February 18, 2026

Contact Information
Helmi Mrad
Senior Research Analyst
helmi.mrad@blominvestbank.com

I. Introduction:

The 2025 global bond market witnessed high yields and volatility. Different monetary policies were implemented across different regions based on frequent updates in economic and labor data. Federal Open Market Committee (FOMC) was cautious regarding rate cuts and performed first rate cut in September 2025, while European Central Bank (ECB) started rate cuts at the beginning of 2025 due to decrease in inflation to target rate of 2%. As for Japan, rate hikes were implemented to combat the rise in inflation.

In the United States, both 5 and 10-year treasury yields decreased by 65 bps and 40 bps respectively to record 3.73% and 4.18%. In the Euro Zone, 10-year German Bund yield increased by 49 bps to record 2.855% at the end of 2025.

Going forward in 2026, geo-political tensions and currency appreciation/ depreciation will leave its impact on global bond markets. For United States, Federal Reserve policy, inflation, economic data, and supply and demand would affect its bond market. In Europe, increased geo-political risks due to the continued war between Ukraine and Russia and the increased spending of European countries on defense in addition to the absence of peace deal in the foreseeable future and appreciation of Euro against US dollar will add complexity to ECB's policy rate outlook. In emerging markets, several factors might affect its bond market. The main ones are US interest rates, US Dollar strength, domestic fiscal stability, and political risks.

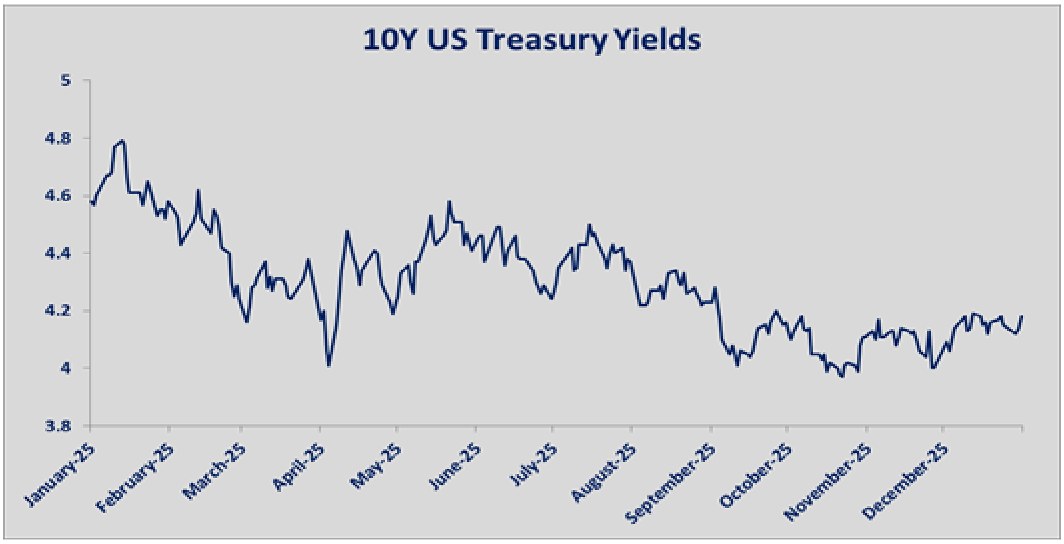
Political and economic situation in 2026 will have the main impact on Lebanese Eurobonds in 2026.

In this spotlight, we will first tackle global bond market in general, followed by US bond market, European and Japanese Bond Markets, then emerging market (EM) bonds market and finally move on to in-depth analysis of Lebanese Eurobonds.

II. US Bond Market

President Trump officially took office on January 20th, 2025. Since the beginning of his second term, President Trump implemented tariffs on imports from all countries in order to solve the trade deficit issue. Moreover, he tried to push Federal Reserve Chair Jerome Powell to cut interest rates at a faster pace.

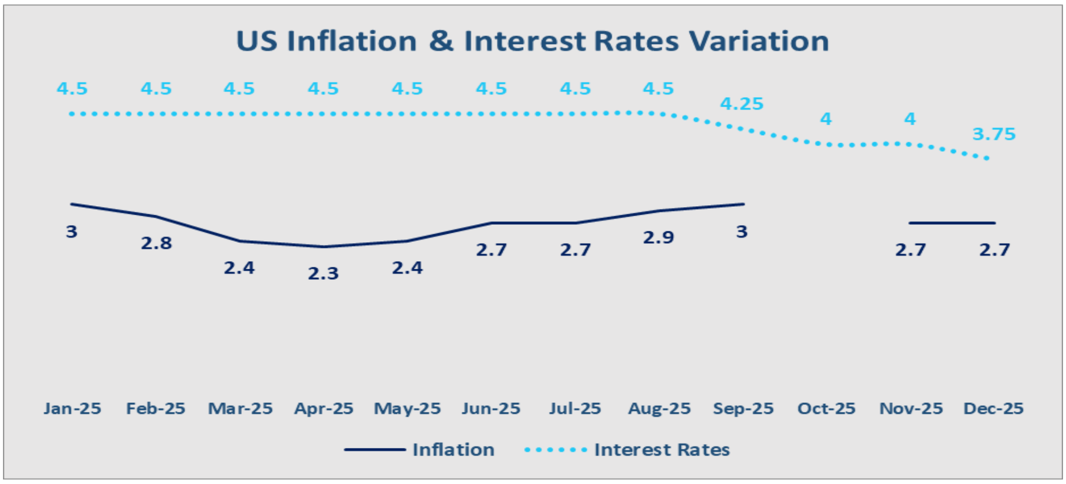
Federal Open Market Committee (FOMC) eased the US monetary policy in 2025 by cutting interest rates three times. Rates dropped from 4.25% - 4.5% in January 2025 to 3.5% - 3.75% in December 2025. These cuts were supported by decrease in annual inflation from 3% in January 2025 to 2.7% in December 2025, recording a minimum of 2.3% in April 2025.



Source: US Treasury Department, BLOM Invest

The year 2025 witnessed the longest US Government shutdown in its history and lasted for 43 days, from October 1st, 2025 till November 12th, 2025. The reason behind the shutdown was the budget stalemate between the White House and Congress over funding and health care aids.

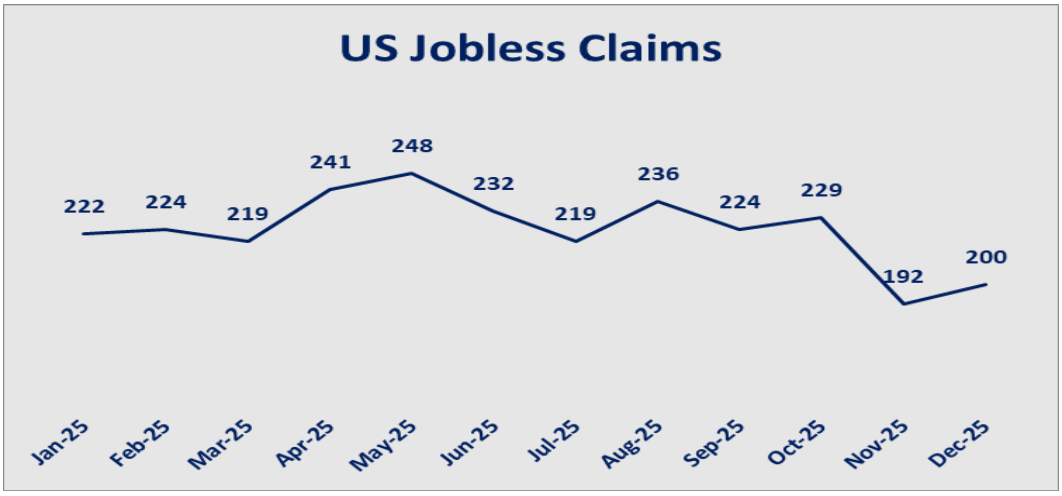
Several key drivers affected US Treasury Market in 2025, mainly monetary policy expectations, inflation and labor market data, in addition to fiscal deficits and supply pressures. In most of the FOMC meetings statements in 2025, the committee signaled that its decisions were committed to support maximum employment and decreasing inflation to the 2% target level. Below graph displays the change in annual inflation along with interest rates variation in 2025.



Source: Bloomberg

N.B.: October 2025 inflation data was not released due to government shutdown.

US labor market showed some resilience in 2025. US initial jobless claims is a leading economic indicator, issued by US Department of Labor on weekly basis, that tracks the number of individuals filing for unemployment insurance for the first time. US jobless claims dropped from 222,000 at the beginning of the year to 200,000 at year end.



Source: Bloomberg

US government debt has been growing rapidly in the recent years and exceeded $38 trillion. Persistent and large US government deficits are resulting in high volume of treasury bills or bonds issued. The increased bond issuance raised concerns related to long-term fiscal sustainability and to upward pressures on yields.

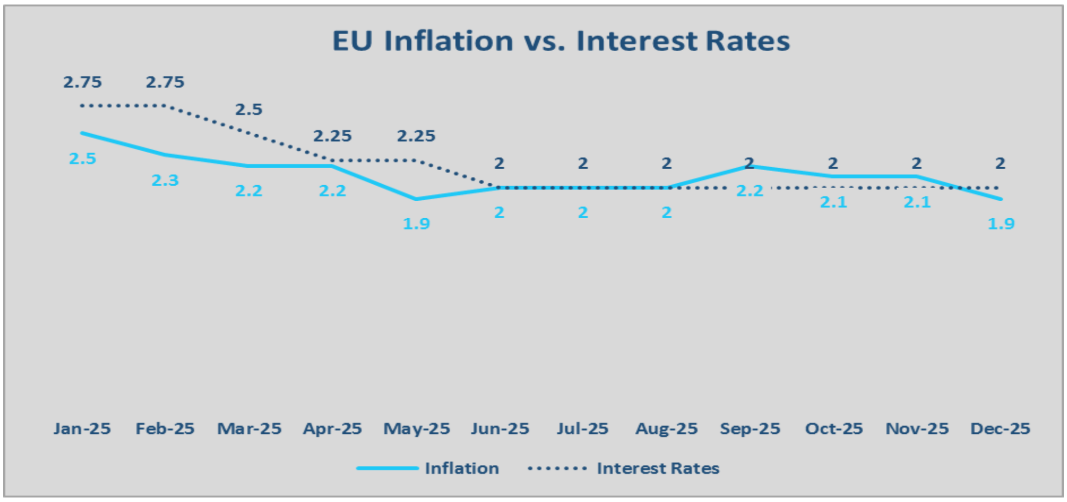
However, according to SmartEconomics® January 12, 2026 forecasts, the 10-year US Treasury bond yield is projected to drop to a mean of 4.17% by end of 2026 from 4.2747% currently.

Source: LSEG Workspace

Note: SmartEconomics® produces forecasts significantly more accurate than consensus by scoring each contributor's track record—comparing Reuters poll estimates to actual outcomes across asset classes.

III. <u>European Bond Market</u>

After restrictive monetary policy implemented in 2022 and 2023 to fight inflation that peaked in 2022, European Central Bank (ECB) started easing its monetary policy by cutting interest rates. The decrease in inflation in Europe to reach the medium-term target of 2% as early as May 2025, enabled the ECB to initiate interest rate cuts starting January 2025. As such, the European bond market witnessed significant volatility attributed to a combination of monetary policy shifts, geo-political uncertainty and tensions, and fiscal expansion in major Euro Zone economies.

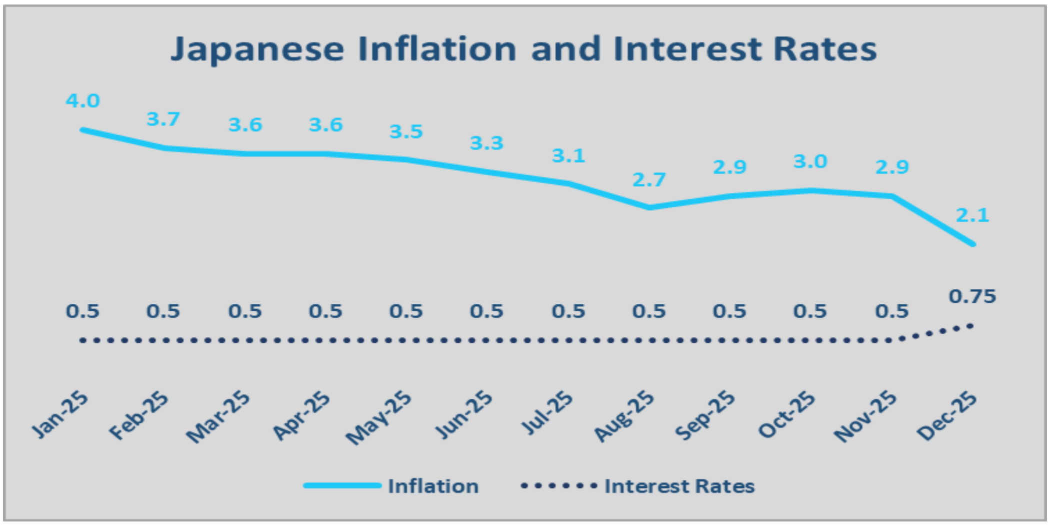


Source: Bloomberg

The European bond market is presented here by the German Federal Government (Bund Market) as it is the Euro risk-free benchmark. The yields on German Bund increased in 2025, influenced by German fiscal expansion mainly due to energy transition investments as European countries are planning to get rid of importing energy sources from Russia after the war with Ukraine. Additionally, European countries and especially Germany are increasing spending on defense where Germany alone allocated around $73 billion on defense spending in 2025. This fiscal expansion resulted in long-term debt sustainability concerns, thus exerting upward pressure on yields. This led to an increase of German Bund yields from 2023 lows of 1.895% to 2.855% at the end of 2025. Even with the fiscal expansion, German Bund is still considered the safest haven asset in Euro region.

IV. <u>Japanese Bond Market</u>

Japan's monetary policy was the opposite of global monetary policies in 2025. Global central banks started rate cuts as inflation eased while Bank of Japan (BoJ) initiated rate hikes to combat inflation. After years of negative interest rates, BoJ altered its monetary policy in March 2024 and raised rates to 0.1%. Year 2025 was a continuation of this transition and BoJ kept raising rates to lower inflation. As such, rates were raised to reach 0.75% in December 2025 by applying two rate hikes, the first in January 2025 when it raised rates from 0.25% to 0.5%. Then, after keeping rates stable all year, the December 2025 monetary decision raised rates by another 25 bps to record 0.75% in December.



Source: Bloomberg

The June 2025 Monetary Policy Meeting marked a significant structural development, as BoJ declared a gradual reduction in purchase amounts of Japanese Government Bonds. For future alteration, BoJ restated that it would depend on future data, such as wage growth and inflation potentials, in addition to the financial stability situation.

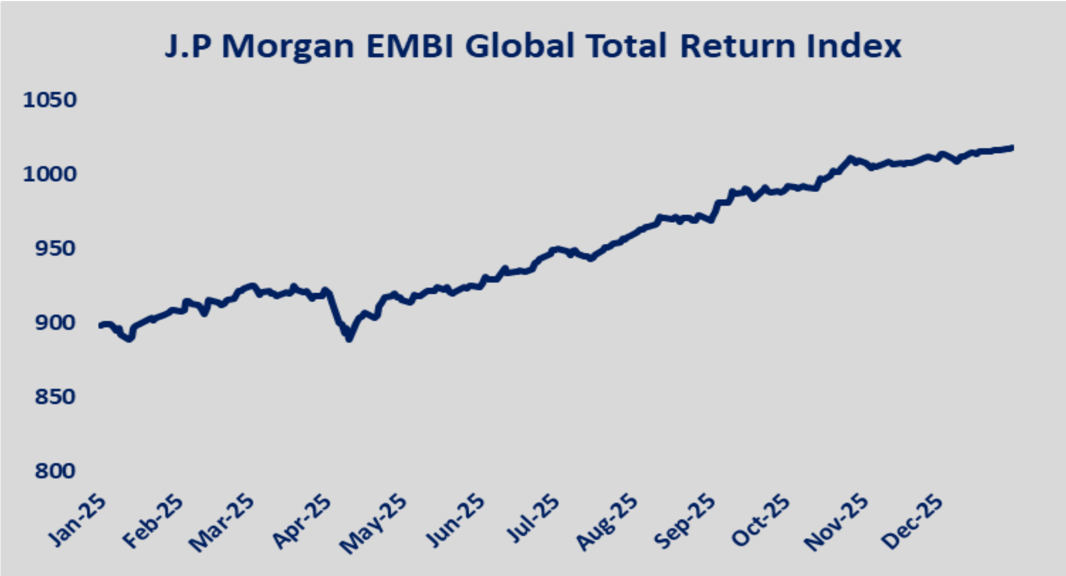
That said, according to SmartEconomics® January 12, 2026 forecasts, the 10-year Japanese Government bond yield is projected to drop to a mean of 2.06% by end of 2026 from 2.283% currently.

Source: LSEG Workspace

Note: SmartEconomics® produces forecasts significantly more accurate than consensus by scoring each contributor's track record—comparing Reuters poll estimates to actual outcomes across asset classes.

V. Emerging Markets:

In 2025, emerging market bonds regained momentum due to moderating US interest rates, a weaker dollar, high real yields, and shift in global investment sentiment and risk positioning. The interest rate cuts done by FOMC drove investors, who were seeking for high yields, to invest in emerging market bonds, thus weakening the US Dollar. In turn, a softer US dollar moderated imported inflation and boosted emerging markets sovereign ratings, hence relieving currency pressure on local-currency bonds. Moreover, several emerging market countries were offering real yields (yields that do not account for inflation) greater than their developed counterparts. In addition, increased political and economic ambiguity in developed markets directed investors towards emerging markets, for better income and increasing diversification. This improvement in emerging market bonds is reflected in the J.P Morgan EMBI Global Total Return Index. It increased from 897.88 in the beginning of 2025 to 1017.9 at year end.



Source: Bloomberg

VI. Lebanese Eurobond Market

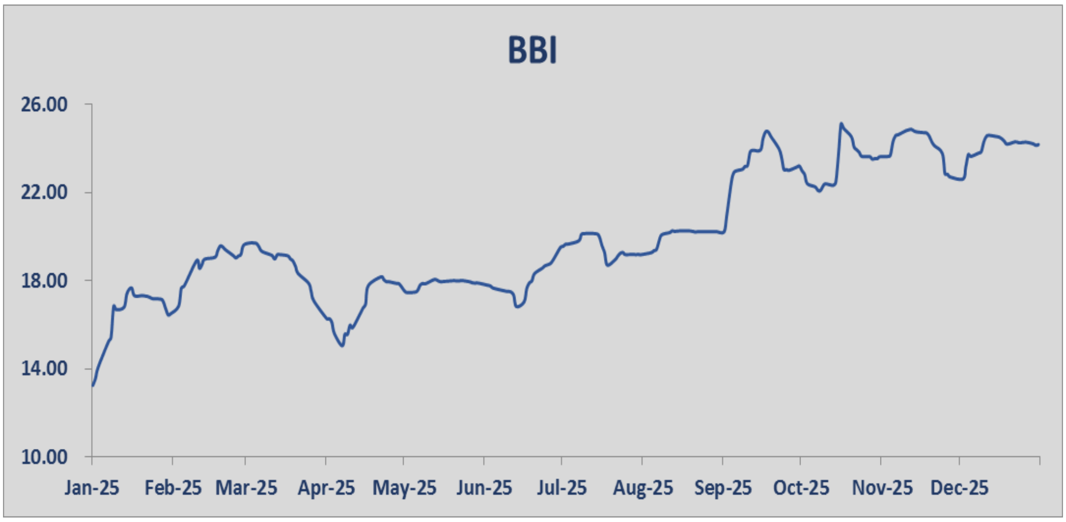
A new Lebanese political era started at the beginning of 2025. After a two-year presidential vacuum, Lebanese Army Chief Joseph Aoun was elected as president. This was followed by the appointment of previous diplomat and president of International Court of Justice, Dr Nawaf Salam, as Prime Minister. As such, a government was formed of ministers with vast experience in their field.

In his inaugural address, President Joseph Aoun emphasized the state's exclusive control over weapons and solutions to the country's political and economic conflicts. In addition, the President stressed on building the nation under the rule of law and independent judiciary. As for the Ministerial Statement of "Rescue and Reform" government, it stated that the war and peace decision will be under the exclusive authority of the State. The statement also affirms that government's "primary objective is the establishment of rule of law, institutional reform, and the reinforcement of national sovereignty".

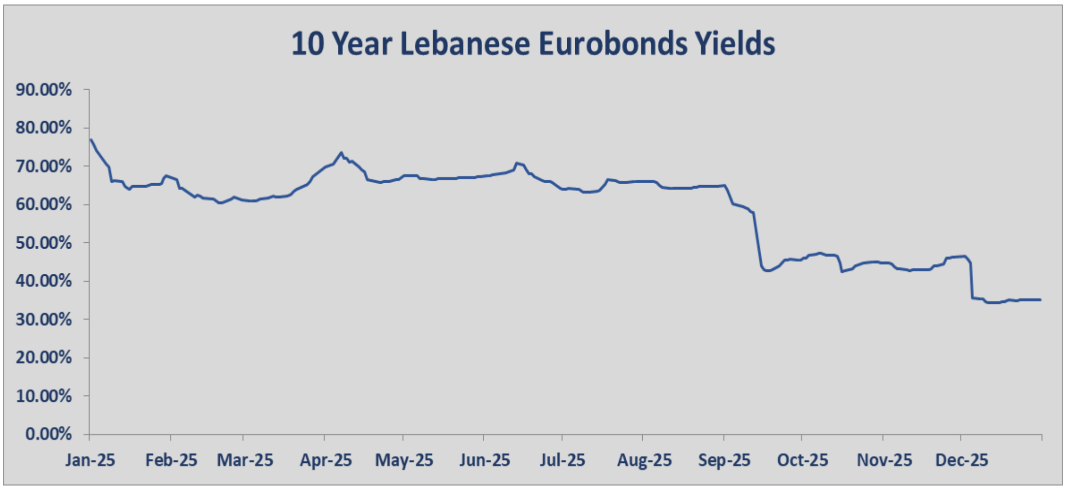
On the economic front, Bank Secrecy and Banks Restructuring laws were prepared by the COM and approved by the parliament, whereas Financial Regulation and Deposits Recovery Law was prepared by the COM and will be discussed in the Lebanese parliament shortly. These laws were a pre-requisite for an IMF deal that Salam's government is prioritizing.

As such, BLOM Bond Index (BBI) for Lebanese Eurobonds increased from 13.26 points at the beginning of the year and reached 24.18 points by year end, noting that the maximum reached in 2025 was 25.11 points.

As bond prices increase, yields decrease, as such, 10-year Lebanese Eurobonds yields decreased from 76.8% at year start to 35.1% at year end.



Source: BLOM Invest Bank



Source: BLOM Invest Bank

Despite these positive developments, the Eurobond restructuring process is still short of key developments, namely, negotiations with bondholders and, of course, a final agreement on an IMF program.

On another note, latest Goldman Sach's valuation of Lebanese Eurobonds suggests that the current market prices are overvalued and that the fair price is in the range of 12¢ - 25¢.

VII. Conclusion:

Year 2025 was characterized by higher yields, different monetary policies, and geo-political risk premiums. Divergence in monetary policy resulted in major currency volatility and regional differences in bond market performance. Additionally, 2025 witnessed high global tensions from the continuity of Ukraine – Russia war, to the energy transition in the Euro Zone, along with the twelve-day war between Iran and Israel. Moreover, President Trump's administration's tariffs resulted in threat of trade disruptions.

In Lebanon, 2025 was a turning point year where a new president was elected after a two-year vacuum, in addition to appointing a credible person as a Prime Minister. That also led the formation of a good, capable government after decades of fraud and mismanagement. Hopefully, this pattern of good governance and reforms will carry over to 2026.

Looking ahead for 2026, globally, the focus will shift to prolonged fiscal sustainability, policy stabilization path, and difference in macro growth between developed and emerging markets. In Lebanon, attention is on whether Parlamental elections will occur in May 2026 or it will be postponed. Also, surrendering weapon in official armed forces is the corner stone for primary reforms, resulting in foreign investments and reaching a deal with the IMF, and hence improving Lebanese economy and Lebanese Eurobonds.

For your Queries:
BLOMINVEST BANK s.a.l.
Research Department
Zeituna Bey
POBOX 11-1540 Riad El Soloh
Beirut 1107 2080 Lebanon

Helmi Mrad
helmi.mrad@blominvestbank.com

Research Department
Tel: +961 1 991 784
research@blominvestbank.com

Disclaimer