RBC BlueBay Asset Management

Marketing communication

A Quantum of Solace

Shaken, not stirred

Key points:

- **US equities and AI:** U.S. equities remained under pressure this week, with Nvidia governance scandals and Democratic AI regulation concerns weighing on sentiment, despite upbeat Nvidia earnings and strong demand for the Anthropic IPO.
- **Middle East:** low-level conflict continues to rumble on with no likely end in sight. However, with latest reports suggesting that the crude oil market is now moving back into surplus as shipping continues, this is helping to keep a lid on energy prices for the time being.
- **Fed:** the October FOMC minutes contained few surprises, affirming market expectations for a rate hike in December. We think that a further hike will follow in Q1, but in this respect, expect the Fed to be very data dependent.
- **AI debt supply:** AI-related debt issuance is slated to reach $650bn in 2026, with Democratic regulatory headwinds now making the market's $1 trillion projection for next year look ambitious.
- **Duration:** we think that the front end of the U.S. yield curve is now trading slightly cheap relative to fair value, and this merits a modest overweight stance in U.S. duration. We also see yields in Europe and Japan as somewhat attractive.

London, 20 November 2026: US equities remained under pressure during the past week, notwithstanding upbeat earnings from Nvidia and robust demand for the long-awaited Anthropic IPO.

Concerns relating to a changing regulatory environment for AI under a Democratic Congress have also been supplemented by fears with respect to corporate governance, in the wake of the scandals that have consumed Nvidia over recent weeks.

Meanwhile, there were few surprises from the Federal Reserve's October minutes, which affirmed market expectations for an upcoming rate hike in December.

We have been expecting that the FOMC would deliver a 25bps move next month for some time and continue to adhere to this view. We think that talk of a potentially larger move of 50bps is not warranted at this point, unless there is a material upside surprise in the next CPI data release.

Larger policy moves tend to be appropriate when monetary policy is a long way behind the curve, but we do not believe that this is currently the case. Unlike in 2022, when interest rates were coming from 0% and inflation peaked at 8%, current policy rates are slightly above the Fed's long-term estimate of neutral.

Furthermore, although inflation is problematic in the sense that it has remained above target for a very long time, the magnitude of this overshoot is more modest, and thus only incremental tightening seems to be required at this point.

Typically speaking, monetary policy works with relatively long lags and in this sense, policy shifts that occur today won't necessarily impact inflation for another 12 months. In this respect, we already think that US inflation is likely to be somewhat lower this time next year.

However, one exception to this rule is where policy changes trigger a more rapid and significant easing or tightening of financial conditions. In this context, market volatility since the Fed raised rates by 25bps in September may seem another reason why the Fed would be unwise to make a larger policy change at this point in time, in case this were to trigger an even more significant market correction.

Beyond December, we think that a further US rate hike will follow in Q1, but in this regard, the Fed will be very data-dependent. We continue to look for inflation to peak in a few months from now.

Consequently, we think that the FOMC may hold off from tightening further beyond next spring, as long as the committee can be satisfied that inflation is set to trend lower.

Strong economic growth on the back of the boom in business investment spending may make inflation relatively sticky on the way back down.

Our sense, however, is that the Fed will tolerate CPI gains in the high 2s, against the backdrop of a somewhat restrictive policy stance.

With respect to capital deployment in AI, we think that the Democrats will throw some sand into the gears from a regulatory perspective, and this may lead to a peaking out of plans with respect to capital raising.

With around $650bn of AI-related debt slated to be raised in 2026, market expectations embed a projection of around $1 trillion in the year ahead. However, it may now be time to take the 'under' rather than the 'over' on this number, and in this regard, this could actually help bring debt supply and demand into better balance.

Over the past year, we have seen a deluge of corporate and government bond issuance adding to term premia and credit premia globally, on the back of a building competition for capital.

Were AI-related debt supply to continue to grow at a near-exponential pace, we think we could see even more pressure within markets, with the underlying supply of capital struggling to keep pace with demand.

With monetary policy tightening acting to tighten financial conditions, so this can impact the supply of new capital available and in this regard, more modest moves in interest rates may be required, given that any mismatch in capital supply and demand means that policy could get traction much more quickly than may ordinarily be the case.

Reflecting on this, we think that the front end of the US yield curve is now trading slightly cheap relative to fair value, and this merits a modest overweight stance in US duration. We also see yields in Europe and Japan as somewhat attractive.

In the Eurozone, although we expect the peak in inflation to exceed that in the US, Eurozone price gains may decline more quickly as we move through 2027, given the relative softness of the Eurozone economy relative to the US.

In the UK, inflation will likely peak at a higher level still, with a top in price gains around 5%, likely in the April print. However, for now, the latest UK inflation data suggest limited pass-through from energy prices to other CPI components.

In this respect, the Bank of England may feel vindicated in having moved more slowly to raise rates compared to other central banks. We continue to believe that the more dovish instincts of the UK MPC may mean that fewer rate hikes are delivered by the BoE than are currently discounted.

More broadly, should inflation recede later next year, the prospect of rate cuts could come back onto the agenda by the end of 2027.

The latest Japanese GDP figures for Q3 showed a surprising economic contraction on the quarter, though it appears that this data may partly be explained by specific one-off factors, such as the country experiencing a record 37 days of rain, thus dampening retail spirits.

We still see underlying growth in Japan around 1%, and with inflation running around 2.5%, we think there is every reason to expect the BoJ to continue on its path of policy normalisation when it meets in December.

Although there is a risk that Takaichi leans on Governor Ueda to delay hiking further until the New Year – given her stated desire to maximise nominal GDP growth – we think that such a step would be ill-advised, lest it trigger a renewed bout of yen weakness.

For now, the yen is struggling to rally even as Japanese interest rates rise, given that other central banks are doing likewise. Risking a widening of interest rate differentials would thus likely trigger renewed yen selling.

Weakness in equity markets has translated to some softness in corporate and sovereign spreads in the past week. Arguably, as hyperscalers offer ever more juicy premiums on their jumbo debt deals, this can be seen to impact relative value across all credit markets. This said, we sense that there is now a lot of bad news (in terms of impending further issuance) already reflected in spreads.

As long as new debt supply stops being revised forever higher, we think that technical dynamics could become slightly more favourable. At a time when there is demand for owning income and yield, with global fixed income yields sitting at multi-decade highs, we think that spreads, especially those in Europe, have scope to retrace recent widening.

Looking ahead

With the economic data calendar quieter during the second half of the month, fixed income markets may continue to take their lead from equities, in addition to any comments coming from global central banks before we look towards the set of year-end policy meetings taking place globally in December.

In the Middle East, low-level conflict continues to rumble on with no likely end in sight. However, with latest reports suggesting that the crude oil market is now moving back into surplus as shipping continues, this is helping to keep a lid on energy prices for the time being.

Indeed, with energy prices notably lower than their peaks last month, so we might think that headline US CPI may be as low as -0.3% when it is released in December. Although the change in core prices will be more significant in terms of the Fed's monetary policy deliberations, there is still a chance that the optics on inflation look a bit better by the time of the next FOMC.

Lower gas prices might also help Eurozone inflation data somewhat, and in this respect, such outcomes could yet add to confidence that an inflation peak will be reached in terms of the year-over-year rates, sometime in the coming quarter.

2026 has been a bruising ride for a number of investors, yet the hope is that calmer waters may lie just ahead. Indeed, it has been such a bad year for bonds that even the new James Bond received a rather indifferent response (bring back Daniel Craig!).

But with valuations more attractive than they have been for some time, so an absence of bad news could be all that is required for markets to end the year on a more constructive note.

In the short term, market sentiment remains slightly shaky. But with any hope, some of the tech obsessives may find themselves too distracted by the new GTA 6 game launch, to be able to allocate any time to trading for a few days.

Perhaps also, the Anthropic IPO may help sentiment inasmuch as it is a bit of a market-clearing event. With US Thanksgiving next week and Christmas around the corner, hopefully just a little bit of seasonal cheer, and perhaps a “Quantum of Solace” isn't too much to ask for (is it?). If so, then maybe we are through the worst for bonds, and so all the bad news is in the price….

Contact:
Lydia Cambata
lcambata@bluebay.com

About RBC BlueBay Asset Management
RBC BlueBay Asset Management ("RBC BlueBay") represents RBC Global Asset Management outside of North America and is an active asset manager with expertise across fixed income, equities and alternatives.

RBC BlueBay's solutions-driven approach means it endeavours to empower clients with the knowledge they need to help shape their investment decisions. It works and evolves with clients, creating and customising investment products that meet their needs.

Responsible investment is embedded across RBC BlueBay's business. This means it is not just an investment focus but is also ingrained in its client service experience and work to deliver solutions that support real-world impact.