Fixed Income Commentary

QIC Asset Management

June 10, 2026

Keeping an Eye on AI

The AI narrative remained the dominant driver of market sentiment in May, with investors focused on the durability of structural earnings growth as the AI-driven investment cycle continued to broaden beyond semiconductors. US corporate earnings surprised positively, while management commentary pointed to sustained investment activity and resilient consumer demand. Geopolitical developments remained a secondary driver of market direction, with markets increasingly pricing a potential easing of tensions around the Strait of Hormuz though a definitive agreement remained elusive even after several weeks of discussions. Oil prices remained range-bound, even as energy majors warned of potential supply risks should disruptions persist for few more weeks.

Numbers Behind the Narrative

May was characterized by a clear repricing of the macro narrative, as stronger than expected US economic data challenged the policy-easing consensus. Economic activity remained broadly constructive throughout the month, with the labor market once again at the center of attention. Nonfarm payrolls rose by 172k (vs. 88k expected) while prior months numbers were revised higher, lifting the underlying trend in job creation. The strength in hiring was broad-based and reinforced by a sharp rebound in job openings, with the JOLTS survey rising to 7.62mn (vs. 6.86mn expected), the highest level since 2024.

Business activity also remained resilient. The ISM Manufacturing Index rose to 54.0, its highest level in four years, while the ISM Services Index increased to 54.5, indicating sustained momentum across both goods and services sectors despite ongoing geopolitical uncertainty. Meanwhile, US inflation data came in slightly above expectations, with headline CPI rising 3.8% YoY (vs. 3.7% consensus) and core CPI increasing to 2.8% YoY (vs. 2.7% consensus), supporting a more cautious outlook for Fed policy. The combination of firmer growth and persistent labor market strength raised concerns that the disinflation process may be stalling, with inflation likely to remain sticky and potentially reaccelerate.

Central Bank Watch

US monetary policy expectations shifted meaningfully during the month, driven by strong economic data and cautious central bank commentary. Federal Reserve communication reflected heightened sensitivity to upside inflation risks led by energy prices, supply chain disruptions, and AI-related investments. Minutes from the Federal Reserve reinforced this shift, highlighting a growing willingness among policymakers to adopt a more balanced stance, with some members noting that the next policy move could be a rate hike rather than a cut, depending on incoming data. In Europe, ECB communication remained relatively hawkish, signaling a willingness to maintain a restrictive policy stance despite improving medium-term inflation dynamics. Markets are currently pricing in a ~25bp rate hike at the ECB's June meeting.

Stronger-than-expected US jobs report triggered a sharp repricing in rates following month-end, with US Treasury yields moving higher and markets now pricing in a cumulative ~25bps hike by December 2026 and ~50bps by end-2027. Markets reflected this shift, with yields rising across the curve, while the US dollar strengthened and gold and other rate-sensitive assets came under pressure as real yields edged higher. Shorter-dated UST yields rose by 13–15bps, driven by expectations of a more hawkish policy path. The 5-year UST yield ended the month at 4.14% (vs. 4.00% in April), while the 10-year yield closed at 4.44% (vs. 4.37% in April). The 30-year yield remained around the 5% level.

#1 MENA Asset Manager investing in Asian G3 bonds for 2025 by The Asset Magazine

Quote of the Month

"What the wise man does in the beginning, the fool does in the end."

Howard Marks

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Asset Management

Risk assets generally performed well during May, supported by strong corporate earnings season, continued AI-driven capital expenditure, and resilient consumer demand (so far). The S&P 500 gained ~5.3% (YTD +11.3%), reaching new highs, while MSCI EM rose ~9.7% (YTD +25.6%). Credit markets also performed well despite the rise in US Treasury yields. Credit spreads continued to grind tighter across regions, with US investment-grade spreads tightening by ~3–5bps, US high-yield spreads narrowing by ~30bps, and EMB spreads compressing by ~10bps to 215bps. Overall, the positive momentum from April extended across asset classes. Within EM credit, the JPM EMBI Index gained 0.8% (YTD +2.2%), while the JPM Asia IG and JPM MECI GCC indices returned 0.4% (YTD +0.5) and 0.6% (YTD +0.2%), respectively.

The Final Word

Looking ahead markets are likely to remain focused on incoming economic data, particularly whether growth remains resilient or begins to slow as higher energy prices, inflation, and geopolitical uncertainty weigh on activity. Developments around US-Iran negotiations and the Strait of Hormuz will remain critical given their impact on oil prices and global trade. Against this backdrop, we continue to prefer high-quality investment-grade bonds over high-yield bonds. Higher energy prices and supply-chain disruptions are adding to stagflationary pressures, pushing inflation higher while slowing growth and limiting central banks' ability to ease policy, as evidenced by recent rate hikes from some central banks.

We continue to believe, there is little reason to chase high-yield bonds as spreads remain near historically tight levels, leaving limited room for error. Periods of market volatility may create opportunities to selectively add exposure. Overall, we remain constructive on high-quality investment-grade credit from a medium-term perspective and maintain a defensive stance within fixed income.

FI Conventional Portfolio

A diversified portfolio of USD denominated securities, primarily Investment grade, both in the Middle East & North Africa (MENA) region and globally. The portfolio aims to achieve a steady level of interest income with moderate capital appreciation.

BBB+	3.60	5.47%
Avg. Portfolio Rating	Modified Duration	Yield to Maturity

Managed Account Performance – May 31, 2026

	1M	3M	6M	1Y	3Y	5Y	YTD	ITD
FI Conventional Portfolio	0.58%	-0.19%	1.88%	6.84%	22.52%	20.81%	1.36%	105.66%
Benchmark[1]	0.45%	-0.34%	1.23%	6.08%	19.83%	11.05%	0.96%	75.91%

Global Sukuk Fund

A US Dollar denominated Shariah compliant open-ended fund that that will invest in a diversified portfolio of Sukuks globally. The Fund aims to achieve a high level of income with moderate capital growth. The fund pays a semi-annual dividend.

BBB+	4.05	5.70%
Avg. Portfolio Rating	Modified Duration	Yield to Maturity

Managed Account Performance – May 31, 2026

	2025	1M	3M	6M	1Y	YTD	ITD
Sukuk Fund[2]	7.90%	0.33%	-0.54%	0.91%	5.34%	0.47%	8.95%
Benchmark[3]	7.59%	0.31%	-0.50%	0.75%	5.07%	0.55%	8.31%

Notes: The QIC Global Sukuk Fund is managed by QIC Islamic Asset Management LLC, an affiliate company of QIC Asset Management LLC (company registration no. 00602), which is also authorized and regulated by the Qatar Financial Centre Regulatory Authority (QFCRA). (1) *Blended benchmark- Pre 2023: JPM MECI GCC (JCADGCTR) Index (60%) & JPM Asia (JACIIGTR) Index (20%) & US Bloomberg Aggregate (LBUSTRUU) Index (20%), 2023 onwards the benchmark is changed to reflect a change in the mandate and duration requirements of the portfolio: Bloomberg Eurodollar Global Aggregate (I02953US) Index (35%), Bloomberg EM USD Aggregate 1-3 (I12885US) Index (25%), Bloomberg EM USD Aggregate EMEA (I13292US) Index (20%), Bloomberg Intermediate US Aggregate (LC08TRUU) Index (20%).(2) Assumes reinvestment of dividends. (3)Dow Jones Sukuk Total Return ex-Reinvestment DJSUKTXR Index

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