



## RATHBONE HIGH QUALITY BOND FUND

QUARTERLY UPDATE MARCH 2026

**The defining theme of the quarter has been the energy shock triggered by the war in the Middle East. The six-week war has severely curtailed energy flows through the vital Strait of Hormuz, through which about 20% of the world's oil and liquefied natural gas (LNG) previously moved. As a result, the price of a barrel of Brent crude, which was about \$60 at the start of the year, is now hovering at around \$100. More expensive energy means virtually everything will cost more. That's literally the definition of inflation. And there's nothing that hurts the value of bonds' fixed cashflows more than much higher-than-expected inflation.**

### **An inflation beast from the Middle East...**

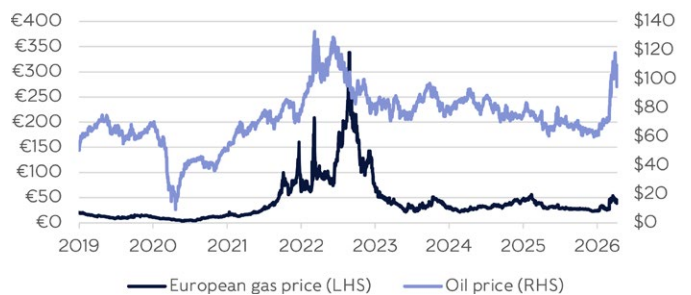
As investors have questioned whether central banks can keep easing policy in the face of renewed energy driven inflation, investor expectations of more interest rate cuts in 2026 were first pushed out, then partially priced out altogether. That drove the 10-year US Treasury yield up from 4.15% at the start of the quarter to as high as 4.44% towards its end (bond yields run in the opposite direction to their prices). The 10-year UK government bond (gilt) spiked even higher, largely because the UK relies much more heavily on imported oil and LNG than the US. At the start of the quarter, the yield stood at 4.47%, but rose to just below 5.0% in late March (its highest level since 2008). The yield dipped a bit in early April following the announcement of a temporary ceasefire between the US and Iran, and was trading around 4.80% at the time of writing.

Because short-dated bonds are most sensitive to changes in rate expectations, the moves in yields on bonds maturing in one to three years were a lot steeper than for those that will be repaid over much longer periods. However, even longer-dated bond yields have jumped roughly half a percentage point in a matter of weeks. And despite being less sensitive to the immediate shift in rate expectations, longer-dated bonds' higher duration (greater sensitivity to the trajectory of rates over time) means that relatively smaller changes in long-term yields translates into significant percentage changes in the absolute value of bonds at the long end. Whereas the effect on shorter-dated bond prices of a similar change in yield is much less.

Essentially, bondholders have written off the two or three quarter-percentage-point central bank cuts that they'd expected before the war broke out (and in some cases pencilled in hikes). Ahead of the conflict, investors were pricing in two 0.25% rate cuts from the Bank of England (BoE) by year-end. But by one point in March, they were pricing in more than three BoE hikes. Likewise, investors had been expecting the European Central Bank to keep rates on hold this year, but subsequently began to price in three hikes.

We've been a bit surprised that central banks and investors alike have seemed to take a pretty sanguine view of the potential hit to growth as a result of the surge in energy prices. Is everyone focusing too much on 'warflation' risks, while underestimating the potential consequences for demand? An energy price spike automatically raises prices, so it's bad for inflation. That generally causes bond yields to rise, as the assumption is that central banks will have to raise rates to combat those higher prices. But it also acts like a tax hike, forcing consumers and companies to spend less on things other than oil and LNG. All else being equal, that would argue for more rate cuts and lower bond yields.

### **OIL AND GAS PRICE SPIKES BELOW 2022, BUT CEASEFIRE IS KEY**



Source: FactSet; Dutch TTF Gas Monthly Future for short-term delivery and Brent Crude Spot to 8 April 2026

Risks of a growth slowdown seem particularly acute in the UK. Growth was already somewhat anaemic before the conflict began and the unemployment rate has steadily risen over the last 18 months. UK GDP grew by just 0.1% in the last quarter of 2025; however, in mid-April the Office for National Statistics' monthly dataset suggested growth was a surprisingly high 0.5% in the three months to February's end. Higher energy prices will further erode the purchasing power of businesses and consumers in the months ahead. The latest UK Manufacturing Purchasing Managers Index reading showed the largest jump in factory input costs since 1992!

### **But this isn't 2022...**

We understand that 'muscle memory' may be prompting widespread concerns about a repeat of 2022's inflation spiral (and we suspect that part of the BoE's recent hawkish rhetoric on the rates outlook is aimed at trying to convince consumers and employees not to act in ways that turn their inflation fears into reality).

**Performance review**

	3 months	6 months	1 year	3 years	5 years
<b>Rathbone High Quality Bond Fund</b>	-0.76%	0.80%	3.83%	15.45%	6.83%
Bank of England Base Rate + 0.5%	1.07%	2.22%	4.70%	17.02%	21.22%

	31 Mar 25- 31 Mar 26	31 Mar 24- 31 Mar 25	31 Mar 23- 31 Mar 24	31 Mar 22- 31 Mar 23	31 Mar 21- 31 Mar 22
<b>Rathbone High Quality Bond Fund</b>	3.83%	4.48%	6.42%	-3.89%	-3.73%
Bank of England Base Rate + 0.5%	4.70%	5.67%	5.77%	2.87%	0.70%

Source: Morningstar; data to 31 March, I-class, mid price to mid price.

**These figures refer to past performance, which isn't a reliable indicator of future returns.**

But for all the big volatility in bond markets during the quarter, there are significant differences between this year's bond market sell-off and that of 2022 – the last energy crisis-driven ramp-up in bond yields. Back in 2022, government bond yields skyrocketed as central banks started hiking rates to address runaway inflation. Yet back then, inflation was already about 6%, while 10-year government bond yields were roughly 1% in the UK and 1.6% in the US. This time round, inflation is 2%-3%, which means that any pop in inflation is highly unlikely to put it suddenly in double-digits. And yields were nearer 4% when the Iran conflict kicked off, which gave bondholders much more protection. That's why – despite big rises in yields – government bonds have managed to hold up better in total return terms this time around. Income payments, especially in the higher-yielding UK, have offset much of the falls in bond prices.

Against this backdrop, we've been modestly adding to our duration exposure by buying some slightly longer-dated gilts, notably some **UK Treasury 4.375% 2030s**. On balance, we think investors have moved too aggressively in pricing out rate cuts. And even if the rate hikes currently priced in do materialise, we think central banks will likely end up having to cut rates further than they might have done otherwise because the war has raised the risk of a more challenging outlook for growth and employment.

**How's credit holding up?**

Despite the extreme volatility in rates markets, higher quality (investment grade) credit has proved relatively resilient. Credit spreads, as measured by the ICE Bank of America Sterling Corporate Bond Index, widened from 80 basis points (bps) to 392bps over the quarter, though a lot of that widening has subsequently reversed. The spread was around 86bps by early April.

Demand for high quality corporate bonds remains robust, especially given the strength of many issuers' fundamentals. People are more comfortable lending to companies than to governments, it seems! We think it will probably take hard evidence of a looming recession to rock these sorts of bonds.

Nevertheless, as we've explained, we had got a bit twitchy that some trouble spots might be brewing in credit markets even before the conflict in the Middle East began. In particular, we worried that a huge surge in bond issuance from the AI hyperscalers (like Google owner Alphabet, Amazon and Oracle) to fund their AI expansion plans could raise the risk that all this extra volume might prove too much for bond markets to digest comfortably, thereby driving credit spreads wider. We saw this happen back in the early 2000s, when a massive surge in telecom issuance drove spreads much wider.

Another concern on our radar was the risk of further trouble in the private credit industry. Over the last few months, some big alternative asset managers have been forced to limit investor redemptions from private credit funds. That's generating some alarming headlines, raising the risk this could stoke investor fears about the health of corporate borrowers more broadly, including those issuing publicly traded bonds.

When credit spreads widen, those of lower-rated, higher-yielding bonds tend to widen the most. As its name suggests, our fund is firmly focused on issuer quality; at least 80% of the fund's holdings have a credit rating of A- or above, meaning they rank in the top tiers of creditworthiness. Over the quarter, we snapped up a couple of new bonds issued by borrowers with exceptionally strong credit ratings, notably some **Swedbank 4.625% 2031s** and some **Alphabet 4.125% 2029s**. Swedbank is one of the highest-rated banks in the world. Alphabet also has a super-strong financial profile, underpinned by its very substantial cash reserves.

In addition, we bought some **Asian Development Bank (ADB) 4.375% 2030s**. The bank's bonds are backed by guarantees from almost 70 sovereign states, primarily Japan, the United States, and Australia. This ensures they benefit from a AAA credit rating (the highest possible rating).

We decided to pare back our exposure to US life insurer **Northwestern Mutual 4.7% 2030s**. Like several other big life insurance firms, particularly in the US, Northwestern Mutual has sizeable investments in private credit. Amid growing speculation that some could face losses if conditions in the private credit market get still worse, we felt it best to sell some of our bonds as a precautionary move.

### What next?

At the time of writing, ceasefire talks between the US and Iran have broken down, and President Donald Trump has ordered a US naval blockade of maritime traffic entering and leaving Iranian ports. The blockade, which risks the war spilling over into the high seas, aims to prevent Iran exporting oil, one of the regime's major sources of funding. Any return to a live conflict will hit inflation expectations, and bond markets, yet further. But it's impossible to judge the credibility of the ever-more bellicose threats from both sides when it's clear they could both use an off-ramp, and there are reports that back-channel peace negotiations are underway. It feels like the conflict is changing shape as it shifts from open hostilities into a high-stakes bargaining phase.

Because the conflict has widened the range of plausible outcomes for central banks and financial markets, this isn't an environment where we want to take big directional bets. Instead, we're firmly focused on bolstering portfolio resilience and flexibility. As we've explained, many bonds' all in yields look attractive, but, as ever, selectivity in credit is critical.



### STUART CHILVERS

Fund Manager

For more info on our fund, including factsheets, performance and fund manager views, please click [here](#).

If you require further clarification on this commentary, then please contact your adviser or Rathbones at the contact details below.

Any views and opinions are those of the investment manager, and coverage of any assets held must be taken in context of the constitution of the fund and in no way reflect an investment recommendation. Past performance should not be seen as an indication of future performance. When you invest, you could lose some or all of your investment.

**Rathbones Asset Management**

30 Gresham Street  
London EC2V 7QN  
+44 (0)20 7399 0000  
Information line:  
+44 (0)20 7399 0399  
ram@rathbones.com  
rathbonesam.com

Rathbones Asset Management Limited is authorised and regulated by the Financial Conduct Authority and a member of The Investment Association. A member of the Rathbones Group Plc. Registered office: 30 Gresham Street, London EC2V 7QN. Registered in England No. 02376568.