



RATHBONES

RATHBONE STRATEGIC BOND FUND

MONTHLY UPDATE FEBRUARY 2026

Government bond markets rallied in February as investors sought out ‘safe havens’ amid concerns about more geopolitical shocks, trade tensions and AI disruption. That trend has reversed in March following the massive US-Israeli air strikes against Iran that have triggered a rapidly worsening war. As the war disrupts key energy supply routes in the Middle East, it’s fuelling fears of higher global inflation and economic growth setbacks. These fears have overshadowed safe-haven demand for government bonds, driving up their yields (which run in the opposite direction to their prices). Credit markets were volatile throughout February but this didn’t dull investor appetite for corporate bonds.

The last thing the world needs is another war. In addition to its terrible humanitarian costs, the conflict has injected significant volatility and new, unsettling sources of uncertainty into the global economy and financial markets. Soon after the war broke out, Iran vowed to disrupt the flow of energy supplies from some of the world’s biggest oil and gas hubs, including Saudi Arabia, Kuwait, Qatar and the UAE, to key export markets. About 20% of the world’s oil and liquid natural gas (LNG) supplies usually shift through the Strait of Hormuz, the narrow shipping route on Iran’s southern border, each day. Iran has deemed the strait effectively closed; it’s threatened to set fire to tankers travelling through it and has launched missile and drone attacks on the few trying to get through. This stranglehold on traffic in the strait has triggered the biggest surge in energy prices since Russia invaded Ukraine. The longer the fighting goes on, the greater the risk of a deeper, more lasting energy supply shock that might reignite inflation while squeezing growth.

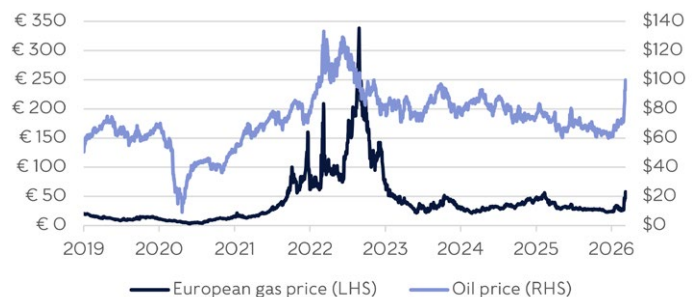
A big new energy price shock

As a result, investors have been forced to radically rethink their bets on the future path of interest rates. Ahead of the war, investors had been expecting two or three 0.25% interest rate cuts from the US Federal Reserve (Fed) this year. But those expectations have now been pared back, and they think there’ll be one or two. As a result, the benchmark 10-year US Treasury yield, which fell from 4.24% to just under 4.0% in February, reversed course to rise to almost 4.20% in the first half of arch.

UK government bond (gilt) yields have been even more volatile, given erstwhile optimism that the Bank of England (BoE) might have been edging towards rate cuts faster than the Fed. In February, expectations of a sizeable drop in UK inflation and signs of healthier public finances drove the 10-year gilt yield down from 4.53% to 4.31% – its lowest level in well over a year. But the Iran war has changed all of that. The 10-year yield has surged again amid the escalating war. At the time of writing, it’s hovering around 4.70%. Investors had been hoping for about two 0.25% rate cuts from the Bank of England (BoE) this year. Now they broadly believe it’ll keep rates on hold.

Because we felt that longer-dated gilts had rallied a bit too much in February, we trimmed our exposure to our **UK Treasury 4.25% 2040s** and **1.5% 2053** green UK Treasuries over the month. Chancellor Rachel Reeves’ Spring Statement on 3 March was broadly gilt-friendly and should support investor confidence in the government’s fiscal framework. But a lot of the good news in the statement about the health of the UK’s finances, and the better inflation outlook in particular, has been overshadowed by what’s going on in the Middle East. Moreover, investor confidence in gilts could erode as we head towards the local elections in May. If, as is currently expected, Labour gets a thumping in these polls, that’s likely to step up pressure on Prime Minister Keir Starmer to stand down. If it looks like he’ll be replaced by someone who favours a pivot toward looser fiscal discipline, that could exert extra pressure on gilts.

OIL AND GAS PRICE SPIKES STILL BELOW 2022, BUT CLOCK IS TICKING



Source: FactSet; Dutch TTF Gas Monthly Future for short-term delivery and Brent Crude Spot to 9 March 2026

A new twist in the AI tale

As we’ve explained, February was a volatile month for risk assets as investors grew panicky about AI’s potential to disrupt the business models of a whole raft of companies. That drove sharp sell-offs, particularly in software stocks, amid investor worries that new AI tools could eat into these companies’ profits. Investors’ broad ‘risk-off’ mood was further fuelled by concerns about new global trade frictions after the US Supreme Court voted to overturn most of the tariffs that President Donald Trump imposed last year. Trump responded with threats to impose new “more powerful and obnoxious” tariff rates. Meanwhile, signs of trouble are growing in the private credit market.

All this kept corporate bond markets jittery, and credit spreads (the extra yield offered over government bonds) widened from 243 basis points (bps) to 260bps in February. (Unsurprisingly, the big uncertainties stoked by the Iran war have further weakened investor risk appetite, and spreads have blown wider still in March.)

But despite this volatility in spreads, investor appetite for corporate bonds has remained robust, given the very attractive yields they currently offer. So far this year, investors have been snapping up new bonds despite bumper issuance. In January, US investment grade issuers raised more than \$200 billion in new bond sales. Sales were only slightly lower in February, suggesting that the first quarter of 2026 will prove one of the busiest on record for new supply in investment-grade credit.

Big tech’s big bond binge

America’s huge tech giants are issuing a lot of this year’s new bonds as they shift from self-funding to greater reliance on debt to pay for their massive investment in AI (which is projected to exceed \$700 billion collectively in 2026). As we’ve explained before, we think this dramatic surge in bond issuance from the AI hyperscalers could prove one of the more important trends shaping corporate bond markets. First, it will significantly increase net new issuance, meaning investors will have a lot more new bonds to absorb over and above those issued to replace debt that matures and/or gets repaid. As of March, key hyperscalers Amazon, Google parent Alphabet, Facebook owner Meta, Microsoft and Oracle had already raised or are currently pricing more than \$100bn in new bond issuance this year. And secondly, a lot of these new bonds are relatively long-dated, meaning they mature many years from now. This trend will lead to a big spike in already strong bond supply, particularly in long-dated debt, raising the risk that all this extra volume might prove too much for bond markets to digest comfortably, thereby driving spreads (especially longer duration spreads) wider.

Are private credit strains spreading?

Meanwhile, new signs of stress have been emerging in the \$3 trillion private credit market. Large institutions fund most private credit lending, but US retail investors can tap the private credit market by investing in Business Development Company (BDC) loan portfolios for small and mid-sized companies. A growing number of BDCs have been tanking, in part due to concerns about their heavy exposure to software firms that some fear could be wiped out by new AI tools. It’s estimated that about a fifth of BDC loans are exposed to software companies. The loans that BDCs extend to companies are usually long-term and illiquid. That can spell trouble if lots of investors try to get their money out of BDCs at the same time. And over the last few months, some big alternative asset managers have been forced to limit investor redemptions from BDCs. That’s generating some alarming headlines about rising levels of stress in private credit. There’s a risk this could stoke investor fears about the health of corporate borrowers more broadly, including those issuing publicly traded bonds. That may unnerve investors, stoking volatility in credit spreads.

In this very complex environment, we don’t want to chase yield by taking on extreme credit risk. Instead, we’ve been sticking with our

bias towards more defensive bonds that we hope will prove more resilient when credit markets wobble. As a result, we’ve continued to add to our more senior bonds, which rank higher in companies’ capital structures (meaning you’re nearer the front of the queue to be repaid if the company were to run into trouble). More senior, less subordinated debt tends to hold up better when credit spreads widen. In February, for example, we bought some Italian bank **Intesa 6.625% 2033 Senior Preferreds** (Senior Preferreds rank relatively high up in banks’ capital stacks).

When credit spreads widen, those of bonds which mature a long way ahead tend to widen most. As a result we’ve been keeping our spread duration (sensitivity to changes in credit spreads) relatively short. In February, we bought several bonds that we expect to be called (redeemed) early. For example, we bought some specialist insurer **Pension Insurance 7.375% Perpetuals** and some asset manager/insurer **Legal & General 5.625% Perpetuals**, which we expect the issuers to call quite soon. Likewise, we bought some European healthcare provider **Clariane 13.168% Perpetuals**, which again we expect to be called relatively soon.

What next?

This year began with a massive surge in global geopolitical tensions. That surge has intensified still further with the outbreak of a full-blown war in the Middle East that’s pulled in at least nine countries. So far, this has barely dented investor demand for corporate bonds. But will credit markets continue to absorb shocks as the year progresses? For now, we’re cautiously optimistic and expect credit markets to enjoy another decent year. But, as ever, we’re convinced it will pay to be active in credit selection to try to swerve the potential risks that could be brewing.



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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.

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