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MARKET OUTLOOK

MID 2026

Global Macro & Credit Desks

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## FOREWORD

Welcome, and thank you for reading.

This is the first quarterly Market Outlook that the TU Investment Club Markets Department has published externally. Until now, our research has circulated only within the club, across two formats: a bi-weekly market update newsletter that tracks the near-term flow of events, and a quarterly outlook that steps back to the medium-term regime. We are opening the quarterly outlook to external readers for the first time with this edition, and we intend to continue doing so going forward.

The report was written by the Global Macro and Credit desks of the Markets Department. It reflects several weeks of research, drafting, and internal debate across the team.

A few notes on how to read it. We publish these as the views of a student investment club's research department, not as a managed book or as investment advice. The convictions are ordered by confidence and each carries a named condition under which we would consider it wrong, so that our calls can be judged against the regime rather than the headlines. Where we differ from consensus, we have tried to say so plainly and to show our reasoning rather than assert a conclusion. Any errors that remain are our own.

We hope you find it useful, and we welcome feedback from readers inside and outside the club.



Best regards,

Kenzo Ota v. Steun (B.Sc. Physics '26) & Carolin Wallner (B.Sc. BA '27)

TU Investment Club e.V.

Markets Department, Global Macro and Credit desks

## Executive Summary

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The June 2026 Iran ceasefire framework removes the acute war premium from energy, but it leaves the structural changes the conflict accelerated firmly in place. Our organizing thesis is **moment versus regime**. The war was the catalyst that made several slow-moving structural breaks legible, not the cause of them. Fiscal dominance across the G4 (the regime in which government financing needs push yields higher regardless of the policy rate), the end of cheap Japanese capital, reserve diversification away from the US dollar (USD), an artificial-intelligence capital-expenditure cycle that doubles as a credit-concentration risk, and a quality turn in segments of credit were all in motion before the first strike on Iranian facilities. As a result, the shock pulled them forward. The convictions in this outlook are built to survive a range of de-escalation paths precisely because the regime, rather than the headline, drives them.

The dominant regime is **late-cycle nominal resilience layered over above-target, structurally embedded inflation**. A Federal Reserve (Fed) under new leadership is dismantling its post-crisis communication framework, synchronized fiscal expansion across the United States, Japan, the United Kingdom, and Germany is meeting price-insensitive sovereign supply, China is exporting disinflation into developed-market supply chains even as its own producer prices rebound on imported energy, and the AI capex cycle is at once the principal growth engine, a persistent demand-pull inflation leg, and the market's largest crowding fault line [NBS, Moody's]. These forces share a single thread. **The price of duration, the price of USD reserve status, and the price of credit liquidity are being repriced at the same time** [PIMCO].

Our base case, to which we assign **roughly 45% probability**, is that the ceasefire holds and the Strait of Hormuz reopens on a glide path, with Brent settling near USD 70-75 rather than holding the USD 80-plus level we flagged in the spring [EIA, Trading Economics]. The disinflation from energy is therefore largely a level effect that has already occurred, but it is not a resolution. The episode leaves a higher core and a de-anchoring risk on top of inflation that was already above target, so it eases the arithmetic without giving the Fed or the European Central Bank (ECB) room to look through the residual [BLS, BEA]. In this base case **the Fed is on a shallow hiking path rather than a holding pattern, delivering at least one hike by end-2026 and a second by mid-2027**, while the framework overhaul lifts the term premium (the extra yield investors demand to hold long-dated bonds rather than roll short-term paper) and rate volatility independently of the policy path itself [Fox Business, IMF]. The credible alternative we weight most heavily is a cleaner, faster de-escalation that lets real yields fall and the labor market crack, which we treat seriously at meaningful probability but do not make central.

Our differences with market pricing are sharper on the near-term path and the term premium than on direction. Through CME FedWatch, the market now prices the Fed as more likely to hike than to cut, with roughly a 72% probability of a hike by October and effectively no cuts in 2026 [CME Group]. **We align with that hawkish pricing but sit above it for the next three meetings**, because we think the residual market hope that Kevin Warsh leans dovish or stays his hand into the November 2026 midterms is misplaced [CBS News, PBS]. On the long end, markets still price developed sovereign curves as if a synchronized fiscal-dominance regime can coexist with a historically depressed term premium, and we disagree. Removing the dot plot (the chart of individual FOMC members' anonymous projections for the policy rate) and retiring forward guidance strips out the single most important anchor for short-end pricing, which should structurally lift rate volatility, while heavy net issuance arriving alongside Gulf sovereign-wealth-fund drawdowns and Japanese repatriation makes the current term premium difficult to sustain [IMF, Chosun Ilbo].

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The central risks to the base case are observable and bounded. A slip in the 60-day verification window would re-escalate the oil tail and the inflation impulse. A faster or deeper hiking cycle than we expect would flatten the curve before term premium can re-steepen it. A labor-market crack would re-anchor the front end lower and turn the hiking path into an earlier easing turn. A private credit reverse migration (borrowers returning to public markets as private lenders tighten) would have the potential to widen public credit spreads faster than institutional cash can absorb the redirected flow. **Each conviction in Section 10 carries a named falsification condition** for exactly this reason.

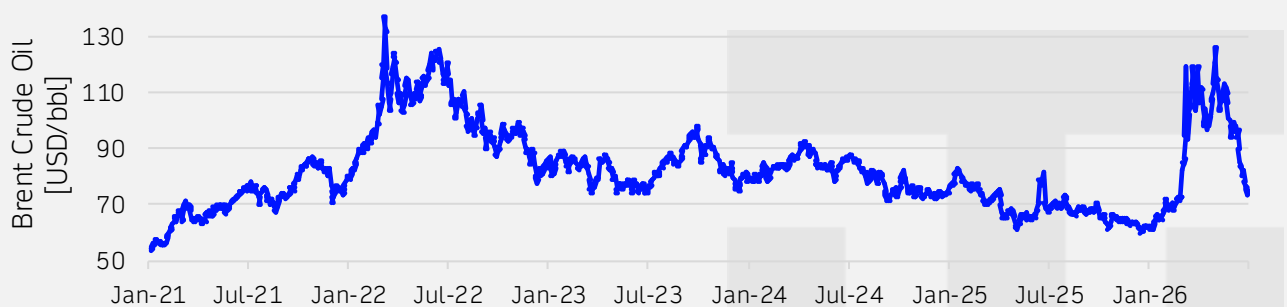
Translated across assets, the regime argues for a **US Treasury (UST) bear-steepener with long-end caution, a structural long in the JPY against USD, up-in-quality credit positioning, a structural long in gold layered over a cyclical long USD, a China-disinflation versus developed-market-inflation pair, and AI expressed as a hedged cross-asset factor** rather than a crowded directional long. The full conviction table, scenario matrix, and consensus comparison appear in Section 10.



## 1 The Iran Endgame and the Oil Regime

The June 19 ceasefire signing in Switzerland started a formal de-escalation clock and removed the acute war premium from crude. In the weeks since, **Brent has fallen further and faster than we expected, settling near USD 72 a barrel and holding** there, roughly back at its pre-conflict level after peaking above USD 140 in early April 2026 [EIA, Trading Economics]. The USD 80 floor that was flagged in spring has not held. The market has priced a faster reopening and the return of the pre-war surplus rather than a durable shortage premium. The regime the episode leaves behind, however, is not captured by the spot price, and that residue is the subject of this section.

Analyst forecasts remain unusually dispersed, which is itself the signal. The US Energy Information Administration's (EIA) June Short-Term Energy Outlook still models Brent near USD 105 in June and July on the assumption that Strait traffic stays largely shut in the near term, falling to about USD 89 by the fourth quarter this year and averaging roughly USD 79 in 2027 as Gulf production restarts [EIA]. Goldman Sachs carries a 2026 average near USD 85 and mid-USD 60s in 2027, Morgan Stanley and Barclays sit higher in the near term, and Citi sees USD 80 by the fourth quarter, while J.P. Morgan holds a structurally bearish full-year baseline near USD 60 on the pre-conflict surplus [Goldman Sachs, Morgan Stanley, Citi, JPMorgan]. The spot price near USD 72 indicates **the market is siding with the faster-reopening, surplus-dominated camp** over the EIA's shut-in assumption. Our base case anchors Brent near USD 70-75 over the horizon, with the residual Hormuz premium compressed to a few USD a barrel rather than eliminated, and a two-sided risk distribution. A verification-window slip re-escalates the tail toward USD 100 or beyond, while a clean structural peace that restores full Iranian supply into a roughly 4 million barrels per day (mb/d) surplus could pull Brent into the low USD 60s [IEA, OPEC].



**Figure 1:** Brent crude price, daily, 2021 to mid-2026. The price has round-tripped while the structural residues persist. Source: Yahoo Finance.

The Strait of Hormuz closure was the largest oil supply disruption since the Second World War. Roughly 20 million barrels of oil transit the strait daily, close to one-fifth of global petroleum consumption and nearly a quarter of seaborne crude trade, alongside around 20% of global liquefied natural gas (LNG) shipments [EIA]. At its worst the disruption removed an estimated 11 to 14.5 mb/d of Middle Eastern output, drove the largest quarterly inventory draw on record, and briefly doubled crude to above USD 140 [EIA, IEA]. **Three structural residues outlast the price round-trip.** First, the weaponization of Hormuz embeds a durable, if currently compressed, geopolitical risk premium and a faster diversification of supply routes. Second, Qatar warned that more than 15% of its LNG capacity could be offline for as long as five years, and because Qatar supplies close to 30% of the world's helium, a gas critical to semiconductor foundry processes, the episode exposed a direct path from an oil chokepoint to a technology-supply shock [USGS]. Third, the second-round channels through fertilizer and food run on their own calendars and are underpriced because they are slower and less visible than crude.

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The inflation consequence has shifted from level to residue. With Brent back near pre-conflict levels, the direct oil contribution to inflation is fading, but the episode leaves a higher core and a de-anchoring risk that the Fed is now responding to even as energy falls, the subject of Section 2. **Federal Reserve research puts the passthrough at 30 to 35 bps per USD 10 per barrel**, so the round-trip in crude unwinds most of the direct impulse and leaves the second-round effects through transport, logistics, and food as the persistent part [Federal Reserve]. That distinction, a fading oil moment over a sticky inflation regime, is the thread we carry into the US section rather than re-deriving it in each regional section.

The fertilizer and food channel is the clearest second-round residue at the global level. **Nitrogen and ammonia fertilizer prices trace back to natural-gas feedstock, so the disruption to Gulf LNG fed directly into global fertilizer costs** and, through them, into food prices into the second half of 2026 and the 2027 planting cycle [World Bank, FAO]. The agricultural exporters most exposed to this channel, Brazil chief among them, are discussed in Section 6. The helium and petrochemical residue is the second-order tail, with the printed-circuit-assembly price index, a downstream tracer of the helium constraint, **up roughly 80% in the year through March 2026**, pressure that flows into the capex cost curves for data centers and advanced manufacturing [BloombergNEF].

Our energy view is constructive but no longer floor-anchored. We would express it **through long-dated exposure over front-month and through integrated majors and US upstream producers that remain cash-generative near USD 70**, rather than through a directional bet on a higher spot price [EIA]. The skew is asymmetric to the 60-day verification window and the reopening pace rather than to fresh escalation, so the view would be wrong if a clean structural peace pushed Brent durably into the low USD 60s, or if a verification-window slip re-escalated the tail. The episode also reset the energy-transition timeline by restoring the Gulf as swing supplier and sharpening incentives for diversified investment across gas, nuclear, solar, and grid storage, but that is a multi-year bearish force for oil rather than a driver inside our horizon [IEA].

## 2 United States: The Inflation Regime and the Warsh Fed

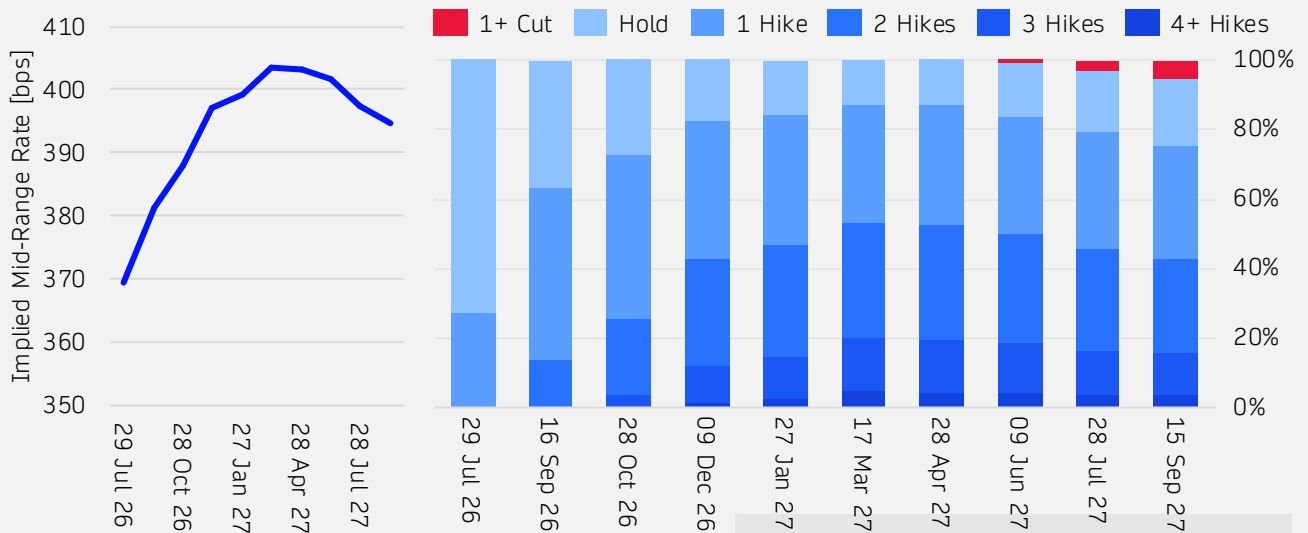
The two questions binding the year ahead are the near-term policy path under a new chair, and the institutional overhaul of the Fed. On the path, our view aligns with the hawkish pricing now embedded in CME FedWatch, but is more hawkish still on the next three meetings. On the institutional question, the **dismantling of the Fed's communication framework lifts term premium and rate volatility independently of where the policy rate settles**. Our base case is at least one 25 bp hike by the end of 2026 and at least a second by mid-2027, where we expect the cycle to peak. The risk to that view is two-sided, but it is no longer a question of holds versus cuts.

### 2.1 The June FOMC and the framework discontinuity

The June 17 meeting was Warsh's first as chair, and **it rewrote the policy communication framework in a single session**. The Committee held the funds rate unanimously at 3.50% to 3.75%, but the statement was cut to roughly 130 words from 341, all forward-guidance and easing-bias language was removed, and Warsh declined to submit his own dot, signaling that he views the tool as unhelpful in the conduct of policy [CNBC, FOMC, Reuters]. The shift in the projections was the substance. **Nine of the eighteen participants who submitted forecasts penciled in at least one hike by year-end and six of those projected two**, a sharp reversal from March, when no participant projected a hike and the median forecast one cut [Fox Business, PBS]. The Summary of Economic Projections (SEP) lifted year-end Personal Consumption Expenditures (PCE) inflation to 3.6% from 2.7% in March, put unemployment at

4.3%, and trimmed 2026 GDP to 2.2% [Fox Business]. Warsh simultaneously launched five task forces covering communications, the balance sheet, data sources, productivity and employment, and the inflation framework, an institutional overhaul that runs well past year-end [CNN, InvestingLive].

Markets moved with the message. CME FedWatch shifted to price **roughly a 72% probability of a hike by the October 28 2026** meeting and a similar or higher probability by December, with virtually no cuts left in 2026 and the odds of rates staying unchanged through **year-end collapsing from above 40% to around 18%** [CME Group, CNN]. Economists read Warsh's first press conference as hawkish, since he reaffirmed the 2% target and declined to revisit it until it is met, while several participants have warned that persistent inflation may force an increase [PBS, CBS News].



(a) Overnight Index Swap (OIS) target range through the Federal Reserve meeting on Sep 15, 2027. (b) OIS-implied probabilities of the federal funds target range at each implied midpoint of the federal funds target range through the Federal Reserve meeting on Sep 15, 2027.

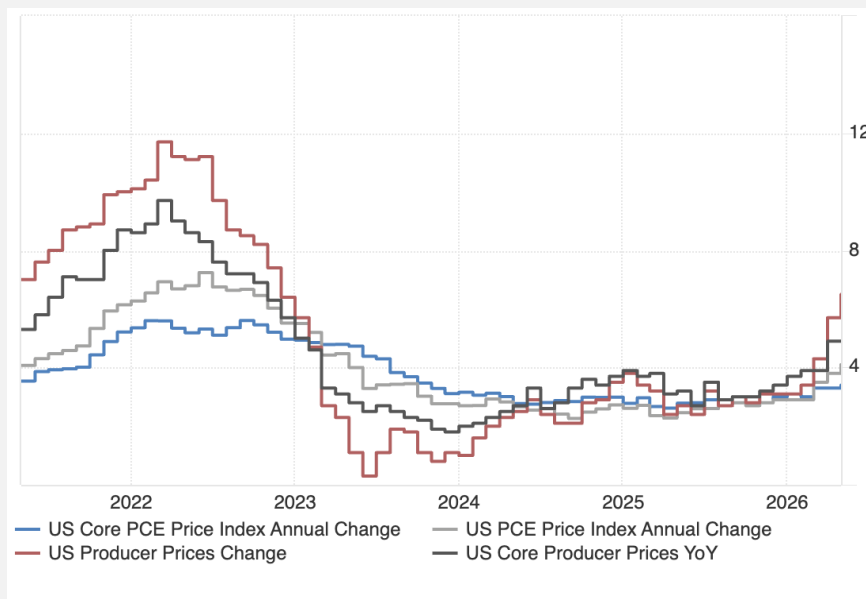
**Figure 2:** Hawkish repricing of the expected monetary policy path. Sources: CME FedWatch as of June 30, 2026.

Our differentiation from the market is twofold. First, on the path, **we assign higher-than-market hiking odds across the next three meetings**, the last of which falls on October 28, because we think the residual market hope that Warsh leans dovish or stays his hand ahead of the November midterms is misplaced. He campaigned for the job as a rate-cut advocate, but the inflation backdrop he inherited, with Consumer Price Index (CPI) at a three-year high, has made the hawkish path the line of least resistance, and we expect him to hold the neutral-rate estimate near 2% rather than concede the higher 3% some now argue for, which keeps current policy looking insufficiently restrictive and supports further tightening [CBS News, PBS]. Second, on the framework, **removing the dot plot eliminates the single most important anchor for short-end expectations, and reduced transparency mechanically raises speculation and risk premium**, the channel through which institutional change lifts the MOVE index (the bond-market equivalent of the VIX, measuring expected Treasury volatility) regardless of the path itself [Chosun Ilbo, BofA].

## 2.2 Inflation persistence and composition

The inflation the Fed is responding to is broad and sticky, not just an oil artifact. **Headline CPI reached 4.2% this year in May, its highest since April 2023, and the PCE price index ran at 4.1% in the year to**

May, both well above target even as crude round-tripped back toward USD 72 [BLS, BEA]. Core PCE was already at 3.1% in January, before the shock, with firmness concentrated in discretionary consumer services that are insulated from global supply or tariff disinflation, and core prices and wages running roughly 1.0 to 1.5 percentage points above pre-pandemic trend [BEA, BLS]. **Dallas Fed trimmed-mean PCE has not returned to target, the cleanest evidence that the persistence is structural rather than cyclical** [Dallas Fed].



**Figure 3:** Cyclical inflation shocks leave sticky structural remains. Headline and core PPI and PCE, yoy, May 2022 to May 2026. Source: Bureau of Labor Statistics and Bureau of Economic Analysis via TradingEconomics.

Two features sharpen the picture. The succession of supply shocks since 2020, each framed as temporary, echoes the 1970s, when **across 1970 to 1980 CPI compounded at 7.4% a year and outpaced both Treasuries at 6.0% and the S&P 500 at 5.9%**, eroding the real value of the two asset classes a balanced portfolio leans on [Morningstar]. The upside risk is reinforced by an unusually large US household balance sheet, with **roughly USD 66 trillion of additional net wealth since end-2019 and around USD 16 trillion of untapped home equity, more than three times annual consumption, which could fuel a hard-to-contain spending wave if policy loosens prematurely** [Federal Reserve]. The methodological wedge in which core PCE runs above core CPI, driven by rent imputation and the shelter lag, gives the Fed cover to lean on trimmed-mean PCE, but the direction of travel on every gauge is the same [BofA].

### 2.3 The quantitative-tightening endgame and front-end risk

The balance-sheet task force makes reserve-scarcity risk live rather than dormant. Against a balance sheet near USD 6.7 trillion, the pace and endpoint of quantitative tightening (QT, the reduction of the central bank's balance sheet) determine where the reserve-scarcity threshold sits, and **the September 2019 episode showed that reaching it without a credible standing repo facility produces violent overnight funding spikes** that force an emergency pivot [BofA, Federal Reserve]. Warsh's review signals that the terminal level of QT and its interaction with record Treasury issuance will be actively renegotiated, adding a second layer of front-end uncertainty beyond the rate path [InvestingLive].

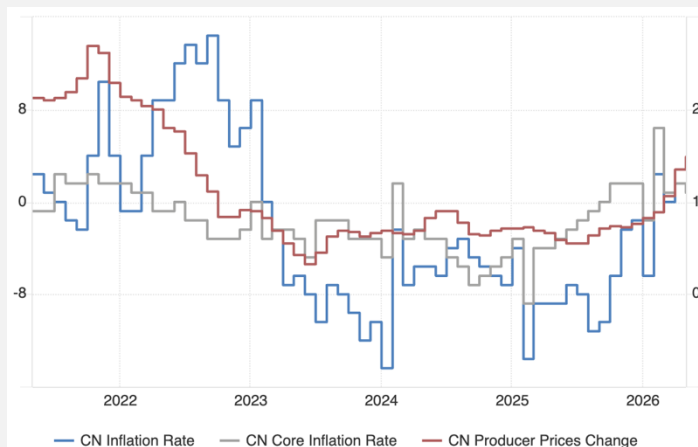
A misjudged endpoint does not produce a gradual tightening, it produces a discontinuous funding event, which is how an institutional story becomes a market-structure risk.

The base case, then, is a shallow hiking cycle, at least one hike by end-2026 and a second by mid-2027, with the funds rate peaking around at least 4.0% to 4.25% before any easing comes onto the table. Because the cycle is shallow and close to its peak, the front end has limited room to rise much further, while the long end carries the larger repricing risk from term premium and record issuance discussed in Section 4. The horizon view is therefore a bear steepener (a curve move in which long-end yields rise faster than the front end), with near-term hawkish surprises arriving as flattening pulses, structural caution on 30-year duration, and long 5-year breakeven inflation (the gap between nominal and inflation-protected yields, a market proxy for expected inflation). The view would be challenged by a labor-market crack that re-anchors the front end lower, or by a faster, deeper hiking cycle that flattens the curve before term premium can re-steepen it.

### 3 China: The Deflation Counterweight

China is the deflationary counterweight to the global inflation regime and a relative oil-shock winner, which makes the **China-disinflation versus developed-market-inflation divergence the cleanest macro pair for the horizon** and the swing factor behind every commodity call. Where consensus reads China's producer-price rebound as the start of a reflationary recovery, we read it as imported-energy arithmetic layered on an intact structural deflation.

China's price data through the first half of 2026 splits along a familiar line. **Producer prices rose 3.9% year on year in May 2026, the fastest since July 2022** and the third consecutive monthly acceleration, driven by the war-driven jump in global commodity and energy prices [NBS, Trading Economics]. Consumer prices remain near zero, with consumer goods prices still declining, food prices down 1.8%, and core CPI barely positive [NBS]. **That wedge is the arithmetic of an economy that is a price-taker on energy and a price-setter on industrial goods, not a domestic-demand recovery.** The People's Bank of China (PBoC) has reiterated a commitment to appropriately loose policy aimed at steering prices toward a reasonable recovery, which confirms that the authorities themselves do not read the producer-price rebound as an organic demand turn [PBoC, Reuters].



**Figure 4:** The producer-consumer price wedge. China headline and core CPI (right axis) and headline PPI (left axis), yoy, May 2021 to May 2026. The war-driven PPI rebound diverges from a CPI pinned near zero, illustrating imported-cost inflation over weak domestic demand. Source: National Bureau of Statistics of China via TradingEconomics.

The structural deflation-export channel is intact despite the commodity noise. **Factory-gate deflation persisted for more than three years before the Iran shock**, compressing manufacturers' profitability and forcing exports of industrial goods at below-cost prices into European and emerging-market supply chains [Caixin, CNBC]. Excess capacity in steel, chemicals, electric vehicles, and solar is a policy-managed rather than market-resolved problem, and overcapacity built over a decade cannot be unwound by administrative guidance in a single cycle [Trading Economics]. **Chinese exports to the United States shrank 20% from 2024 to 2025, yet total exports still expanded by nearly USD 200 billion** as manufacturers redirected volume

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toward emerging markets and Europe, which confirms that the channel reroutes rather than closes under trade pressure [China Customs].

The oil-import structure adds a strategic layer. **China was the marginal buyer of discounted Iranian crude throughout the conflict**, accessing supply that Japanese, Korean, and Indian state companies could not source at any price while Gulf routes were disrupted [BofA]. PBoC gold purchases since 2022, more than 350 tonnes on ECB tallies, and the managed relationship between the renminbi (RMB, official name of the yuan) and the petroyuan framework (pricing and settling oil transactions in RMB instead of USD) are the financial-system expression of the same positioning the energy toll booth represents at the commodity layer [UBS]. The pair is therefore multi-layered, combining a terms-of-trade advantage on oil imports, a deflation export through industrial overcapacity, and reserve diversification away from USD, each reinforcing the others.

The cross-reference to Europe is direct. **The overcapacity feeding German heavy industry is simultaneously a German competitiveness problem and a European disinflation anchor**, which is why the German impairment case in Section 5 cannot be solved by lower energy prices alone. Our research points to a sustained divergence between Chinese disinflation and developed-market inflation over the horizon, and we would express that as a relative-value view rather than a directional one. We see cheap Chinese equities as a policy-contingent opportunity, and we treat China as the principal swing factor for the commodity complex. The view is most vulnerable to a large reflation surprise driven by a more aggressive property rescue or broader fiscal stimulus than currently signaled, which would compress the divergence from the China side. The medium-term wildcard is the tension between the managed RMB and the petroyuan ambition.

## 4 The Global Government Bond Regime

The term premium is structurally too low relative to a synchronized G4 fiscal-dominance regime, and the bear-steepening bias holds until inflation rolls over or labor cracks. The end of cheap Japanese capital is a standing global tightening force independent of the Fed. The market prices term premium as if it normalizes gradually from a low base. We argue the supply-demand arithmetic makes the current level unsustainable.

### 4.1 Japan and the end of cheap capital

The Bank of Japan (BoJ) hiked to 1.0% on June 16, 2026, in a 7-1 vote, **the highest policy rate since September 1995**, explicitly citing the war-driven energy shock as a threat to push underlying inflation above 2% [CNBC, Reuters]. This was the first hike since December 2025, and it followed intervention to defend JPY at the 160 threshold that cost roughly JPY 11 trillion in May 2026 alone [CNBC]. The June Summary of Opinions showed broad support for continued hikes, with one board member placing the neutral rate near 2%, implying roughly 100 bps of further tightening [Trading Economics]. A May survey had 65% of economists forecasting 1.0% by end-June and a median of 1.5% by the third quarter of 2027, confirming that the base case is a multi-year normalization rather than a one-and-done adjustment [Reuters].

We are structurally **long JPY against USD**, and the reasoning behind that position **does not rest on intervention or on valuation**. Intervention affects the level of the yen rather than its direction, and the yen has screened cheap for years without that forcing a turn, so neither is a reason to be long. What has changed is Japan's balance of payments. The structural outflows that defined the yen for years, households accumulating foreign equities and corporates acquiring foreign firms, have moderated in 2026 without disappearing, and inflows have begun to outweigh them. We have often argued on a

theoretical level that a narrowing US-Japan rate differential would eventually pull capital home and tip Japan toward net inflows, supporting the yen over the long term. **Seeing those net inflows actually turn is the concrete empirical evidence we had been waiting for**, the signal that a much larger structural force is now in motion rather than a forecast resting on the mechanism alone. Over the trailing twelve months foreign purchases of Japanese equities exceeded Japanese purchases of foreign equities for the first time, and inward foreign direct investment is rising as more foreign companies acquire Japanese ones [BofA]. As the external account moves toward balance, valuation and intervention gain traction at the margin rather than being offset by a persistent outflow, and that shift is the basis for our long JPY versus USD position.



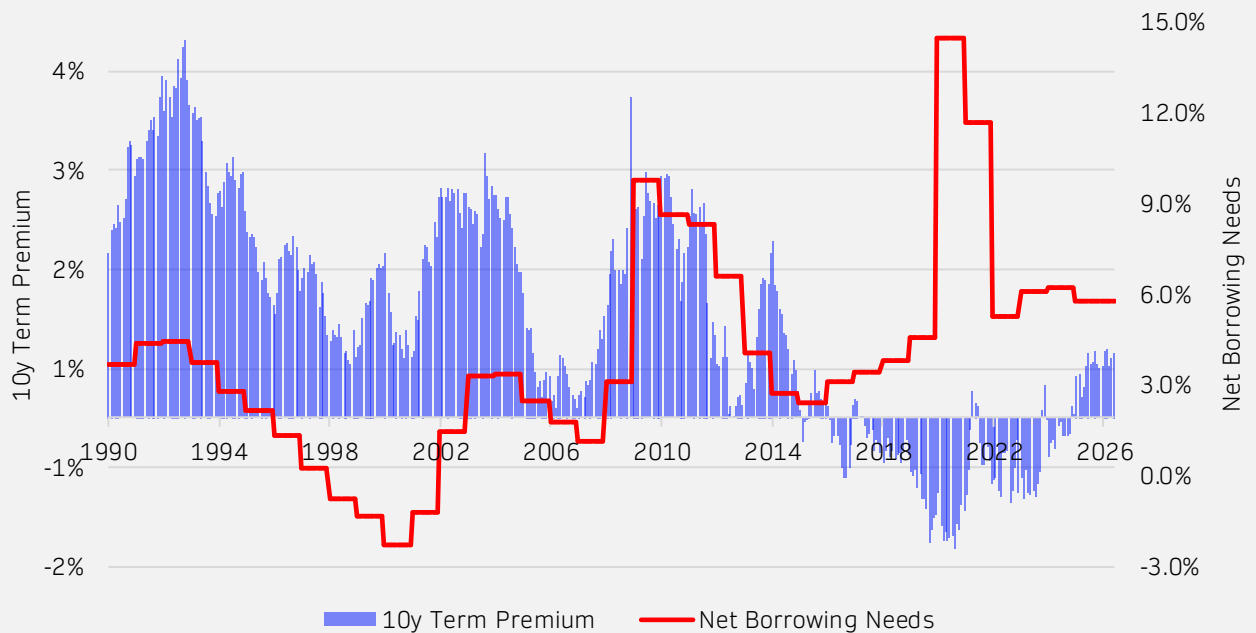
**Figure 5:** The end of cheap Japanese capital. Japan 10-year JGB yield (right axis) and USD/JPY (left axis), 2013 to mid-2026, with the 160 JPY intervention threshold JGB yields break structurally higher as JPY approaches the intervention line. Source: Bank of Japan, Bloomberg. Data through June 30 2026.

This rebalancing is the same force that lifts global term premium. **Moderating outflows mean Japanese investors reduce their marginal demand for foreign assets including USTs**, so the end of cheap Japanese capital acts as a standing tightening force on the long end independent of the Fed, the thread carried into Section 4.2. Intervention and the rate path still matter, but as near-term supports rather than as the engine. USD/JPY weakness near 160 drew the May defense and the June hike, and market commentary had flagged 160 as the trigger for accelerated BoJ action as early as January, so that sequence, the level tested, intervention deployed, and hike delivered, marks a floor beneath the yen rather than the source of its structural bid [Bloomberg]. The piece still missing is a more prudent domestic policy mix. Monetary tightening is now underway, but the fiscal side remains loose, and a **move toward more conservative fiscal policy is the condition that would take the view from constructive to high-conviction**, its absence the reason we size it as moderate [BofA].

#### 4.2 The G4 fiscal synthesis and term premium

The fiscal synthesis explains why term premium globally cannot stay at current levels. The International Monetary Fund's (IMF) April 2026 Global Financial Stability Report confirmed that **expanding deficits and rising government debt were already exerting upward pressure on term premium before the energy conflict** [IMF]. Four separate sources of price-insensitive sovereign supply are now arriving at once, namely Japan above 230% debt-to-GDP, the United Kingdom running a structural deficit between 4% and 5% of GDP with 10-year gilt yields at 5.13%, the highest since 2008, Germany's defense and infrastructure program, and US record net issuance

[Financial Times, deVere Group]. The net-flow channel, Gulf sovereign-wealth-fund drawdowns and Japanese repatriation, is visible in the data today rather than theoretical, and term premium is the price of all of it.



**Figure 6:** Term premium is too low for the issuance regime. Estimated US 10-year ACM term premium (left axis) versus net federal borrowing needs as a share of GDP, estimated by budget deficit (right axis), 1990–mid-2026. Source: Federal Reserve Bank of New York, US Treasury.

The clearest challenge to this fiscal-dominance pricing is productivity. **US nonfarm labor productivity is running near 3% year on year, lifting the five-year average to 2% from 1.5%** after the financial crisis, and the 1990s offer a template, when forecasters in 1993 projected 0.8% productivity growth and a 61% debt-to-GDP ratio by 2000 against eventual outcomes of 2.0% and 34% [JPMorgan]. If the AI capex cycle converts into sustained productivity gains, the debt trajectory that underpins the term-premium thesis could ease materially, which is why we treat the fiscal-dominance call as high-conviction but explicitly two-sided and list a trend decline in term premium against rising issuance as a falsification condition in Section 10.

### 4.3 The United Kingdom and curve positioning

The United Kingdom is the cleanest fiscal-dominance case study. **Six of the ten countries globally with the highest debt-to-GDP ratios are European**, and the UK illustrates the bind acutely, with limited fiscal headroom, long-term productivity challenges, a Bank of England (BoE) conducting QT while markets are already wary of public-sector debt, and a political transition that bond markets are pricing as a fiscal-risk escalation [Financial Times, OBR]. Whether the BoE's QT is functioning as soft monetization is the live question for the long end of the gilt (UK government bonds) curve.

The curve consequence is a bear steepener, with the front end pinned by central banks reluctant to ease into above-target inflation while the long end absorbs supply and term premium. **The risk is two-sided at the very long end, because a flight-to-quality bid in a growth shock can rally 30-year paper** even as fiscal supply argues the other way, which is why we pair the steepener with explicit long-end caution rather than an outright long-end short. Alongside the UST bear-steepener and 30-year caution globally, the cleanest currency expression is long JPY versus USD as carry compresses, hedged against

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the tail of a disorderly unwind near 160. The framework breaks on a disorderly yen unwind, or a labor crack that re-anchors the front end.

## 5 Europe and Germany: The Broken Recovery

The German fiscal-led recovery is structurally impaired, not delayed. The ECB delivers one more hike to 2.50% and then holds, and the Bund steepener has lost its growth leg, leaving it a supply-and-fiscal-credibility trade with two-sided long-end risk. Consensus still treats the German fiscal package as a cyclical recovery catalyst. We treat the impairment as structural and the package as insufficient to reverse it.

Europe entered the energy shock with a structural cost disadvantage that the shock widened rather than created. **European electricity prices were already two to four times US levels before the Hormuz closure**, a gap that reflects the region's earlier shift away from Russian gas toward Norwegian, US, and Gulf supply, none of which constitutes energy independence [IEA, Eurostat]. The United States now accounts for roughly 27% of EU gas imports, up from 5% in 2021, with new LNG contracts potentially lifting that share toward 40% by 2030 [Eurostat, IEA]. The shock therefore hit an economy whose energy repricing was already incomplete, and lower post-deal Brent helps the inflation arithmetic without restoring cancelled industrial capex or restarting idled steel and chemicals capacity.

**German heavy industry is absorbing its third energy shock in four years**, compounded by Chinese overcapacity flooding European markets with below-cost steel, chemicals, and electric vehicles, the cross-reference to Section 3. Surveys by the Ifo institute and the Leibniz Center for European Economic Research (ZEW) at recession-consistent lows confirm that business expectations have not recovered [Ifo Institute, ZEW]. The competitiveness loss accumulated over four years of uncompetitive energy pricing is not reversed by a single year of cheaper crude.

The ECB and the BoE face a monetary bind the Fed does not. With price stability as their sole or primary mandate, **neither has the dual-mandate flexibility to look through a supply-side inflation shock as easily as the Fed** [ECB, Bank of England]. The implied overnight rate for December 2027 repriced by 44 bps for the euro area and 59 bps for the UK after the conflict, against 37 bps for the US, which confirms that markets are pricing a more aggressive tightening path for Europe relative to its weaker growth outlook [Bloomberg]. A reluctant ECB hiking into stagnation, with a soft German core doing some of the tightening work through compressed demand, is a poor growth-and-duration mix rather than a clean steepening trade.

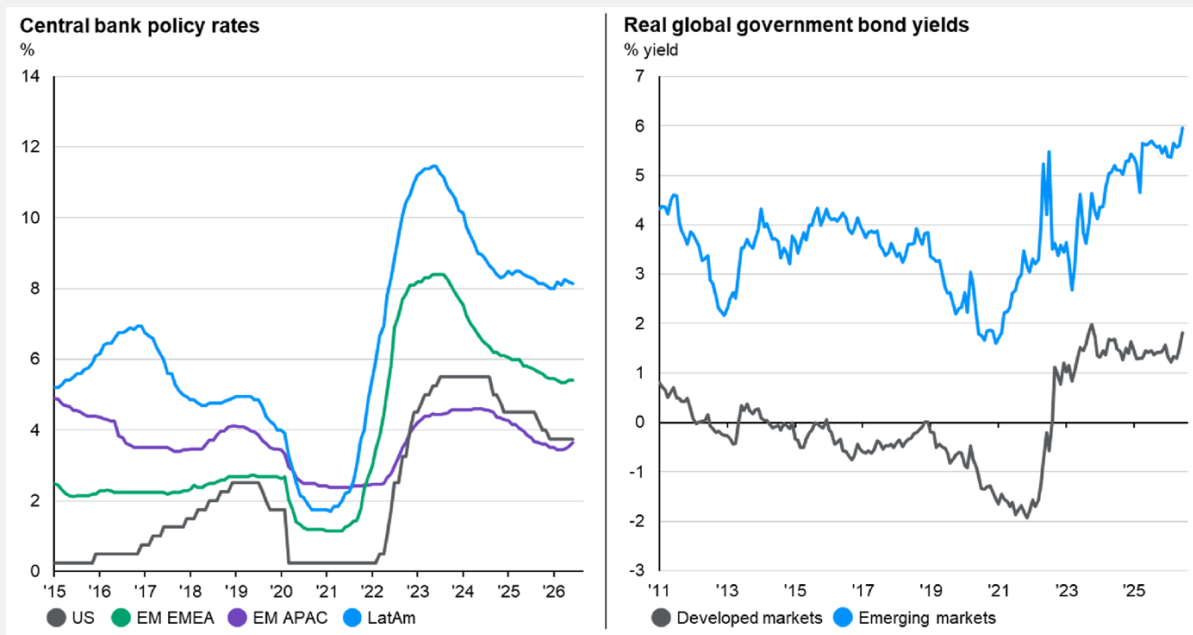
The fiscal constraint compounds the impairment. Of the ten countries globally with the highest debt-to-GDP ratios, six are European, and defense and infrastructure pledges agreed at the EU level must be reconciled with those debt loads, which makes European fiscal space a binding constraint on the recovery's depth [IMF]. **Europe's R&D spending near 2.2% of GDP trails the US at 3.6% and Korea at 5.2%**, venture investment is roughly one-tenth the US level as a share of GDP, and the EU's share of global foreign direct investment has halved in five years [Draghi, Eurostat]. These are compounding structural divergences that cheap energy alone cannot close.

The conclusion is to **underweight euro area sovereign duration rather than to position directionally**, because the long end is as exposed to a flight-to-quality bid as to a growth selloff. Euro investment-grade (IG) credit becomes the cleaner long-duration expression once the ECB bias clearly peaks, because the spread carry and the duration component both work in the base case without the sovereign-supply headwind. The view changes on a clear ECB pause confirmed by a flight-to-quality bid, or an outright recession.

## 6 Emerging Markets and Latin America

The under-allocation case survived the war, and the constructive path has arrived, so the emerging-market carry trade re-engages on the cleanest compensation in years, with Brazil and Chile the preferred expressions. Local-rates markets price an aggressive easing cycle. We think the oil shock and election calendar argue for a slower, later path, which is the more reliable carry.

The macro foundation entering this shock is materially stronger than in prior cycles, which is why emerging-market credit and currencies outperformed Europe during the energy spike. Average debt-to-GDP across benchmark emerging economies has fallen from 65% in 2022 to roughly 60% in 2026, average inflation has dropped below 4%, and real policy rates in almost every emerging economy now exceed the US rate [IIF, IMF, JPMorgan]. The average volume of importers' oil reserves has doubled since end-2021, providing a buffer earlier episodes lacked. Sovereign yields above 6.5%, combined with central banks that contained their post-COVID inflation surges roughly eight months faster than the US and Europe on average, make the carry compensation genuine [IIF]. For calendar year 2026, emerging-market corporate earnings are expected to grow 46% while price-to-earnings multiples have corrected to 11.8x, still below longer-run averages [MSCI, FactSet].



**Figure 7:** Regional central bank policy rates, 2015 to mid-2026 (left), and real developed- versus emerging-market government bond yields, 2011 to mid-2026 (right). LatAm carries the highest policy rates and EM real yields have climbed toward 6% against 2% in developed markets, the widest gap of the period and the compensation behind the carry thesis. Source: J.P. Morgan Asset Management.

Latin America holds an asymmetric position in the fragmentation order, sitting on the raw-material endowment that AI, defense, and the energy transition require at the same time. The region holds more than 40% of the world's copper reserves and nearly 60% of known lithium, alongside significant nickel, rare earths, and agricultural capacity [USGS]. Foreign direct investment into Latin America has doubled over two decades, and China invested USD 53 billion in Brazil alone in 2025 and roughly USD 50 billion across the rest of the region since 2020, building relationships that create both a tailwind and a geopolitical dependency [GFDC, World Bank]. Brazil and Chile sit at the intersection of all three resource themes and pair that endowment with orthodox monetary policy that has allowed currency

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appreciation and lower volatility.

That macro stability has reset institutional positioning. A decade of US exceptionalism had pushed many sovereign wealth funds and global allocators to trim emerging-market exposure until the region sat structurally under-owned, and 2026 has seen that capital rotate back as investors diversify away from a richly valued US market and the Hormuz risk premium fades, with **Latin American equities still trading near a 40% discount to the global benchmark despite returning roughly 56% in US dollar terms in 2025** [CFA Institute, Bloomberg]. The flows corroborate the shift across vehicles and asset classes. US-listed broad emerging-market equity exchange-traded funds (ETFs, pooled index vehicles) drew around USD 35 billion in the first half of 2026, up roughly a fifth year over year, with single-country demand led by Brazil, while global managers have rotated into higher-yielding Latin American local-currency debt to capture carry, the excess yield earned for holding a higher-rate currency, as a Selic policy rate around 14% set against falling inflation makes Brazil one of the more attractive sources of carry across emerging markets [iShares, PineBridge, BofA]. That carry and the commodity terms-of-trade gain together underwrite the currency appreciation just described and explain why Brazilian and Chilean assets are now absorbing flows that bypassed the region for most of the prior cycle.

Against that constructive flow backdrop, **the global fertilizer and food channel introduced in Section 1 lands most directly on Brazil**, where the September-to-November planting season makes nitrogen and ammonia input costs, traced back to natural-gas feedstock, a live margin and inflation risk for the 2026 to 2027 crop, feeding back into both agricultural export competitiveness and domestic food inflation [FAO, World Bank].

The exporter-importer asymmetry runs across the full complex, not only Latin America. **India and emerging Asia, as net oil importers, were the shock's primary victims**, and Taiwan and South Korea faced a compounded shock as energy importers and downstream consumers of Qatari helium for chip manufacturing [IEA, IMF]. The relief from the deal therefore flows asymmetrically, as Latin American and Gulf exporters give back some of the shock tailwind while emerging Asia gains disproportionately from the reopening, particularly Korea and Taiwan, where the semiconductor demand recovery and the AI investment cycle are the primary return drivers.

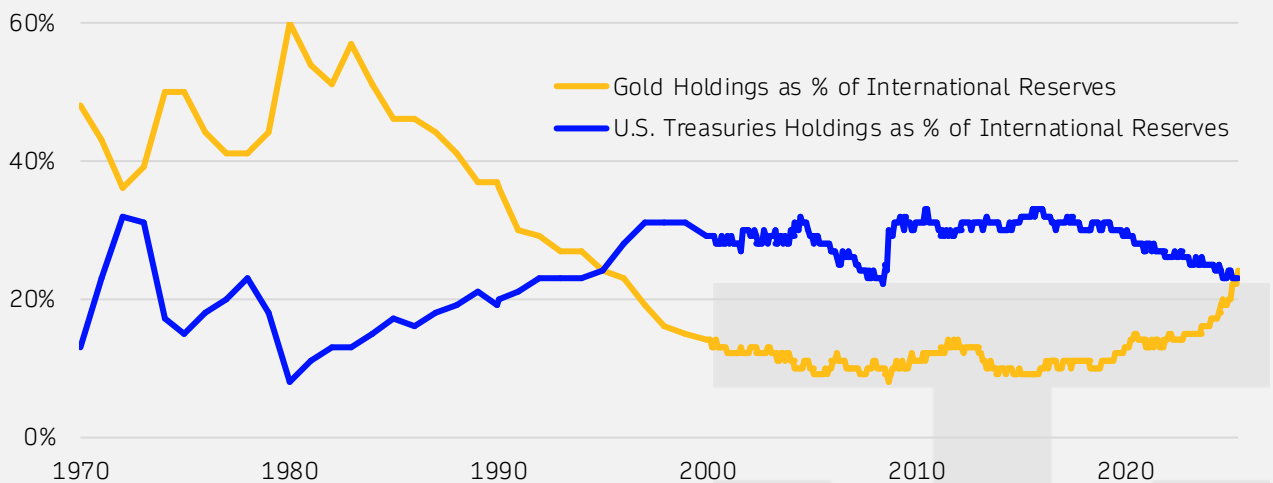
Brazil's Selic path is now explicitly election-contingent. The Copom (the Monetary Policy Committee of the Banco Central do Brasil, BCB) cut to 14.25% at its third consecutive meeting on June 17, a unanimous 25 bps move, but **the statement deliberately left the forward path open** as the bank faces the oil shock's inflationary passthrough, Lula's pre-election fiscal stimulus, and a convergence target moved to the fourth quarter of 2027 [Reuters]. Fitch raised its 2026 Brazil growth forecast to 2.1% from 1.9% but cut its 2027 forecast to 1.7%, citing the fiscal fade once the election-year impulse passes, and it sees Selic at 13% by end-2026 and inflation reaching 5%, breaching the tolerance band, before easing toward 4% in 2027 [Fitch]. Sell-side expectations cluster around the bulk of cuts arriving only after October 2026, with the oil shock arguing for a slower initial pace and the Selic bottoming near 11% by mid-2027 [Bloomberg]. **The October 2026 election is the event-risk hinge**, because Lula's stimulus is a front-loaded inflationary risk while a market-friendly opposition outcome could let the central bank cut more aggressively in 2027 and flatten the longer end of the DI (Depósito Interfinanceiro) curve, Brazil's most liquid interbank-rate market.

On balance we favor **long Brazil and Chile local rates and currencies, a Brazil DI steepener at reduced sizing** given the slower easing path, and Argentina as an off-index bet on the Milei reform program. The principal risk is a deal slip or a broad USD rally that slows regional flows. The exporter-importer asymmetry argues for caution on Asian EM importers where the terms-of-trade shock is largest, and a neutral stance on Mexico pending United States-Mexico-Canada (USMCA) resolution.

## 7 The Dollar, Gold, and De-dollarization

We are cyclically long USD on the energy-exporter and real-rate tailwind, but the structural erosion channels argue against complacency, and gold is the cleanest hedge to both fiscal dominance and de-dollarization. **We treat gold as a standalone thesis rather than the residual role of a portfolio diversifier.** The two legs are not contradictory, because the cyclical USD and the structural gold call price different horizons.

The cyclical USD bull case rests on two concrete pillars. **The United States is now a net energy exporter, so an oil shock that harms every other G7 economy improves the US terms of trade and supports the current account and USD simultaneously.** The Fed's real policy rate, with the funds rate at 3.50% to 3.75% and core PCE at 3.4%, is near zero, but relative to the ECB at 2.25%, the BoJ at 1.0%, and emerging-market central banks beginning to cut, the USD real-rate differential remains supportive for the cyclical horizon [Chatham Financial, CNBC]. Both strong-USD zones of the dollar smile (the tendency of USD to strengthen in both US outperformance and global risk-off, weakening only in synchronized growth) are live today.



**Figure 8:** Gold overtakes Treasuries in official reserves. Gold and US Treasuries as a share of global official reserves, annual, 1970 to 2025, on ECB valuations. The lines cross in 2025, the structural marker of reserve diversification. Source: ECB, World Gold Council, IMF COFER. Data through end-2025.

The structural erosion channels are confirmed by hard data rather than theory. **Gold overtook USTs in global central-bank reserve composition in 2025, reaching 27% of official reserves against 22% for Treasuries** on ECB end-2025 valuations [UBS]. Central banks bought a net 244 tonnes in the first quarter of 2026 alone, the strongest opening quarter on record, and 90% of central banks surveyed by the World Gold Council expect global gold reserves to rise over the next year [World Gold Council]. China has bought more than 350 tonnes since 2022, Poland 320 tonnes, and India 130 tonnes [UBS]. **The trigger for the acceleration was the 2022 freezing of Russia's USD 300 billion in reserves, which demonstrated that USD assets can be politically weaponized, a structural change in the incentive structure of sovereign reserve management rather than a temporary deviation** [World Gold Council].

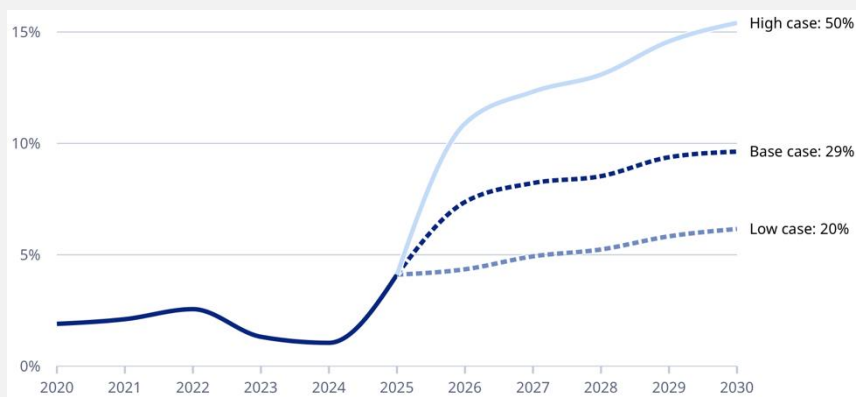
Gold is elevated to a standalone thesis on the strength of its demand floor. **Central-bank demand alone, running at 800 to 1,000 tonnes annually since 2022, absorbs roughly 26% of annual mine output and creates a structural floor** independent of exchange-traded-fund (ETF) flows or retail

appetite [UBP, World Gold Council]. Gold has risen roughly 130% over the last three years, and the consensus recommendation across major wealth managers is a 3% to 6% portfolio allocation, a structural upgrade from a tactical hedge [World Gold Council]. The petrodollar-to-petroyuan wedge that China's oil-import structure has opened is the concrete channel through which incremental oil settlement flows outside the USD system, reducing marginal Treasury demand from exporters who previously recycled petrodollars into US government bonds.

The broad currency view follows from rate differentials, real yields, and external balances rather than policy rates alone. **The EUR is capped by weak growth and a reluctant ECB, GBP carries a political risk premium and a deficit between 4% and 5% of GDP, JPY is the deliberate long via the narrowing rate differential and repatriation flow**, and broad emerging-market currencies are filtered through the exporter-importer asymmetry of Section 6 [Financial Times]. We are constructive on USD cyclically and on gold structurally, with JPY the deliberate exception. The view breaks on a synchronized global recovery that weakens USD through the middle of the smile, or an abrupt de-dollarization shock.

## 8 Artificial Intelligence as a Cross-Asset Force

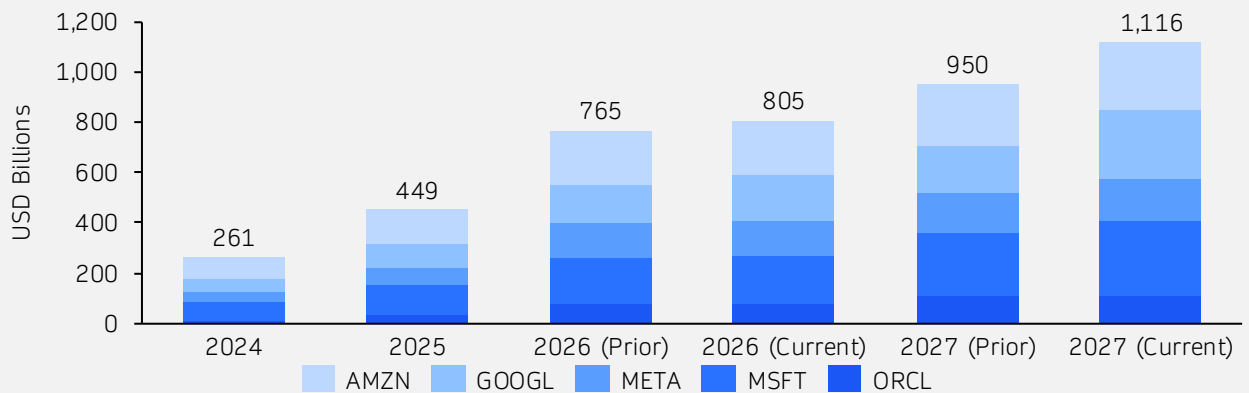
We treat AI as a cross-asset factor rather than a sector, at once the main growth engine, a structural power-demand and inflation force, a credit-concentration risk, and the market's largest crowding fault line. Equity markets price the capex cycle as a productivity story. Credit markets do not yet fully price the circularity, which is where the asymmetric expression sits.



**Figure 9:** Projected bond issuance by nine frontier AI firms as a share of gross non-financial corporate issuance, 2020 to 2030. Under the low, base, and high cases, AI-related issuers reach 6%, 10%, and 15% of issuance by 2030 respectively, up from around 2% pre-2025, marking AI as an increasingly structural driver of credit supply. Source: OECD, Global Debt Report 2026 as of June 2026.

The capex cycle is accelerating past every prior forecast. **Moody's raised its hyperscaler capex estimate in June 2026 to USD 785 billion for the year, up from USD 700 billion in March, with the 2027 forecast approaching USD 1 trillion** [Moody's]. BloombergNEF puts the combined capex of the 14 largest public data-center operators near USD 750 billion in 2026, up from roughly USD 450 billion in 2025, a two-thirds annual increase [BloombergNEF]. Amazon alone projects USD 200 billion in capex for 2026, up 53% from USD 131 billion in 2025, and Google has guided USD 175 billion to USD 185 billion, up 92% [ASCII]. Big Tech has issued more than USD 100 billion in IG bonds so far in 2026 to fund the buildout, making hyperscaler paper one of the largest single contributors to IG supply this year, and Moody's has identified USD 662 billion in off-balance-sheet data-center lease commitments not appearing as current liabilities [AlgeriaTech].

The financing circularity is the credit-concentration mechanism that makes AI systemic rather than sectoral. Investors are familiar with traditional single name concentration risk, but **this circularity introduces a different kind of risk which is underpriced covariance across the chain**. Chipmakers fund hyperscalers who fund neoclouds (cloud providers specializing in GPU-optimized infrastructure for AI workloads, often financed through private credit) who fund vehicles that finance AI infrastructure, a circular dependency in which stress at any single node propagates rapidly across the chain. Microsoft reports an USD 80 billion backlog of unfilled Azure orders attributable to power constraints alone, which confirms that physical infrastructure rather than financial willingness is now the binding constraint [AlgeriaTech]. AWS and Azure AI revenue run rates reached USD 15 billion and USD 37 billion respectively in the first quarter of 2026, while hyperscalers collectively added roughly USD 700 billion in remaining performance obligations over the last two quarters [Moody's]. **Only 25% of enterprise AI initiatives have delivered expected return on investment to date, and fewer than 20% have scaled** across entire organizations, which means the conditional-patience problem, where the market rewards visible payback, is the latent sentiment risk [AlgeriaTech].



**Figure 10:** The capex super-cycle. Hyperscaler capital expenditure, in billions of USD, 2024 to 2027, for AMZN, GOOGL, META, MSFT and ORCL. The trajectory steepens sharply, with aggregate capex projected to more than quadruple over the period. Source: Company data, Morgan Stanley Research estimates. Data as of May 2026.

The capex is increasingly consuming the cash flows that justified the equity valuations. **Aggregate hyperscaler free cash flow peaked near USD 240 billion in 2024 and is projected to fall toward USD 73 billion by the end of 2026, with the aggregate free-cash-flow yield dropping below 4% from 18% in 2023** [JPMorgan, FactSet]. That compression is the cleanest evidence that the build-out is now funded at the margin by debt and balance-sheet capacity rather than internally generated cash, which is how an equity story migrates into a credit story. The concentration reaches private credit directly, because direct-lending portfolios carry roughly 21% software exposure, closer to 40% including broader technology, and a scenario in which software defaults reach 15% at a 40% recovery would translate into around 2% unlevered private-credit losses, near 4% on levered vehicles [JPMorgan]. That is the quantified version of the circularity and the channel connecting this section to the credit stress in Section 9.

The power and commodity nexus extends the thesis into real assets. **Global data-center power demand is forecast to rise by roughly 50% between 2025 and 2027**, from about 55 GW in 2025 to 84 GW in 2027, and that grid constraint drives copper demand through transmission infrastructure, uranium demand through the nuclear renaissance as the only dispatchable low-carbon baseload scalable on data-center timelines, and critical-minerals demand through transformers, cables, and switching equipment [IEA, Dell'Oro]. BloombergNEF tracked more than USD 100 billion in hyperscaler-to-neocloud compute-capacity leases signed in the six months to March 2026, confirming the buildout is contract-backed rather than speculative [BloombergNEF]. Autonomous-systems venture investment

grew 143% in 2025, and defense technology now represents roughly 8% of all global venture capital, double its 2020 share, overlapping the AI infrastructure theme at the compute and power-systems level [PitchBook].

The supply-side tail that dwarfs the rest runs through **Taiwan, where Taiwan Semiconductor Manufacturing Company (TSMC) produces more than 90% of the world's advanced semiconductors while the island imports roughly 90% of its energy and 60% of its food** [CRS]. Reporting that the Chinese military has been directed to be capable of seizing Taiwan by 2027 keeps the tail live even as prediction markets put the odds of a pre-2027 conflict near 11%, and a blockade is estimated as a 5% global GDP shock, with US output down close to 7% and China's near 17% [Bloomberg Economics, CRS]. We carry this as a low-probability, high-severity overlay rather than a base-case driver, and it is the clearest reason the AI supply chain is a fragility as much as a growth engine.

**AI is also the one clear demand-pull inflation leg**, because the buildout, rearmament, and industrial policy are increasingly framed as strategic necessities, which makes governments and hyperscalers less price-sensitive to input-cost inflation and sustains demand even as some costs rise sharply [PIMCO]. AI substitution visible in information-sector labor data is the early signal that the productivity channel is opening, but it is not yet offsetting the inflation impulse from the capex cycle. The bull case, that AI investment drives 40% of US GDP growth in 2026, sits against the Moody's credit-reassessment warning, and the base case lies between them [Moody's, AlgeriaTech].

We therefore recommend a **reduced exposure to crowded AI equity longs, expressing the circularity risk through single-name technology credit-default protection, and holding the power-demand thesis through copper and uranium**. The view would be wrong if the buildout slows in an orderly way that lifts free cash flow and rerates the equity rather than stressing credit, leaving the protection leg to bleed, or if a power bottleneck merely defers revenue and materials demand on a timeline that lenders forbear, so the stress never reaches the credit channel the trade is positioned for.

## 9 Credit: Resilient Fundamentals Amid Rising Macro Headwinds

### 9.1 Public Credit

The first half of 2026 has once again highlighted the remarkable resilience of global credit markets. Despite an environment characterized by persistent inflation, elevated geopolitical tensions, volatile government bond markets, and repeated shifts in monetary policy expectations, corporate credit has remained one of the strongest-performing fixed income asset classes. **While sovereign bond yields experienced substantial repricing throughout the first six months of the year, credit spreads remained remarkably stable**, underlining investors' continued confidence in corporate fundamentals.

Following stronger-than-expected inflation data and resilient labor market releases, the US 10-year Treasury yield climbed back above 4.50%, while the 30-year Treasury briefly approached the 5.00% level. Similar dynamics were observed across Europe, where Bund yields repriced materially higher as inflation remained more persistent than expected and markets gradually abandoned expectations of an aggressive easing cycle. Against this backdrop, corporate credit barely blinked. **US IG option-adjusted spreads (OAS) continued to trade between 73 and 80 bps, close to their tightest levels in almost two decades, while US HY spreads remained remarkably contained around 265-300 bps**, despite periods of heightened market volatility [ICE BofA, Bloomberg].

European spreads widened modestly relative to the US, reflecting greater sensitivity to energy prices and weaker macroeconomic growth, yet remained well below historical recessionary levels. European

IG continues to offer attractive relative value, supported by robust corporate balance sheets, strong technical demand and slightly wider spreads than comparable US issuers, providing investors with additional carry without a material deterioration in credit quality.



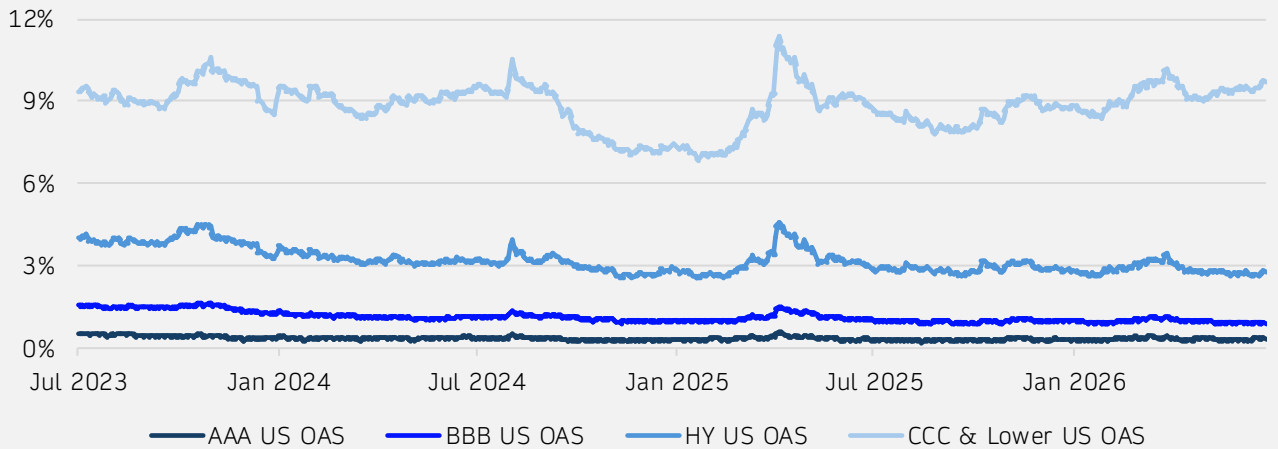
**Figure 11:** US IG (white) and HY (blue) option-adjusted spreads, mid-2021 to mid-2026. Despite the sharp first-half 2026 repricing in government bond yields, spreads held near multi-decade tightness, far below recessionary levels and prior stress peaks, which is the core of the credit-resilience thesis. Source: Bloomberg. Data through 30 June 2026.

The message from credit markets has therefore been clear. While macroeconomic uncertainty has increased considerably, investors continue to view corporate balance sheets as fundamentally sound. Several factors continue to justify this resilience. Corporate earnings have remained broadly stable, leverage ratios have shown little deterioration and default rates remain historically low across both IG and HY markets. Importantly, **the quality composition of the HY universe has improved significantly over recent years**. BB-rated issuers now represent a substantially larger share of the market than prior to previous credit cycles, also due to recent downgrades of IG-issuers to the HY universe, so-called fallen angels, reducing the overall risk profile of the asset class.

This improvement is clearly visible in spread dispersion. **BB-rated issuers currently trade at spreads of approximately 170-180 bps, while CCC-rated issuers remain closer to 700-720 bps, leaving a spread differential exceeding 540 bps.**

Such dispersion suggests that investors are increasingly differentiating between fundamentally strong companies and highly leveraged borrowers rather than indiscriminately buying risk. This represents a notable shift from the liquidity-driven environment that characterized previous years. As financing conditions tighten and refinancing costs increase, credit selection has once again become a decisive driver of performance.

**The most important feature of today's credit market is the overwhelming influence of technical factors.** Demand for corporate bonds continues to significantly outpace supply. Institutional investors remain heavily allocated towards fixed income following the sharp rise in all-in yields over the past two years. IG corporate bonds now frequently offer yields above 5%, levels not seen consistently in more than a decade. Insurance companies have become one of the largest structural buyers of corporate credit,



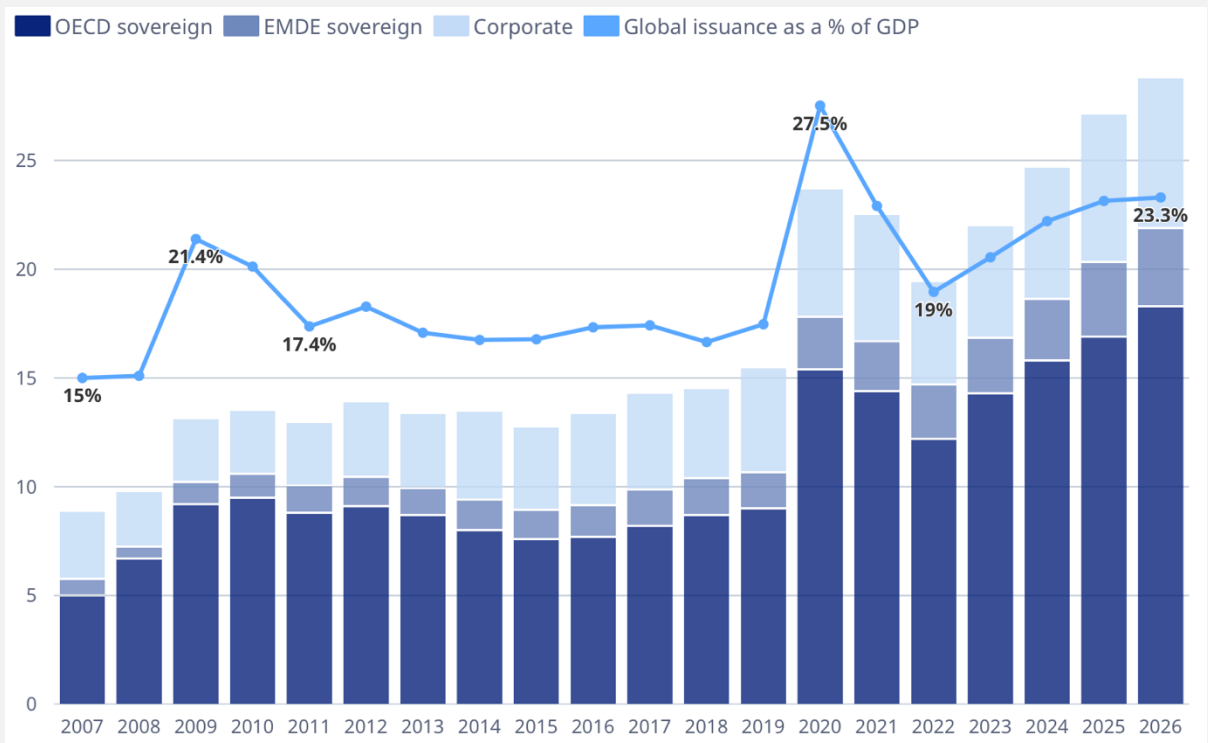
**Figure 12:** US option-adjusted spreads by rating category, AAA, BBB, HY, and CCC and lower, through mid-2026. AAA, BBB, and broad HY spreads have held relatively stable since mid-2025 while CCC issuers trade far wider, the dispersion that marks investors discriminating between higher- and lower-quality credit as financing conditions stay restrictive. Source: ICE BofA US AAA, BBB, HY, and CCC & Lower US OAS indices via FRED. Data through 30 June 2026.

particularly in the US. Driven by strong fixed-annuity demand, insurance companies now account for nearly 50% of demand in certain segments of the corporate bond market, compared with roughly 20% a decade ago. Pension funds, asset managers and retail investors have similarly increased allocations, while elevated institutional cash balances ensure that even modest spread widening is rapidly absorbed.

The strength of investor demand has been reflected in fund flows. **For one week alone in June, IG bond funds attracted approximately USD 14 billion of inflows, representing the strongest weekly inflow since at least 2021** [EPFR, JPMorgan]. These flows continue to provide powerful technical support despite increasingly stretched valuations. Primary markets have remained exceptionally active throughout the year. US IG issuance exceeded USD 1.0 trillion before mid-year and is expected to reach approximately USD 2.25 trillion for 2026, representing an increase of roughly 35% year-on-year [SIFMA, JPMorgan]. Weekly issuance frequently exceeded USD 40-45 billion, while HY issuance remained robust at approximately USD 13-15 billion during active issuance weeks.

Technology companies have emerged as the dominant borrowers. Driven by unprecedented investment in artificial intelligence infrastructure, **hyperscalers are expected to issue well over USD 100 billion of debt during 2026, accounting for roughly 5 to 10% of total US IG issuance, up from a low-single-digit share one year earlier.** Among the largest transactions, Meta Platforms issued a USD 25 billion six-tranche transaction, while Alphabet successfully accessed both the EUR and CAD dollar markets through EUR 9 billion and CAD 8.5 billion offerings. Oracle's recent USD 5 billion AI-related financing attracted an extraordinary USD 155 billion order book, illustrating the depth of investor demand for high-quality issuers. The willingness of companies to refinance existing liabilities and simultaneously finance strategic investment programs reinforces the view that corporate fundamentals remain healthy despite materially higher government bond yields [Morgan Stanley, OECD].

After two years of exceptional spread compression, the market appears to have entered a new phase. With spreads already trading near multi-decade tights, further compression is likely to be limited. Instead, **coupon income, or carry, has become the dominant source of expected returns.** Today's elevated government bond yields allow investors to earn attractive total returns simply by holding high-quality corporate bonds, even if spreads remain broadly unchanged. IG bonds continue to generate attractive income while exhibiting relatively low volatility compared with equities or lower-quality credit.



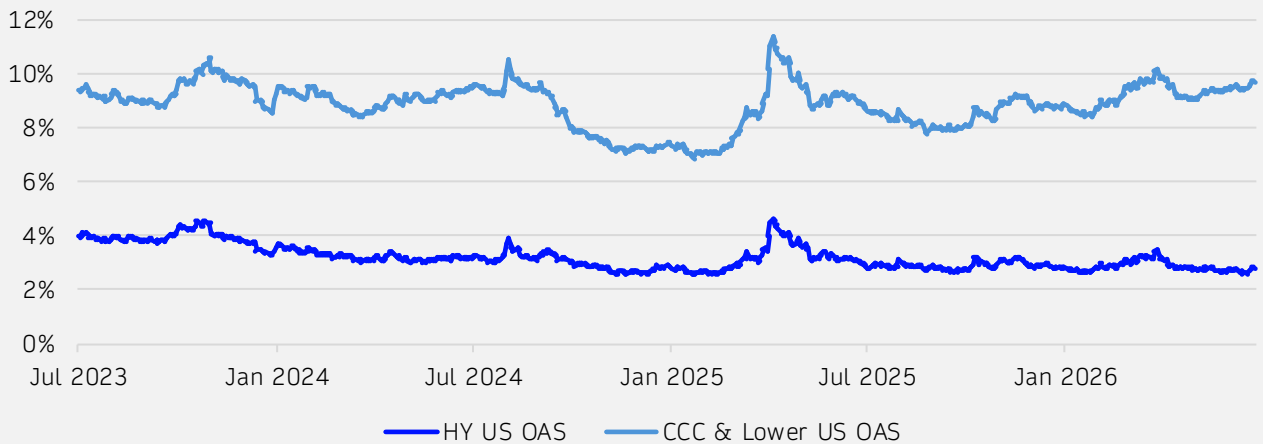
**Figure 13:** Global sovereign and corporate bond issuance, USD trillion, 2007 to 2026, split into OECD sovereign, EMDE sovereign, and corporate, with global issuance as a share of GDP overlaid. Total issuance has risen steadily since 2022 on widening fiscal deficits and heavier public financing needs, while tight credit spreads have kept corporate primary markets active despite higher government bond yields. Source: OECD, Global Debt Report 2026. Data as of 30 June 2026.

Although headline spreads remain exceptionally tight, the underlying market tells a more nuanced story. **The first half of 2026 has seen the emergence of an increasingly K-shaped credit market.** Large, highly profitable issuers, particularly those benefiting from structural themes such as artificial intelligence, digital infrastructure, utilities and energy, continue to issue debt at historically attractive funding levels. Meanwhile, smaller and more leveraged borrowers face materially higher refinancing costs. Companies refinancing debt today frequently encounter underlying government curves that are 200-300 bps higher than when much of their outstanding debt was originally issued.

Investors have increasingly rotated towards higher-quality issuers with stronger pricing power, resilient cash flows and limited refinancing needs. This trend is particularly evident within HY, where **BB-rated issuers continue to outperform lower-rated B and CCC credit.** Consumer-facing sectors, transportation and lower-quality leveraged borrowers have begun to experience increasing pressure as higher financing costs gradually feed through to corporate balance sheets.

Looking ahead, we expect the second half of 2026 to be characterized by a continued divergence between resilient corporate fundamentals and an increasingly challenging macroeconomic backdrop. **While economic growth is expected to moderate, the probability of a deep recession remains limited.** Instead, markets are likely to navigate an environment defined by persistent inflation, restrictive monetary policy, elevated fiscal deficits and continued geopolitical uncertainty. The outlook for corporate credit remains constructive, although considerably more challenging than during the spread-compression rally that has characterized the past two years.

From a macroeconomic perspective, we broadly share economists' assessment that inflation is likely to remain structurally higher than during the pre-pandemic decade. Rather than returning quickly to



**Figure 14:** US HY and CCC & lower option-adjusted spreads, through mid-2026. Broad HY spreads held near multi-decade tights on a higher fallen-angel share and solid fundamentals, while CCC and lower issuers widened on liquidity and refinancing strain, the K-shaped split as investors demand a higher risk premium for the weakest credit. Source: ICE BofA HY and CCC & Lower US OAS indices via FRED. Data as of 30 June 2026.

central bank targets, **inflation is expected to fluctuate around 2.5-3.0% over the medium term** as geopolitical fragmentation, increased defense and infrastructure spending, supply-chain reconfiguration, energy security and unprecedented AI-related capital expenditure continue to support nominal growth. These structural forces suggest that both the Fed and the ECB may need to maintain restrictive monetary policy for longer than markets previously anticipated, reinforcing the prevailing "higher-for-longer" interest-rate environment.

Against this backdrop, we expect market leadership to become increasingly selective. While headline spreads remain exceptionally tight, **increasing dispersion beneath the surface reflects a market that is transitioning away from a liquidity-driven regime towards one increasingly determined by company-specific fundamentals.** BB-rated HY issuers continue to outperform lower-rated B and CCC credit, while companies refinancing debt today frequently encounter underlying government bond curves that are 200-300 bps higher than when much of their existing debt was originally issued. We therefore expect credit quality, issuer selection and sector allocation to become increasingly important differentiators over the coming quarters. Companies with durable pricing power, resilient cash flow generation and limited refinancing needs should continue to outperform businesses with weaker balance sheets or greater exposure to higher funding costs.

Overall, our base case remains constructive for corporate credit, although valuations leave increasingly little room for disappointment. Should inflation remain more persistent than expected, government bond yields continue to rise or primary issuance begin to outpace investor demand, spread widening could become more pronounced. Nevertheless, **we expect total returns during the second half of 2026 to be driven predominantly by carry rather than capital appreciation,** as elevated all-in yields continue to provide an attractive source of income. We continue to favor IG over HY, BB-rated issuers over lower-quality credit, and companies with durable pricing power, resilient cash flows and limited refinancing requirements. We also maintain a preference for sectors benefiting from long-term structural investment themes, including artificial intelligence, digital infrastructure, energy and industrial reshoring, while remaining cautious towards businesses facing elevated refinancing risk or weakening consumer demand.

While headline spreads may remain close to cycle tights, the next phase of the credit cycle is unlikely to be defined by broad market beta. Instead, **disciplined security selection, active portfolio construction**

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and the ability to capture attractive carry will become the primary drivers of investment performance as markets continue to transition towards a more fundamentally driven credit environment.

## 9.2 Private Credit

One area that warrants continued attention is private credit. Recent headlines surrounding elevated redemption requests at several US Business Development Companies (BDCs) and semi-liquid evergreen funds have raised concerns, yet **we continue to view these developments primarily as structural liquidity issues rather than evidence of systemic credit deterioration**. Traditional closed-end private credit vehicles remain largely insulated by long-term capital commitments, while underlying corporate fundamentals across the broader private credit market remain robust. Nevertheless, regulators including the ECB and the Financial Stability Board have highlighted liquidity mismatches, increasing leverage and growing interconnectedness between private credit vehicles and the banking sector as vulnerabilities that deserve close monitoring.

The headline default rate in private credit understates the real picture because it excludes distressed exchanges, restructurings in which lenders modify or swap debt to avoid a formal default event, and the gap between what is reported and what is real is widening. **The proxy default rate for private direct lending runs from 1.6% excluding distressed exchanges to 4.7% including them, with Moody's Analytics estimating that roughly 65% of all private-credit defaults in 2025 were distressed exchanges** rather than hard defaults [Moody's Analytics, Fitch]. Morningstar DBRS puts the picture in sharper relief, with distressed exchanges accounting for 94% of all downgrades to D or SD in the 12 months ending February 2026 and a 78% year-on-year increase in default events in 2025 [Morningstar DBRS]. Fitch placed the US private-credit default rate at a record 6% in April 2026 [Fitch]. These numbers measure different things, and the spread between them is precisely where the masking sits.

A distressed exchange defers stress rather than resolving it. **Moody's historical database covering 1,173 borrowers back to 1979 shows that more than one in three distressed restructurings ultimately ends in a hard default or repeat credit event, and the hazard is front-loaded, with more than 70% of eventual hard defaults occurring within the first two years** [Moody's Analytics].

If companies are facing liquidity issues or are not able to cover their interests with their cash flows, payment-in-kind (PIK) income, where a borrower rolls interest into additional debt or equity rather than paying cash, is used more frequently. PIK interest still lands in the lender's investment income and can support a distribution coverage ratio regardless of whether any cash changed hands. For the 15 largest exchange-traded BDCs by total assets, **PIK interest income surged 20% year on year to USD 1 billion as of the first quarter of 2025, reaching 8.7% of total interest income**, and PIK-paying loans made up around 12.8% of total BDC loans in the third quarter of 2025, near the cycle peak [PitchBook, S&P Global]. The relevant distinction is between PIK structured at origination for growth-stage borrowers with explicit guardrails and PIK added after origination because something has gone wrong, with the latter share rising once the hiking cycle began [Goldman Sachs]. By the first quarter of 2026, aggregate PIK income for the same 15 BDCs fell 10% to USD 229 million, a two-year low [PitchBook]. **A falling share sounds reassuring until the mechanism is clear, because the weakest borrowers are defaulting or restructuring out of the portfolio, so the survivors look cleaner on a ratio basis even as absolute losses accumulate.**

The redemption pressure in non-traded BDCs, which unlike their exchange-traded counterparts are not listed on public stock exchanges and instead offer investors only periodic quarterly liquidity windows with redemptions capped at 5% of shares outstanding per quarter, is a symptom rather than the disease. Retail vehicles represent roughly 15% of traditional private-credit assets, and the 5% per-quarter redemption limit is a contractual feature designed to match the weighted-average life of the

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loan book rather than a gate [Goldman Sachs]. Even so, BDC capital formation and retail sales fell 40% year on year in the first quarter of 2026, the sharpest contraction in the sector's history, and the Proskauer Private Credit Default Index reached 2.73% in the same quarter, a fourth consecutive increase [Wedbush, Proskauer].

The signals worth watching, though, are elsewhere. **Blackstone BCRED's cost-basis non-accruals surged from 0.6% to 2.4% in the first quarter of 2026, and the fund injected roughly USD 400 million of firm capital to manage liquidity**, diverting sponsor capacity from borrower support to fund-level management [Magnin]. Whether retail vehicles pose systemic risk is contested, with the pure redemption channel too small to trigger a broad shock directly, since even maximum quarterly redemptions of roughly USD 5 billion flow into a syndicated loan market turning over USD 85 billion per quarter [Goldman Sachs].

Another important point to mention is the household K-shape, which is clearly affecting the consumer-driven asset-backed securities (ABS) market. Consumer-driven ABS are securities backed by pools of household borrowing, including credit card receivables, mortgages and auto loans, and are widely used by investors to gain exposure to consumer credit performance and household financial conditions. **Higher energy prices act as a regressive income transfer, hitting low- and middle-income households, who have the highest marginal propensity to consume, far harder than the upper cohort** [PIMCO]. BofA card data confirm the split, because equity-wealth effects from cumulative gains since end-2022 have insulated higher-income spending, but a sustained 20% equity drawdown would change that calculus materially [BofA]. Consumer ABS and junior CLO tranches, structured credit products backed by a diversified portfolio of leveraged loans made primarily to below-investment-grade companies, are the channels through which lower-income stress reaches the broader system, and the commercial-real-estate office maturity wall is the bank-channel equivalent with the longest fuse but the clearest calendar.

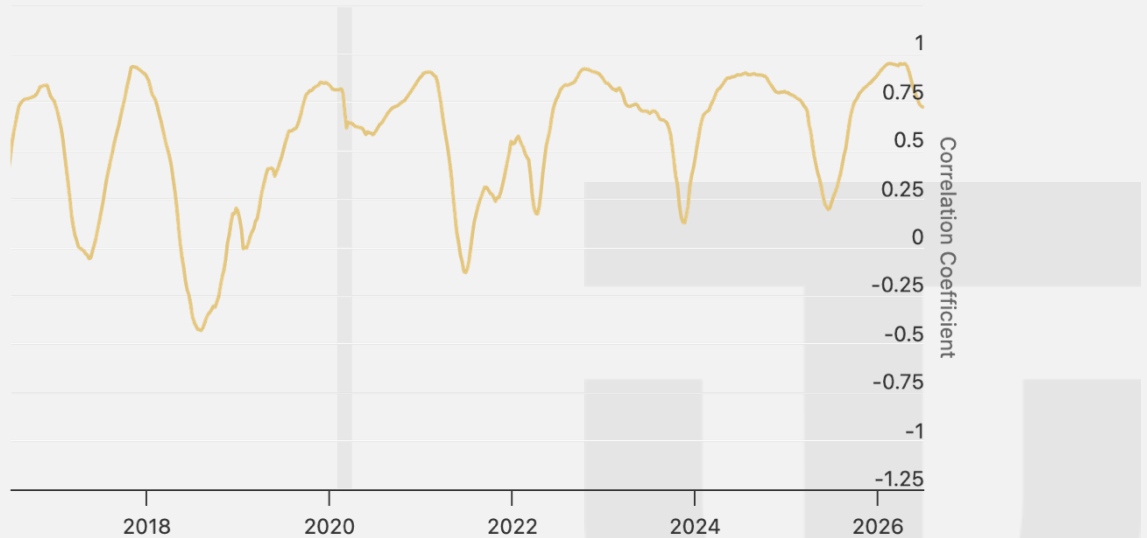
Looking ahead, we expect private credit to remain a resilient and attractive asset class, supported by strong demand for floating-rate income. While current stresses appear concentrated in semi-liquid fund structures rather than the asset class as a whole, higher financing costs, slowing economic momentum and a growing refinancing burden are likely to expose weaker borrowers over the coming quarters. As a result, **traditional headline default rates are expected to become less informative, with distressed exchanges, payment-in-kind (PIK) structures and other liability-management exercises continuing to mask underlying credit deterioration**. We therefore expect manager selection, underwriting discipline and portfolio transparency to become increasingly important differentiators. In our view, the principal risk to monitor is not a systemic private credit crisis, but a gradual increase in idiosyncratic credit events and liquidity pressures within lower-quality borrowers and retail-oriented fund structures, while institutional closed-end vehicles should remain comparatively well positioned.

## 10 Cross-Asset Synthesis, Scenarios, and Convictions

### 10.1 Equities as a cross-asset risk

Equities are priced for a base case that leaves little room for institutional surprises. The S&P 500 next-twelve-months price-to-earnings ratio has corrected from post-shock highs back toward approximately 20x, more attractive than the 26x peak but still above the historical median in a higher-rate, higher-inflation world [FactSet]. The composition of expected returns matters more than the level, because with multiples already full and the discount rate elevated by the term-premium argument in Section 4, the return has to come from earnings rather than re-rating, which raises the bar for the AI capex cycle to convert into margins. There is early evidence the conversion is occurring at the firm level, with **S&P 500 margins reaching a record 13.3% in the fourth quarter of 2025 and AI-adopting companies averaging 17% margins against 13% for non-adopters**, but index-level returns still depend on that edge broadening rather than concentrating [JPMorgan, FactSet].

AI-driven concentration means a single capex-disappointment cycle, or a crack in a key chip supplier, produces outsized index-level volatility. **The stock-bond correlation has turned structurally positive in a fiscal-dominance regime, so the conventional 60/40 portfolio is not the hedge it was between 2009 and 2019**, and gold, real assets, trend-following, and long-volatility are the diversifiers that actually worked during the May rout [PIMCO].



**Figure 15:** One-year rolling correlation between stocks and bonds, 2016 to mid-2026. The correlation has spent most of the period in positive territory and sits near 0.75 today, the regime in which bonds no longer hedge equities and the conventional 60/40 portfolio stops working. Source: LongtermTrends.

### 10.2 Base, upside, and downside scenarios

The distribution of outcomes is wider and more two-sided than a normal cycle, **a fat-tailed regime in which both an AI-led productivity boom and a geopolitical or fiscal accident carry materially higher probability than usual**, which is why we manage to a range of scenarios rather than a single point forecast [PIMCO].

The base case, to which we assign roughly 45% probability, is a held ceasefire and a gliding reopening. Brent settles near USD 70, the residual inflation keeps the Fed on a shallow hiking path through the

horizon, the term premium grinds higher, and risk assets are supported but rangebound. In this path the bear-steepener, the long JPY view, EM carry, up-in-quality credit, and the China-divergence pair all work.

The upside scenario is a cleaner and faster de-escalation that pulls energy into the low USD 60s without a growth shock. This is disinflationary and risk-positive, because real yields fall, the inflation residue clears enough to halt the hiking cycle and eventually open room to ease, equity breadth improves beyond the AI complex, and USD softens through the middle of the smile. The cost is that the gold and bear-steepener convictions underperform, which is why gold is sized as a structural hold rather than a tactical overweight. **The upside is genuinely good for growth rather than a vague middle outcome, and it is the scenario in which being too defensive is the main risk.**

The downside splits into two distinct shocks with opposite policy responses, and **distinguishing them is the single most important risk-management task for the horizon.** The stagflationary downside is a verification-window slip or a fresh supply disruption that re-escalates oil, embeds inflation, and forces central banks to hold or hike into weakness, in which gold, real assets, and short duration win and the front-end-pinned leg of the steepener is the expression. The 2022 episode is the template, when a 60% oil surge into already-elevated core inflation drew 425 bps of Fed hikes, a 20% S&P decline, and a 13% loss on core fixed income, with only macro hedge funds positive, which is why duration does not hedge this path and real assets and trend-following do [JPMorgan]. The recessionary-disinflation downside is a labor-market crack or a private-credit reverse migration that tightens financial conditions, collapses growth, and forces an earlier easing turn, in which long duration at the front end, gold, and quality credit win while the steepener's front-end leg is the casualty.

### 10.3 Convictions

#	Conviction	Confidence	Base case	Break condition
1	Energy on a reopening glide path	High	Deal holds, Brent anchored near USD 70-75	Structural peace into the low USD 60s or window slips
2	UST bear-steepener, 30y caution	High	Shallow hiking cycle peaks by mid-2027, term premium lifts long end	Labor crack, or faster and deeper hikes that flatten the curve
3	Underweight European sovereign duration	Moderate	ECB peaks without reversing	Flight-to-quality bid or recession
4	Long JPY versus USD	Moderate	BoJ keeps normalizing, repatriation flows build	Disorderly unwind near 160, or a wider Fed differential
5	Long Brazil and Chile, EM carry re-engaged	Moderate-to-high	Deal holds, USD softens	Deal slip or USD rally
6	Up-in-quality credit, BBB/BB crossover	Moderate	Spreads grind	Public spreads widen
7	Underweight private-credit semi-liquid wrappers	Maintained	All paths except a clean rates rally with stabilizing redemptions	Redemptions stabilize and rates rally together
8	Long gold, de-dollarization and fiscal-dominance hedge	Moderate-to-high	Term-premium shock, deal slips, or reserve diversification accelerates	Clean structural peace with falling real yields
9	Cyclically long USD, structurally hedged	New	Energy-exporter and real-rate tailwind persists	Synchronized recovery or abrupt de-dollarization shock
10	China-disinflation versus DM-inflation pair	New	China eases into deflation while DM runs hot	Large China reflation surprise
11	AI hedged cross-asset factor, reduce crowded longs	New	Capex sustains with visible payback	Clean capex-disappointment cycle
<b>Tactical</b>	Front-end flattener for near-term hawkish pulses	High-risk / option-like	Warsh hikes sooner or faster than priced	Front end stays pinned

**Table 1:** Convictions, confidence, and falsification conditions. Eleven core convictions plus one tactical option-like hedge, ordered by confidence, each with its base case and named break condition.

## 10.4 Scenario and growth matrices

Scenario	Probability	Convictions that work	Convictions that break
S1. Deal holds, reopening glides (base)	45%	1, 2, 5, 6, 10	None
S2. 60-day window slips	15%	8, tactical flattener	5
S3. Faster or deeper hiking cycle than base	15%	9, tactical flattener	Steeper leg of 2
S4. Labor market cracks	10%	3, 10	Front-end-pinned leg of 2
S5. Private-credit reverse migration	7%	6, 7	Broad risk-on
S6. Fiscal-dominance term-premium shock	5%	2, 8	None
S7. China hard landing, deflation export accelerates	3%	Deflation leg of 10	Section 6 EM carry

**Table 2:** Scenario matrix. Probability-weighted scenarios with the convictions that work and break in each.

Path	Probability	Key driver	Asset expression
Soft landing	45%	Oil relief, labor resilience, AI productivity	Risk-on, EM carry, IG credit
No-landing / stagflation	30%	Sticky inflation, Warsh hikes, energy residue	Gold, real assets, short duration
Mild recession	20%	Labor cracks, credit tightens, capex disappoints	Long duration (front end), gold, quality credit
Hard landing	5%	Private-credit shock, SWF and repatriation spiral	Long duration, gold, USD

**Table 3:** Growth and recession-probability matrix. Macro paths with their drivers and the cleanest asset expression

## 10.5 Falsification conditions for the central thesis

The central thesis, that the Iran shock left a structural residue of fiscal dominance, embedded inflation, USD erosion, and AI-driven credit concentration, is testable. **It would be substantially wrong if several of the following occur together:** trimmed-mean PCE returns to the 2% target on a sustained basis, signaling that the persistence was cyclical, the US 10-year term premium declines on a trend basis even as net Treasury issuance and G4 sovereign supply rise, central-bank net gold demand falls back below its pre-2022 run rate and gold's reserve share reverses, private-credit downgrade-to-upgrade ratios normalize toward 1.0x as distressed exchanges fall as a share of credit events, or AI capex plateaus without a credit event while enterprise return on investment broadens.

## 10.6 Consensus versus this outlook

Topic	Consensus view	This view
Fed risk	Hikes are priced, but Warsh may lean dovish into the midterms	More hawkish than the market across the next three meetings, and the framework change independently lifts term premium
Private credit	No signs of a major default cycle	Broadly in line with market expectations but cautious because of increased PIK and downgrade cycle
China	Stimulus-reflation recovery	Structural deflation counterweight to the DM inflation regime
Term premium	Normalizing gradually	Too low for a synchronized G4 fiscal-dominance backdrop
AI	Sector and equity story	Cross-asset credit-concentration risk and real-asset driver
Gold	Diversifier and tactical hedge	Standalone thesis with a structural central-bank demand floor

**Table 4:** Where this outlook differs from consensus. The specific market-implied view each conviction challenges.

## 10.7 Conclusion

The Iran war was the catalyst rather than the cause. What it made legible, and what now defines the regime, is the combination of fiscal dominance, the end of cheap Japanese capital, a slow erosion of the dollar's reserve role, AI-driven credit concentration, and a quality turn in segments of credit. **The single most important judgment in this outlook is that the price of duration is too low for the fiscal and institutional world now in place**, and the single most important risk-management judgment is the distinction between the two downside paths, one stagflationary and one recessionary, that demand opposite duration postures.

**The base case is constructive enough to stay invested and cautious enough to favor quality**, with duration risk managed through a steeper and a structural preference for the assets that price the erosion of the existing order rather than its continuation. We publish these as views from an investment club's research department rather than as a managed book, ordered by confidence and bounded by named break conditions, so that they can be assessed against the regime rather than the headlines and so that being wrong is observable early rather than expensive late.

The same fragmentation that drives the regime also drives dispersion, because **inflation, policy, and growth paths now diverge across countries and sectors after four decades of convergence**, which raises the payoff to security selection and country differentiation over passive, index-level exposure.

## Appendix A. Glossary

**Average inflation targeting.** The Fed's pre-Warsh framework, under which the central bank allowed inflation to run modestly above 2% after a period of undershooting, to achieve 2% on average over time. Warsh's task forces are reviewing whether to retire it.

**Bear steepener.** A curve move in which yields rise across the curve but the long end rises faster than the front end, steepening the slope. Typical of rising term premium or fiscal-supply concerns.

**BDC (business development company).** A publicly traded or non-traded vehicle that lends to mid-market companies. A common private-credit wrapper that can face asset-liability mismatches when investors redeem.

**Breakeven inflation.** The difference between a nominal Treasury yield and an inflation-protected Treasury yield of the same maturity. A market proxy for expected average inflation over that horizon.

**Carry trade.** Borrowing in a low-yielding currency or asset and investing in a higher-yielding one to capture the differential. Highly sensitive to reversals in funding-currency strength.

**CLO (collateralized loan obligation).** A structured-credit vehicle that pools leveraged loans and issues tranching securities, a key channel through which leveraged-credit exposure reaches institutional investors.

**Distressed exchange.** A restructuring that swaps or modifies debt to avoid a hard default. Defers stress rather than resolving it, and carries an elevated re-default hazard.

**Dollar smile.** The tendency of USD to strengthen both in strong US growth outperformance and in global risk-off, weakening only in the middle, during synchronized global growth.

**Dot plot and SEP.** The Fed's Summary of Economic Projections, including individual rate-path forecasts shown as anonymous dots. Warsh skipped his own dot at the June 2026 meeting and launched a task force to review the tool.

**Fiscal dominance.** A regime in which government financing needs constrain or override monetary policy, either through debt monetization or because issuance volume pushes yields higher regardless of policy rates.

**K-shaped.** A divergent pattern in which higher-income or higher-quality cohorts recover and grow while lower-income or lower-quality cohorts stagnate or deteriorate.

**MOVE index.** The bond-market equivalent of the VIX, measuring expected volatility in US Treasuries.

**Neoclouds.** Cloud providers specializing in GPU-optimized infrastructure for AI workloads, sitting between chipmakers and hyperscalers in the financing chain and often funded through private credit.

**OIS (overnight index swap).** A derivative exchanging a fixed rate for the overnight policy rate over a term, used to price policy expectations without the credit or liquidity premia in government-bond yields.

**PIK (payment in kind).** A loan feature allowing a borrower to pay interest by issuing additional debt rather than cash. Discussed in Section 9 as a masking mechanism for private-credit stress.

**Petrodollar and petroyuan.** The petrodollar is the convention of pricing and settling oil in USD and recycling oil revenue into dollar assets. The petroyuan is China's effort to denominate oil transactions in RMB via the Shanghai International Energy Exchange.

**QT (quantitative tightening).** The reduction of a central bank's balance sheet after a period of asset purchases. Can be passive or active, and tightens financial conditions.

**Reverse migration.** Borrowers who had relied on private credit returning to public debt markets as private lenders tighten, which widens public spreads at the margin.

**Selic.** Brazil's overnight benchmark rate, set by the Copom. At 14.25% in June 2026, it still carries one of the highest real rates among major emerging markets.

**Sovereign wealth fund.** A state-owned investment vehicle typically funded by commodity revenue. Gulf funds are discussed as price-insensitive sellers of foreign assets when they draw down to fund fiscal gaps.

**Term premium.** The excess yield investors demand for holding a longer-maturity bond rather than rolling short-term securities, compensating for interest-rate risk, inflation uncertainty, and supply-demand imbalance.

**Trimmed-mean PCE.** A Dallas Fed variant of the PCE price index that removes the most extreme price changes in both directions, giving a cleaner read of underlying inflation momentum than headline or core PCE.



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## CONTACT US

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 Arcisstrasse 21, 80333 Munich, Germany

 [contact@tuinvest.de](mailto:contact@tuinvest.de)

 [www.tuinvest.de](http://www.tuinvest.de)



# INVESTMENT CLUB



Arcisstrasse 21, 80333 Munich, Germany



[contact@tuinvest.de](mailto:contact@tuinvest.de)



[www.tuinvest.de](http://www.tuinvest.de)