Fixed Income Commentary

QIC Asset Management

August 12, 2026

Bend, but don't break

Recent weeks have demonstrated that markets rarely move in a straight line. Rising skepticism around AI valuations and monetization triggered a correction in semiconductor and technology stocks, with the unwinding of leveraged positions adding to the sharp increase in volatility. However, the pullback did not signal the end of the AI cycle; instead, it highlighted the importance of adaptability as market leadership evolved. Investors started placing greater emphasis on when (or if) AI-related capital expenditure would translate into cash flows. At the same time, geopolitical tensions in the Middle East, energy price volatility and a more uncertain policy backdrop continued to influence market performance. Rather than a broad move away from risk assets, markets experienced a rotation as investors reassessed valuations and positioning. Equities became more selective, credit spreads remained relatively contained and fixed income markets refocused on the challenging combination of resilient growth, sticky inflation and a less predictable Federal Reserve.

Numbers Behind the Narrative

US economic data released during July pointed to a mixed but resilient growth backdrop. The advance estimate of Q2 GDP showed real growth slowing to 1.5% QoQ (below the 2% consensus), but the underlying details were stronger, with consumer spending rising 3.2% and business investment remaining robust, supported by ongoing AI infrastructure spending. Inflation data was more encouraging, with June CPI softer than expected as headline CPI fell 0.4% MoM and eased to 3.5% YoY, while core CPI declined to 2.6% YoY (vs. 2.8% consensus). The improvement was partly supported by lower energy prices, although broader moderation across core goods and some services categories was also notable. However, inflation remains above target, with June core PCE still elevated at 3.3% YoY (+0.1% MoM), requiring further confirmation that disinflation is durable before the Fed can meaningfully shift its policy stance. Other indicators also pointed to resilience, with retail sales increasing 0.2% MoM and ISM Manufacturing PMI rising to 55.6 from 53.3, supported by stronger production, new orders and employment returning to expansion for the first time since October 2023. Overall, the data showed an economy where consumer spending, manufacturing momentum and AI-related investment remains strong.

Central Bank Watch

July was a heavy month for central bank meetings, with several DM central banks navigating the balance between resilient economic activity and easing inflation pressures. The Federal Reserve remained the main focus, leaving the federal funds target range unchanged at 3.50%-3.75%. Chair Warsh offered limited forward guidance, emphasizing that the Fed would remain data dependent rather than commit to a predefined policy path. This left investors debating whether the threshold for further tightening had increased or whether policy decisions would increasingly depend on the broader evolution of inflation trends. The statement continued to characterize economic activity as expanding at a solid pace, while inflation remained elevated relative to the 2% objective. Markets are now pricing in two rate hikes by mid-2027 from the US Federal Reserve. Outside the US, the Bank of England kept its policy rate unchanged at 3.75%, while the Bank of Japan maintained its policy rate at 1.0%. The common theme across developed market central banks was a less straightforward policy path – inflation has improved, but resilient growth, renewed energy price pressures and geopolitical risks continue to limit the scope for a dovish pivot. Markets are therefore pricing a wider range of policy outcomes.

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

Quote of the Month

"The bamboo that bends is stronger than the oak that resists."

Asian Proverb

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US Treasuries bore the brunt of the uncertainty. The UST curve bear-steepened, with the 2s30s curve widening by 15bps to 98bps following the FOMC meeting. While front-end rate expectations eased as investors reduced the likelihood of further Fed hikes, the long-end yields moved higher as term premium rose and investors reassessed the outlook for inflation, fiscal risks and Treasury supply. The 30-year Treasury yield touched a multi-year high of 5.27% (+32bps), while 5-year and 10-year yields ended the month at 4.45% (+22bps) and 4.74% (+27bps), respectively. The move was notable as it occurred despite softer CPI and weaker headline GDP, suggesting investors are looking beyond individual data points.

Risk assets delivered mixed performance as rotation out of mega-cap technology stocks weighed on Nasdaq (-6.6%), while resilient corporate earnings across helped keep the S&P 500 broadly flat. Credit markets were relatively resilient, with credit spreads rangebound and widening marginally by 3-7bps. Bond returns were nevertheless impacted by the rise in US Treasury yields - the JPM MECI GCC Index declined 1.68% in July (YTD: -1.19%), while the JPM EMBI fell 1.54% (YTD: +1.26%) and the US Corporate Bond Index declined 1.67% (YTD: -0.83%). Investor appetite for credit continued despite strong supply from hyper scalers and other corporate issuers. Meanwhile, oil prices are likely to remain sensitive to developments around US-Iran negotiations and potential disruptions linked to the Strait of Hormuz.

The Final Word

USD fixed income has become increasingly attractive from a medium-term perspective, particularly high-quality investment-grade bonds which continue to offer compelling all-in yields arising from higher rates. However, tight credit spreads have reduced buffers, leaving lower-quality high yield credits vulnerable to spread widening. We continue to favor a disciplined approach with a focus on quality, carry and liquidity, preferring issuers with strong balance sheets, defensive cash flows and limited refinancing needs.

Like bamboo, fixed income portfolios need to remain adaptable – staying invested where carry is attractive, preserving liquidity where valuations are tight, and using volatility to add exposure when risk-reward improves.

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+	3.59	5.53%
Avg. Portfolio Rating	Modified Duration	Yield to Maturity

Managed Account Performance – July 31, 2026

	1M	3M	YTD	1Y	3Y	5Y	ITD
FI Conventional Portfolio	-0.34%	0.78%	1.89%	5.32%	21.96%	20.57%	106.73%
Benchmark[1]	-0.58%	0.11%	0.61%	4.01%	18.27%	8.93%	75.30%

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+	4.10	5.91%
Avg. Portfolio Rating	Modified Duration	Yield to Maturity

Managed Account Performance – July 31, 2026

	2025	1M	3M	YTD	1Y	ITD
Sukuk Fund[2]	7.90%	-0.79%	0.11%	0.26%	3.64%	8.72%
Benchmark[3]	7.59%	-0.77%	-0.26%	-0.03%	2.77%	7.68%

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