Fixed Income Commentary

July 12, 2026

Is this the real life? Is this just fantasy?

Sometimes in life we tend to get ahead of reality, and financial markets often do the same – moving ahead of underlying fundamentals and pricing in optimism well before risks have fully dissipated. The first half of 2026 has been a clear illustration of this phenomenon. The oil market has largely unwound the geopolitical premium built up during the conflict, despite physical market conditions remaining below normal. While outright conflict has eased, uncertainty around the world's most important energy chokepoint persists, creating a disconnect between financial pricing and operational reality. More broadly, investors have moved past geopolitical risks faster than fundamentals have adjusted, with the macro backdrop still shaped by sticky inflation, geopolitical uncertainty and evolving policy risks. Despite the normalization in oil prices, rates markets have retained much of the earlier hawkish repricing amid resilient US growth, AI-led capex strength and persistent inflation concerns.

Numbers Behind the Narrative

The US earnings cycle remains a key driver of global markets, with earnings growth broadening beyond mega-cap technology companies and supporting hiring, capex and consumption. Despite geopolitical uncertainty, underlying macro fundamentals remain constructive. June payrolls were softer than expected, with nonfarm payroll growth slowing to 57k (vs. 113k consensus), while prior two months were revised down by a combined 74k. The US unemployment rate edged lower to 4.2% from 4.3%, although the decline was largely driven by lower labor force participation. Average hourly earnings growth remained steady, with annual wage growth edging higher to 3.5% YoY from 3.4% in May. At the same time, job openings increased modestly to 7.59mn (vs. 7.3mn consensus), suggesting labor demand remains relatively stable despite signs of gradual cooling.

Inflation, however, remained too warm for comfort. The May CPI release showed headline inflation rising 0.5% MoM and 4.2% YoY, while core CPI increased 0.2% MoM and 2.9% YoY, broadly in line with market expectations. US consumer spending accelerated in May even as prices rose at the fastest pace in more than three years. The personal consumption expenditures (PCE) price index rose 0.3% MoM and 4.1% YoY, the most since April 2023. Taken together, activity remains resilient enough to keep recession fears at bay, but inflation is not yet subdued enough to reopen a dovish policy path.

Central Bank Watch

This macro mix reinforced the central bank narrative. The Fed continues to prioritize inflation risks over growth concerns. Under Chair Kevin Warsh's first meeting, the FOMC kept rates unchanged while reducing forward guidance, emphasizing greater policy flexibility amid heightened uncertainty. The June SEP signalled a more hawkish outlook, driven primarily by upward revisions to inflation forecasts. Reflecting the stickier inflation outlook, the median policy rate projection for end-2026 increased by 40bps to 3.8%. Market expectations adjusted accordingly, with investors pricing at least one Fed hike by year-end 2026. The June FOMC minutes reinforced that policymakers remain focused on inflation, with most members favoring unchanged policy unless inflation moderates more convincingly. Meanwhile, the ECB raised its policy rate by 25bps to 2.25%, citing inflation risks from the conflict, while maintaining a data-dependent and meeting-by-meeting approach.

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

Quote of the Month

"Reality is merely an illusion, albeit a very persistent one."
Albert Einstein

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US Treasury yields remained meaningfully above pre-conflict levels even as oil prices normalized. Front-end UST yields repriced more meaningfully as markets embedded a more hawkish Fed path. Shorter-dated yields rose between 13–17bps, while the 5-year and 10-year yields stood at 4.23% (May: 4.14%) and 4.47% (May: 4.44%), respectively. In contrast, the 30-year yield declined 2bps to 4.95%, resulting in a modest flattening of the yield curve.

Risk assets remained resilient in June following strong gains in May. The S&P 500 declined marginally by ~1% during the month but delivered quarterly gains of ~15%, with global equities recording their strongest quarter since 2020. Fixed income asset class fared well despite higher USTs, with IG spreads remaining stable (despite strong issuance), while US high yield spreads widened marginally by ~5–10bps. Within EM credit, the JPM EMBI Index gained 0.64% (YTD +2.85%), while JPM Asia IG and JPM MECI GCC returned 0.34% (YTD +0.83%) and 0.27% (YTD +0.5%), respectively. Brent declined ~18% and gold fell ~14% during the quarter, easing stagflation concerns but failing to reverse the policy repricing embedded in rates. Despite regional tensions, GCC banks successfully tapped international debt markets through senior unsecured and AT1 issuances, reflecting improving investor confidence. Overall, June performance was driven by carry, with credit spreads supported by resilient fundamentals and favorable technicals.

The Final Word

Looking ahead, we remain constructive on high-quality fixed income, but increasingly selective. All-in yields on investment-grade bonds continue to offer an attractive medium term entry point, and our preference remains for investment grade credit over high yield. High-yield credit spreads remain too tight (in our view) to adequately compensate for risk amid a restrictive policy backdrop. June reinforced that the easy spread compression phase is largely behind us. Going forward, returns are likely to come less from beta and more from disciplined security selection, portfolio carry and tactical use of volatility when markets overreact to policy or geopolitical developments.

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+	3.46	5.38%
Avg. Portfolio Rating	Modified Duration	Yield to Maturity

Managed Account Performance – June 30, 2026

	1M	3M	YTD	1Y	3Y	5Y	ITD
FI Conventional Portfolio	0.51%	2.54%	2.23%	6.50%	23.39%	21.35%	107.42%
Benchmark[1]	0.24%	1.76%	1.20%	5.10%	19.78%	10.26%	76.33%

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 targets a semi-annual dividend payout.

BBB+	4.06	5.65%
Avg. Portfolio Rating	Modified Duration	Yield to Maturity

Managed Account Performance – June 30, 2026

	2025	1M	3M	YTD	1Y	ITD
Sukuk Fund[2]	7.90%	0.58%	2.85%	1.06%	5.07%	9.59%
Benchmark[3]	7.59%	0.20%	1.91%	0.75%	4.25%	8.52%

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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