Global Fixed Income's Top 5 Investment Ideas for 2026

MacKay Shields
Global Fixed Income Team

Fixed Income
Top 5 Insights for 2026

1. Duration Discipline – Play Defense, Stay Neutral
2. The Quiet Winner – Agency MBS
3. Credit Strategy – Fatten the Belly, Starve the Long End
4. Securitized Markets – Idiosyncratic Alpha
5. New Frontiers – EM Local Currency

2026—Rates, Risk and Reality

Our core view is that income generation (carry) will replace price appreciation as the primary driver of total returns. With inflation settling at a "sticky" 3%[1] and the term premium rising, we are positioning for a "higher-for-longer" paradigm.

1 Duration Discipline – Play Defense, Stay Neutrals

The Trade: Neutral duration target with a bias toward the intermediate "belly" (3-7 years).

The Rationale: It is our view that interest rate risk remains mispriced. The market is pricing in an aggressive easing cycle (75-100 bps)[2] that contradicts the reality of resilient growth and structural inflation. We believe the Fed will deliver fewer cuts than anticipated, creating a "policy disappointment" risk that will punish the front end. Simultaneously, the long end is potentially vulnerable to a supply-driven term premium shock.

The Risks: A deterioration in the labor market that sees the unemployment rate rising above 5% would force aggressive Fed easing, justifying a duration extension. Alternatively, a growth scare combined with sticky inflation would pressure real yields negative, necessitating a swift move to defensive duration.

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2 The Quiet Winner – Agency MBS

The Trade: We hold the view that an overweight Agency MBS as a core carry position and defensive substitute for tight Corporate Credit.

The Rationale: We maintain that agency MBS is the most attractive high-quality asset in the market, trading cheap relative to historical fair value. The thesis is dual-pronged; 1) a structural housing undersupply (3-4 million units)[3] supports collateral value and 2) we believe demand for mortgages will increase on valuations.

The Risks: If the Fed moves to actively sell MBS (quantitative tightening acceleration) rather than letting them roll off, supply will overwhelm demand. Alternatively, a sharp rise in rate volatility would increase prepayment risk and damage the convexity profile of the asset class.

3 Credit Strategy – Fatten the Belly, Starve the Long End

The Trade: It is our view to favor intermediate maturities (3-7 years); avoid long-duration US corporate bonds. Our focus is on defensive sectors (utilities, healthcare) and select European and Emerging Markets for diversification and attractive value.

The Rationale: We believe credit valuations are full, and a technical storm is brewing in the US. We are facing a significant supply headwind from AI infrastructure financing and a backlog of M&A deals. This issuance will likely concentrate in the long end, preventing spread tightening.

The Risks: If the “AI Arms Race” cools, capex spending—and the associated debt issuance—could plummet, removing the supply overhang. Elevated recession fears would widen spreads materially, creating an attractive entry point for long-duration credit.

4 Securitized Markets – Idiosyncratic Alpha

The Trade: We are favorable to being long ABS and AAA CLOs; Selective in CMBS.

The Rationale: Recent fraud cases in 2025 look to be idiosyncratic, not systemic.[4, 5] They reinforce the need for active underwriting, not sector abandonment. The US consumer remains a bright spot, with aggregate household balance sheets in their strongest position since the 1980s.[6] Certain subsectors within the CMBS market have been unfairly punished from model-driven rating agency downgrades.

The Risks: If commercial real estate (CRE) refinancing stresses regional bank balance sheets, this could trigger a broader tightening of credit conditions.

5

New Frontiers – EM Local Currency

The Trade: We are also long select EM Local Currency Sovereigns (High Real Yields).

The Rationale: It is our view that Emerging Markets are the clear beneficiaries of the improving US macro environment. The convergence of falling domestic inflation in EM and a structurally weaker USD (driven by Fed cuts) creates a tailwind. We are targeting countries with fiscal discipline that offer high real yields, using this as a diversifier against US-centric inflation risks.

The Risks: A "flight to safety" into the greenback would hurt EM returns, while any new aggressive trade tariffs would hurt EM exports and damage their fiscal balances.

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1. https://www.bea.gov/data/personal-consumption-expenditures-price-index-excluding-food-and-energy
2. https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html
3. Source: https://www.goldmansachs.com/insights/articles/the-outlook-for-us-housing-supply-and-affordability
4. https://www.bloomberg.com/news/articles/2025-09-29/auto-parts-supplier-first-brands-files-for-bankruptcy
5. https://www.bloomberg.com/news/features/2025-11-10/tricolor-auto-bankruptcy-kicked-off-by-jpmorgan-phone-call
6. Source: https://www.federalreserve.gov/releases/z1/20220909/html/recent_developments.htm

Summary:

Our base case is constructive, but risks remain (growth scares, policy mistakes, higher inflation). Focus on high quality carry while balancing caution and opportunity, accordingly.

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