MACQUARIE

MACQUARIE ASSET MANAGEMENT

Race for resilience, amidst costly and contested capital

Fixed Income Strategic Forum Issue 02 | November 2026



Brett Lewthwaite | Chief Investment Strategist and CIO of Liquid Credit

Introduction

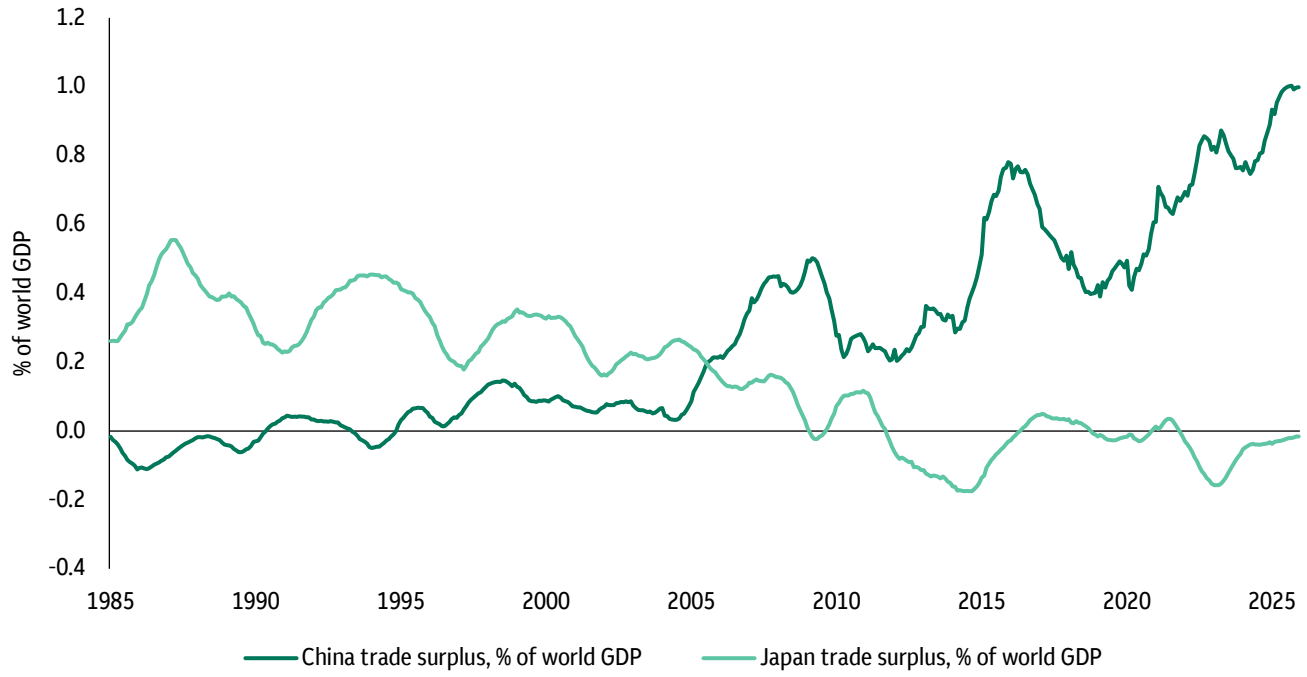
The era of globalisation led to the largest trade imbalance in modern history. Previous imbalances were resolved by accord or by conflict; this time an accord looks unlikely, so **the shift towards national interests and resilience continues to accelerate**. That shift requires sponsorship from governments whose balance sheets are already stretched, just as **artificial intelligence (AI) drives the largest capital cycle in technology history**. We take the race for resilience, the emerging risk of a fiscal crisis and AI in turn and argue that an in-depth understanding of each individually and collectively will be key to navigating the period ahead.

1. National resilience

China's 2025 surplus reached a record $US1.2 trillion, the largest ever recorded by any country, and is on course to be surpassed in 2026 as overproduction and weak domestic consumption flood global markets with low-priced goods. Germany shows what this '**China Shock 2.0**'[1], a second wave of the Chinese import competition that hollowed out Western manufacturing in the 2000s, can do: its long-running trade balance of manufactured goods has reduced notably.

Imbalances this large do eventually unwind. Even if China succeeds with Shock 2.0 and its next phase 3.0, it will eventually find it is consuming its own demand. That is unlikely, however, as trading partners, watching their industries hollow out, are forcing the adjustment much sooner, as they have been since the mid-2010s. This is the geopolitical abrasion now under way.

Figure 1: China's trade surplus bigger than Japan's ever was



Source: Macquarie Asset Management, Macrobond, December 2025.

In the past, global imbalances were resolved by multilateral accords (e.g. the Plaza Accord) or by conflict followed by accords. An accord this time, at least in the near term, appears unlikely. China is unwilling to surrender its ascendancy. It is pursuing a 2.0 and then a 3.0 phase of industrial upgrading and will experience internal disruption if it concedes. The US is equally unwilling to concede its former upper hand, though it no longer holds all the cards. It is now a substantial net debtor. Its credibility has also been eroded as it has signalled on numerous occasions differing rules for it as hegemon, including through global financial crisis (GFC) bailouts and money printing, that debased assets that foreign holders had treated as safe; the 2022 seizure of Russian USD reserves, that confiscated another nation's funds; the abrasive 'Liberation Day' for friend and foe; the Iran war; and, more recently, the threat of using the dollar as a weapon. As US Treasury Secretary Scott Bessent put it, "either you are with us or against us".

[1] China Shock 1.0: cheap Chinese manufactured goods after 2001, which displaced low-end manufacturing in the West. China Shock 2.0: a second wave in advanced goods such as EVs, batteries and machinery. China Shock 3.0: the next wave (AI, robotics, frontier technology).

The acceleration towards national resilience

When Nixon ended USD convertibility to gold in 1971, the dollar became a fiat currency backed by the word and trust of the US. That trust rested on US military strength: protection of allies and naval supremacy. The Iran war has raised questions about that strength, including the depletion of US missile stockpiles. On display for all to see, many nations are now prudently reassessing how much they can rely on both US military protection and the US dollar. Unintentionally, the US's isolated 'excursions', and the weaknesses they have exposed, could have profound longer-term implications.

Before the Middle East conflict, national security referred to a nation's development of its own large military or fostering alliances with nations that have them. Drones striking critical infrastructure and the closure of the Strait of Hormuz have dealt that mindset a blow. Japan, South Korea, arguably Taiwan, much of Europe and the Gulf states, all reliant on US security guarantees, are now reassessing them with haste.

> "The United States and the developed world have under-invested in fixed assets, in a belief that China's investment boom, unparalleled in global history, would always provide the tangible products that are still the bedrock of any economic system.
> **Now things have to change."**
>
> *- Russell Napier*

The reassessment reaches the US-China rivalry itself: President Xi Jinping has twice raised the risk of a "Thucydides Trap"[2], in which a rising China displaces the incumbent US, while openly asking whether the two can avoid it and establish a new paradigm for relations between them.

Until a new balance is agreed, global abrasion and the race for national resilience will only gather pace.

The national interest and resilience framework

In '*An erosion of trust in an era of national policy musts?*' (2025), we set out our framework for the shift from globalisation to resilience (or national interests – NI) and the investment thesis embedded therein. NI means individual nations working to remove vulnerabilities in five areas:

- **National security**: military strength, adjusted for modern techniques (drones and supply chokepoints)
- **Energy security:** oil, gas and renewables through to nuclear
- **Essential inputs**: food, health and all critical components, from medical essentials to rare earths and magnets
- **Technology**: leading, or at least not falling behind, in the AI 'space race'
- **Infrastructure**: roads, ports, energy, power grids, data centres…everything

Following more than three decades of outsourcing, almost every developed nation is chronically underinvested in at least one if not all five. We emphasise that these are 'need to', not 'want to', priorities and, now known, are very unlikely to be reversed.

Provided it can be funded, the emerging era of NI or resilience will be a powerful influence in the coming years, creating opportunities nation by nation right across the framework laid out above.

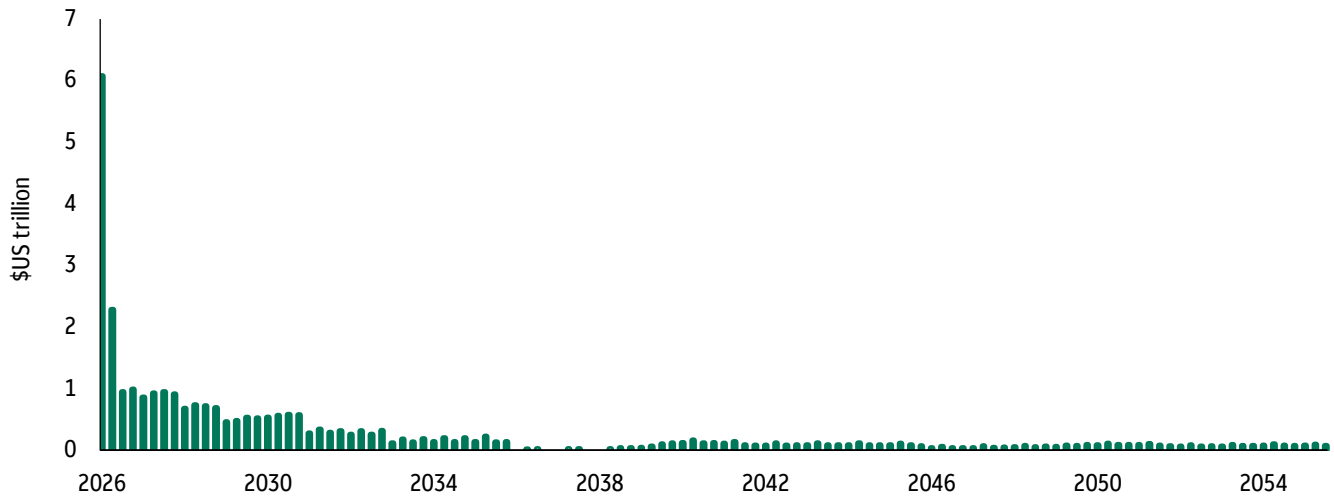
2. The risk of a fiscal crisis

The funding challenge and the rising risk of a fiscal crisis

US government debt has exceeded $US40 trillion[3], much of it short term, so the US must refinance a substantial portion of its obligations every year. On top of that refinancing task, the US must fund annual fiscal deficits of approximately $US2 trillion[4] and do so while accelerating the reduction of its national-interest dependencies, funding and replenishing weaponry for the wars involving Iran and Russia/Ukraine and encouraging the build-out of AI in order to win the global AI race.

[2] Thucydides Trap: a term popularised by Harvard's Graham Allison, after the ancient historian Thucydides, for the danger of war when a rising power challenges an established one, as Athens did Sparta.
[3] Source: Macquarie Asset Management, Macrobond, November 2026.
[4] Source: Macquarie Asset Management, Macrobond, November 2026.

Figure 2: US marketable public debt distribution



Source: Macrobond. US Marketable Public Debt Maturity Distribution - Total T-Bills, T-Bonds, TIPS & T-Notes, November 2026.

The US fiscal position commands most of the attention, although many Western nations, including Japan, France and the United Kingdom, face similar challenges. **As 2026 draws to a close, geopolitical and trade friction, stickier inflation and higher bond yields have brought the risk of a 'fiscal crisis' into the market lexicon**. We wish to be clear: by a crisis we mean a market event of real consequence, not a prediction of a sovereign default.

The concern is increasingly not whether such a crisis will flare, but when. Said another way, the bond market is the Achilles heel of the evolving new economic environment, and everyone – friends, foe, adversaries and policymakers themselves – knows this.

Before assessing this emerging risk, it is worth understanding how Western sovereign balance sheets arrived at this point.

How we got here

Demographics: the cheque that was always coming

The story begins with demographics, a long-known and slow-moving challenge that has steadily moved closer to the fore. As the baby-boomer cohort approached retirement, pension and healthcare entitlements that had never been properly planned for began to rise. With inadequate private saving, the burden fell increasingly on government finances. **The cheque that was always coming is increasingly due, producing persistent fiscal deficits and ever-higher government indebtedness.**

Yet this was only the beginning. A series of other trends, events and unintended consequences would go on to compound the problem considerably.

Globalisation and the financialisation of everything

During the era broadly known as globalisation, it became common practice for large multinational companies to draw on the world's resources, producing high-quality goods in low-cost locations in order to maximise returns for themselves and their shareholders (some of them went on to be known as 'magnificent'). **Little consideration was given to the structural side effects on individual nations, or to the fragilities and vulnerabilities that would accumulate, unchecked, over more than three decades.**

Nor was it widely understood that a model of outsourced production, concentrated primarily in China, with its enormous population, cheap labour and a managed, low-valued currency, would produce ever-larger Chinese trade surpluses. Those surpluses were recycled into Western, and particularly US, financial markets as foreign-currency reserves, largely invested in 'safe' bonds such as US Treasuries. The effect was to suppress the cost of capital quietly and artificially. This was Greenspan's conundrum: long-term yields that stayed low even as the Federal Reserve raised rates, and over many years it was an important influence in encouraging the '**financialisation of everything**'.

The conundrum ultimately manifested in a global credit bubble and the GFC, that nearly collapsed the Western financial system and required government-funded bailouts. That experience laid the groundwork for the playbook used in the pandemic response. Between them, near-zero interest rates and trillions of dollars of quantitative easing (QE), utilised for more than a decade, supercharged an already heavily financially engineered global economy and placed an extraordinary burden on sovereign balance sheets.

Inequality, populism and the collapse of the centre

Inadvertently, this system also drove inequality in many Western economies to acute levels. The resulting social backlash contributed to the collapse of the political centre, a shift towards polarisation and the rise of populism. That rise, in turn, set off a chaotic and abrasive pushback against the many extreme imbalances that globalisation had created.

Widespread sovereign indebtedness

Demographic pressure, the post-GFC bailouts and the vast monetary financing programs of the pandemic combined to inflate government debt. They were underpinned by entrenched, and false, confidence that inflation was dormant, and by a belief that once the Rubicon of QE had been crossed, policymakers could 'just do more', as though the bill would never fall due. Countries such as the US also fought a succession of costly military campaigns, adding to the strain.

By the mid-2020s, the scale of government debt is now common knowledge. So too is the reality that, in several large economies, annual fiscal deficits remain substantial, with outlays far exceeding receipts even in a reasonably robust economic environment. Few wish to consider what those deficits would look like in an economic downturn.

Global imbalances of this degree cannot persist

Questions about a fiscal crisis, and how unsustainable trends might be arrested, have been building for some time. More recently, a succession of events, set out in Figure 3, has made the task both more difficult and more pressing. Each of them is part of a pushback against the imbalances of globalisation, which by the late 2010s had grown too large to sustain. Each traces the abrasive unwinding of the system so far.

Additionally, from the pandemic onwards, **the return of inflation as a by-product of the evolving situation meant that a) the primary source of government funding since the GFC, central bank QE (money printing), was no longer available, and b) increased the cost of capital, exacerbating the fiscal challenges with much higher interest costs**.

Figure 3: The abrasive unwinding of globalisation

Period	Event	What it revealed
2008–2021	The GFC and quantitative easing	Money printing questioned the safety of 'safe' bonds. Holders of US debt learned that the rules could change without notice and that the fiat currency in which their reserves were denominated could be debased
2016	Trade War 1.0	Trade balances had become extreme and could only correct one way: through tariffs. Global collaboration began to unwind
2020	The pandemic	Exposed the vulnerability of outsourcing essential needs and raised the urgency of reshoring capabilities critical to national economies
2022	Russia/Ukraine and the freezing of reserves	Challenged the belief in US Treasuries as the global 'safe' asset. Former large holders, including China, became increasingly uncomfortable owners
2025	'Liberation Day' tariffs	Abrupt, severe tariffs on friend and foe alike eroded trust, convinced many that the prior world order was over and highlighted dependence on China for rare earths
2026	Venezuela and the US/Israel-Iran war	An energy shock, reduced confidence in traditional military strength and the laying bare of acute interdependencies

In this note and in earlier writing, we have sought to bring clarity to this process. Much of our focus has been on trade imbalances; on the fragilities created by decades of unchecked outsourcing; on the challenge of shifting, out of necessity rather than choice, towards national resilience; and the abrasive nature of how that may occur. We have also asked how it will all be funded – hint: **mandate, legislate, confiscate… (and then, eventually, print) – arguing that existing rules and norms will need to be broken if national-interest initiatives are to succeed**.

The financial implications of the reversal of globalisation

Any system left unchecked for three decades is not merely imbalanced; it also contains complex interdependencies. Reversing the imbalances of globalisation is far more complicated than it appears, as the financial system also adapted and thrived in tandem. The era of globalisation also meant globalised financial markets and the free flow of capital across borders. We suspect that only a few appreciate the intricacies involved, although we expect awareness to rise notably. The implications are threefold.

1. **If trade surpluses and deficits narrow, capital accounts will also narrow**. If the US reshores production and corrects its trade imbalances, its capital inflows will reverse too, as they have begun to do, due to the series of abrasive events outlined above. The conditions that quietly enabled the financialisation of everything and the incredible level of government borrowing will unwind with them. Funding the current system is becoming more difficult, implying a stubbornly higher cost of capital. Yet the stock of financialised debt and accumulated government debt remains and continues to grow at a persistent rate. Many former holders of US debt have already stopped buying (funding).
2. **Nations repatriate savings to fund national imperatives**. Governments now acutely aware of their national 'needs' are each scrambling to reduce their own vulnerabilities and have resilience initiatives to finance. They will increasingly be tempted to encourage domestic savings pools to return from globalised, cross-border locations. Concentrated holdings in the largest bond and equity markets are likely to be repatriated, and it need only happen at the margin. How much money is invested passively in global indices with little or no due diligence, and does that serve national interests, or merely the largest companies in the largest economies?
3. **The banking system is globally interlinked**. In a globalised financial system, banks, insurers and pension funds all own everyone else's debt. As governments increasingly draw on the balance sheets of their national pension funds, insurers and national banks, pressure is likely to build within the financial system itself, whether through credit contraction or via rising sovereign risk. Fiscal stress in even one significant country would not remain confined to its own banking system. It would spread quickly to international banks as questions about who holds what erodes trust.

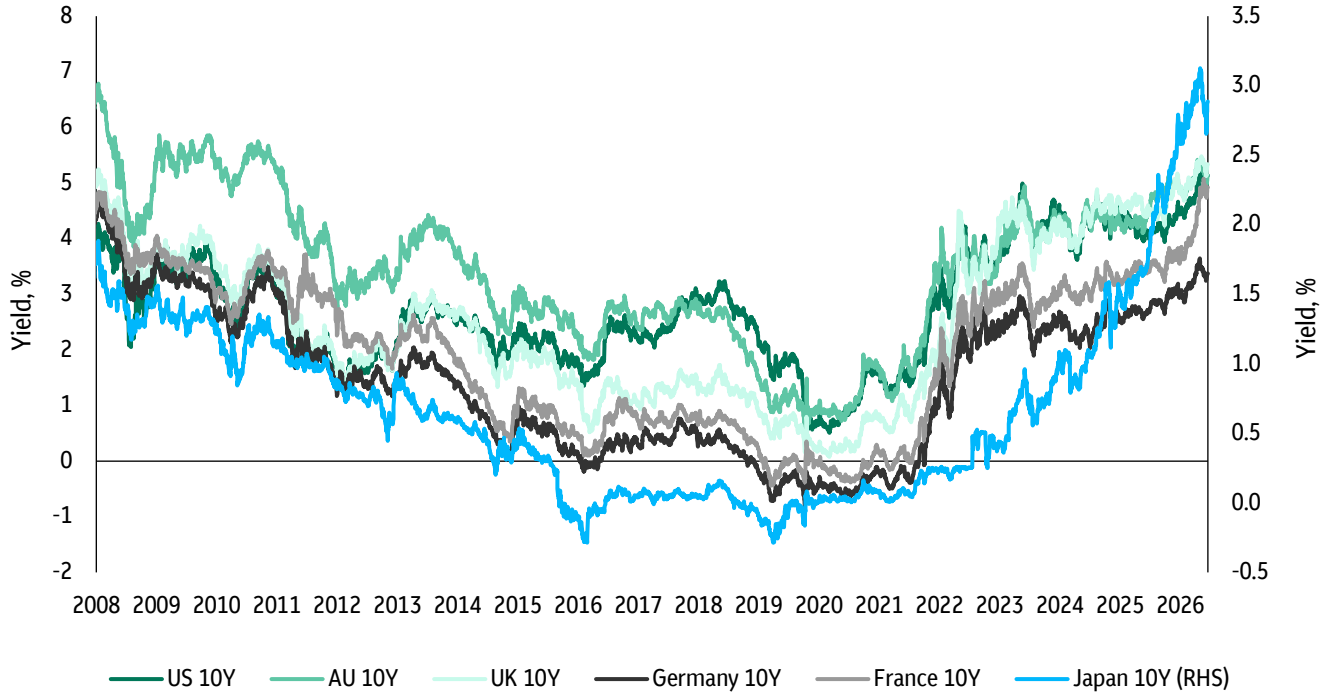
The summary is that fiscal positions are deteriorating and more funding is needed, and yet funders are either already in retreat or may increasingly withdraw due to national-interest initiatives and/or fiscal risk concerns. **The resultant risk is that yields are pushed ever higher, exacerbating the challenge through higher interest costs and larger deficits, and increasing the talk of a potential fiscal crisis**.

Japan: the recent coordinated intervention and the interdependencies

Japan illustrates the point well. A world-renowned producer of high-end goods, it usually generates a healthy trade surplus. As part of the US-led Western alliance, it has enjoyed national security through its relationship with the US and, until recently, spent less than 2% of GDP on defence. Over many decades it has accumulated large savings pools, including significant pension assets, many of them invested around the world and considerably in US assets.

Following the 'Liberation Day' tariffs of April 2025, Japan was criticised, despite being a close ally, for its trade surplus with the US and for underinvesting in defence. More recently, a confluence of factors, including persistent currency weakness, has lifted Japanese bond yields out of their multi-decade slumber. The war in Iran has added pressure on one of Japan's best-known vulnerabilities, its reliance on imported energy, while the changing nature of modern warfare, on display in both the Middle East and Ukraine/Russia, accelerates the urgency of upgrading its defences.

Figure 4: Global bond yields remain volatile



Source: Bloomberg, November 2026.

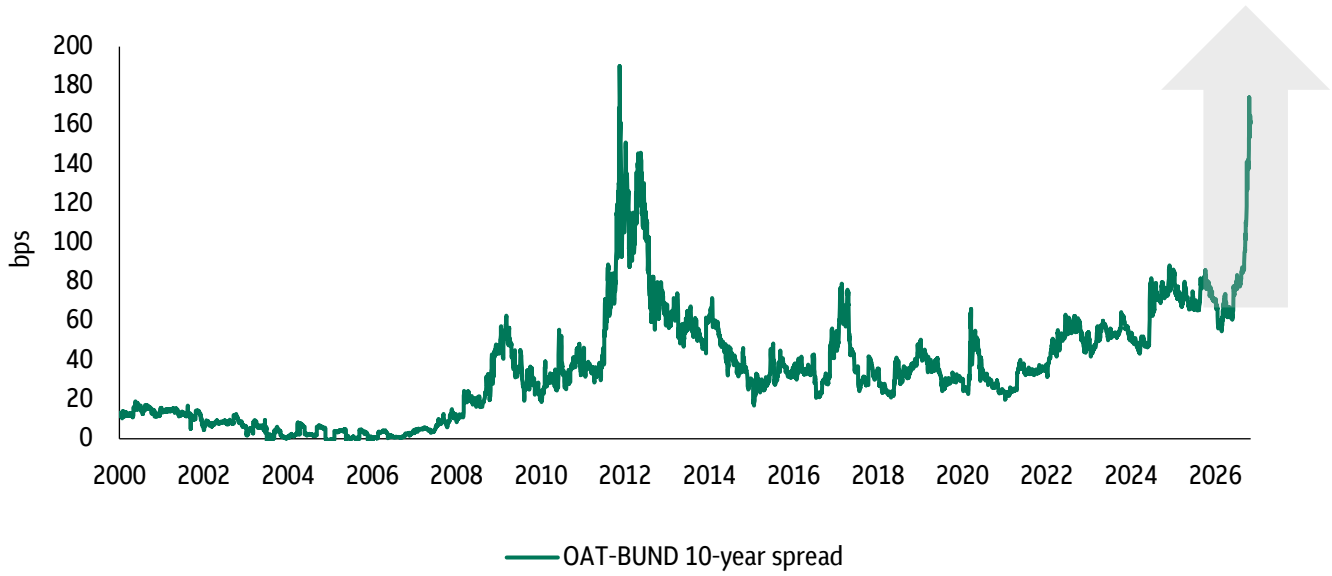
In the name of national interest and resilience, Japan has pressing priorities at home and needs to fund them. This is precisely what the US asked for. Yet doing so will likely require repatriating assets from overseas, and Japan is a large holder of US Treasuries. The US needs more holders of its debt, not fewer, but its efforts to correct trade imbalances (not to mention the complications created by Iran) expose the interdependence. For allies such as Japan to spend more on defence and invest more in national priorities may ultimately require selling US bonds, placing further pressure on the bond yield levels and the US funding position. Japan is only one example: the Gulf countries are similarly large global investors with ever more pressing priorities now at home. Similar linkages run across the global banking, insurance and pension systems.

The recent coordinated US/Japan intervention in USD/JPY to strengthen the yen suggests the US is aware of this unintended consequence. The operation was notable in three respects. It was unusually coordinated; it used repo facilities, borrowing against US Treasuries rather than selling them; and it involved selling euros rather than dollars, notably without notifying European counterparts. At first glance, it appears a creative solution to what is likely to be a persistent and growing challenge: the need for capital to be repatriated for national purposes, globally.

The recent approach towards Japan illustrates both the focus placed on Treasury yields and the willingness to use unconventional policy tools. These measures sit within a broader effort to manage the cost of US borrowing: unusually large, long-end buybacks, a greater reliance on bill issuance, and support for stablecoins (dollar-pegged digital tokens backed largely by Treasury bills) as a new source of demand for short-dated Treasuries. In isolation, each of these measures may appear relatively minor. Together, they form a clear pattern of a Treasury willing to use inventive tools in pursuit of lower yields. It also carries an embedded signal: the US does not want current holders or potential buyers to leave US markets.

However, in doing so, the pressure was effectively transferred to another market, in this case through the selling of euros, and most likely therefore of euro-denominated bonds. Japan is one of the largest holders of European debt, and French government bonds, as a somewhat higher-yielding market, are a significant holding. This may be one reason French government bond yields have been a topical story in recent weeks. While most attention is on the US fiscal position, if a fiscal crisis does occur, it is far more likely to originate in a smaller but still significant economy such as France. As if on cue, France has been experiencing a heightened level of social unrest relating to its fiscal situation. This is adding to the pressure on French bond yields.

Figure 5: OAT-BUND 10-year spread widest since the Eurozone sovereign debt crisis



Source: Bloomberg, November 2026.

France: where a crisis could start

France faces a fiscal and sovereign debt situation similar to that of the US, but because it sits within the European Union and uses a common currency, it cannot fund itself through its own central bank, and markets can test it in a way they cannot test the US. Its political situation is fluid, and it is wrestling with difficult fiscal dynamics; a weakening economy; and threats to national resilience, both in security and in energy, from Russia and Iran. Its national needs are pressing, and so is the need to fund them. France is also a large participant in global finance through its major banks, insurers and pension system, whose assets reside in global markets, much of them in the US. As the need to address national interests escalates, so will the pressure to repatriate. And that means from the largest markets, i.e. the US.

The risk of a repatriation domino effect

Recent abrasive trade negotiations with allies also do not bode well. Canadian Prime Minister Mark Carney's recent comment about agreements written in pencil underscores the point. An interconnected system calls for a coordinated and collaborative approach. Berating allies encourages an each-to-their-own mentality and with it withdrawal, when there are genuine needs requiring urgent funding at home. Continued friction risks setting off a repatriation domino effect across financial markets, one that would ultimately undermine the very foundations of the financialisation of everything. Policymakers will need to tread carefully and seek a coordinated approach to what is an exceptionally complex rebalancing.

The era of globalisation was defined by the suppression of volatility. The era we are now entering, with the risk of such a domino effect, seems likely to be anything but. **The need to "mandate, legislate, confiscate… (and then later, eventually, print)" to fund national resilience is likely to be a significant source of volatility in 2027 and the years ahead.**

3. Artificial intelligence

AI: the largest capital cycle in technology history

In our prior note '*NI + AI 'Contemplating…stand by'*", we outlined the series of assumptions and constraints behind the AI build-out, and we refresh and update this below for developments that have followed, particularly in relation to supply and competition within the AI space itself.

AI is an incredible transformational technology that is anticipated to have a profound impact on the global economy. **AI has become a matter of national importance: to lose the AI super-race is to lose Cold War II, so it must be won.**

Its build-out depends on a chain of interdependent physical, financial and geopolitical conditions:

- AI needs vast computing power, and so large-scale production of graphics processing units (GPUs) and other semiconductors.
- These are made in, or supplied from, concentrated geopolitical hot spots, e.g. Taiwan and South Korea.
- The compute needs to be housed and powered in a huge number of very large data centres, many yet to be built.
- The data centres need significant power supply, most of which does not yet exist and may take more than five years to come online.
- This build-out is occurring amid successive geopolitical shocks, the latest of which has caused significant energy and downstream supply constraints that could disrupt the global economy.
- Leading AI companies are engaged in enormous capital expenditure while they attempt to scale revenue, with diminishing competitive advantage as efficiency and competition rise.

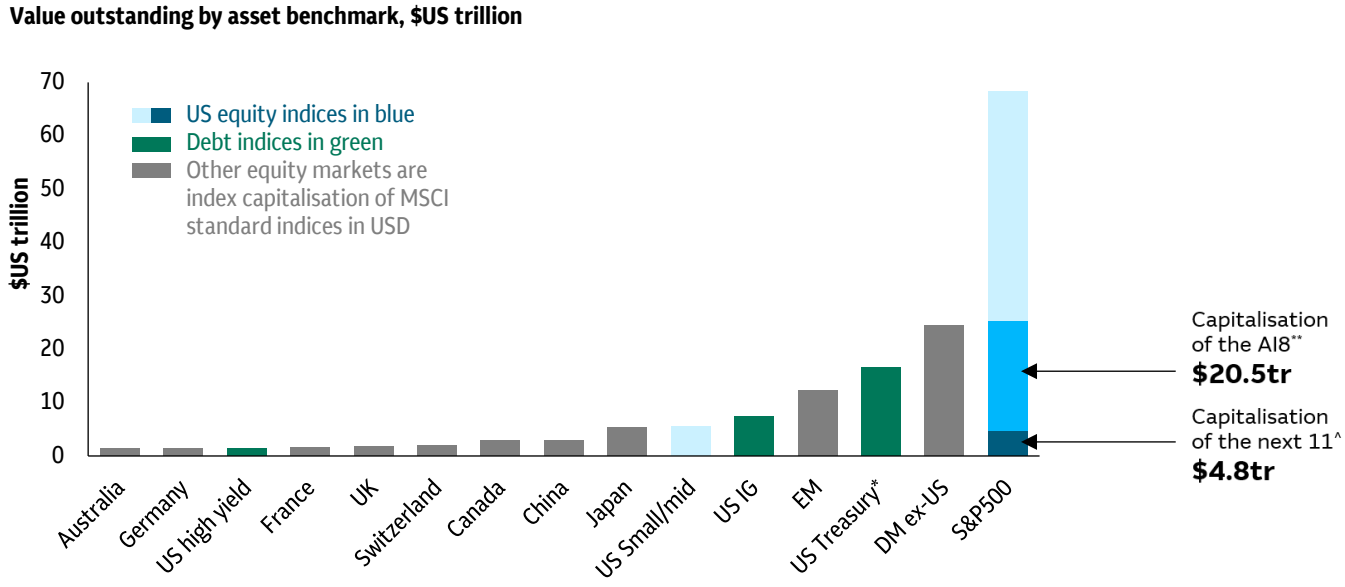
The pace of change both in the AI space itself and in the broader economy is rapidly creating many investment opportunities while considerably disrupting others.

AI is the second structural force bearing on public finances: its build-out needs vast capital, and its disruption could weaken the cash flows that service the world's debt.

Where did all the value come from?

Since the release of ChatGPT in late 2022, well over $US20 trillion[5] of value has been attributed to the companies involved in this new transformational technology. The number is much greater if recent borrowing (debt) to aid the build-out of the essential infrastructure is included, greater again if investments in future energy supply are also included. These numbers are enormous.

Figure 6: AI 8 and next 11 (AI adjacent) have the same market cap as all developed market ex-US



Source: Minack Advisory, MSCI, Bloomberg, November 2026. *LUATTRUU index and i38081us index (notes and bonds). **Alphabet, Microsoft, Nvidia, Amazon, Meta, Palantir, Broadcom and Oracle. ^Micron, AMD, Cisco, Intel, Sandisk, Lam, Seagate, Western Digital, Corning, ON Semi and Texas Instruments.

Did the value come from new products, from paper profits created out of thin air, from genuine productivity gains, or will it ultimately be drawn from the cash flows of existing large companies, the soon-to-be disrupted? **To justify the capex and today's valuations, it must come from somewhere, eventually.**

Since our last writing, it has become common knowledge that Chinese AI models are catching up with US models, and fast. Chinese providers are also subsidising tokens (the units in which AI usage is priced) so their models can

[5] Source: Minack Advisory, MSCI, Bloomberg, November 2026. See Figure 6.

learn from the usage data. In using AI, there are few if any moats in model usage. Switching takes a few keystrokes, and many users switch, and switch again, regularly.

A podcast conversation between Luke Gromen and Peter Alexander highlights how differently the two AI superpowers think, and how interlinked they remain:

"*They're not trying to create God in a box like they are at [leading AI companies]. They're saying, Hey, can I use this AI to improve my manufacturing and become more efficient so I can charge less money?"... they are not "arguing with strangers on the internet*".

The contrast is stark: the US is playing 'who wants to be a trillionaire', while China is focused on how AI can help it expand market share.

As such, the revenue ramp-up (demand) the AI companies need is racing against rapidly rising competition (supply), increasing model capability and efficiency, better token usage and collapsing token prices. It seems that bridging the gap to profitability will require the Jevons paradox: cheaper AI driving token usage far beyond anything anticipated.

As a result, many observers in financial markets are increasingly realising that **the largest capital cycle in the history of technology is currently underwritten by two private companies that may be challenged to achieve profitability**. And given the lack of moat and the competitive dynamics with China, they may not do so. In other words, the justification for the valuation surge that has been ascribed to AI business models for their 'new products' looks increasingly problematic.

A second argument holds that the (enormous) valuation ascribed to the AI stack reflects new revenue opportunities: with their large language models (LLMs) and the knowledge gathered from our use of AI, these companies will eat everyone else's business models, and that is why the current valuations are justified. The cash flows of others will be redirected to these companies. On this view, the AI value creation will come from the soon-to-be disrupted.

Valuations of this size will always be questioned. Nonetheless, they are priced into markets, as are the second-, third- and fourth-order beneficiaries, and cannot simply be taken back out. Either the valuations adjust to more appropriate levels, or the value must be delivered.

If current valuations are correct, rapid disruption of the rest of the economy is coming, with a redistribution of cash flows that the system and governments will find hard to handle, especially at the pace it will arrive. The by-product of the prior system, a massive accumulation of debt, may then become a considerable problem: the indebted disrupted will not have the cash flow to service the indebted system.

Recall that the previous globalisation regime, with ultra-low cost of capital and abundant liquidity, financialised everything and created a debt super-cycle. Governments were required to support it in the GFC and again in COVID and became indebted themselves. If broad segments are considerably disrupted, the ability to service outstanding debt would increasingly come under pressure: households (unemployment), corporates (default as business models are disrupted), banks (mortgage and corporate loan defaults) and governments (lower tax receipts, higher benefit outlays).

If current valuations are not correct, and the value of AI will ultimately accrue to its users, the non-AI real economy, rather than to its creators and builders (as with the railway boom and the technology, media and telecommunications (TMT) bubble), the incredible valuation surge since the release of ChatGPT will correct. With a handful of mega stocks making up massive components of indices, passive investment means almost everyone is exposed.

The outlook is never black or white, only shades of grey, and the AI outcome will probably be some combination of both. If pushed, the evidence leans notably towards the second scenario. Either way, **AI is an unprecedented and rapid force of societal and economic disruption, and governments and policymakers will increasingly be called on to help manage the transition**.

Conclusion

Two structural trends, the reversal of globalisation and the rapidly approaching AI transformation, are increasingly disrupting the global economy and are central to the outlook for financial markets in 2027. **Each is abrasive on its own; together they are ever more so**.

Markets are already registering the strain. Resilient growth, geopolitical abrasion, energy and inflation constraints, falling trust and concern about government financing are showing up in bond yields, which are climbing to levels that have previously proved troublesome.

Greater emphasis on national interest and resilience likely means stronger nominal economic growth, although with it, higher inflation risk as geopolitical and supply-chain friction continues. Realistically, it would be naive to treat the Iran war as the last shock rather than the **latest iteration in a more volatile and competitive world**.

The defining feature of this period is an abrasive, competitive environment where policymakers will lean towards using every available tool: large fiscal programs as well as accommodative monetary settings (including yield curve control) where possible. We anticipate policymakers will, as time passes, need to break rules and norms to facilitate funding, increasingly seeking to mandate, legislate, confiscate… (and yes, eventually when conditions permit, print).

Previous imbalances were resolved by accord or conflict. Given the interdependencies set out here, an accord cannot be ruled out, even if it looks unlikely. Either way, this time the price seems likely to be paid in trust, the foundation on which the dollar system was built. **As in life, trust is everything**.

Investment implications

What does this mean for...

Bond markets

The forces set out in this note, from geopolitical abrasion and resilience spending to AI capex and stretched sovereign balance sheets, all point to more supply and stickier inflation. We expect upward pressure on yields to persist in the near term, particularly in the US. We remain somewhat cautious on duration, with our strongest conviction in regional positioning: we favour Australia and New Zealand, where hiking cycles are more mature, and remain wary of the very long end. However, yields are approaching levels that have previously proved troublesome for growth, and we think pressure is building towards an inflection where the cost of capital bites. We aim to use moves to the top of our forecast ranges to add duration and are prepared to pivot to a longer stance should growth risks start to eventuate.

Investment grade credit markets

Investment grade fundamentals remain resilient and all-in yields continue to attract buyers, but dispersion beneath tight index spreads has risen materially. Widening has been concentrated in technology and communication, with stress coming from a historically large (and increasingly debt-funded) capital cycle, and rapid technological disruption. We expect US spreads to be more volatile, but ultimately remain largely range bound. As a result, we advocate for shorter, carry-focused positioning. We also believe this market will reward selection rather than beta and will create 'baby with the bathwater' situations, with sound credits being sold alongside the genuinely exposed. Active management will be key.

High yield credit markets

High yield spreads have widened from their lows in mid-2026. With all-in yields above 8% against a long-run average below 7%[6], we think valuations better reflect a more balanced risk outlook. Fundamentals have held up better than expected and should continue into 2027, but stress indicators are rising and a refinancing wall is approaching, likely leading to defaults in certain industries. Recoveries are likely to matter more as AI disruption threatens the cash flows of the soon-to-be disrupted, notably in the software sector. We are overall neutral on high yield credit, but within it, we favour higher-quality names and would avoid CCC-rated credit.

Currency markets

The US dollar has been supported this year by rate differentials, relative growth, AI-led equity outperformance and safe-haven demand. In the near term, we expect the USD to remain range bound, but the risks are asymmetric to the downside. A durable resolution in the Middle East would remove the safe-haven bid to the USD, while an AI-led equity correction would place the USD at the centre of the shock given the record levels of offshore ownership. Additionally, the Treasury's inventive pursuit of lower yields could come at the expense of a weaker dollar. Over a longer horizon, the erosion of trust and the repatriation of foreign savings described above point the same way. We therefore do not favour outright long dollar exposure, preferring asymmetric short USD option structures to protect against those tail-risk scenarios.

[6] All-in yield and long-run average: ICE BofA US High Yield Index Effective Yield. Source: ICE Data Indices, LLC, via Federal Reserve Bank of St. Louis (FRED), November 2026. Long-run refers to a 20-year period.

IMPORTANT INFORMATION

The opinions expressed are those of the author(s) are as of the date indicated and may change based on market and other conditions. The accuracy of the content and its relevance to your client's particular circumstances is not guaranteed.

This market commentary has been prepared for general informational purposes by the team, who are part of Macquarie Asset Management (MAM), the asset management business of Macquarie Group (Macquarie), and is not a product of the Macquarie Research Department. This market commentary reflects the views of the team and statements in it may differ from the views of others in MAM or of other Macquarie divisions or groups, including Macquarie Research. This market commentary has not been prepared to comply with requirements designed to promote the independence of investment research and is accordingly not subject to any prohibition on dealing ahead of the dissemination of investment research.

Nothing in this market commentary shall be construed as a solicitation to buy or sell any security or other product, or to engage in or refrain from engaging in any transaction. Macquarie conducts a global full-service, integrated investment banking, asset management, and brokerage business. Macquarie may do, and seek to do, business with any of the companies covered in this market commentary. Macquarie has investment banking and other business relationships with a significant number of companies, which may include companies that are discussed in this commentary, and may have positions in financial instruments or other financial interests in the subject matter of this market commentary. As a result, investors should be aware that Macquarie may have a conflict of interest that could affect the objectivity of this market commentary. In preparing this market commentary, we did not take into account the investment objectives, financial situation or needs of any particular client. You should not make an investment decision on the basis of this market commentary. Before making an investment decision you need to consider, with or without the assistance of an adviser, whether the investment is appropriate in light of your particular investment needs, objectives and financial circumstances.

Macquarie salespeople, traders and other professionals may provide oral or written market commentary, analysis, trading strategies or research products to Macquarie's clients that reflect opinions which are different from or contrary to the opinions expressed in this market commentary. Macquarie's asset management business (including MAM), principal trading desks and investing businesses may make investment decisions that are inconsistent with the views expressed in this commentary. There are risks involved in investing. The price of securities and other financial products can and does fluctuate, and an individual security or financial product may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international or local financial, market, economic, tax or regulatory conditions, which may adversely affect the value of the investment. This market commentary is based on information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up to date. We accept no obligation to correct or update the information or opinions in this market commentary. Opinions, information, and data in this market commentary are as of the date indicated on the cover and subject to change without notice. No member of the Macquarie Group accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this market commentary and/or further communication in relation to this market commentary. Some of the data in this market commentary may be sourced from information and materials published by government or industry bodies or agencies, however this market commentary is neither endorsed or certified by any such bodies or agencies. This market commentary does not constitute legal, tax accounting or investment advice. Recipients should independently evaluate any specific investment in consultation with their legal, tax, accounting, and investment advisors. Past performance is not indicative of future results.

This market commentary may include forward looking statements, forecasts, estimates, projections, opinions and investment theses, which may be identified by the use of terminology such as "anticipate", "believe", "estimate", "expect", "intend", "may", "can", "plan", "will", "would", "should", "seek", "project", "continue", "target" and similar expressions. No representation is made or will be made that any forward-looking statements will be achieved or will prove to be correct or that any assumptions on which such statements may be based are reasonable. A number of factors could cause actual future results and operations to vary materially and adversely from the forward-looking statements. Qualitative statements regarding political, regulatory, market and economic environments and opportunities are based on the team's opinion, belief and judgment.

Other than Macquarie Bank Limited ABN 46 008 583 542 ("Macquarie Bank"), any Macquarie Group entity noted in this document is not an authorized deposit-taking institution for the purposes of the Banking Act 1959 (Commonwealth of Australia). The obligations of these other Macquarie Group entities do not represent deposits or other liabilities of Macquarie Bank. Macquarie Bank does not guarantee or otherwise provide assurance in respect of the obligations of these other Macquarie Group entities. In addition, if this document relates to an investment, (a) the investor is subject to investment risk including possible delays in repayment and loss of income and principal invested and (b) none of Macquarie Bank or any other Macquarie Group entity guarantees any particular rate of return on or the performance of the investment, nor do they guarantee repayment of capital in respect of the investment.

Past performance does not guarantee future results.

Diversification may not protect against market risk.

Fixed income securities are subject to credit risk, which is the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises whenever a borrower expects to use future cash flows to pay a current debt. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation. Credit risk is closely tied to the potential return of an investment, the most notable being that the yields on bonds correlate strongly to their perceived credit risk.

Fixed income securities are also subject to interest rate risk, which is the risk that the prices of fixed income securities will increase as interest rates fall and decrease as interest rates rise. Interest rate changes are influenced by a number of factors, such as government policy, monetary policy, inflation expectations, and the supply and demand of securities. Fixed income securities with longer maturities or duration generally are more sensitive to interest rate changes.

Quantitative easing (QE) is a government monetary policy used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increased the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.

A Treasury yield refers to the effective yearly interest rate the US government pays on money it borrows to raise capital through selling Treasury bonds, also referred to as Treasury notes or Treasury bills depending on maturity length.

The yield curve is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the 3-month, 2-year, 5-year, and 30-year US Treasury debt. This yield curve is used as a benchmark for other debt in the market, such as mortgage rates or bank lending rates. It is also used to predict changes in economic output and growth.

The shape of the yield curve is closely scrutinized because it helps to give an idea of future interest rate change and economic activity. There are three main types of yield curve shapes: normal, inverted and flat (or humped). A normal yield curve is one in which longer maturity bonds have a higher yield compared to shorter-term bonds due to the risks associated with time. An inverted yield curve is one in which the shorter-term yields are higher than the longer-term yields, which can be a sign of upcoming recession. A flat (or humped) yield curve is one in which the shorter and longer-term yields are very close to each other, which is also a predictor of an economic transition. The slope of the yield curve is also seen as important: the greater the slope, the greater the gap between short- and long-term rates.

Yield curve inversion is when coupon payments on shorter-term Treasury bonds exceed the interest paid on longer-term bonds.

Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

Economic trend information is sourced from Bloomberg unless otherwise noted.

Macquarie Group, its employees and officers may act in different, potentially conflicting, roles in providing the financial services referred to in this document. The Macquarie Group entities may from time to time act as trustee, administrator, registrar, custodian, investment manager or investment advisor, representative or otherwise for a product or may be otherwise involved in or with, other products and clients which have similar investment objectives to those of the products described herein. Due to the conflicting nature of these roles, the interests of Macquarie Group may from time to time be inconsistent with the Interests of investors. Macquarie Group entities may receive remuneration as a result of acting in these roles. Macquarie Group has conflict of interest policies which aim to manage conflicts of interest.

All third-party marks cited are the property of their respective owners

© 2026 Macquarie Group Limited

For more information visit macquarie.com/mam

For institutional investors and investment professionals only.