of attractive carry and relatively resilient performance.
- Higher income opportunities remain available. While lower-quality credits are more vulnerable to market volatility, higher-yielding segments continue to offer compelling absolute income opportunities for investors with greater risk tolerance. Importantly, selectivity remains essential as credit performance becomes increasingly differentiated.

Bottom line

The recent market developments provide a timely opportunity to revisit the role of fixed income in client portfolios.

With starting yields still attractive, fixed income investors can benefit from meaningful carry income while potentially enjoying renewed diversification benefits and capital upside should global growth risks intensify.

There are different ways investors can capture these opportunities, from higher-quality Asian credit with relatively defensive characteristics, to higher-yielding Global Emerging Market opportunities and Singapore dollar/Renmimbi strategies that provide additional diversification.

While inflation remains a risk, the evolving balance between inflation and growth concerns suggests that the investment case for fixed income is becoming increasingly compelling.

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