



# Inflation, rates and geopolitics: What can fixed income investors expect?

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Generali Asset Management's Macro and Market Research Team summarises the current environment as one that requires a nuanced and highly active approach. "Inflation is easing, but upside risks remain in the US. Rate cuts are nearing their end. Geopolitical tremors are increasingly influencing currencies and while term premia are exposed to rising public debt. And across credit markets, valuations are tight, but fundamentals remain broadly supportive", says the team.

In this article, five active fixed income specialists from across Generali Investments share their views, covering US, European, global unconstrained and emerging and frontier markets.



**CINDY BEAULIEU**

Chief Investment Officer,  
Conning North  
America



**MAURO VALLE**

Head of Active Fixed  
Income, Generali Asset  
Management



**GIORDANO LOMBARDO**

CEO and Co-CIO,  
Plenisfer Investments



**WITOLD BAHRKE**

Senior Macro & Allocation  
Strategist, Global  
Evolution



**MICHAEL NECHAMKIN**

Chief Investment Officer,  
Octagon Credit  
Investors

## INFLATION

Headline inflation has moderated across developed markets, but the final stretch toward central bank targets looks slower — and more politically sensitive — than many expected.

In the US, core inflation remains close to 3% year-on-year, with tariff effects offsetting gradual cooling in services prices. Growth momentum has remained resilient, complicating the disinflation process.

**Cindy Beaulieu, Chief Investment Officer at Conning North America**, says that "inflation remains a challenge largely because the drivers of elevated prices are more secular than cyclical." In her view, the combination of supportive growth, modest labour market softening and still-elevated inflation is likely to limit the scope for aggressive monetary easing.

In Europe, however, the inflation backdrop appears more constructive.

**Mauro Valle, Head of Active Fixed Income at Generali Asset Management** and manager of the Euro Bonds strategy, highlights that recent euro area inflation data has surprised to the downside, moving clearly below 2%. Services inflation has eased and core inflation has moved closer to the ECB's target.

"The ECB is in a good place," Valle explains, pointing to cooling core inflation and resilient PMI data in Italy and Spain. "While markets are pricing no further cuts this year, the balance of risks is not one-sided. A stronger euro and softer inflation prints could still increase the probability of renewed easing in coming months."

That view reinforces an important signal for 2026: the Euro inflation trend is still the fundamental factor for rates, but disinflationary forces — including currency strength — could be underestimated.

At the same time, structural inflation risks remain globally. From the view of an unconstrained global bond manager, **Giordano Lombardo, CEO and Co-CIO at Plenisfer Investments**, believes the new cycle is fundamentally different:

"Major central banks are now easing or preparing to lower rates, yet inflationary pressures remain. Global public and private debt levels sit at historic highs, and policy tools increasingly point toward inflation as a mechanism to manage those burdens. Tariffs are structurally higher than they were just a few years ago, adding another layer of long-term inflation risk," says Lombardo.

**Witold Bahrke, Senior Macro & Allocation Strategist at Global Evolution** which specialises in emerging and frontier market debt, frames this as a regime shift. "Inflation, fiscal leverage and geopolitical risk have all experienced level shifts higher in the developed market sphere, reshaping the global macro landscape. Investors should therefore expect shorter cycles and more frequent bouts of volatility rather than a smooth return to the 2010–2020 disinflationary norm", he explains.

The inflation environment for 2026 is therefore twofold: cyclical pressures are easing, particularly in Europe, but structurally the regime is more fragile than in the pre-pandemic decade.

## INTEREST RATES

If 2024 and 2025 were about rate cuts, 2026 is about recalibration and regional divergence.

In the US, the Federal Reserve has paused and markets are now fully pricing two final cuts by year-end, one move less than last autumn.



By contrast, the European rates backdrop appears more stable. Mauro Valle remains constructive on euro area government bonds at current yield levels. With Bund yields moving in the 2.8–2.9% range, he sees value.

“Portfolios remain long relative duration, with euro area exposure favoured over Germany alone. We continue to prefer Italian government bonds relative to French OATs, with Italian spreads around 60 basis points consolidating at sustainable levels. Spain and Greece also remain constructive allocations”, says Valle.

“At the curve level, we favour the 5–10-year segment while the cautious stance at the long end (15–30 years) is under review taking into account lower fiscal uncertainty and less pronounced term premia risks.”

This relative-value approach highlights that, despite reduced spread dispersion within the Eurozone, investor appetite for carry is still present, due to positive economic perspectives and the low level of rates volatility.

Globally, however, fiscal dynamics are increasingly influential. Turning back to emerging and frontier markets, Witold Bahrke argues that while monetary conditions remain easy, fiscal stimulus is becoming the dominant macro force. “From a market perspective, monetary stimulus is the preferred option, as fiscal expansion can worsen the growth-inflation trade-off and increase crowding-out risks,” he says.

Meanwhile, carry remains central across credit. **Michael Nechamkin, Chief Investment Officer at Octagon Credit Investors**, expects “defaults in US leveraged loans to continue trending lower in 2026, supported by refinancing activity and resilient earnings, even if idiosyncratic risks persist.”

2026 may therefore point to a more selective environment where relative value, curve positioning and fiscal credibility matters.

## GEOPOLITICS

The US dollar experienced sharp volatility at the start of the year amid foreign policy tensions and renewed debate around central bank independence. While a disorderly sell-off appears unlikely, the episode underscored how quickly policy uncertainty can spill into fixed income markets.

Taking a global unconstrained view, Giordano Lombardo sees deeper implications. “The US is adopting a more inward-looking stance geopolitically and economically, which is weakening the structural demand for dollar-denominated assets among many emerging economies. Taken together, this challenges the assumptions behind both equity and fixed income benchmarks.”

One expression of this shift is gold. “We see it less as a simple inflation hedge and more as a hedge against an extended period of artificially low real rates,” Lombardo says. “The freezing of Russian reserves accelerated diversification by emerging market central banks away from US Treasuries and into gold, a dynamic with potential long-term implications for sovereign bond demand.”

For emerging markets, geopolitical tension has not translated into systemic stress. Witold Bahrke argues that, counterintuitively, the regime shifts emanating from developed markets have improved the relative risk-reward of emerging market debt. However, he cautions that elevated sentiment and tighter valuations imply a more tactical environment in 2026.

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