In Credit

16 June 2025

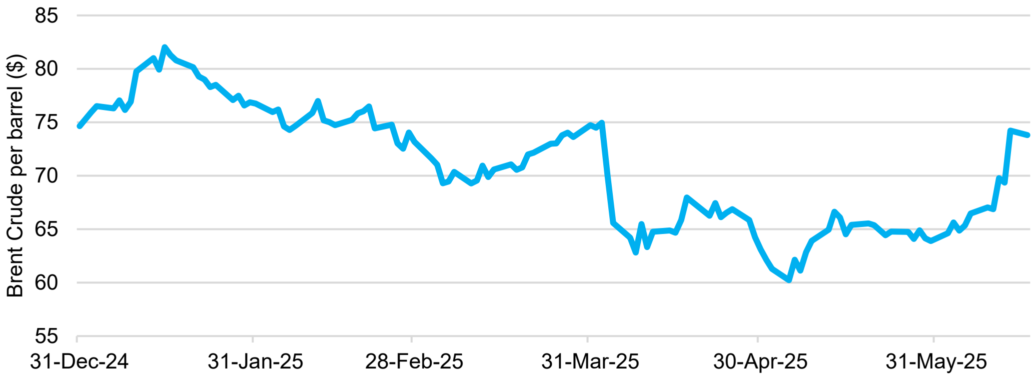
Rising conflict, rising oil prices

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.43%	-8 bps	-0.4%	2.5%
German Bund 10 year	2.56%	-1 bps	1.6%	-0.3%
UK Gilt 10 year	4.56%	-8 bps	1.6%	2.1%
Japan 10 year	1.44%	-2 bps	-0.2%	-2.6%
Global Investment Grade	90 bps	0 bps	0.8%	2.5%
Euro Investment Grade	93 bps	-1 bps	1.5%	1.7%
US Investment Grade	88 bps	1 bps	0.4%	2.8%
UK Investment Grade	81 bps	-4 bps	2.1%	2.9%
Asia Investment Grade	135 bps	4 bps	0.7%	3.0%
Euro High Yield	329 bps	6 bps	2.0%	2.8%
US High Yield	318 bps	9 bps	2.2%	3.2%
Asia High Yield	502 bps	-2 bps	-0.2%	2.7%
EM Sovereign	294 bps	3 bps	1.7%	4.1%
EM Local	6.1%	2 bps	5.9%	10.5%
EM Corporate	264 bps	5 bps	0.7%	3.1%
Bloomberg Barclays US Munis	4.0%	-3 bps	-0.6%	-0.8%
Taxable Munis	5.2%	-10 bps	-1.2%	1.6%
Bloomberg Barclays US MBS	39 bps	-3 bps	-0.3%	2.8%
Bloomberg Commodity Index	260.19	2.0%	-0.2%	8.7%
EUR	1.1578	1.3%	6.8%	11.5%
JPY	144.22	0.5%	4.1%	9.1%
GBP	1.3583	0.3%	5.1%	8.4%

Source: Bloomberg, ICE Indices, as of 13 June 2025. *QTD denotes returns from 31 March 2025.

Chart of the week: Brent Crude oil price – year-to-date 2025



Source: Bloomberg, as of 16 June 2025

Macro/government bonds

Simon Roberts

US bond yields fell around 9bps across the curve last week in response to softer than expected CPI data. Core CPI for May came in at 0.1%, translating into 2.8% year-on-year. The market had been expecting a marginally higher number. To date, it appears that the impact of tariffs has largely been limited to the prices of imported goods, while decelerating energy and shelter costs have helped dampen any rise in general price levels.

Trade policy uncertainty appeared to recede, which was positive for the bond market. China and the US arrived at an outline deal in London, which balanced exposure to rare earths from China with access to advanced semiconductor chips from the US, as well as an easing in Chinese student visa requirements. The implementation of 50% tariffs on EU goods was also delayed by another month. The market's working assumption is that acceptable deals will emerge with limited impact on trade friction.

There had been concern that auctions last week of 10-year and 30-year US Treasuries could attract insufficient demand, amid market concern over US fiscal discipline. However, both auctions went better than expected.

One headwind for bond market investors was the re-emergence of geopolitical risk after Israel bombed Iran. US Treasuries sold off on Friday afternoon, and price action in the US Treasury market established a weaker tone for bond markets globally.

Coming up This week we will see interest rates decisions from the Bank of Japan, the US Federal Reserve, and the Bank of England. No changes are expected. A key data release will be US retail sales.

Outcomes In terms of positioning, we remain constructive on US duration, have high conviction yield curve steepening positions, and have closed a directional short position in Japan.

Investment grade credit

David Oliphant

Investment Grade market spreads were little changed last week. The global index is currently offering a spread of 90bps over government bonds, which is a basis point wider than the same time last week.

The rise in conflict in the Middle East has dented some of the confidence the market has seen since early April. Meanwhile, new issuance has dipped, as is normal as we approach the summer months.

By global sector, Banking, Basic Materials and Capital Goods are the only areas of the market in which spreads are tighter this year. All other sectors have recorded wider spreads, with Autos, Insurance, Financial Services and Technology the most notably weak.

US high yield credit and leveraged loans

Chris Jorel

US high yield bond valuations were largely range bound over the week as retail fund inflows continued amid light capital market activity and escalating geopolitical tensions. The ICE BofA US HY CP Constrained Index returned 0.15% and spreads widened 9bps to +336bps. The index yield-to-worst was unchanged at around 7.39%. According to Lipper, US high yield bond retail funds saw a $1.1 billion inflow over the week. The asset class has seen $10.7 billion of retail fund inflows over the past seven weeks, recouping around 85% of the withdrawals seen in early-April.

US leveraged loan prices were largely unchanged over the week as mild inflows continued. New issue activity began to increase. The S&P UBS Leveraged Loan index average price remained at $96.2. Retail floating rate funds saw a $354 million inflow, bringing the trailing six-week inflow to $2.4 billion.

European high yield credit

Angelina Chueh

European high yield had a flattish week returning 0.03% as spreads widened 6bps to 329bps. Yields were unchanged at 6.10%. Decompression was mainly in the CCC space – the only credit rating bucket posting negative returns. Inflows into the asset class continued for the seventh week in a row, with €385 million across ETFs and managed accounts. This brings the year-to-date net inflows to €2.1 billion. The primary market saw a big new issuance in Finland: healthcare services firm Mehiläinen for €1.09 billion across fixed and floating, single-B-rated. Otherwise the market was relatively subdued with total issuance around €1.5 billion. New issuance flow is expected to pick up over the next couple of weeks.

In rating news, a big 'fallen angel' in the US was Warner Bros. The entertainment giant has been on a knife edge for a while and was finally pushed into the high yield space with the announcement of plans to break the business into two parts. In the chemicals space, Ineos was downgraded to BB- by Fitch. More positively, 'rising star' Jaguar Land Rover was upgraded to Ba1 by Moody's, bringing it a step closer to making the leap to investment grade. It is already rated BBB- by Fitch.

In M&A news, Spanish gambling group Cirsa is being considered for an IPO, while in the UK telecoms firm TalkTalk has an interested party in BT, who is considering a takeover of the beleaguered business.

Asian credit

Justin Ong

The JACI index delivered 24bps of positive returns, with lower treasury yields (+34bps returns) helping to offset wider spread levels (-10bps returns). By ratings, JACI IG posted a +22bps return while HY was 37bps.

China retail sales grew 6.4% year-on-year in May 2025, which was ahead of estimate. However, this was measured against a weak prior-year base. Additionally, the mid-June 618 shopping festival was launched earlier in May. Fixed-asset investments grew at a slower rate of 3.7% year-on-year in May, down from 4% year-on-year in April, with the growth in infrastructure investment (+5.6%) and manufacturing (+8.5%) compensating for the decline in real estate development (-10.7%). Industrial production also eased to +5.8% year-on-year in May from +6.1% in April.

New residential prices in 70 Chinese cities declined 0.22% month-on-month in May, bringing the year-on-year figure to -4.1%. Prices in the second-hand residential market were down 0.5% month-on-month in May (-6.3% year-on-year). During a State Council executive meeting led by Premier Li Qiang, there were more pledges to stabilise the real estate market.

The Chinese government is reportedly considering further easing of the restrictions on the HPF (Housing Provident Fund) to support the property market. HPF is the mandatory housing savings plan that receives contributions from employers and employees. Employees can use it for home purchases, renovations and rental payments. HPF loan rates, which are around 2%-3.5%, are lower than those offered by commercial bank rates by around one or two percentage points.

Property firm Seazen successfully printed a US$300 million new issue with a yield of 11.88%. This is the first US dollar new issuance by a non-state-owned enterprise Chinese property company since 2023.

S&P has lowered Thaioil's rating by one notch to BBB- with a negative outlook. S&P expects Thaioil's high leverage to persist given its ongoing operational challenges, delays and cost overruns, as well as moderating support from parent company PTT. The negative outlook reflects the risk of further downgrade if Thaioil's deleveraging progress slows or its clean fuel project faces further delays or cost overruns over the next 12-18 months. S&P also downgraded PTT Global Chemical to BBB- with a stable outlook to reflect the challenging petrochemical industry and the company's high leverage. That said, S&P expects PTTGC's leverage to decline and remain below 6x by 2026.

Emerging markets

Priyanka Prasher

Despite escalating geopolitical tensions, emerging market (EM) sovereigns returned 0.49% on the week in US dollar terms, even though spreads widened by 3bps. Local currencies returned 0.42% on the continued softness of the US dollar. EM bond funds saw $738 million of inflows in the week ending 11 June – the biggest this year, according to J.P. Morgan. Latin America led the returns, largely driven by Ecuadorian bonds, which rallied by 3.23 price points following an IMF agreement.

This saw the Ecuador government and the IMF reach a staff-level agreement on reforms and added $1 billion to their overall program size. This takes the total to $5 billion. The IMF continues to be supportive of Ecuador in the wake of President Noboa's election victory in April. 10-year bonds spreads compressed by -67bps.

Elsewhere, hostilities between Israel and Iran dominated EM news towards the end of the week. While EM bonds had a muted reaction, global oil prices have risen (Brent is up 14%) and affected local currencies. The Indian rupee weakened against the US dollar by 0.53% over the week, overshadowing India's positive inflation data. Bond yields remain steady.

Colombian presidential candidate, Miguel Uribe Turbay, was shot at a rally in Bogota on 7 June and remains in critical condition. The assassination attempt was followed by more than 20 explosions across Colombia, which left at least eight dead. Meanwhile, the Ministry of Finance revised its 2025 fiscal deficit target from 5.1% of GDP to 7.1%. In response, 10-year bond spreads widened by only 7bps, suggesting political risk was already embedded in valuations.

Coming up Central banks will meet this week in Pakistan, Chile, Brazil, Indonesia, Taiwan, Turkey and the Philippines. China's president, Xi Jinping, will visit Kazakhstan.

Responsible investment

Charlotte Finch

In the US, the Trump administration plans to repeal pollution rules for power plants, making it easier and cheaper to build fossil fuel facilities, especially natural gas plants. The move would eliminate a Biden-era rule requiring utilities to curb greenhouse gas emissions, easing costs tied to carbon capture. It may also extend the life of coal plants previously set for retirement. Some utility firms argue that natural gas is needed to meet rising power demand from AI data centres. However, clean energy advocates warn the rollback could delay investment into renewables and undermine the long-term energy reliability and climate goals during a critical transition period.

AI data centres are driving significant energy demand growth, with Microsoft reporting a 34% increase in 2023. In April 2024, total data centre energy consumption equalled 1-1.5% of global electricity, according to the International Energy Agency, with AI potentially accounting for 20% of data centre power use.

Fixed Income Asset Allocation Views

16 June 2025

COLUMBIA THREADNEEDLE INVESTMENTS

Strategy and positioning (relative to risk free rate)		Views	Risks to our views
Overall Fixed Income Spread Risk		■ 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)		■ 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)		■ 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))		■ 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)		■ 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		■ 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		■ 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		■ 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		■ 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.

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