Goldman Sachs Asset Management

FIXED INCOME OUTLOOK 4Q2026

Markets, Views, and Positioning

"AI's growing role in capital formation, increased fiscal focus, rising yields, and resurgent global growth have combined to create a significant opportunity set."

Kay Haigh
Head and CIO of Fixed Income and Liquidity Solutions

"Higher interest rates are presenting attractive income prospects, while core fixed income allocations are increasingly appealing given their diversification benefits."

Sylvia Yeh
Global Head of Client Portfolio Management, Fixed Income and Liquidity Solutions

What's Changed

The resurgence of tensions in the Middle East has pushed major central banks into increasingly hawkish directions, with tightening cycles now seemingly underway in the US and eurozone. Meanwhile, the impact of AI capex is becoming increasingly notable, not just in propelling the broader global economy but also in the growing number of markets being used to finance its buildout. In this context, government bond yields globally are breaking through highs not seen in some cases for two decades, as investors take into account the effects of rising fiscal deficits, increasing long-end issuance by hyperscalers, surging energy prices and the growing hawkish reaction function of the Federal Reserve (Fed) and its new Chair, Kevin Warsh.

What This Means for Investors

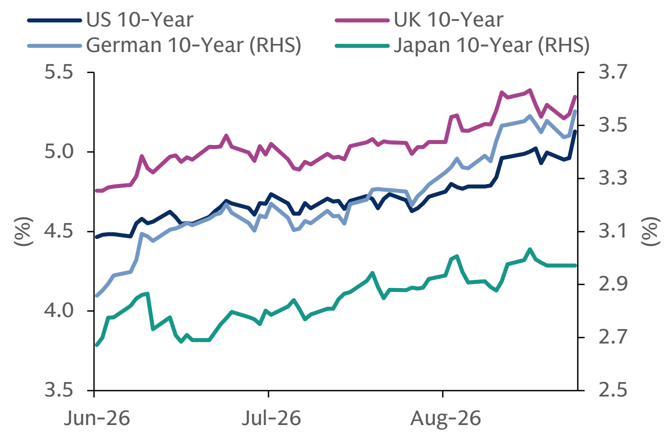
1. Actively expressing views via multiple yield curves can provide more flexibility than outright directional positioning, which can be particularly vulnerable to energy price volatility. We still see room for Japanese rates to run higher, given domestic fundamentals and now rising US rates. By contrast, UK gilts could offer value should energy prices reverse.
2. Carry remains an important source of returns with real yields sitting at high levels. High nominal economic growth and earnings momentum favor growth-sensitive spread sectors, while maintaining an up-in quality bias within portfolios. Tactical positioning in select emerging markets can take advantage of this, as can opportunities in securitized credit on a risk-adjusted basis.
3. The broadening out of the AI story increases the importance for investors to ensure they are being properly compensated for increased complexity. We still hold a preference for select data center issuance, but are cognizant of these opportunities evolving, particularly with the emergence of more chip-financing structures.

Key Themes for the Upcoming Quarter

Actively Navigating the Rising Rate Environment

- Stronger AI-fueled growth expectations, rising inflation and the Fed's hawkish shift have propelled yields higher in the past quarter. They currently sit at attractive levels, however a sustained fixed income rally may require lower energy prices or slowing growth momentum. The rates landscape remains highly regional however, allowing investors to exploit mispricing when local market fears become overextended.
- The US dollar could benefit from positive tailwinds with a more hawkish Fed having started a hiking cycle, particularly if global energy prices move materially higher. By contrast, lower energy prices may not lead to large dollar weakness as rate expectations in the rest of the world move lower more significantly than in the US.

Developed Sovereign Yields Marched Higher in 3Q

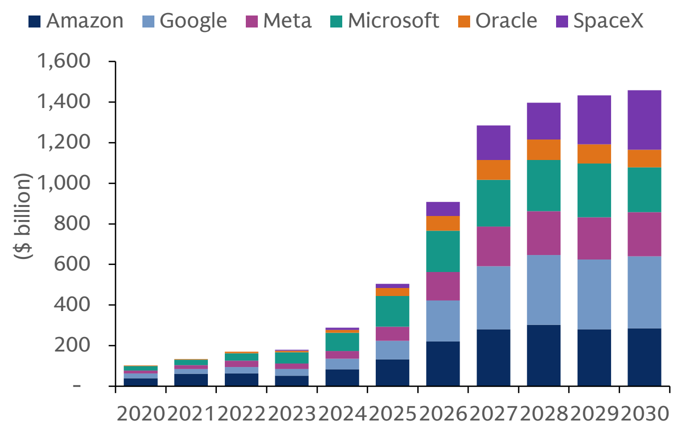


Source: Bloomberg, Goldman Sachs Asset Management.
As of September 23, 2026.

The Next Stage for AI Financing and Credit Markets

- The toolkit being used to fund the AI buildout is continuing to expand, with chip-backed financing being the latest in a series of novel funding structures. We still see AI as a secular growth story with a long way to run in terms of both its buildout and ability to generate returns. However, we remain vigilant to new and emerging credit risks that can arise.
- In credit markets more broadly, extremely tight spreads combined with a backdrop of higher rates and energy prices warrant caution. This could include moving up in credit quality to avoid issuers potentially vulnerable to 'higher-for-longer' scenarios; however, the resilient global growth picture could present a buying opportunity on any meaningful pullbacks.

Annual hyperscaler capex could break $1.4 trillion by 2029



Source: Bloomberg, Goldman Sachs Asset Management.
As of September 2026.

Key Investment Ideas

- **Active Selection:** AI buildout and adoption is creating multiple opportunities across fixed income markets; as well as potential pitfalls. With the AI buildout developing so quickly, we prioritize where we believe we are being appropriately compensated for risk across **securitized and investment grade credit markets**.
- **Diversification:** Yields are at levels where they can add value in scenarios where strong nominal growth slows, particularly with elevated risk-asset valuations and uncertainty. **Core government bonds and high-quality credit** should have a part to play.
- **Income Generation:** We believe higher real yields have created one of the most appealing carry environments in recent years. We see opportunities across the fixed income spectrum, particularly in **emerging markets**.

Sector Allocation: Key Exposures and Quarterly Changes

Sovereign Bonds	Underweight	Slightly Underweight	Neutral	Slightly Overweight	Overweight
US		●			
Euro Area				●	
Japan	●				
UK					●
Other G10				●	

Japan: Further hikes by the Bank of Japan seem to be on the cards, as low real yields aren't warranted by strong domestic fundamentals.

Currencies	Underweight	Slightly Underweight	Neutral	Slightly Overweight	Overweight
US Dollar				●	
Euro		●			
Japanese Yen			● ←	○	
British Pound		●			
Chinese Yuan				●	
EM (ELMI)				●	

US Dollar: Positioning supported by robust demand for artificial intelligence (AI) investment exposure and favorable fiscal tailwinds.

Within EM FX, we favor the Hungarian forint and high-quality Asian currencies. We also have select carry positions across frontier markets, Latin America and Asia.

Spread Sectors	Underweight	Slightly Underweight	Neutral	Slightly Overweight	Overweight
Investment Grade Credit		●			
High Yield Credit					●
Bank Loans				●	
Agency MBS				●	
Securitized Credit					●
External EMD				●	
Local EMD				●	

We prefer high-quality **high yield** and **securitized credit** for the better risk-adjusted carry available. Our lower conviction on investment grade corporates reflects tight valuations and AI-related supply risks.

RISK CONSIDERATIONS

Emerging markets investments may be less liquid and are subject to greater risk than developed market investments as a result of, but not limited to, the following: inadequate regulations, volatile securities markets, adverse exchange rates, and social, political, military, regulatory, economic or environmental developments, or natural disasters.

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