



In the Bin

Politics is getting trashy!

Key points:

- **Middle East tensions:** renewed conflict concerns pushed U.S. yields higher this week, though markets remain sceptical of material escalation occurring.
- **Corporate debt issuance:** Amazon's USD25 billion bond offering marked the 7th jumbo deal this year, highlighting robust appetite for new issuance despite volume constraints.
- **French politics:** Marine Le Pen's Presidential candidacy clearance drove OAT spreads to 82bps this week, approaching last summer's 85bps peak level.
- **UK political drama:** Nigel Farage resigned his Parliamentary seat this week, calling a by-election where he faces comedian candidate Count Binface.
- **Macro outlook:** persistent AI-driven inflation pressures suggest the Fed will maintain its hawkish stance, with rate hikes likely through early 2027.

London, 10 July 2026: US yields continued to push higher in the past week, on the back of renewed tension in the Middle East, in a reminder that a normalisation of trade flowing through the Strait of Hormuz remains some way off. However, despite President Trump stating that 'the ceasefire deal is over', markets remain sceptical that a material escalation of hostilities is likely.

In that case, actions will speak louder than words, and investors have concluded that there seems very limited appetite for the US administration to be dragged back into a regional quagmire. Consequently, this narrative has helped to dampen volatility.

As a result, prevailing market sentiment continues to lean towards a summer of owning carry. This has meant that ongoing demand for new equity and debt issuance remains robust for now, and in this context, this week's Amazon jumbo USD25 billion new corporate bond issue, represented the 7th deal of this size since the start of 2026.

However, the sheer volume of new debt (and equity) issuance appears to be a growing constraint, which is capping upside price momentum. Moreover, it seems very natural to expect that this dash to raise cash is going to see markets become worried with respect to the efficacy of large-scale corporate investment programs and it is likely that investors will demand evidence of earnings growth to support these ambitions.

We would assess that this question is only likely to grow in significance in the months ahead, and an abrupt reversal of sentiment surrounding AI could represent a significant macro shock. That said, we still see little sign of this occurring for the time being.

What may currently be more important for fixed income investors is that we see the robust AI investment dynamic makes it likely that US inflation will be relatively slow to fall and this is likely to keep the Fed on a hawkish path. In analysing the outlook for inflation in more detail, it has already been notable that despite lower crude prices, gasoline prices remain stickier due to tightness of refined products.

Meanwhile, US housing inflation can be expected to moderate but with AI driving chip prices higher, we think that markets are wrong to extrapolate a much more rapid retreat in the CPI index.

Against this backdrop, we believe that US money markets are fairly discounting the future trajectory of interest rates, with a 25bps hike priced in September and a further move in Q1 next year. Making a call on the July FOMC is more difficult.

With Warsh avoiding forward guidance, so market participants are likely to be left guessing up to the last minute. In this respect, a conversation within the FOMC of a July rate hike will take place, but we won't be surprised if the majority consensus might lean towards a move in the Fall.

In Europe, we are more inclined to think that the ECB may pause in hiking rates further in July, but a September move will be determined on the path of incoming economic data over the next couple of months. The US and European yield curves are relatively flat and ongoing concerns relating to fiscal policy and the trajectory of government debt is likely to weigh on longer-dated securities for the foreseeable future.

However, it does not appear the moment to be entering yield curve steepening trades, until the upside risk to markets pricing in even more monetary tightening than is currently discounted can be passed.

There was a renewed focus on French politics over the past week with Marine Le Pen cleared to run as a Presidential candidate for National Rally in next year's election. Markets view Le Pen as a more extreme and divisive figure than her junior colleague, Jordan Bardella. Consequently, this news has seen OATs underperform over the week with the 10-year spread pushing out to 82bps, just below last summer's high on the spread at 85bps.

With Japanese demand for OATs less supportive than it once was, and with the French creditworthiness continuing to slip, so we might see further weakness in OATs, as we head towards next year's Presidential election. However, in a low volatility world, demand for yield and spread may contain any widening, with OATs now sitting at the same spread to German bunds as the Euro IG corporate bond index.

In the UK, the past week has seen renewed political drama, with Nigel Farage, the leader of the Reform Party, which is topping the polls, resigning his seat in Parliament and calling a by-election, which he will stand in.

With other political parties seeing this as a political stunt to try to deflect from building criticism Farage has faced with respect to allegations of financial impropriety, there is now a prospect that his Clacton seat will see a run-off between Farage and the well-known 'Count Binface'. The Count is a comedy character who dresses as a trash can and routinely runs as a by-election candidate as a protest party and figure of fun.

In this respect, it would be telling if the leader, who has widely been touted as the likely next Prime Minister after the next General Election in 2029, is beaten by the trash can.

Meanwhile, gilts suffered another poor week with the market continuing to trade as something of a high beta proxy. Many investors appear to have held long positions in gilts; this has been a consensual view in the real money community and could make the market vulnerable to additional weakness, if these investors turn sellers. Also, it seems like the delicate state of government finances are dawning on Burnham and his team.

Notwithstanding this, we continue to see risks skewed towards further fiscal slippage and this can keep gilts on the back foot in our view. Where we may become more interested to add risk in the UK is with respect to short-term UK interest rates, with close to two BoE rate hikes discounted in the coming year.

We think the Bank of England is unlikely to do more than this, and so the risk is that they deliver less and this may make a long position at the front end of the curve attractive, at the right entry point.

Elsewhere, in Japan yields also remain under some upward pressure. There seems a growing message from the market that there is impatience that the BoJ is behind the curve in withdrawing policy accommodation, at a time when the economy no longer appears to warrant this.

However, inflation dynamics in Japan are more subdued than elsewhere and it seems unlikely that CPI will overshoot materially, unless oil prices hit new highs, or the yen continues to make new lows. Furthermore, with the yield curve in Japan already very steep, we think this should end up supporting JGBs at a time when domestic investors are progressively looking to add to their fixed income holdings.

In FX, there has been plenty of focus on the yen with respect to prospective intervention, but no decisive policy action has been taken just yet. Meanwhile the British pound has been outperforming as investors play down political risks on the back of Burnham taking over as Prime Minister, and this has come as something of a surprise to us.

It has seen us close a short sterling position, as we reassess what is driving this move. Elsewhere, in EM, higher US rates has created additional pressure, though market moves have been very modest compared to the volatility seen over the past several months.

Looking ahead

The risk that we see a more dramatic escalation in the Middle East will linger as a possibility in the weeks ahead. However, if this leads to markets selling off, we suspect that this price action could be an attractive entry point to add risk, unless the attitude within the US administration towards putting boots on the ground in Iran were to suddenly change, which for now seems unlikely.

But with markets less liquid over the summer anyway, and with volatility indices at a subdued level, it may not take much to prompt position closing and short-term dislocations. This may argue for being patient for opportunities to present themselves.

Meanwhile, with respect to the Federal Reserve, analysts will closely focus on Warsh's comments in the Senate Banking Panel Testimony next week, for any clues with respect to a potential July rate hike.

Consensus estimates for next week's US CPI release have this declining from 4.2% to 3.9%, though were the core rate to tick higher, this could also be a data point which would firm up conviction for a move at the end of this month.

Currently, this is only priced with a 25% probability, though we should have more clarity prior to the start of the Fed's blackout period, which starts at the end of next week.

As for Count Binface, perhaps if he can take down Nigel Farage, it will serve as a reminder of how surreal the political times that we live in are. Certainly, it seems British politics is already making a joke of itself, with the country about to swear in the 7th new Prime Minister in the past 10 years.

That said, events in Washington DC can almost seem equally surreal these days and you wonder how much long-term damage is being done to political frameworks, international relationships and norms of civilised discourse, at a time when it seems that everything is being pulled down towards the lowest common denominator, with Trump continuing to dominate the narrative and agenda.

Mind you, it might occur to you that, whatever your political persuasion, one area there is more universal agreement about pertains to the questionable leadership of the FIFA organisation, which runs world football. Surely FIFA could only be better managed, were Count Binface its leader.

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