
(UBS)

An opportunity for investors to lock in yields by adding to quality bonds

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Bond yields have risen in recent weeks as the Middle East conflict reignited concerns about higher-for-longer inflation. But we believe markets are overestimating the extent of policy tightening from several major central banks.

CIO recommends locking in elevated yields, especially on short- and medium-term quality bonds, as a source of sustainable portfolio income. Investors can also consider diversified income strategies, including selective exposure to higher-yielding income segments.

Bond yields climbed again in July.

- Yields have risen in recent weeks as US-Iran strikes prompted concerns that energy supply disruptions could keep inflation higher for longer.
- The 10-year US Treasury yield is roughly 65 basis points higher than its level in late February, prior to the US-Iran conflict. German and UK yields are also well above pre-conflict levels.

- Investors are expecting that bondholders will have to foot some of the bill from a mix of higher inflation, more hawkish monetary policy, and more government borrowing.

But we believe yields are likely to decline over the next 12 months.

- Central banks are likely to stay cautious in the near term amid above-target inflation, renewed Middle East strikes, and energy supply disruptions.
- However, in our base case, we see government bond yields in the US, Eurozone, and UK drifting lower over the next 12 months as central bank rhetoric softens and disinflation resumes.
- So, we see opportunities to lock in yields and add to portfolio income.

Investors can use higher yields to build bond exposure, with a preference for quality short- and medium-maturity bonds, particularly in USD and GBP.

- The case for credit has improved, in our view: Yields are attractive, fundamentals are solid, and default expectations remain contained.
- We believe quality bonds remain core, while complementary exposure to high yield and emerging market credit can enhance income and total return potential.

Did you know?

- Bond yields look inexpensive relative to their trading range over the past 10 years.
- Beyond providing sustainable income, quality bonds would likely rally in adverse growth scenarios in which central banks need to cut rates aggressively to avoid recession.
- While our preference is for short- and medium-maturity bonds, we believe selected longer-maturity European bonds also offer value given differing central bank paths, cyclical positions, and fiscal and political dynamics.

Investment view

We see an opportunity for investors to lock in yields by adding to quality bonds, particularly in the short- and medium-maturity segments. As part of a diversified income strategy, investors can complement their core allocations with selective exposure to higher-beta income segments like high yield and emerging market credit. Equity income and yield-generating structured investment strategies can further support diversified portfolio income.

Original report – **How can investors find income?, 27 July 2026.**

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