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Global Fixed Income Outlook: April 2026

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Our Key Global Forecasts

Iran conflict has pushed down growth, increased inflation and policy rate expectations

Europe seeing slower growth, tighter policy

	GDP YoY		Core Inflation		YE CB Rate	
Region	2026	2027	2026	2027	2026	2027
US	2.2	2.1	2.7	2.3	3.125	3.125
Euro Area	0.5	1.2	2.1	2.2	2.500	2.000
UK	0.6	1.8	2.6	2.2	3.750	3.750
Japan	0.5	1.0	2.9	2.2	1.000	1.250
China	4.8	4.5	0.7	0.8	1.300	1.300

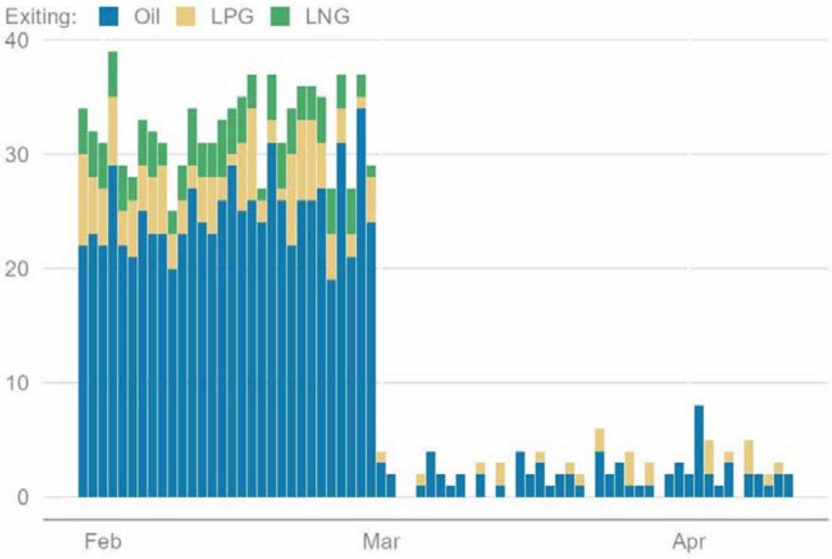
Source: Morgan Stanley Research forecasts. As of April 10, 2026

Iran Conflict: Disruptions Remain Significant

At present, largest disruption of energy supply in history.

Strait of Hormuz

Daily number of transits, out of the Middle East Gulf (count)



Note: chart shows data to 11 April
Source: Vortexa, Morgan Stanley Research

Crude oil and oil products prices

$/bbl

Source: Platts, Bloomberg, Morgan Stanley Research

Iran Conflict: Scenarios

Framing different outcomes

Scenario	De-escalation	Ongoing constraints	Effective closure
Duration, Impact	Normalized passage resumes within a month	80% of tanker passage resumes within a month, but it is up to a quarter before normalization; Iran retains influence	Effective closure remains for months, significant demand destruction necessary to rebalance the market; Iran retains control of SoH
Brent Oil	$80-90/bbl in 2026, returning to $75/bbl thereafter	$100-110/bbl in 2026, returning to $80 thereafter	$150-180/bbl, returning to $80/bbl eventually
JKM / TTF LNG	$23-27/mmbtu in 2026, returning to $10-12/mmbtu in 2027. 65-80 EUR/MWh, falling to 30-35 EUR/MWh	$27-32/mmbtu in 2026, returning to $15/mmbtu in 2027. 80–95 EUR/MWh falling to 45 EUR/MWh	$32-40/mmbtu in 2026, returning to $15-20/mmbtu in 2027. 95–120 EUR/MWh falling to 45-60 EUR/MWh
Cross-Asset	OW equities, EW government bonds, UW corporate credit, UW cash; back to pre-conflict trajectories	OW equities, UW government bonds, EW corporate credit, OW cash; but expect choppier trading	UW equities, OW government bonds, EW corporate credit, OW cash; supply shock giving way to demand shock means recession playbook the most relevant
US Rates (Duration / Curve)	Bull-steepen in a swift reversal of the move in yields and curve since the onset of this conflict.	Bull-flatten with lack of accomodative Fed policy or a fiscal package to offset negative growth effects from higher energy prices.	Initial bear-flattening transitions to a bull-flattening quickly. As economic data shows demand-destorying effects of higher oil prices, the yield curve bull-steepens in advance of Fed rate cuts. A fiscal boost would lead to a bear-steepening as investors look to the economic recovery.
EU Rates	Lower yields, less hiking expectation, steeper curves. Tighter EGB spreads.	Current front-end pricing broadly aligns with this scenario. Mild flattening pressure. Modestly wider EGB spreads.	Initial bear-flattening turns into duration rally. EGB spreads widen throughout this scenario.

Source: Morgan Stanley Research estimates. See Global Economic Briefing: Energy Shocks in the Economy & Markets II

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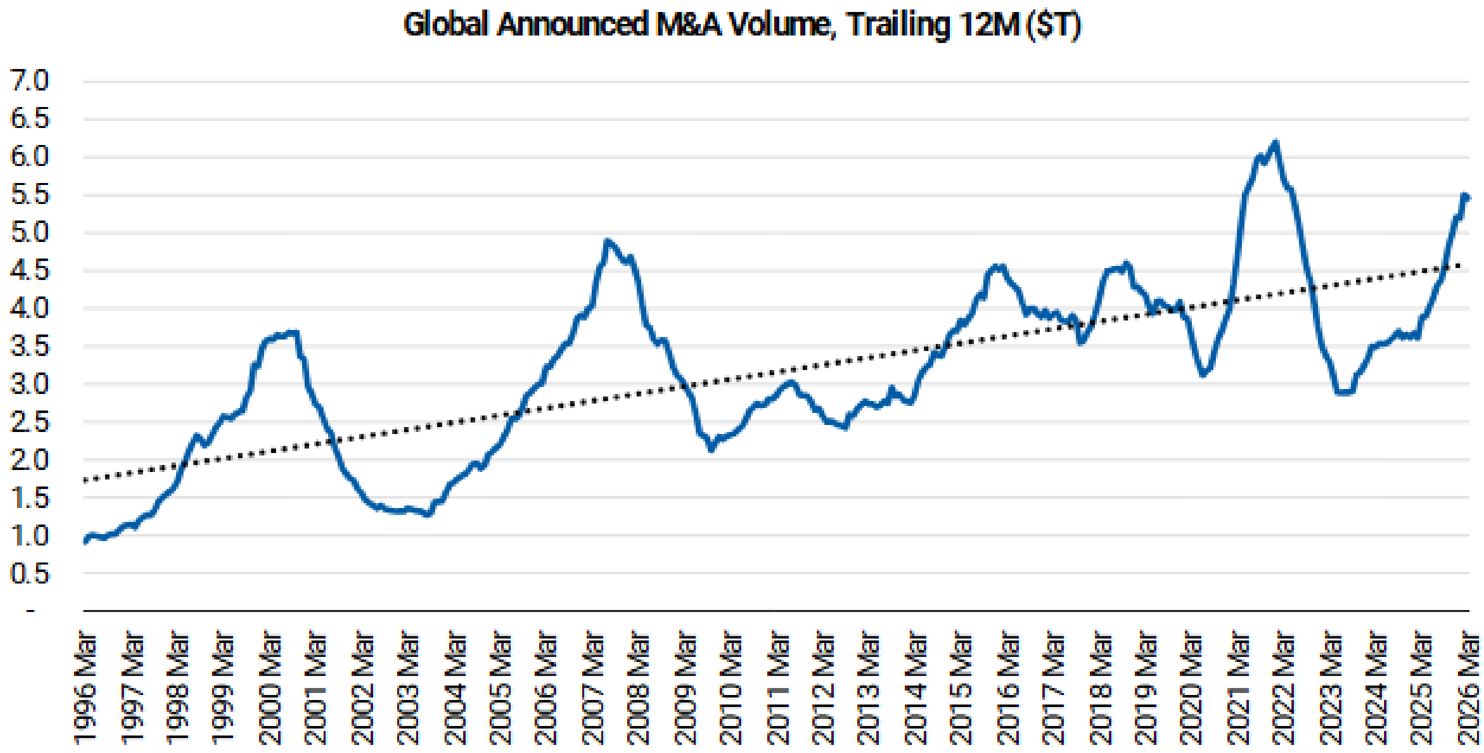
Despite the Geopolitical ‘Noise’, More Corporate Activity

Volumes recovering in a material way



Source: Dealogic, Morgan Stanley Research estimates

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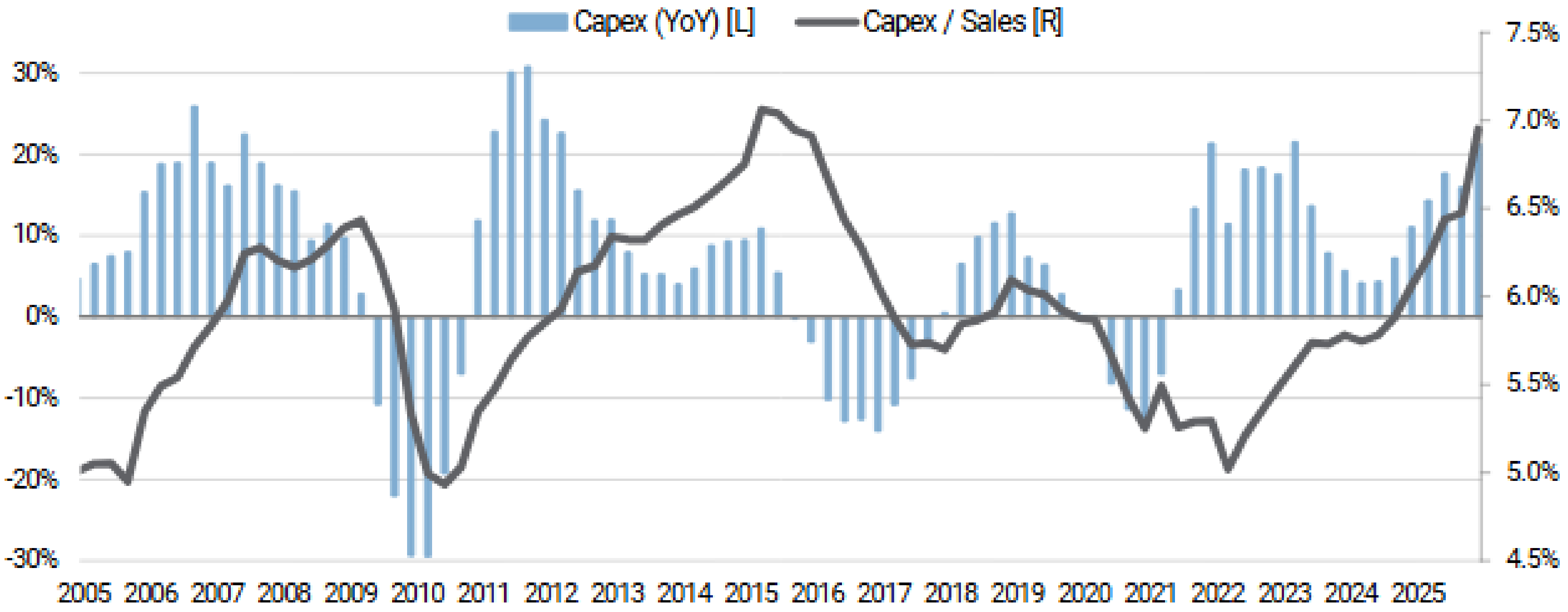
Capex Is Picking Up

A major capital cycle, and change to business models (more capital intensity)



Source: FactSet and Morgan Stanley Research.

Smells Like Animal Spirits

More M&A. More capex. More supply. Think 1997/98…or 2005

Capex, M&A, macro variables for 2026 similar to 1997, 1998, 2005

	Capex YoY	Capex Ex-Energy YoY	M&A YoY	M&A (% of GDP)	US 10yr (YE)	Core PCE (YE)	US U-3 Unemply.
1997	7%	5%	40%	24%	5.7	1.9	4.9
1998	9%	10%	38%	32%	4.6	1.5	4.5
2005	14%	9%	31%	29%	4.1	2.3	5.1
Avg. ('97-98, '05)	11%	8%	35%	29%	4.6	2.0	4.9
2026e	9%	10%	20%	21%	4.1	2.6	4.6
Diff	-1%	2%	-15%	-7%	-0.6	0.6	-0.3

Source: Dealogic, Bloomberg, Morgan Stanley Research forecasts; Note: Capex is for the Russell 3000, M&A is global announced M&A. For 2026, we use Morgan Stanley forecasts for announced M&A and technology capex.

The Risks? Inflation Still Above Target

Europe was doing better… until the Iran conflict

Atlanta Fed Inflation 'dashboard'

MEASURE OF UNDERLYING INFLATION	12-MONTH GROWTH RATE		AVERAGE DIFFERENCE MEASURE - CORE PCE	TARGET BASED ON 2% CORE PCE
	MAR-25	MAR-26	2009–2019	
Core CPI	2.8	2.6	0.3	2.3
FRB Cleveland Median CPI	3.4	2.7	0.6	2.6
FRB Cleveland 16% Trimmed-Mean CPI	2.9	2.6	0.3	2.3
Atlanta Fed Sticky CPI	3.3	3.0	0.5	2.5
Core PCE	2.7	3.0	-	2.0
Market-Based Core PCE	2.3	2.9	-0.2	1.8
FRB Dallas Trimmed-Mean PCE	2.7	2.3	0.1	2.1

Source: Federal Reserve Bank of Atlanta (see Underlying Inflation Dashboard - Federal Reserve Bank of Atlanta)

Core Views Amid Uncertainty

- **Risks to energy prices skewed higher, given scale of disruption**
- **US > RoW across assets (Equities, Rates, Credit), on relative growth and policy accommodation.**
- **US yields move lower, curve steepens now. Europe behind, but EU/UK yields to finish 2026 lower as growth risks mount.**
- **See heavy supply and moderate credit widening. HY > IG & loans. Software credit lags.**
- **OW Latin America fixed income.**

Our Forecasts

	As of Apr 06, 2026	Q4 2026 Forecast Bear	Q4 2026 Forecast Base	Q4 2026 Forecast Bull	Q4 2026 Return Forecast Bear	Q4 2026 Return Forecast Base	Q4 2026 Return Forecast Bull	Volatility	Base Case Return/Risk
Equities						Total Returns			
S&P 500	6,612	5,600	7,800	9,000	-14.1%	19.2%	37.3%	18%	1.05
MSCI Europe	2,378	1,930	2,600	2,860	-15.9%	12.3%	23.3%	15%	0.83
Topix	3,645	3,000	4,250	4,600	-15.7%	18.6%	28.2%	19%	1.00
MSCI EM	1,450	1,100	1,700	2,020	-21.8%	19.5%	41.6%	16%	1.21
FX						Total Returns			
JPY*	160	163	151	125	-5.5%	2.5%	24.9%	9%	0.27
EUR	1.15	1.05	1.16	1.36	-10.3%	-0.8%	16.5%	7%	-0.11
GBP	1.32	1.21	1.29	1.45	-8.2%	-2.1%	10.0%	9%	-0.23
AUD	0.69	0.61	0.72	0.75	-10.9%	5.0%	9.3%	10%	0.50
INR*	93.1	92.0	91.0	86.0	4.9%	5.8%	11.4%	5%	1.24
ZAR*	16.9	18.7	16.3	16.4	-6.7%	6.8%	6.0%	15%	0.45
BRL*	5.14	6.20	5.20	4.75	-8.5%	7.5%	16.8%	15%	0.49
MXN*	17.8	21.0	17.0	17.5	-12.0%	7.9%	4.9%	13%	0.62
Rates (% percent)						Total Returns			
UST 10yr	4.33	5.15	4.05	2.65	-2.2%	6.5%	18.1%	7%	0.97
DBR 10yr	2.99		2.80			4.3%		6%	0.76
UKT 10yr	4.83		4.60			5.8%		7%	0.89
JGB 10yr	2.41		2.40			2.8%		3%	1.10
Credit (bps)						Excess Returns			
US IG	82	140	95	70	-3.4%	-0.3%	1.4%	3%	-0.09
US HY	291	450	300	250	-3.6%	1.3%	3.1%	6%	0.24
EUR IG	92	150	90	60	-1.9%	0.8%	2.1%	2%	0.43
EUR HY	319	450	280	225	-3.4%	2.6%	4.6%	5%	0.58
EM $ Sov	280	400	260	225	-5.8%	3.3%	5.6%	7%	0.48
Sec. Products (bps)						Excess Returns			
US Agency MBS	20	50	25	15	-1.7%	-0.2%	0.4%	2%	-0.09
US CMBS AAA	82	110	75	60	-2.2%	1.3%	2.8%	2%	0.83
US CMBS BBB-	560	750	475	390	-14.7%	12.5%	21.0%	3%	3.64
Commodities						Total Returns			
Brent	110		90			11.8%		38%	0.31
Copper	12,288	9,400	11,500	13,800	-24.3%	-7.4%	11.1%	21%	-0.35
Gold	4,639	4,080	4,800	5,760	-14.8%	0.2%	20.3%	16%	0.01

Bloomberg, MSCI, Morgan Stanley Research forecasts; Note: Returns are total returns, except for credit, where we forecast excess returns vs government bonds. Commodity returns are calculated relative to futures to account for carry. Volatility is 10y realized vol. All currency returns are shows as XXXUSD return. *Currency forecasts shown for USDXXX.

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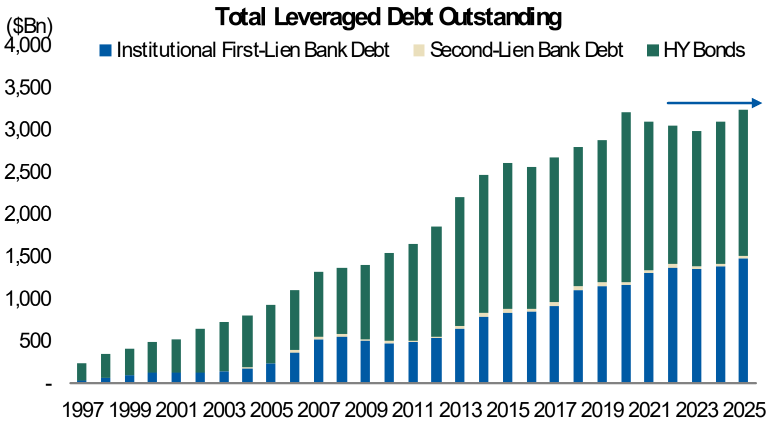
AI Challenges and Opportunities

Let's Start with the Good News: There is Debt 'Capacity'

- Corporate debt has not been a major driver of post-Covid growth. **Companies have maintained remarkably strong balance sheet discipline.**

- Strong earnings growth (for the mean and median issuer) further improves debt capacity.

The sub-IG portion of the public credit market has not grown since 2021



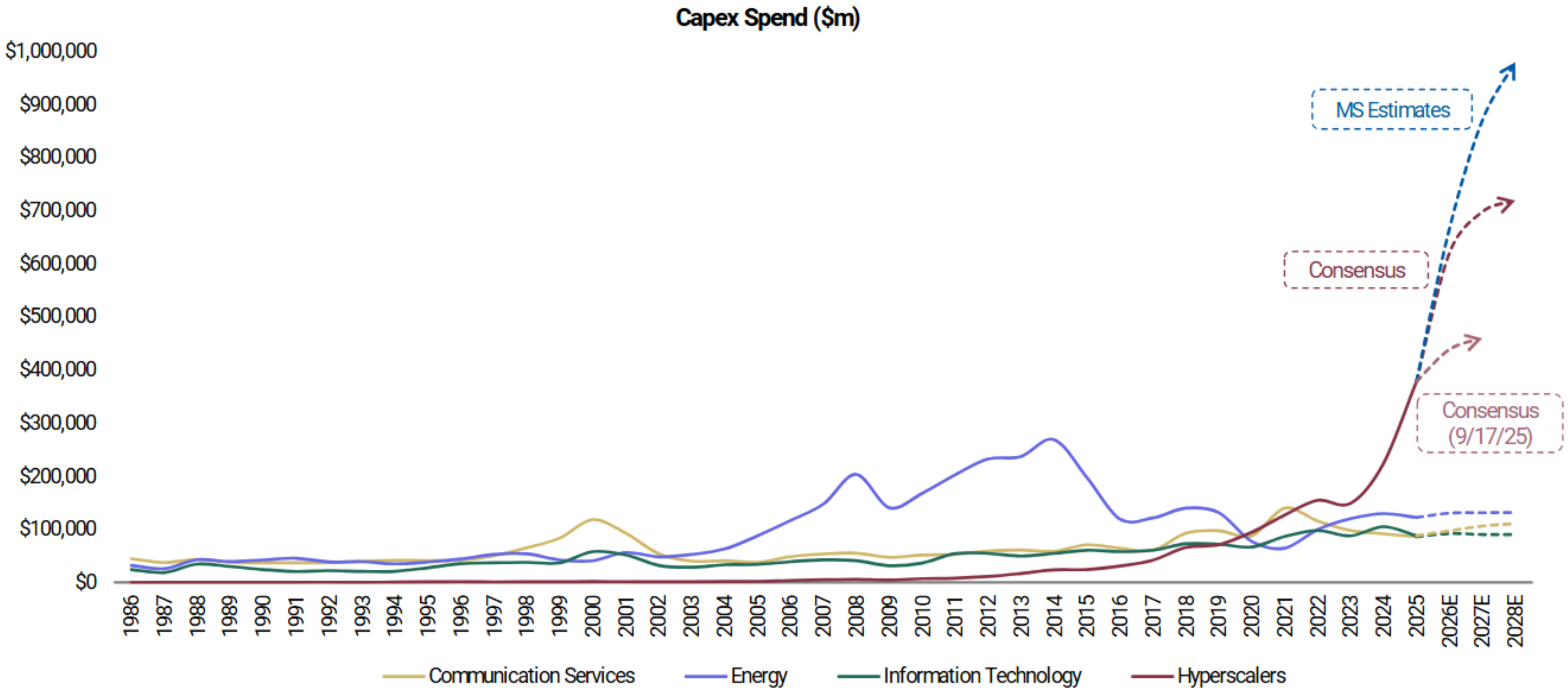
Source: PitchBook | LCD, Morgan Stanley Research

Corporate debt relative to GDP declining consistently since 2020

Source: Federal Reserve, Morgan Stanley Research

Against this Backdrop, a Historic Investment Cycle

Estimates of hyperscaler capex continue to move higher



Source: Company data, Morgan Stanley Research estimates

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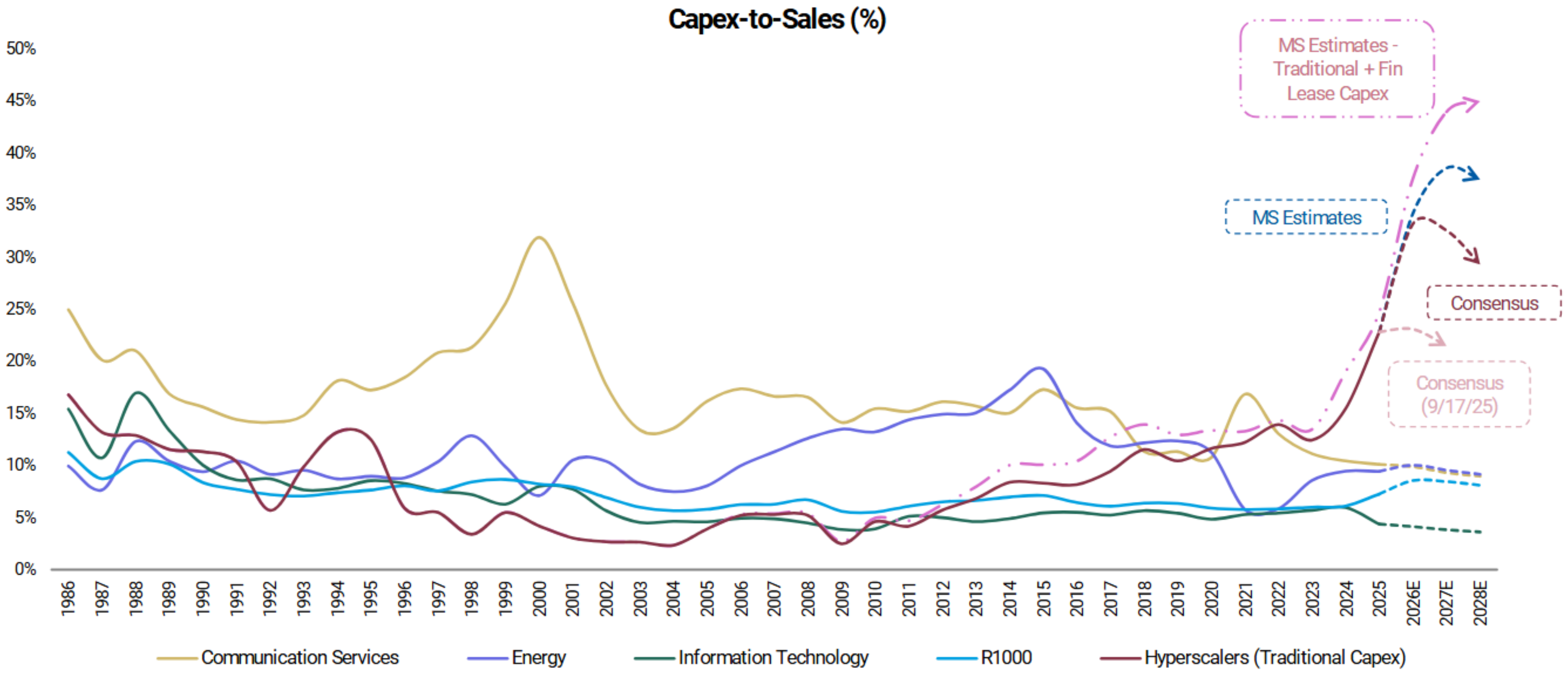
Adjusting this Spend for Sales

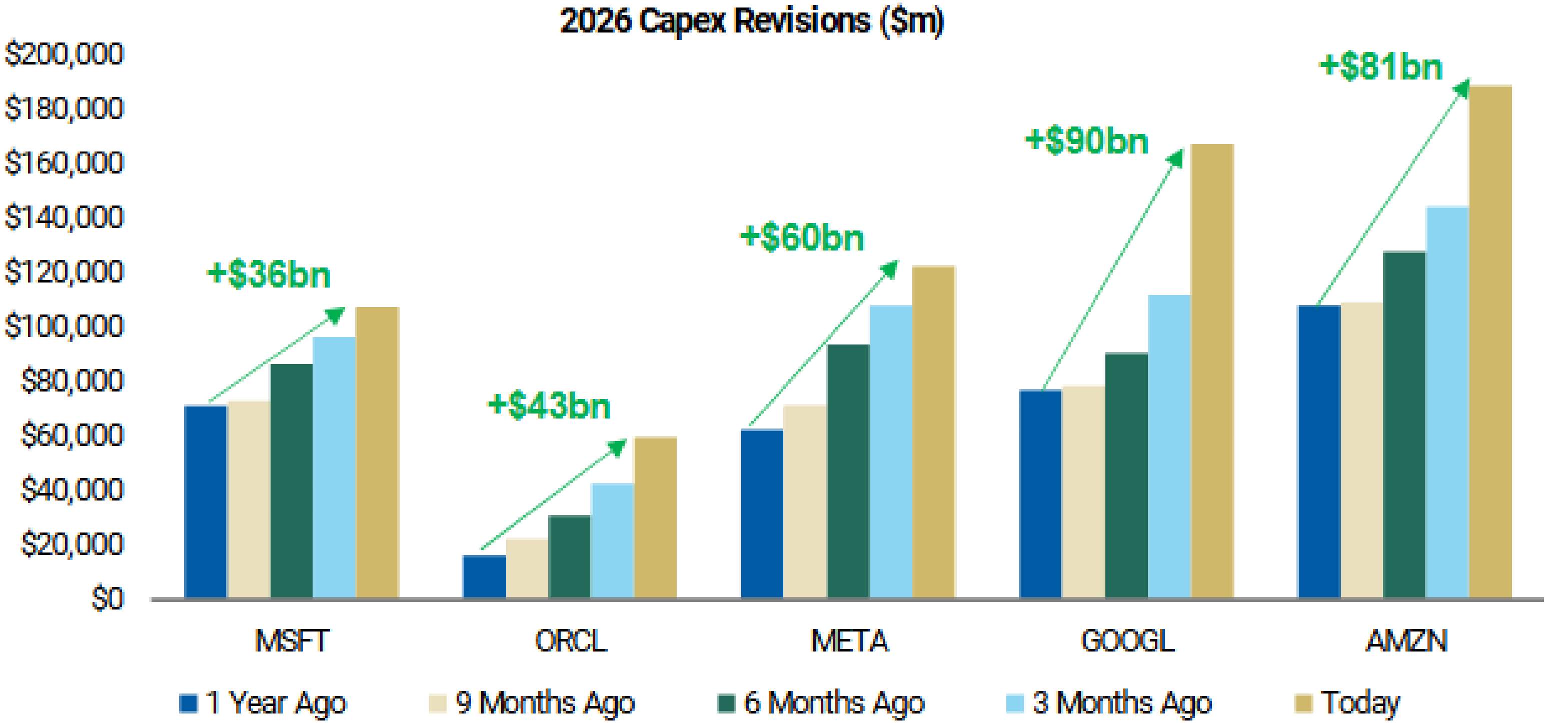
Larger than the TMT in the 1990s



Source: Company data, Morgan Stanley Research estimates, FactSet

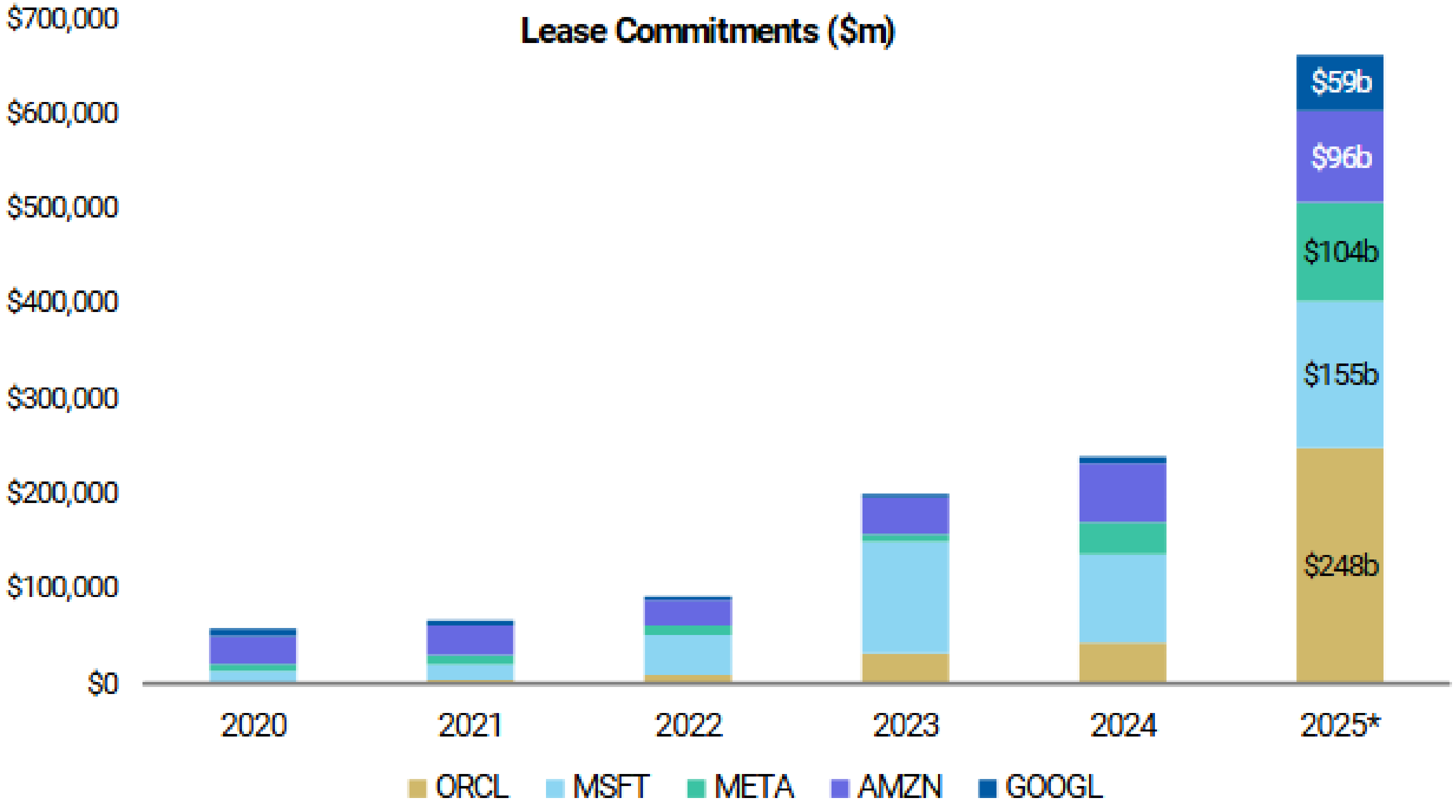
The Upward Revisions to this Spend Are Notable

Large shifts in a relatively short period of time



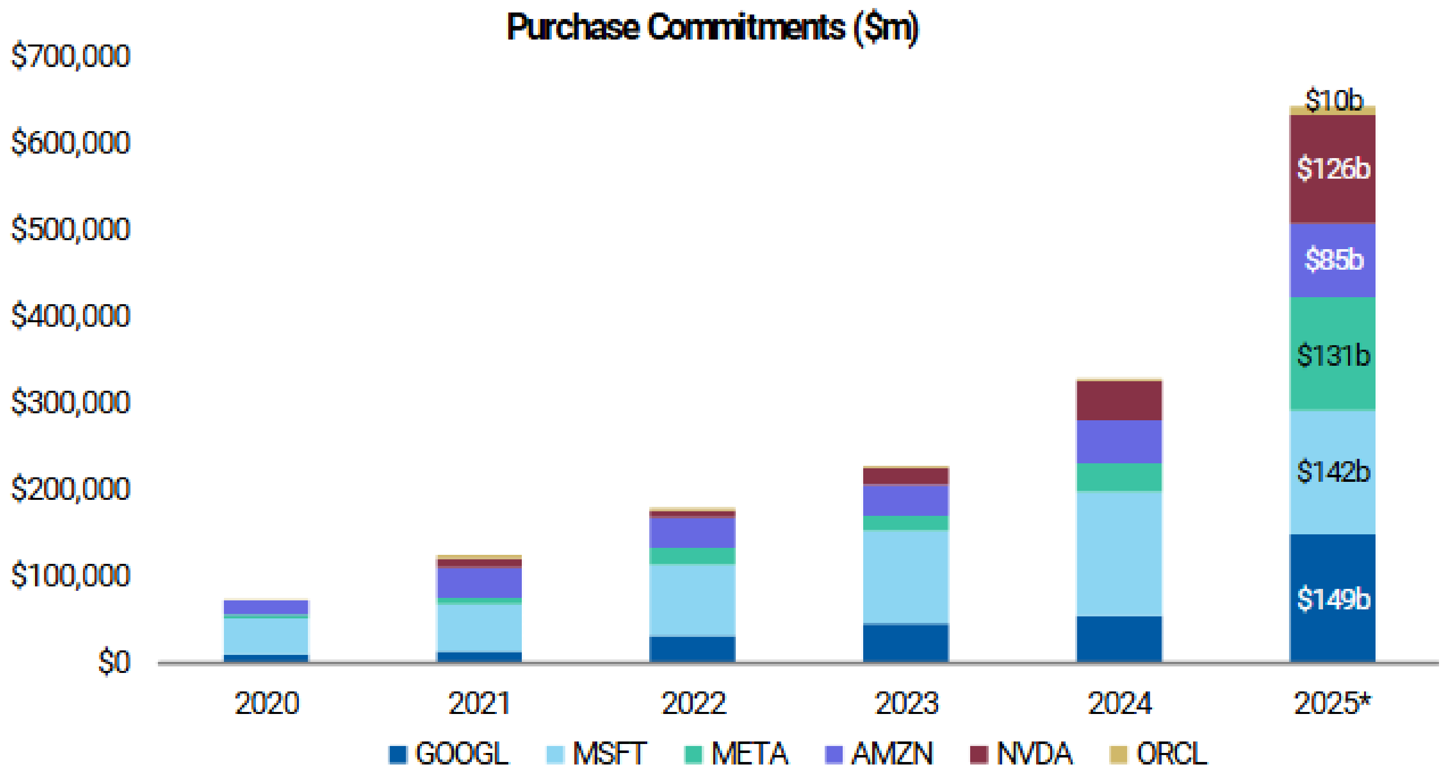
Source: Company data, Morgan Stanley Research estimates; AMZN, GOOG, and META covered by Brian Nowak. MSFT, ORCL, and CRWV covered by Keith Weiss.

Lease Commitments Build to >$660bn Across the 5 Hyperscalers



Source: Company filings, Morgan Stanley Research;.

>$640bn of Disclosed Purchased Commitments Linked to Data Centers



Source: Company filings, Morgan Stanley Research; Note: ORCL and MSFT figures are included in the prior annual period (2024 =FY 2025). ORCL 2Q25 = 1FQ26. MSFT 2Q25 = FY2025. GOOGL, META, and AMZN are covered by Brian Nowak, MSFT and ORCL are covered by Keith Weiss. As of Oct 8th 2025.

Risk Shift: From “What if it Fails” to “What if it Works”

Industry disruption in focus

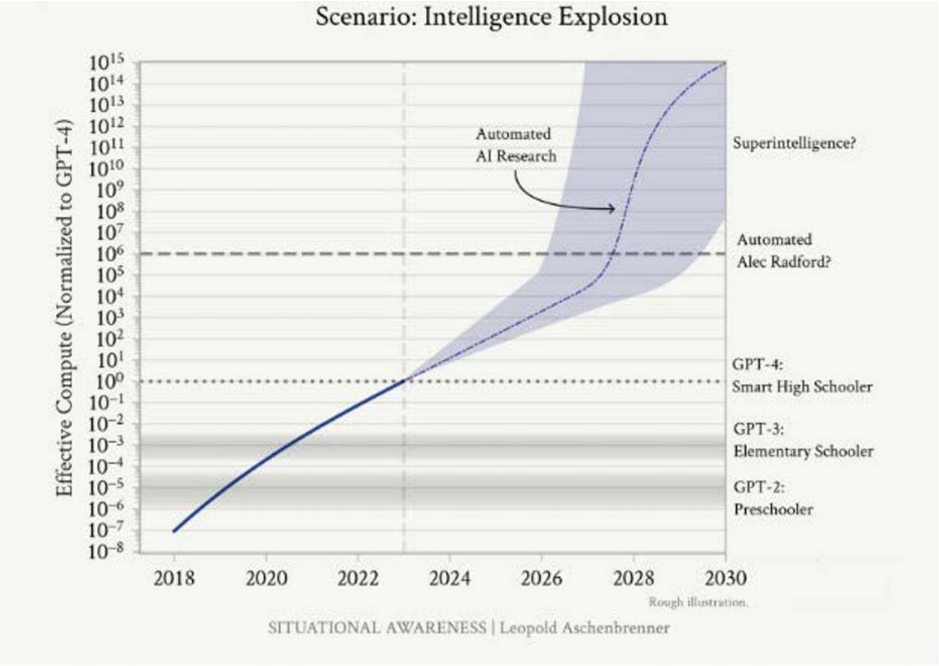
Agentic AI complexity (and compute demand) is doubling every seven months.

This can lead to much greater demand for compute, power, equipment, and capital.

Credit investors are very focused on the risk that AI disappoints, leaving excess capacity.

Scenarios where AI exceed expectations, and disrupt a broader set of companies, are also a risk.

AI Models Continue to Grow more Powerful



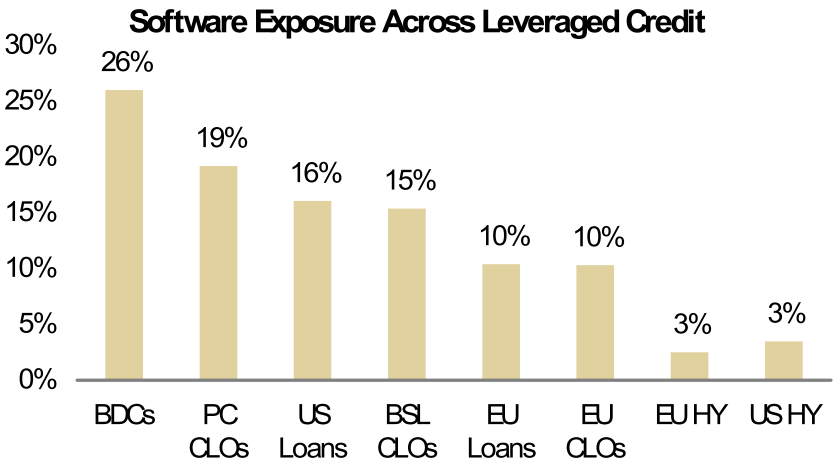
Automated AI research could accelerate algorithmic progress, leading to 5+ OOMs of effective compute gains in a year. The AI systems we'd have by the end of an intelligence explosion would be vastly smarter than humans.

Source: Morgan Stanley Research, Leopold Aschenbrenner [Introduction - SITUATIONAL AWARENESS: The Decade Ahead]

Software Exposure Significant in the Leveraged Credit Market

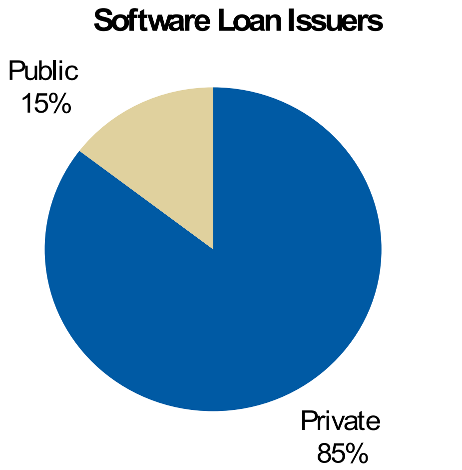
- Highest in BDCs, followed by PC CLOs, Lev Loans, BSL CLOs. Less exposure (<5%) in IG/HY
- Vast majority of companies are private/financial sponsor backed

Software concentration by asset class



Source: Source: PitchBook | LCD, Morningstar, S&P Global, ICE BofA, Morgan Stanley Research

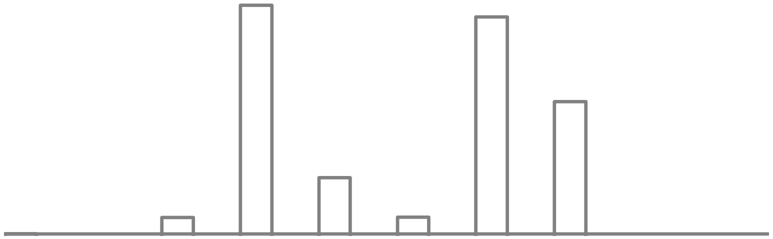
Software skewed to private issuers



Source: Bloomberg, FactSet, S&P Capital IQ, Morgan Stanley Research

Software Skewed to Lower Quality and Weaker Underwriting Vintages

Software loans issuance peaked in 2021



Source: Morningstar, Morgan Stanley Research

50% o software loans are rated B- or lower

Software Sector by Rating

CCC
8%

BB
11%

B+
8%

B-
46%

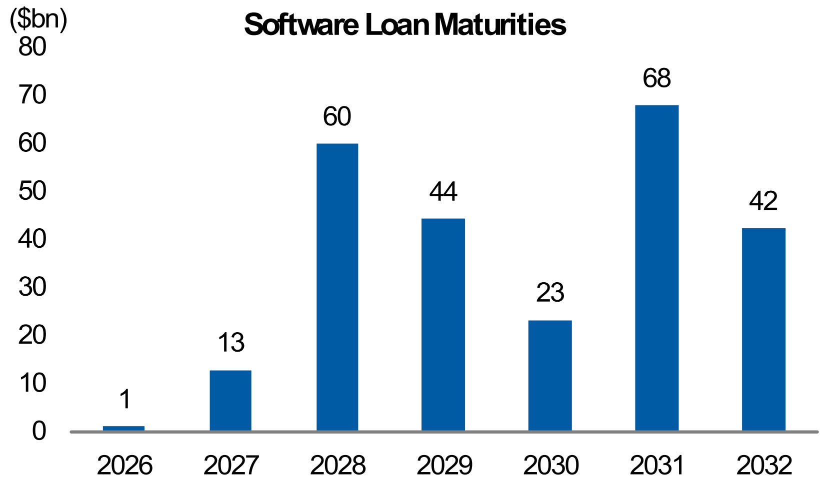
B
27%

Source: Morningstar, Morgan Stanley Research

Refi Pressure Starts to Build in 2H 2026

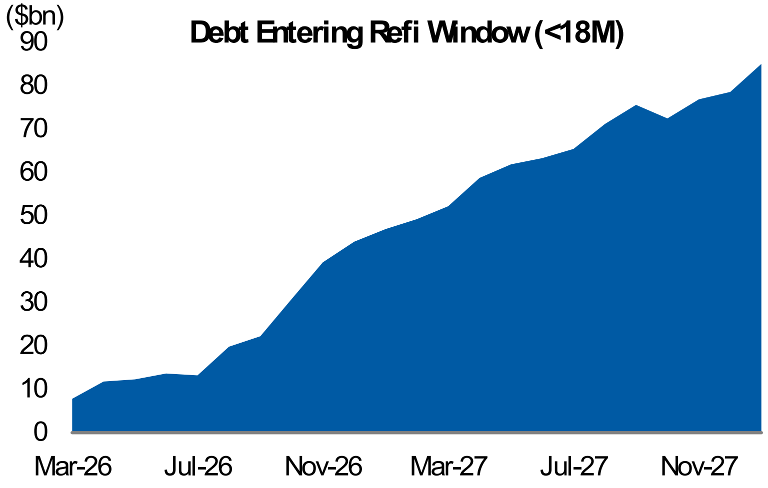
- Software loan maturities are low through 2027, but rise notably in 2028
- Loans within the ‘refi window’ (<18M to maturity) increase steadily from August 2026

Software loan maturities ramp up in 2028



Source: Morningstar, Morgan Stanley Research

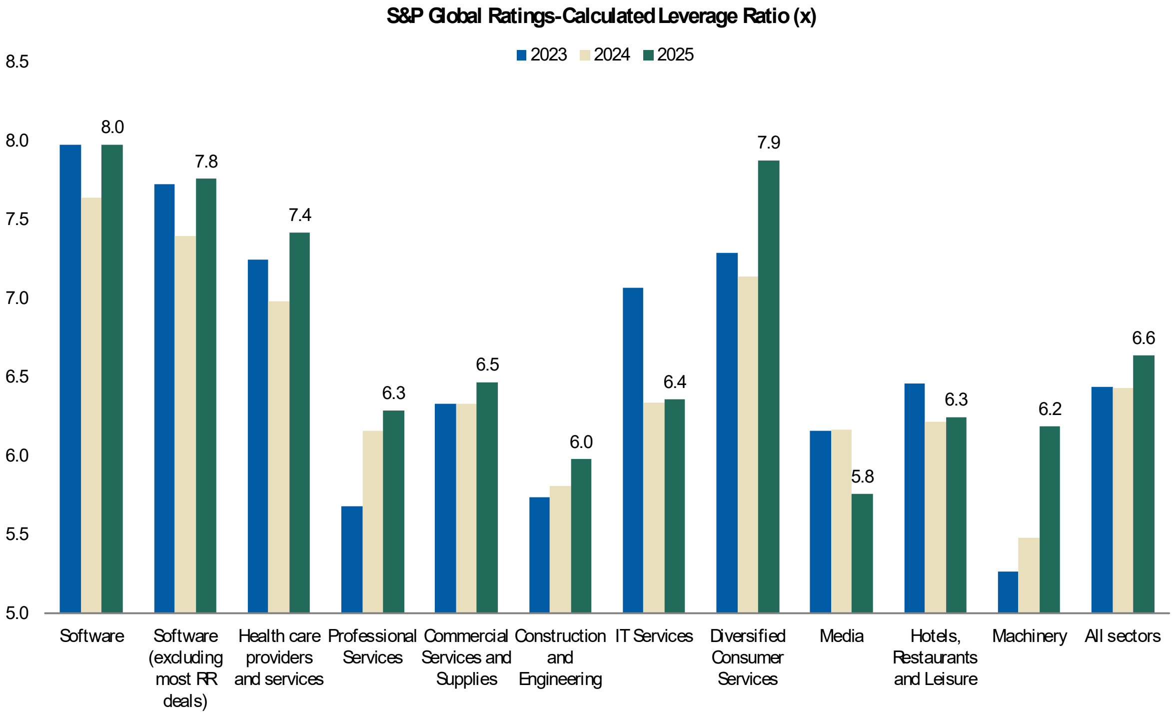
Software Loans entering the sub-18M maturity window increase in 2H26



Source: FactSet, Morgan Stanley Research.

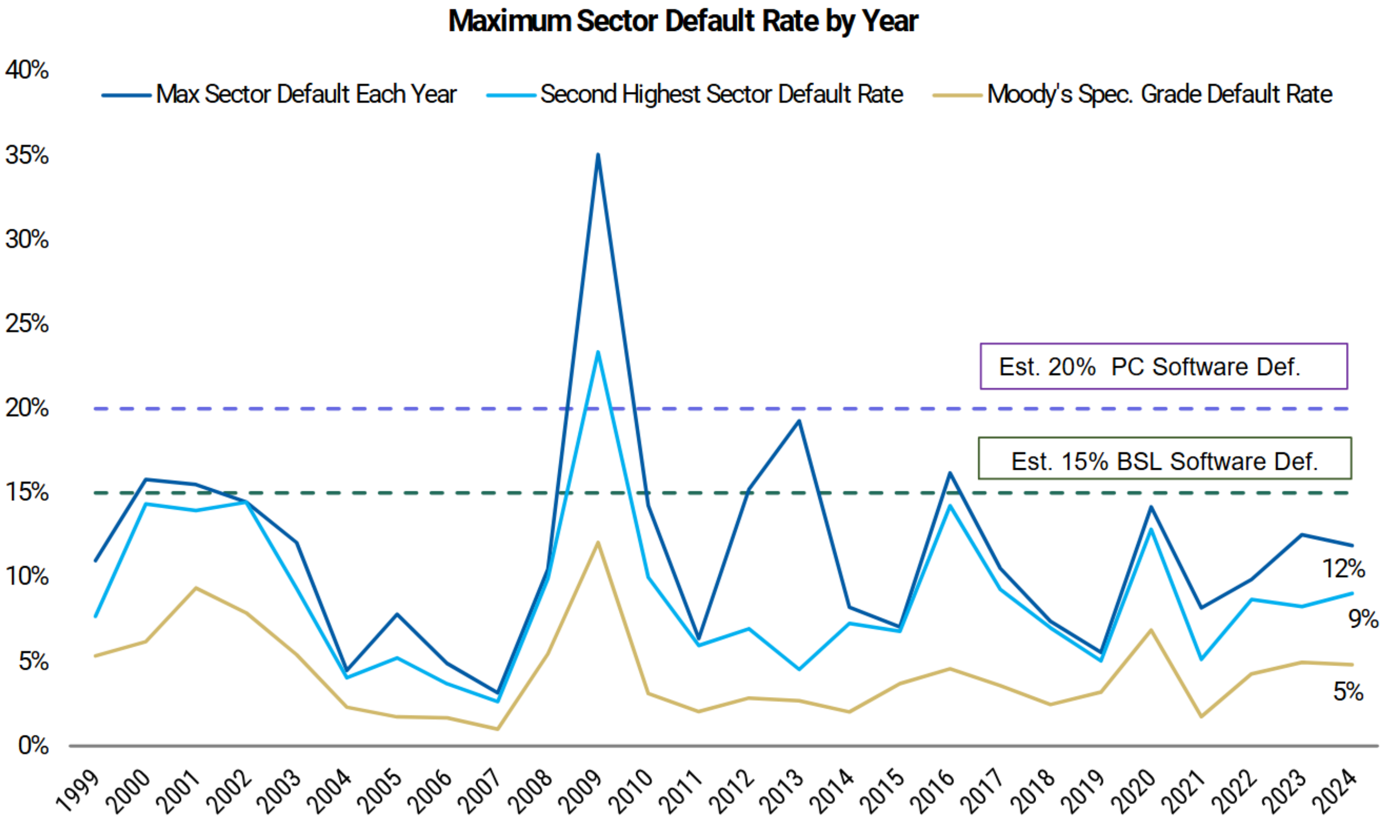
Software Exposure in Direct Lending: Vulnerable Fundamental Setup

Software sector: median leverage of 8x



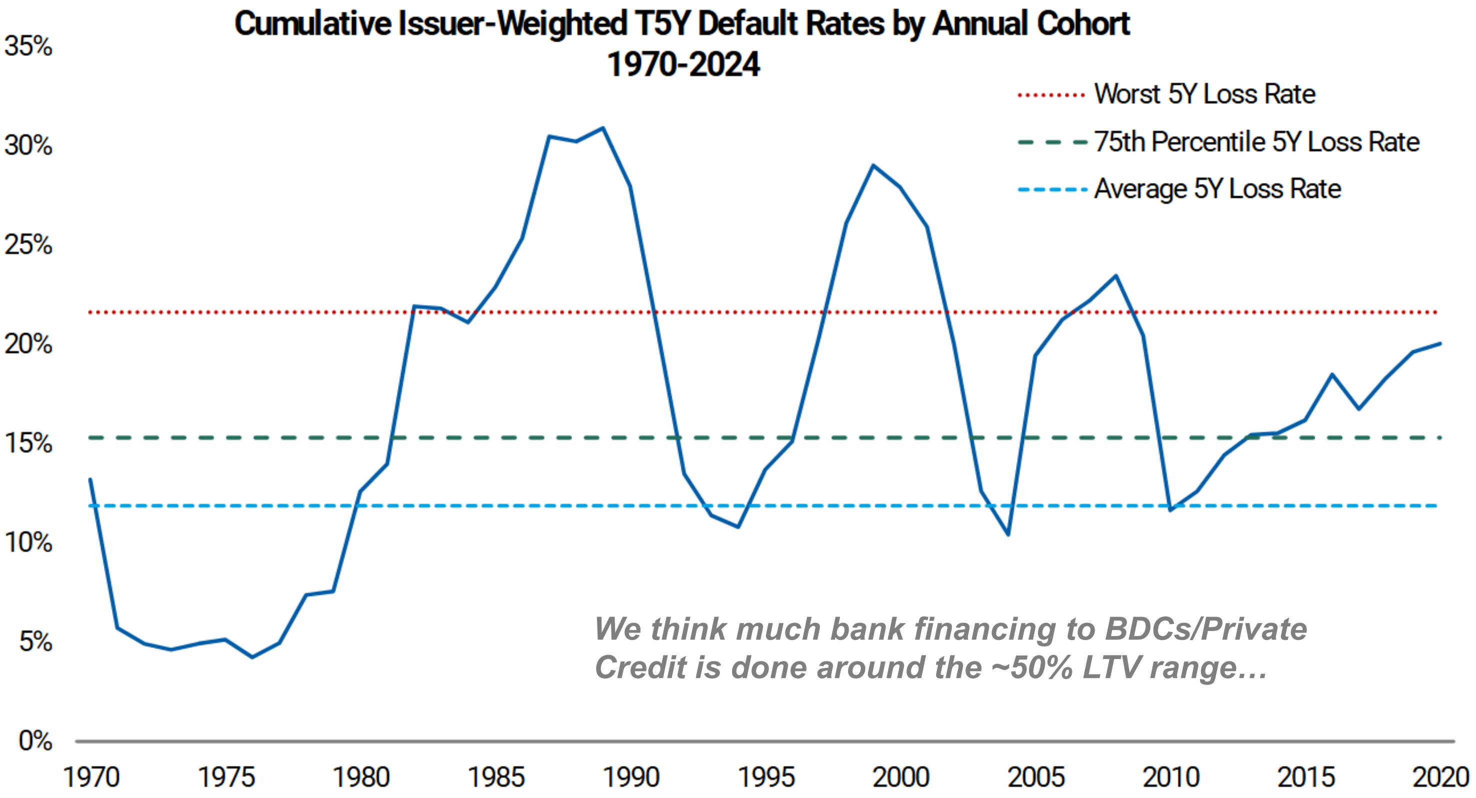
Source: S&P, Morgan Stanley Research

Putting Software Default Estimates in Historical Context



Source: S&P, Morgan Stanley Research. US Credit Strategy, Banks, and Asset Managers Research: Connecting the Dots Around Private Credit

“Back Leverage” Still Looks Risk-Remote



Source: Moodys, Morgan Stanley Research US Credit Strategy, Banks, and Asset Managers Research: Connecting the Dots Around Private Credit

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(as of March 31, 2026)

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	**1534**	**42%**	**461**	**50%**	**30%**	**698**	**43%**
Equal-weight/Hold	**1573**	**43%**	**372**	**40%**	**24%**	**716**	**44%**
Not-Rated/Hold	**4**	**0%**	**1**	**0%**	**25%**	**1**	**0%**
Underweight/Sell	**568**	**15%**	**89**	**10%**	**16%**	**209**	**13%**
Total	**3,679**		**923**			**1624**	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.

Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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