In Credit

9 June 2025

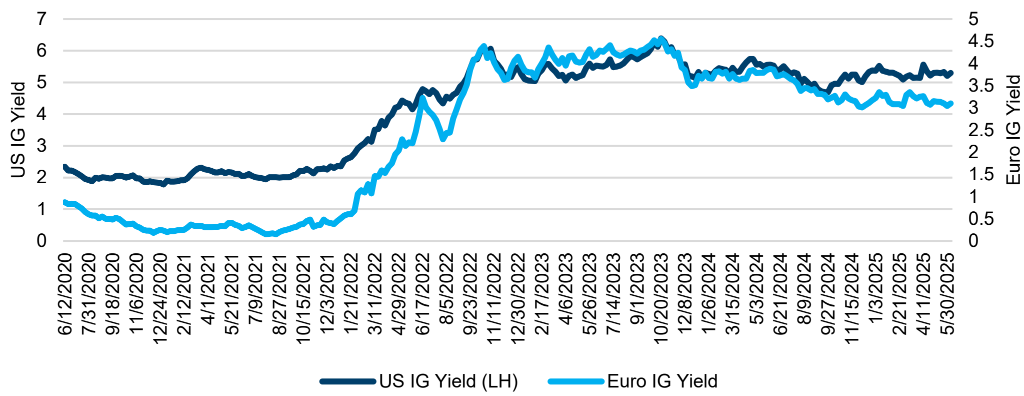
‘Take it to the limit’...

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.51%	11 bps	-1.0%	1.9%
German Bund 10 year	2.58%	8 bps	1.4%	-0.5%
UK Gilt 10 year	4.66%	1 bps	0.9%	1.3%
Japan 10 year	1.47%	-3 bps	-0.4%	-2.8%
Global Investment Grade	90 bps	-3 bps	0.3%	2.0%
Euro Investment Grade	94 bps	-3 bps	1.3%	1.5%
US Investment Grade	87 bps	-4 bps	-0.2%	2.1%
UK Investment Grade	85 bps	-5 bps	1.5%	2.2%
Asia Investment Grade	128 bps	-8 bps	0.5%	2.8%
Euro High Yield	323 bps	-18 bps	2.0%	2.7%
US High Yield	309 bps	-22 bps	2.0%	3.0%
Asia High Yield	495 bps	5 bps	-0.6%	2.3%
EM Sovereign	291 bps	-15 bps	1.2%	3.6%
EM Local	6.1%	0 bps	5.5%	10.0%
EM Corporate	259 bps	-13 bps	0.3%	2.7%
Bloomberg Barclays US Munis	4.1%	1 bps	-0.8%	-1.0%
Taxable Munis	5.3%	8 bps	-2.1%	0.7%
Bloomberg Barclays US MBS	42 bps	0 bps	-1.1%	1.9%
Bloomberg Commodity Index	253.79	3.4%	-2.1%	6.6%
EUR	1.1407	0.4%	5.4%	10.1%
JPY	144.61	-0.6%	3.5%	8.5%
GBP	1.3545	0.5%	4.7%	8.1%

Source: Bloomberg, ICE Indices, as of 6 June 2025. *QTD denotes returns from 31 March 2025.

Chart of the Week: IG corporate bond yields (effective yield)



Source: ICE BofAML and Bloomberg, as of 9 June 2025

Macro/government bonds
Simon Roberts

US dollar and eurozone bond yields have moved higher by around 10bps over the course of the week. US Treasury yields actually declined in the early part of the week, helped by weak ADP employment data, and in anticipation of soft nonfarm payrolls (NFP) on Friday. That number came in at 139,000 for May – lower than April's 177,000 but stronger than most forecasts, although revisions to prior months were meaningfully downward. The US Treasury market sold off as market participants unwound positions that had been predicated on a narrative of decelerating growth. However, we should note there was a downward revision of 95,000 to the previous two months' data, a pattern of revision seen for every NFP reading this year.

Several US Federal Reserve (Fed) officials called for more time to evaluate economic data before they could justify changing their policy stance. However, President Trump called for an immediate 1% cut in US interest rates, referring to Fed chair, Jay Powell, as 'Mr Too Late'.

The European Central Bank (ECB) cut interest rates by a quarter point to 2%. Inflation is declining, and a stronger euro will lend further downward pressure on eurozone price levels. However, the market was caught off-guard by comments from ECB president, Christina Lagarde, who suggested that the end of the policy easing cycle was imminent. Eurozone bond yields spiked higher in response and markets are now only pricing one more rate cut this year.

Investment grade credit
David Oliphant

The squeeze tighter in high quality corporate bond spreads continued last week. This comes as demand from investors for income (yield) seems to be exceeding the supply of new corporate bonds. It also comes as the narrative shifts around government bond yields, which are under pressure (cheapening) from rising deficits, and the consequent supply that will bring. The remarkable rise in corporate bond yields in the last few years is detailed in **Chart of the Week.**

Economic data has been relatively credit-market friendly, with US hard data still resilient (as seen in the employment data on 6 June) and European growth being revised higher to +0.6% in Q125.

The pronounced rally since early April has taken spreads back into 'expensive' territory, at least when compared to shorter- and longer-term averages, in both US dollar and euro indices. Global IG spreads are now around 0.8 standard deviations (SDs) expensive to the long-term average (20 years), but are less so for the euro market, which is around 0.5 SDs rich.

High yield credit and leveraged loans
Angelina Chueh & Chris Jorel

US high yield bond valuations continued to tighten over the week, as an active new issuance calendar, continued fund inflows and mixed economic data resulted in modest secondary price changes. The ICE BofA US HY CP Constrained Index returned 0.35% and spreads tightened 21bps to +327bps. The index yield-to-worst declined to 7.41%. According to Lipper, US high yield bond retail funds saw a $1.5 billion inflow over the week. The asset class has seen $9.6 billion of retail fund inflows over the past six weeks, recouping 75% of the withdrawals seen in early-April.

US leveraged loan prices were largely unchanged over the week amid limited new issuance, modest inflows and continued CLO (collateralised loan obligation) origination. The S&P UBS Leveraged Loan index average price remained at $96.3. Retail floating rate funds saw a modest inflow of $45 million, leaving the trailing five-week inflow at $2 billion.

European high yield had a bumper primary market last week, as five corporates brought €3 billion of new issuance to the market, bringing year-to-date issuance to €52 billion gross, €13 billion net. Market demand remained strong, absorbing the new bonds and still returning 0.33% on the week with spreads tightening -18 bps to 323bps as yields fell 3bps to 6.09%. Since the wides of April, credit spreads have come in 120bps. Some bifurcation was noted as CCC returns were negative while single Bs outperformed BBs. It was the sixth straight week of inflows, with €480 million added to the market, split equally between ETFs and managed accounts.

In ratings news, we saw a couple of significant downgrades. Healthcare firm Cerba was downgraded to CCC, while Pizza Express, which completed its debt restructuring, was downgraded to 'Restricted Default' by Fitch, and subsequently upgraded to CCC+ to reflect the post recapitalisation credit profile.

Emphasising the market bifurcation between highly distressed and core high yield, TalkTalk put out weak numbers resulting in a sharp fall in the price of their bonds, with a number of issues of concern including late payments to suppliers due to their liquidity crunch. The telecoms company came out of restructuring in December 2024 and have already used up the money they received from this. They are the latest name on a list of companies that, despite restructuring, are still not on a sustainable footing.

In M&A news, French waste management firm Séché Environnement announced the acquisition of Groupe Flamme for €300 million. The deal seems to be a decent strategic fit, with Groupe Flamme operating in the French hazardous waste incineration and industrial waste markets, which is a complementary footprint to Séché.

Structured credit

Kris Moreton

The US Agency Mortgage-backed securities (MBS) sector was down 52bps last week as quality struggled on a strong employment report. As the curve bear flattened, 15-years outperformed 30-years. Spreads were broadly tightly across the coupon stack.

There was also some welcomed deregulation news last week. The Fed lifted Wells Fargo's asset cap, piquing the interest of MBS investors given the size of the bank's balance sheet and propensity for buying MBS. Alongside subdued prepayment speeds at elevated mortgage rates and benign Fed paydowns, this helped support the technical.

The Asset-backed securities (ABS) primary market was also active with 12 deals pricing for issuance of just over $12 billion. This brings the year-to-date total to $155 billion and narrows the gap between last year's issuance to around 5.5% lower year-on-year. Deals continue to be very well received, with many pricing well through guidance. Spreads in the secondary market closed out the week in mixed fashion, with some meaningful spread compression and balanced flows across the board. We saw an increase in sells of short ABS paper to make room most likely for new issuance.

Asian credit

Justin Ong

The JACI index posted 19bps of positive returns, supported by favourable spread returns (16bps) and treasury movements (3bps). By ratings, JACI IG delivered 30bps while HY was loss-making at -46bps.

In May, exports from China increased 4.8% year-on-year to US$316 billion. This was weaker than the median consensus of +6%, primarily due to the sharp decline in exports to the US. Specifically, China exports to the US dropped 34.4% year-on-year – the steepest decline since February 2020.In addition, total imports by China declined 3.4% year-on-year to $103 billion.

Thaioil Group continues to reduce debt incrementally by repurchasing long-dated bonds in the secondary market. On 2 June it repurchased US$140 million of three long-dated bonds (2043, 2048 and 2049), after buying back $43 million of the 2028s a week earlier. The company has appointed UK-based engineering services company Wood PLC to oversee and manage a clean fuel project. Additionally, a new EPC (engineering, procurement and construction) contractor will be appointed by Q325 to proceed with the implementation.

Indian multinational Adani Ports & Special Economic Zone (APSEZ) plans to launch a tender offer for its outstanding senior notes. The Adani Group is reportedly under investigation by the US Department of Justice for the alleged import of sanctioned Iranian petrochemical products via the Mundra port. In response, Adani Group stated that the logistics of the LPG trade are being managed by third-party international suppliers and logistics firms. It added that the supply contracts of such products have specific clauses that require the imports to come from non-sanctioned countries.

In Hong Kong, an update is awaited from property and infrastructure firm New World Development Ltd (NWDEVL) on whether it has made further progress on the lenders' commitments for 60% of the HK$87.5 billion ($11.2 billion) loans. The company will defer the coupon payments on four perpetuals this month. According to Bloomberg, aside from the larger $11.2 billion loans, NWDEVL is working on securing an additional HK$3.9 billion (US$497 million) three-year loan that will be collateralised by the Victoria Dockside development.

Emerging markets

Priyanka Prasher

Emerging markets returned 0.43% last week as spreads tightened 15bps to 291bps, based on JPMorgan EMBIG index.

Ecuador was the main outperformer after the country's president proposed plans for tax reform and a multilateral-guaranteed bond issuance in 2026. Ukraine was the main underperformer, pressured throughout the week as the war with Russia escalated and momentum around ceasefire talks with a Trump-Putin call stalled, with no imminent sign of peace.

Oil exporting credits held their ground as optimism around the US-China relationship offset headlines suggesting Saudi Arabia is bracing for a price war. The kingdom is reportedly pushing for two more 411,000 barrels per day production hikes in August and September, which would fully reverse the 2.2 million daily cuts in recent years.

In Turkey, the May inflation report came much lower than expected as rumours of economy minister Mehmet Şimşek's removal proved unfounded, with the well-respected and market-friendly minister remaining in his post.

Responsible investment

Charlotte Finch

French-based building materials firm Legrand has joined a fairly short but growing list of failed sustainability-linked bond issuers. A €700 million issue from May 2023 will now have a 12.5bps coupon step up for investors due to a missed carbon emissions target, despite the firm meeting another goal on the number of suppliers setting a carbon emissions target. The company also met a target around senior positions held by women. However, the miss will cost Legrand in excess of €3 million over the remaining four years until the bond matures, which shouldn't be too problematic for a firm that generated in excess of €7.5 billion in revenue in 2024.

Fixed Income Asset Allocation Views

9th June 2025

Strategy and positioning (relative to risk free rate)		Views	Risks to our views
Overall Fixed Income Spread Risk	Under-weight -2 -1 0 +1 +2 Over-weight	▪ In the past month, the market has digested the US tariff news and spreads have returned to historical tights. The group added credit risk during early April's volatility. ▪ The group discussed how they are improving their portfolio's resiliency to this uncertainty, as well as how lower global growth expectations will impact credit. ▪ **The group maintained a neutral outlook on credit risk overall, downgrading their views on high yield corporate credit.** ▪ The CTI Global Rates base case view is that the pace and magnitude of additional cuts is uncertain and dependant on growth, inflation and labor market data.	▪ Upside risks: the Fed achieves a soft landing with no labour softening; lower quality credit outlook improves as refinancing concerns ease; consumer retains strength; end to Global wars ▪ Downside risks: Fed is not done hiking and unemployment rises, or the Fed pivots too early and inflation spikes. Restrictive policy leads to European recession. China property meltdown leads to financial crisis. 2024 elections create significant market volatility.
Duration (10-year) ('P' = Periphery)	$ A$ ¥ £ Short -2 -1 0 +1 +2 Long P €	▪ Longer yields to be captured by long-run structural downtrends in real yields ▪ Inflation likely to normalize over medium term, although some areas will see persistent pricing pressures ▪ As markets have reduced the amount of cuts expected by the FED in 2025, we have used the back-up in yields to go long US duration	▪ Inflationary dynamics become structurally persistent ▪ Labour supply shortage persists; wage pressure becomes broad and sustained ▪ Fiscal expansion requires wider term premium ▪ Long run trend in safe asset demand reverses
Currency ('E' = European Economic Area)	EM A$ ¥ Short -2 -1 0 +1 +2 Long € £ $	▪ Dollar has been supported by US growth exceptionalism and depricing of the Fed while the ECB looks set to embark on a cutting cycle. ▪ Dollar likely to continue to be supported into year end, where a Trump presidency looks most likely, and with it a return to tariffs and America First policy.	▪ Central banks need to keep rates at terminal for much longer than market prices, to the detriment of risk and growth and to the benefit of the Dollar
Emerging Markets Local (rates (R) and currency (C))	R Under-weight -2 -1 0 +1 +2 Over-weight C	▪ US weakness can enable EM currency performance. ▪ Inflation normalisation and currency strength allows EM central banks to stimulate domestic demand. ▪ Risk premium to leak out of local bond curves.	▪ Global risk aversion restores bid for US dollar. ▪ Weaker oil environment requires fiscal premium among exporters ▪ Higher global term premium.
Emerging Markets Sovereign Credit (USD denominated)	Under-weight -2 -1 0 +1 +2 Over-weight	▪ The group maintains a negative outlook as the sector's rich valuations are misaligned with trade-related fundamental uncertainty. ▪ The group maintains discipline regarding valuations and will take advantage of compelling opportunities as they arise. ▪ Tailwinds: Reduced default tail risks, ratings trend positive, dollar retracement. ▪ Headwinds: US tariff and trade policy, global trade disruption, weaker net supply, lower oil prices, higher debt to GDP ratios, wider fiscal deficits and slow restructurings.	▪ US trade policy aggression strengthens USD against EM currencies. ▪ EM policy makers constrained by currency pressure; rates remain tight. ▪ Fiscal concerns leak into local risk premia.
Investment Grade Credit	Under-weight -2 -1 0 +1 +2 Over-weight	▪ Spreads have tightened significantly since the early April volatility, returning to March levels. The group added exposure in April to cover underweights. ▪ The group remains neutral on the sector given less attractive valuations and global trade uncertainty weighing on the fundamental backdrop. ▪ Earnings results were solid, showing historically strong credit metrics. Forward guidance was cautious as management teams struggle to quantify tariff impacts.	▪ Tighter financial conditions lead to European slowdown, corporate impact. ▪ Lending standards continue tightening, even after Fed pauses hiking cycle. ▪ Rate environment remains volatile. ▪ Consumer profile deteriorates. ▪ Geopolitical conflicts worsen operating environment globally.
High Yield Bonds and Bank Loans	Under-weight -2 -1 0 +1 +2 Over-weight	▪ In early April, the dramatic spread decompression pushed the group to add risk. Spreads have tightened significantly since then; the group is now downgrading the sector as current rich valuations are misaligned with a weaker fundamental outlook. ▪ The beginning of earnings season has been within expectations; however forward guidance has been skewing lower due to tariff concerns. ▪ Despite downgrading the sector, the group remains open to attractive high quality relval opportunities.	▪ Lending standards continue tightening, increasing the cost of funding. ▪ Default concerns are revised higher on greater demand destruction, margin pressure and macro risks ▪ Rally in distressed credits, leads to relative underperformance ▪ Volatility in the short end of the curve, eroding potential upside where we are positioned for carry.
Agency MBS	Under-weight -2 -1 0 +1 +2 Over-weight	▪ Spreads have moved tighter in the past month and tecnicals have improved. In April, the group reduced their Agency MBS allocation to fund opportunistic credit purchases. ▪ The group remains positive on Agency MBS because the carry and convexity are still attractive, and pre-payment risk is low because of the elevated mortgage rates. ▪ Prefer call-protected inverse IO CMO's, a large beneficiary of aggressive cutting cycle.	▪ Lending standards continue tightening even after Fed pauses hiking cycle. ▪ Fed fully liquidates position. ▪ Market volatility erodes value from carrying. ▪ More regional bank turmoil leads to lower coupons to underperform.
Structured Credit Non-Agency MBS & CMBS	Under-weight -2 -1 0 +1 +2 Over-weight	▪ The group maintains a large allocation of high-quality carry positions. ▪ RMBS: Spreads wider MoM. Fundamental metrics, like delinquencies, prepayments, and foreclosures remain solid overall. On the margin, housing affordability is improving. ▪ CMBS: Spreads wider MoM. Stress continues with the highest delinquencies in office, but multi-family is increasing. Continue to monitor health of new issue market. ▪ CLOs: AAA spreads are tighter MoM, below-IG market is weaker. Defaults remain low, but CCC buckets are rising with lower recoveries. ▪ ABS: 60+ Day delinquencies are elevated, driven by inflation and credit score drift. Debt service ratios worsening broadly. The group prefers higher quality, liquid securities.	▪ Weakness in labour market ▪ Consumer fundamental position (especially lower income) weakens with inflation and Fed tightening. Consumer (retail/travel) behaviour fails to return to pre-covid levels ▪ Student loan repayments weaken consumer profile more than anticipated, affecting spreads on a secular level. ▪ High interest rates turn home prices negative, punishing housing market. ▪ Cross sector contagion from CRE weakness.