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Compass

Each quarter, Compass plots a course through global fixed income markets, bringing together views from across Aviva Investors through our Matrix Pods.



The latest Compass at a glance:

- **UK and Canada: favour duration**
  Markets are pricing more tightening than we expect, creating attractive opportunities.
- **US: favour relative value**
  We remain neutral on outright duration and see better opportunities relative to higher-conviction markets.
- **Credit: add on weakness**
  Higher yields have improved entry points, but selectivity remains critical.
- **Emerging markets: favour local**
  Attractive real yields support selected local rates and currencies, while tight credit spreads leave less room for error.

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Navigating possibilities, not predicting certainties

The one theme that has shaped our discussions in recent months is that investing is becoming less about identifying a single likely outcome and more about preparing for a range of plausible futures. Markets are increasingly interconnected and the path from today's events to tomorrow's investment returns is rarely straightforward.

This makes it increasingly important to challenge assumptions, test consensus views and consider how different scenarios could affect markets. No single team, sector specialist or investment discipline has a monopoly on insight, which is why bringing together different perspectives is so important to how we invest.

This thinking sits at the heart of our Matrix Pods, connecting expertise from across our investment teams to build a more complete view of the risks and opportunities across global fixed income. It helps us understand not only our central view, but what could challenge it and how portfolios might respond.

Ultimately, the objective is not to predict the future perfectly, but to understand a range of possible outcomes and position portfolios accordingly.



"No single team, sector specialist or investment discipline has a monopoly on insight."

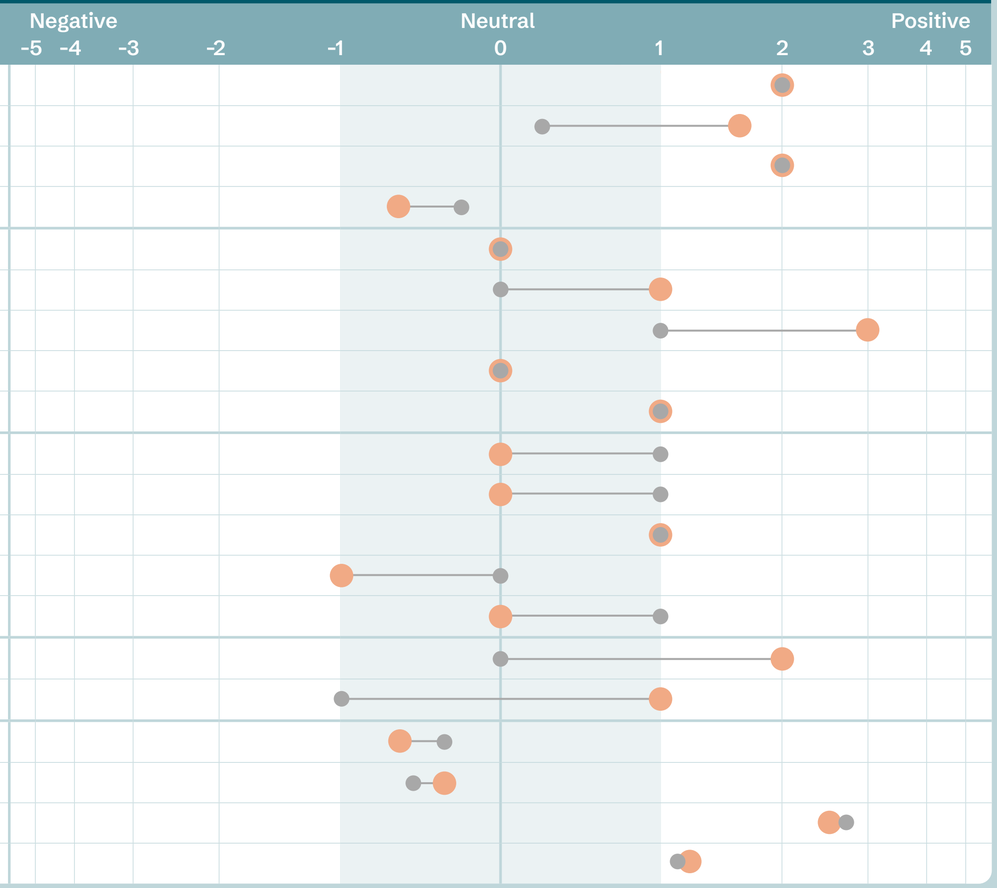
Fraser Lundie Global Head of Fixed Income

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Figure 1. Matrix Pod summary – fixed income allocation overview

Section	Parameter	Latest	Change q-o-q	12 month average
Liquidity	ABS	2.0	- 0.0	1.5
	Risk-free rates	1.7	▲ 1.4	0.8
	MM spreads	2.0	- 0.0	1.8
	Govt spreads	-0.7	▼ -0.4	-0.2
Duration	US	0.0	- 0.0	0.1
	Europe	1.0	▲ 1.0	0.3
	UK	3.0	▲ 2.0	1.8
	Japan	0.0	- 0.0	-0.1
	Canada	1.0	- 0.0	0.8
Curve	US	0.0	▼ -1.0	0.2
	Europe	0.0	▼ -1.0	0.8
	UK	1.0	- 0.0	0.8
	Japan	-1.0	▼ -1.0	-0.1
	Canada	0.0	▼ -1.0	0.8
Credit*	Global IG	2.0	▲ 2.0	-0.2
	Global HY	1.0	▲ 2.0	-0.7
Emerging Markets	EM corporate	-0.7	▼ -0.4	-0.5
	EM sovereign	-0.4	▲ 0.2	-0.2
	EM LC rates	2.6	▼ -0.2	2.4
	EMFX	1.3	▲ 0.1	1.5



Note: Duration: a positive score indicates bond yields expected to fall, negative to rise. Curve: a positive score indicates a steeper yield curve expected, negative a flatter curve.

Based on internal assumptions. For illustrative purposes only and not intended as an investment recommendation. Forecasts are not a reliable indicator of future performance. The value of an investment and any income from it can go down as well as up. Investors may not get back the original amount invested.

*Option-adjusted spreads (OAS).

Source: Aviva Investors. Data as of October 2026.

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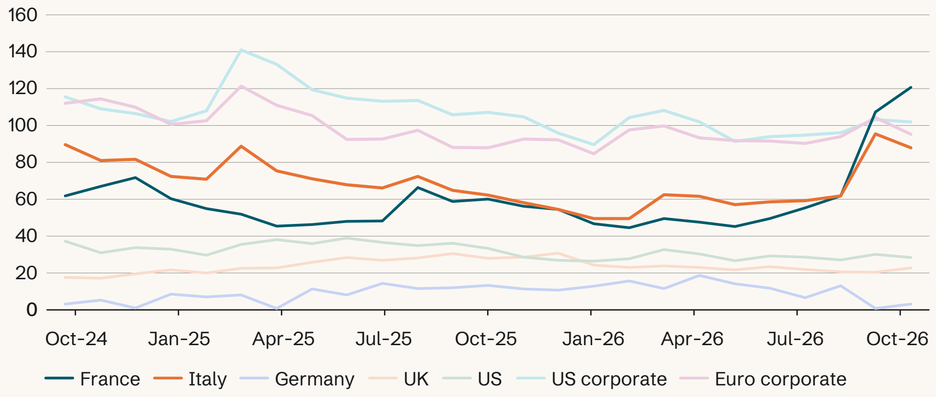
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Liquidity Pod:
Selective, focused on relative value

Pod members continue to favour UK front end rates and asset-backed securities (ABS), while wider French spreads are creating selective relative value opportunities. Short-dated investment grade credit remains neutral.

Figure 2. Wider French spreads are creating selective relative value opportunities (spread, basis points)

UK gilt asset-swap spreads still offer enough carry over current repo funding costs to sustain bank treasury demand, anchoring spreads despite wider fiscal volatility.



Past performance is not a reliable indicator of future returns.

Note: 5-year bond-swap spreads, Germany and the UK (par yield), US, France and Italy (generic yield), A-rated 5-year corporates (US and Europe).

Source: Aviva Investors, Macrobond, as of October 1, 2026.

Macro and rates

We remain constructive on UK front end rates. Contrary to market expectations, we see only one more Bank of England (BoE) rate hike before an extended pause, with energy prices the key near term risk. Our US view remains neutral. Relative value is reasonable, but conviction is insufficient for a directional view and the tightening currently priced by markets appears fair. We are more constructive on euro rates, where we believe expectations for further European Central Bank (ECB) tightening are excessive given weak growth and largely supply driven inflation.

Money markets

We remain constructive on money markets. Spreads have widened modestly, largely reflecting technical factors, while lower excess liquidity, French funding concerns and year-end funding dynamics remain areas to watch.

Government bonds

We remain neutral on swap spreads overall but see selective opportunities. French sovereign and SSA spreads offer attractive valuation, carry and relative value despite political uncertainty, while peripheral spreads have also become more attractive following recent widening.[1]

Credit and ABS

Short-dated investment grade credit has moved to neutral as wider spreads and attractive yields improve valuations, although we continue to see better opportunities elsewhere. ABS remains our preferred sector, with heavy issuance creating attractive valuations.

What this means for positioning and implementation

We are adding sterling duration on weakness, given our constructive view on UK front-end rates, and adding French sovereign risk at the short end, where long-term relative value is attractive. ABS remains our preferred sector, particularly high-quality senior securities under two years.

[1] SSA: Sub-sovereign, Supranational, and Agency bonds are high-quality, government-related debt securities issued by institutions like the World Bank, European Investment Bank, or government agencies to fund public projects.

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Duration and Curve Pod:

Strongest opportunities in UK and Canada

Our strongest duration views remain the UK and Canada, where we believe markets are pricing too much tightening. We are also constructive on Europe, while maintaining a broadly neutral duration view in the US and Japan.



Regional views

UK
The UK remains our highest-conviction market offering the most attractive medium-term opportunity across the developed markets. Although expectations for further BoE tightening have risen, the team believes markets are pricing an overly aggressive path. Softer labour conditions, weak growth and easing underlying inflation support this view. We favour curve steepeners, expecting front-end pricing to moderate eventually, though persistent inflation and stronger wages ahead of 2027 pay talks remain key risks.

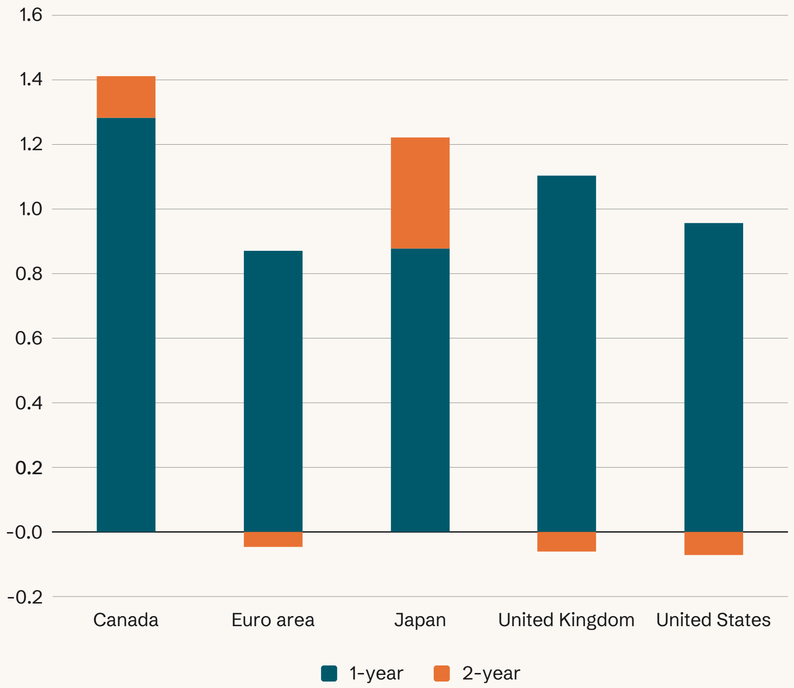
Canada
Canada remains one of our high-conviction duration markets. Firmer activity and labour data have raised expectations for Bank of Canada tightening, but the team believes the pricing is excessive. Inflation remains largely energy-driven, while soft labour conditions, trade uncertainty and weak investment constrain growth. Members expect front-end rate expectations to fall over the next six to twelve months.

Europe
Higher rate expectations have improved valuations, making us more constructive on European rates. Energy sensitivity and resilient activity have reinforced a higher-for-longer outlook, with one further hike expected from the ECB. Tighter financial conditions, wider French spreads and energy-related growth risks leave limited scope for further increases. Curve views are balanced among pod members. Some favour flattening on weakening activity, while others see opportunities after the recent repricing.

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Figure 3. Markets price steep tightening with no reversal (change in rates, per cent)

Markets continue to price in significant tightening over the next year with no expectations that this will need to be reversed.



Past performance is not a reliable indicator of future returns.

Source: Aviva Investors, Bloomberg, as of September 30, 2026.

Regional views

US

Stronger growth, a resilient labour market and a more hawkish Federal Reserve have driven a sharp repricing towards higher-for-longer policy expectations. The team remains broadly neutral on US rates. Some members expect yields to rise further, while others believe valuations are increasingly attractive and that markets have already priced in much of the adjustment.

Overall, the group sees more potential in relative-value positions than in taking high-conviction outright duration risk, with the US generally acting as a funding market for long-duration opportunities elsewhere.

Japan

Our view remains neutral with much of the hiking cycle priced in, but our conviction in curve flattening has strengthened. As rates approach neutral, further tightening should flatten the curve, consistent with recent moves in 2s10s and 5s30s. Longer term, fiscal uncertainty and potential changes to the bank's board limit directional conviction and could renew steepening pressure.

What this means for positioning and implementation

Portfolio positioning continues to focus on front-end overweight positions in the UK, Canada and Europe with underweight exposure concentrated in the US. With central banks now reacting to the energy shock we have reduced steepening exposure.

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Credit Pod:

Fundamentals remain supportive, valuations have improved

Credit is returning to the buy zone as higher yields offset growing concerns on rising interest rates, energy risks and supply-chain costs. The team has slightly raised its investment grade and high yield scores and is ready to buy rather than sell credit, though technical weakness and rate volatility will guide the timing and security selection. The views reflect a still constructive macroeconomic backdrop, robust fundamentals and more attractive valuations, while technicals have weakened only modestly from a position of strength.

Macro and fundamentals
Resilient growth, solid earnings and manageable inflation continue to support credit. However, risks will become less favourable if inflation reaccelerates, rates stay higher for longer or delayed input-cost pressures squeeze margins. Credit quality remains stable, with no broad deterioration in ratings or metrics. However, refinancing needs, weaker interest coverage and higher funding costs require monitoring.

Valuation and technicals
Weaker technicals – softer foreign and pension demand, cautious cash deployment and potential high yield outflows – reduce the case for a broad increase in beta. Less reliable demand may heighten dispersion and amplify weakness in less liquid, lower-quality areas. Valuations support selective exposure to issuers and sectors with resilient fundamentals and where downside risks are well understood. While spread moves remain muted, all-in yields are attractive and the team see upside potential in returns.

Private debt: Relative value remains, but dispersion is widening
Private debt retains a relative-value advantage entering Q4 2026, supported by a higher for longer rates backdrop and the achievable levels of illiquidity premia on offer. But the market is becoming more selective. Investment grade illiquidity premia remain above long-term averages (c50-150bps), despite some modest widening of public credit spreads over the last quarter.

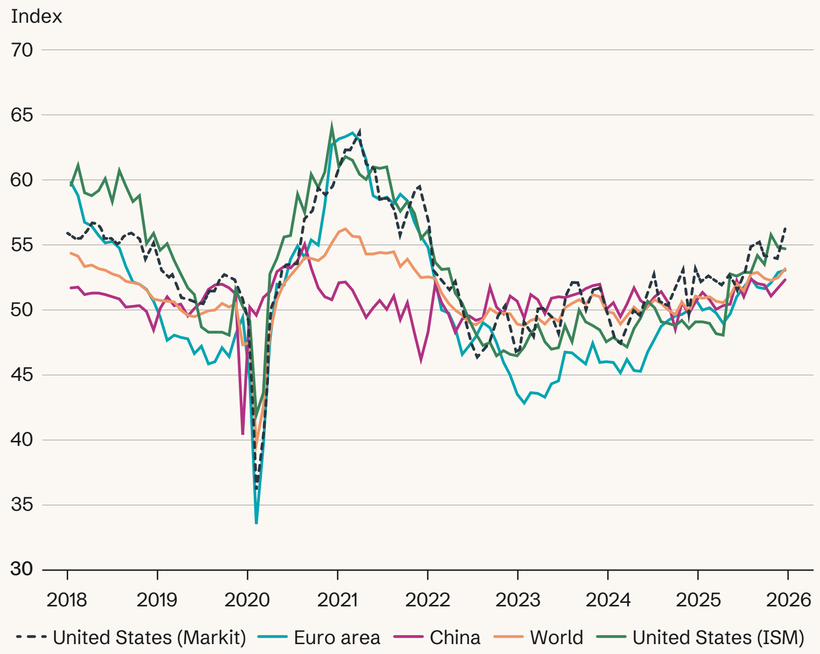
Sub-investment grade illiquidity premia remain higher (c100-300bps), although compensation increasingly varies by sector, vintage and structure. Against this backdrop, we favour strong structural protections, moderate leverage and assets where well-structured complexity or limited investor competition provides genuine additional compensation.

Source: Aviva Investors, October 2026.

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Figure 4. Global macroeconomic strength is building (manufacturing PMI, index levels)

Improving fundamentals can justify tighter spreads and a sustained reduction in risk premia.



Past performance is not a reliable indicator of future returns.
Note: Manufacturing Purchasing Managers' Index, monthly data.
Source: Aviva Investors, Macrobond, as of September 1, 2026.

Asset class views

Global IG

Credit fundamentals remain broadly supportive, with robust earnings expectations and stable investment grade ratings. Investment grade continues to see more upgrades than downgrades, while current yields and spreads offer selective entry opportunities. However, with buyers cautious, technical conditions have somewhat weakened recently.

Global HY

The recent repricing of rates markets and higher yields have improved entry points and created pockets of value in the high yield market and made the asset class more attractive relative to investment grade. Net ratings upgrades and positive flows provide support, but refinancing needs, weaker interest coverage (particularly in euro high yield), and higher funding costs require close monitoring.

What this means for positioning and implementation

The team has a 'buy the dip' bias, and will use fund flows, rates volatility and evidence of market stabilisation to distinguish temporary dislocations from a more persistent deterioration in market technicals to judge the timing and scale of any increase in risk.

We will build exposures selectively in areas of highest conviction, prioritising opportunities offering the strongest protection against greater fundamental vulnerability or price volatility, rather than through a broad increase in market beta.

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Emerging Markets Pod: Favour local

Emerging markets continue to offer attractive opportunities, but increasingly through active country and security selection rather than broad market exposure. We retain our strongest conviction in local rates and selected currencies, where supportive domestic fundamentals, attractive real yields and scope for further policy easing continue to offer compelling risk-adjusted returns. By contrast, tighter valuations across hard-currency sovereign and corporate credit leave less room for error and favour a more selective approach.

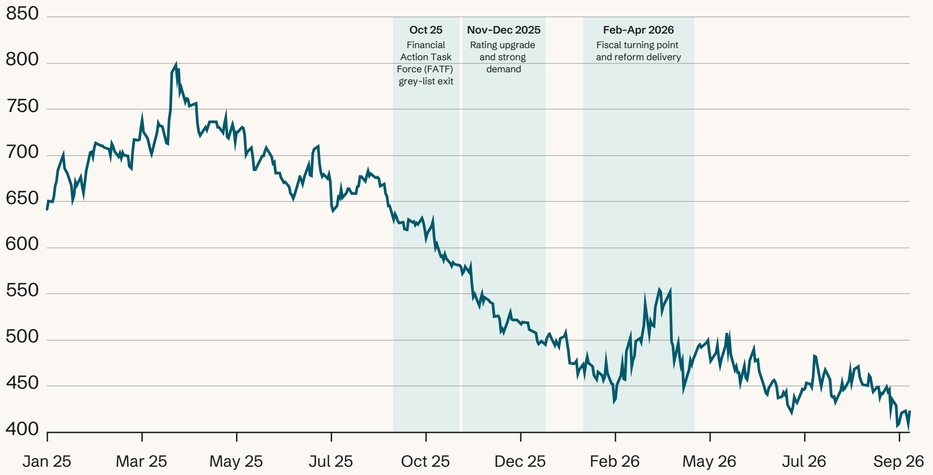
Rates

We remain constructive on EM local rates. Attractive real yields provide a strong income cushion, while credible policy frameworks leave scope for further easing in selected markets. After a strong period of performance, we expect country selection to matter increasingly, favouring markets where real yields, inflation and fiscal policy remain well aligned.

South Africa is a good example (Figure 5), where improving fiscal and policy credibility has supported a lower risk premium versus developed markets. This reinforces our view that historic EM-DM valuation relationships may be becoming less relevant as fundamentals converge.

Figure 5. South Africa: from risk premium to DM convergence (spread, basis points)

Improving fundamentals can justify tighter spreads and a sustained reduction in risk premia.



Past performance is not a reliable indicator of future returns.

Note: The yield differential between 25-year South African government bonds and 10-year US Treasuries is used as an indicative measure of the additional risk premium investors require to hold South African government debt. It captures a range of factors including sovereign, inflation, term, currency and liquidity risks. It should not be interpreted as a pure credit spread.

Source: Aviva Investors, Bloomberg, as of October 1, 2026.

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Asset class views

EM hard currency sovereigns
Sovereign fundamentals remain broadly stable with little evidence of deterioration across the asset class. The recent widening in spreads has marginally improved entry levels, but valuations remain historically tight and do not yet present a broad buying opportunity.

Technicals remain supportive, with cash being deployed into weakness and October amortisations and coupons providing an additional demand buffer. We remain constructive on fundamentals but selective, preferring to use bouts of weakness to add to higher quality or idiosyncratic opportunities rather than materially increasing broad credit beta.

EM hard currency corporates
The fundamental backdrop remains resilient. Weakness is confined mainly to areas where domestic rates are high. However, valuations have not meaningfully adjusted despite the recent market volatility, leaving fewer obvious opportunities, increasing the importance of issuer and sector selection. The conclusion therefore remains constructive on fundamentals but more cautious on broad beta, with alpha increasingly driven by dispersion and security selection.

EMFX
We continue to see opportunities in EMFX, supported by attractive carry, improving external balances and credible policy frameworks. Recent global volatility has highlighted the resilience of the asset class. As dispersion increases, we expect country selection and idiosyncratic opportunities to become increasingly important.

What this means for positioning and implementation

We continue to favour core positions in selected EM local rates and currencies, where attractive carry, supportive fundamentals and scope for further policy easing provide multiple sources of return. We remain focused on markets where valuations continue to compensate investors for the risks.

Across credit, fundamentals remain supportive, but tighter valuations call for greater selectivity. Rather than materially increasing broad credit exposure, we prefer to use periods of market weakness to add to higher-quality issuers and idiosyncratic opportunities where we see a clearer path to returns.

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SHIELD Pod:

The main risks to watch and how we're hedging them

Within rates, a further rise in energy prices, combined with resilient US growth has led to multi-year highs in yields and increased volatility. USD receiver swaptions are a low-cost, limited-loss way of benefiting from sharply lower US rates. We'll also use the asymmetric volatility pricing to gain exposure to lower UK front-end rates where we think BoE hikes are overpriced.

In credit markets, credit default swap indices are now reflecting macroeconomic strains, and the stress is concentrated in the weaker high yield names. The key metric to watch is rates volatility as well as the recent French political turmoil. We prefer to use out-of-the-money options to protect against a sharp sell-off in credit.

Within emerging markets, local rates offer the best risk-reward, while tight sovereign and corporate valuations favour selectivity. The risks are sharper US tightening combined with weaker global growth, higher volatility, a stronger US dollar and delays in EM rate cuts. We will use barbell strategies to invest in conviction-driven local exposure while hedging the broader risks. EM credit default swap positions act as insurance in the event that EM credit weakens or global growth slows.

In short-term markets, our team are positive on front-end rates in the UK and Europe, while ABS remains their preferred credit sector. We will use deep out-of-the-money options to hedge against severe stress in the ABS market.



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Key risks

Investment risk and currency risk

The value of an investment and any income from it can go down as well as up and can fluctuate in response to changes in currency and exchange rates. Investors may not get back the original amount invested.

Credit risk

Bond values are affected by changes in interest rates and the bond issuer's creditworthiness. Bonds that offer the potential for a higher income typically have a greater risk of default.

Important information

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