GLOBAL
Insight

RBC Wealth Management

Global fixed income perspective

November 2026



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The French disconnection

Key points

- **Distress in French government debt appears to mark the next phase in a volatile year for global bond markets, but we see contagion risks as low.**
- **The sharp rise in global yields seen in September stabilized through October, but the balance of risks remains to the upside, if at a more moderate pace.**
- **Many central banks stood pat at policy meetings in October, but we maintain our view that further policy tightening remains in the pipeline this year.**

Just when a volatile year for global bond markets amid ever-higher yields was starting to show some signs of stabilization in October, developments out of France have seemingly ignited the next phase of volatility: the potential knock-on effects of ever-higher yields.

Amid civil unrest and budgetary pressures, the risk premium in French sovereign bonds—as measured by the gap between French yields and those of Germany's—has gapped to levels not seen since 2011. As the chart on the next page shows, a 10-year French bond now trading near 5.0% commands a 1.5% premium over German 10-year Bunds. While this has sparked concerns about contagion and speaks to the broader risk of rising global government debt and deficits in many regions, all signs still point to containment, in our view.

Other regions—for example Italy, whose sub-par economic growth might leave it exposed to a higher yield environment—haven't seen anywhere near the same levels of stress; 10-year Italian debt yields just 1.1% over German bonds, which remains a historically low level for the country and well below the 2011 crisis peak of over 5%. At the same time, European corporate bond spreads—or the incremental yield beyond sovereign debt demanded by investors for implied credit risks—remain just 0.95%, less than a third of euro crisis era levels and a sign that economic risks are seen as manageable, in our view.

In the U.S., Federal Reserve policymakers have already signaled wariness over the rise in Treasury yields, with the benchmark 10-year Treasury trading as high as 5.36% last month. Policymakers skipped a rate hike at the October meeting amid concerns about the potential negative impacts of higher rates on growth, even as inflationary pressures appear to be building. That said, we currently expect a rate hike at the December

Fixed income views

Region	Gov't bonds	Corp. credit	Duration
United States	–	=	1–3
Canada	+	–	3–7
Continental Europe	–	–	3–7
United Kingdom	–	–	3–7

+ Overweight; = Market Weight; – Underweight
Source - RBC Wealth Management

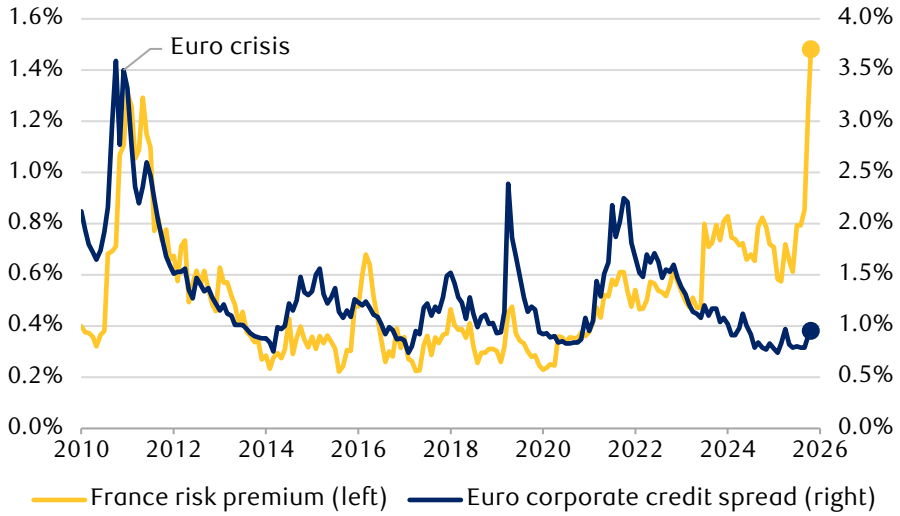
Produced: Nov. 3, 2026, 09:44 ET; Disseminated: Nov. 3, 2026, 12:00 ET
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GLOBAL FIXED INCOME

Containment?

French risk premiums spike but broader economic stress signals remain muted



Note: France risk premium shown by difference between French and German 10-year sovereign bond yields.

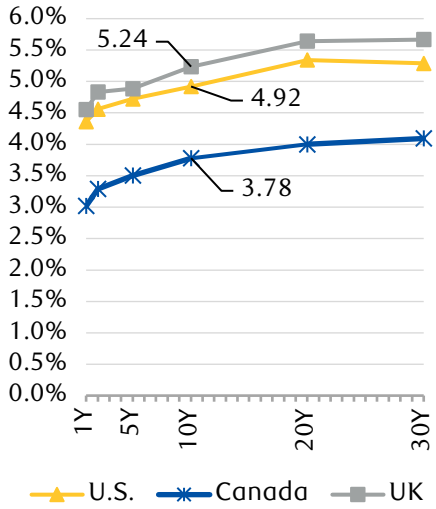
Source - RBC Wealth Management, Bloomberg EuroAgg Corporate Bond Index

meeting and one more to follow in early 2027.

As is often said, the cure for high rates is typically high rates themselves. The sharp move higher that we witnessed over the course of September perhaps reached a near-term limit in October as stress fractures formed, but that doesn't mean yields can't still move higher.

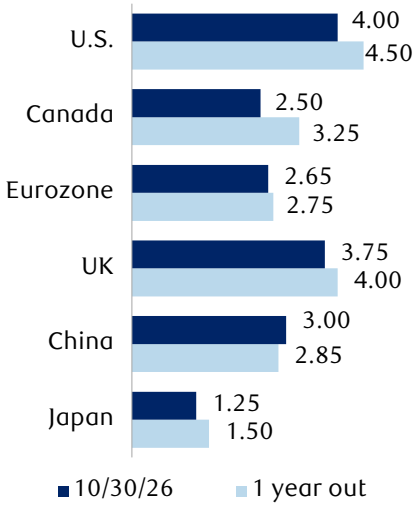
Many of the fundamental factors that have been driving long-term government bond yields higher for years remain in place; therefore, we maintain a bias toward higher yields, but perhaps rising at a more gradual pace from here.

Sovereign yield curves



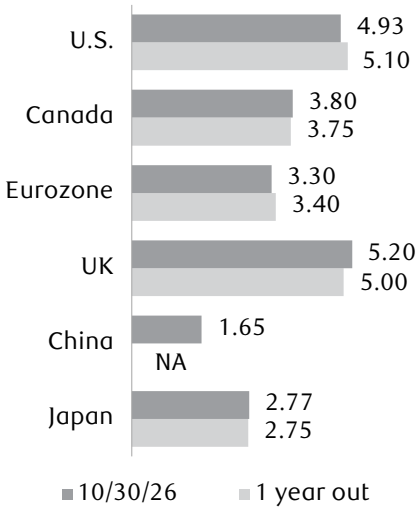
Source - Bloomberg; data as of 10/30/26

Central bank rates (%)



Source - RBC Investment Strategy Committee, RBC Capital Markets forecasts, Global Portfolio Advisory Committee, RBC Global Asset Management

10-year rates (%)



Note: Eurozone utilizes German Bunds.
Source - RBC Investment Strategy Committee, RBC Capital Markets forecasts, Global Portfolio Advisory Committee, RBC Global Asset Management

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