MARKETING COMMUNICATION FOR PROFESSIONAL INVESTORS IN ITALY, FRANCE, AUSTRIA, GERMANY, SPAIN, PORTUGAL AND LUXEMBOURG.

GENERALI INVESTMENTS

DIVERSIFICATION REIMAGINED:

Fixed income perspectives for a new market regime

June 2026

After years in which falling inflation, predictable central banks and familiar market dynamics shaped investment decisions, fixed income investors are navigating a more complex landscape. Geopolitical fracturing, persistent inflationary pressures, elevated public debt and shifting currency relationships are challenging long-held assumptions about diversification and the role of traditional safe havens.

Yet periods of transition create opportunities for active investors. In this semi-annual outlook, seven fixed income specialists from across the Generali Investments platform[1] share their views on the themes shaping the second half of 2026 — from corporate and emerging market debt to unconstrained strategies and LDI portfolios.

Sebastiano Chiodino
Head of Liability-Driven Investments,
Generali Asset Management

GENERALI ASSET MANAGEMENT

THE IMPOSSIBLE TRINITY AND ADAPTING THE INSURANCE PORTFOLIO

Navigating unusual market environments may require adapting standard frameworks to new challenges.

For non-mark-to-market portfolios, and insurance portfolios in particular, there are two dimensions to consider when managing a baseline scenario squeezed between fat-tail risks: the toolkit and the asset mix. While distinct, both are closely linked to interest rates, volatility and their solvency implications.

In a higher-for-longer rates environment, large fixed income portfolios can remain deeply loss-making relative to historical purchase prices. At the same time, acting on physical portfolios while protecting clients' P&L becomes increasingly difficult. As 2023 reminded us, lapse risk remains a key consideration. Against this backdrop, unfunded solutions may offer a more effective way to manage insurance portfolios and the cash and lapse risks associated with adverse scenarios for rates and inflation.

The post-pandemic period and the current geopolitical earthquake have accelerated the need for more sophisticated tools, solutions and strategies. Meanwhile, elevated rates volatility still calls for disciplined cash management and careful awareness of portfolio composition to avoid unwanted Own Funds volatility.

So far, this backdrop has strongly supported a credit-skewed asset mix. But what next?

Low-SCR-absorbing assets have repriced sharply as the narrative around the "impossible trinity" remains firmly in fashion. Markets appear to be leaning more towards reflation than stagflation and, particularly in the euro area, German rates may already offer a capital-efficient opportunity to reshuffle the credit-intensive asset mix built over recent years.

Credit spreads remain close to historical tights and higher-beta segments may be underpricing macro tail risks.

Even if capital incentives and cross-asset valuations point towards some rotation, prudence and graduality will remain the name of the game. The saddle path ahead could be slippery, turning an investment opportunity into a lapse trigger and an unwelcome return to a cash-is-king world. Investors may wish to consider opportunities with discipline, manage cash carefully and hedge adverse inflation scenarios.

[1] Please note that the individuals referenced herein are portfolio managers of asset management companies belonging to Generali Investments Holding S.p.A.. The full legal names of all entities are provided in the 'Important Information' section of this document, on the last page.

Mauro Valle
Head of Fixed Income, Active Management
Generali Asset Management

STAYING TACTICAL IN EURO BONDS

Fixed income markets continue to be shaped by geopolitics, with US–Iran negotiations reaching an agreement for a further 60 days truce to discuss crucial topics such as nuclear materials. In the meantime the Strait of Hormuz could be reopened and the oil prices have declined to around $80 per barrel. While the reopening is a positive factor, a further decline in oil prices cannot be taken for granted, given the time needed for a full reopening (in the scenario that US-Iran peace talks will arrive at a final agreement), the need to re-establish inventories, and the demand coming for a better economic scenario in the second half of the year.

The renewed upward pressure on global yields, driven by inflation risks and a repricing of central bank expectations could also persist in the coming weeks. In Europe, Bund yields briefly touched multi-year highs before partially retracing, while shorter maturities moved higher in line with a more persistent tightening outlook.

Markets are now positioned for a further move by the Federal Reserve over the next 12 months and additional tightening from the ECB following June's hike. The Fed is likely to place greater emphasis on inflation, particularly given the resilience of the US labour market. At his first meeting the new Chair Warsh was relatively hawkish, confirming a clear focus on inflation although with a new approach to communications. Meanwhile the ECB has reaffirmed a data-dependent approach: a further move in July remains possible, while a second hike in September appears increasingly likely, reflecting updated projections pointing to stronger inflation risks. Eurozone growth appears to be going through a phase of stagnation in the second quarter; if economic activity recovers in H2, monetary policy response could become more decisive to prevent second-round inflationary effects.

The outlook for interest rates remains uncertain. At the same time, the macroeconomic backdrop remains relatively resilient and investor sentiment towards risk assets has held up well.

As a result, we favour a broadly neutral stance and a tactical approach to portfolio positioning, while awaiting greater clarity. Euro rates may continue to trade within recent ranges, although further upward pressure, particularly in the US, cannot be dismissed. We remain constructive on European corporate bonds for H2, where resilient credit spreads continue to support investor appetite, despite ongoing debate around private credit risks and the surge in bond issuance from hyperscalers financing the next wave of AI investment.

Cindy Beaulieu
Chief Investment Officer,
Conning North America

US FIXED INCOME LIKELY TO REMAIN RANGEBOUND

The US economy entered 2026 on solid footing following strong growth in 2025. Significant capital investment, resilient consumer spending supported by healthy labour markets, and fiscal measures that provide additional flexibility for both households and corporations continue to support economic activity. The primary challenge remains inflation.

Following the escalation of the conflict involving Iran, global energy prices rose sharply, adding inflationary pressure across the world economy. To date, the inflation impact has remained largely concentrated in food and energy, with limited spillover into broader goods and services. Even so, the US Federal Reserve and its new Chair Kevin Warsh face the difficult task of balancing an economy that continues to grow while inflationary pressures persist, all amid increasing political pressure to lower interest rates.

Looking ahead, inflation will remain a central focus as investors monitor developments in the Middle East and the potential implications of disruptions to the Strait of Hormuz. At the same time, US midterm elections could alter the balance of power in Congress, creating additional uncertainty around policy direction. Against a backdrop of solid economic growth, healthy corporate earnings, and resilient consumers, spreads across most US fixed income sectors appear likely to remain rangebound. Equity markets and US Treasuries, however, may continue to experience greater volatility as investors navigate geopolitical developments, monetary policy uncertainty, and the ongoing impact of technological transformation.

Mauro Ratto
Co-Founder & Co-Chief Investment Officer,
Plenisfer Investments

BETWEEN AI AND INFLATION: THE NEW FIXED INCOME PLAYBOOK

The first half of 2026 has reminded many investors that old certainties can fade surprisingly quickly. Just as inflation has returned as a source of instability, some of the traditional drivers of global growth are beginning to weaken.

At the beginning of the year, consensus expectations centred on lower inflation, falling rates and a benign backdrop for fixed income. Instead, markets have found themselves suspended between two opposing forces. On one side, the AI investment boom continues to support risk assets and reinforce the narrative of US exceptionalism. On the other, geopolitical tensions and renewed energy pressures are keeping inflation risks alive and raising the prospect of rates remaining higher for longer. In our view, the risk of a more persistent stagflationary environment may still be underappreciated by markets.

At the same time, traditional drivers of global growth are showing signs of fatigue. The resilience of the US economy still depends heavily on its ability to attract global capital, sustaining both the dollar's privileged status and elevated asset valuations. Yet, for the first time in decades, investors are beginning to question whether this exceptionalism can persist indefinitely. The dollar is unlikely to lose its central role in the global financial system, but a more multipolar currency regime appears increasingly plausible.

For fixed income investors, this creates a more complex environment, but also a richer opportunity set. In our view, portfolios should be built with greater flexibility across duration, geographies and currencies, rather than relying on benchmark allocations designed for a different regime.

The dollar is likely to remain at the centre of the global financial system for years to come. Yet its role as a safe haven is becoming less mechanical and more selective, while emerging markets are increasingly less dependent on dollar financing than in previous cycles. In this environment, diversification becomes strategic rather than merely tactical. Selected local-currency opportunities, less crowded areas of the sovereign universe and real assets capable of preserving purchasing power can all help build more resilient portfolios.

Witold Bahrke
Senior Macro & Allocation Strategist,
Global Evolution

EM DEBT: RESILIENCE IN A WORLD SHORT OF DIVERSIFIERS

Despite geopolitical jitters dominating the first half, most emerging market debt (EMD) segments delivered positive YTD returns – in contrast to traditional safe havens such as developed markets core bonds. This reflects both the resilience of EMD, supported by policy discipline and declining energy dependency, and its diversification appeal at a time when diversification is becoming scarce elsewhere.

Now what? In the realm of geopolitics, both Iran and the US have a strong incentive to continue down a de-escalation path, in our view, this could keep oil prices comfortably below the three-digit territory. A double-whammy of spiking energy prices and a resumption of the Fed hiking cycle may be avoided, potentially keeping the business cycle intact. Such backdrop could support EMD returns. However, a maturing business cycle shaped by less market-friendly monetary conditions compared to 2025 means volatility remains a key feature of the current market environment, highlighting the importance of an active tactical investment approach.

In H2, the segments that have suffered the biggest drawdowns year-to-date may also have the biggest rebound potential. As such, local currency debt might outperform in the short-term. However, hard currency EM bonds may regain the upper hand later in H2. Firstly, oil prices are unlikely to revisit YTD lows. This shifts the growth balance slightly in favour of an energy-independent US, taking wind out of EM currencies' sails. Secondly, the market may have got ahead of itself in terms of Fed and ECB hiking expectations. Core duration could benefit if they prove less hawkish than feared. Thirdly, global growth is set to slow in the second half, which tends to favour hard currency EMD in relative terms.

While expecting a more tactical top-down market environment, we see appealing structural investment cases on a country level. In some cases, AI meets the old economy in countries like South Africa, Zambia and Chile. While not driving AI developments, these mineral and metal producers hugely benefit from the commodity demand created by the AI infrastructure investment boom. Policy reform momentum also stands out – whether it is Hungary's path towards Euro adoption or fiscal reform potential in Colombia.

Stanislas de Baillencourt
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AS SOVEREIGNS WEAKEN, CORPORATE BONDS STEP UP

For several years, investors have faced a succession of macroeconomic and geopolitical shocks. After a decade (2010-2020) of near-deflationary conditions in Europe, these crises have contributed to a structurally more inflationary environment. This has not only affected commodity-linked prices but has increasingly spread into services, resulting in more persistent inflation.

At the same time, since the Covid pandemic, many developed economies have experienced an accelerating deterioration in public finances, with rising debt-to-GDP and mounting fiscal pressures. Although rating agencies have been slow to reflect these trends, this is increasingly challenging the perception of government bonds as risk-free assets. As a result, the traditional hierarchy of fixed income is being challenged. This environment is encouraging investors to diversify their fixed income allocations and rethink conventional portfolio construction.

Yet as sovereign balance sheets have weakened, corporates have proved remarkably resilient. Despite economic uncertainty, many companies continue to generate strong revenues and profitability, supporting relatively tight credit spreads and default rates that remain below historical averages in European high yield markets. This resilience has underpinned steady investor demand for corporate credit, with both investment grade and high yield attracting regular inflows over the past three years. From a supply perspective, the picture has also been supportive. Over the past five years, upgrades have outpaced downgrades, resulting in a continued net migration of companies into the investment grade universe. Finally, price transparency and liquidity remain important strengths of the asset class in today's markets.

Looking ahead to H2, we believe that carry will likely remain the dominant theme. Inflationary pressures linked to energy markets and geopolitical tensions could keep rates higher than expected, while volatility remains elevated. In this environment, short-to-mid duration corporate credit offers an attractive balance between yield generation and risk management. Combined with a healthy primary market that continues to provide new investment opportunities, we believe corporate credit remains well positioned for the months ahead.

Lauren Law
Senior Portfolio Manager,
Octagon Credit Investors

A CONSTRUCTIVE BACKDROP FOR US CLOS

Despite Q1 volatility, US CLO debt tranches have outperformed comparably rated credit assets year-to-date, including investment grade corporates and high yield bonds.[2] With 2026 rate cut expectations fading, floating-rate CLOs may continue to offer income potential and a degree of inflation protection, while structural subordination provides additional credit support and may enhance risk-adjusted returns.

The broadly syndicated loan supply/demand imbalance remains a key technical for US CLOs. Limited new loan supply and robust CLO demand have supported loan prices and fueled repricing activity, pressuring CLO arbitrage and CLO creation. Although new CLO issuance has recently rebounded, year-to-date primary volume is running 20% behind last year's pace.[3] Demand for CLOs has broadened thanks to deeper insurance penetration, greater participation from asset managers, family offices and pensions, and new retail products. Favorable regulatory developments for banks and insurers should bolster demand for the senior-most tranches (rated AAA/AA).

Overall, we view the backdrop as constructive. The US economy remains resilient despite exogenous shocks, supporting corporate borrowers and credit fundamentals across the BSL and CLO markets. That said, we expect continued performance dispersion across sectors and individual borrowers as investors discern risks surrounding AI disruption, geopolitical conflicts, and persistent inflation. Liability management exercises are also likely to persist, though we believe CLO structures could remain well-positioned to withstand potential headwinds.

[2] Represents year-to-date performance through June 9, 2026 for the following indices: J.P. Morgan Collateralized Loan Obligation Index (for CLO debt tranches), J.P. Morgan US Liquid Index (for investment grade corporate bonds), Morningstar US High Yield Bond Index (for high yield bonds). Sources: Pitchbook Leveraged Commentary & Data (Pitchbook LCD), J.P. Morgan Data Query (June 10, 2026).
[3] Represents year-to-date US CLO issuance by $ amount as of June 5 of the respective year. Source: Pitchbook LCD "Global CLO Weekly Wrap" (June 9, 2026).

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