In Credit

17 March 2025

David Oliphant
Executive Director,
Fixed Income

Contributors

David Oliphant
Investment Grade Credit

Simon Roberts
Macro/Government Bonds

Angelina Chueh
Euro High Yield Credit

Chris Jorel
US High Yield Credit,
US Leveraged Loans

Kris Moreton
Structured Credit

Justin Ong
Asian Fixed Income

Charlotte Finch
Responsible Investments
Investment Grade Credit

Gary Smith
General Fixed Income

Priyanka Prasher
Emerging Markets

Sarah McDougall
General Fixed Income

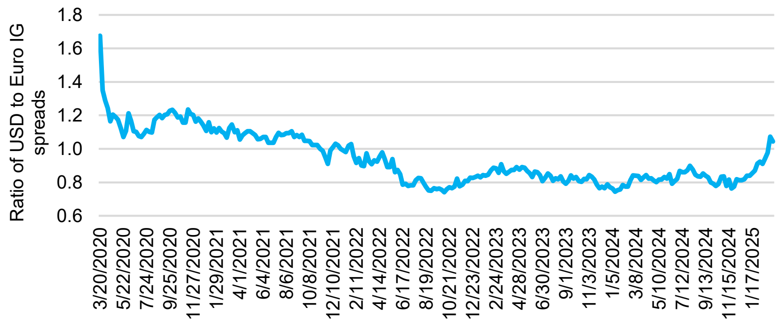
Weakness abounds

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.29%	-1 bps	2.3%	2.3%
German Bund 10 year	2.83%	-1 bps	-2.9%	-2.9%
UK Gilt 10 year	4.67%	4 bps	0.4%	0.4%
Japan 10 year	1.51%	-1 bps	-2.8%	-2.8%
Global Investment Grade	93 bps	5 bps	1.0%	1.0%
Euro Investment Grade	90 bps	7 bps	-0.5%	-0.5%
US Investment Grade	94 bps	5 bps	1.7%	1.7%
UK Investment Grade	86 bps	5 bps	0.7%	0.7%
Asia Investment Grade	120 bps	2 bps	2.1%	2.1%
Euro High Yield	334 bps	26 bps	0.7%	0.7%
US High Yield	325 bps	28 bps	1.1%	1.1%
Asia High Yield	523 bps	3 bps	3.1%	3.1%
EM Sovereign	301 bps	4 bps	2.4%	2.4%
EM Local	6.3%	-1 bps	5.0%	5.0%
EM Corporate	254 bps	3 bps	2.2%	2.2%
Bloomberg Barclays US Munis	3.8%	14 bps	0.1%	0.1%
Taxable Munis	5.0%	1 bps	2.4%	2.4%
Bloomberg Barclays US MBS	35 bps	2 bps	2.3%	2.3%
Bloomberg Commodity Index	258.04	0.2%	7.1%	7.1%
EUR	1.0902	0.4%	5.1%	5.1%
JPY	148.49	-0.4%	5.8%	5.8%
GBP	1.2970	0.1%	3.3%	3.3%

Source: Bloomberg, ICE Indices, as of 14 March 2025. *QTD denotes returns from 31 December 2024

Chart of the week: Ratio of US dollar to euro IG spreads (last five years)



Source: ICE BofAML and Bloomberg, as of 17 March 2025

Macro/government bonds

There were further big moves in European sovereign bond markets last week, as Germany's CDU leader, Friedrich Merz, reached an agreement with the Green party on proposals to amend the constitutional debt brake to allow more borrowing. The Bundestag (lower house) and the Bundesrat (upper house) are expected to hold votes on the package this week, ahead of the new Bundestag session on 25 March. We believe this could lead to a fiscal stimulus of 3%-4% of GDP by 2027. It is a huge package.

As a result, yields continued to push higher in Europe, with those on 10-year bunds up 3.9bps last week (and up 2.1bps on Friday alone) to 2.87%, while the French 10-year OAT yield was up 1.3bps (+1bps on Friday) to 3.57%. It was a more stable story for US Treasuries, with the 10-year yield up 1.1bps last week to 4.31%, despite having traded as low as 4.15% last Tuesday. Friday's rise in yields came amid a significant jump in inflation expectations in the University of Michigan's preliminary index for March. It showed 1-year expectations rising to +4.9% versus an expected 4.3%, which is their highest since November 2022. The market reduced expectations for Federal Reserve rate cuts this year, with just 65bps now priced in for the end of 2025.

This week will be busy for central bank watchers with decisions due from the Fed, the Bank of Japan (both Wednesday) and the Bank of England (Thursday). All three are expected to keep rates unchanged.

Economic data highlights will include labour market stats in the UK (Tuesday) and inflation in Canada (Tuesday) and Japan (Friday).

Finally, US president Donald Trump said he would speak to Russian president Vladimir Putin on Tuesday. The world awaits the announcement of some kind of ceasefire.

Investment grade credit

It was a very weak period for investment grade credit last week. Indeed, it was a difficult five days for most risk assets. The dispersion we have talked about in previous reports continued with euro spreads 11% tighter this year and US dollar spreads 15% wider. although the euro market felt some weakness last week. This kind of deviation between the two is quite unusual. You can see the underperformance of US dollar credit as a ratio to its euro cousin in the **Chart of the week.**

By industry sector globally, everything except Insurance (which is flat) has widened this year, with Technology the clear underperformer. Spreads in all markets remain the 'wrong' side of both short- and longer-term averages though – especially in the US market where valuations are less extreme than was the case. Yields, meanwhile, remain high and are attracting income buyers.

High yield credit & leveraged loans

US high yield bond spreads widened for the fourth consecutive week to six-month highs as volatility remained elevated amid escalating trade war and policy uncertainty. The ICE BofA US HY CP Constrained Index returned -0.66% and spreads widened 27bps to +341bps. The index yield-to-worst increased 25bps to 7.52%. According to Lipper, US high yield bond retail funds saw a $568 billion outflow over the week. This marks the first outflow in two months.

US leveraged loan prices declined again, falling $0.40 to $96.1, which is a seven-month low. This comes amid ongoing ETF outflows, rising US growth risks and potential associated Fed easing. Retail floating rate funds saw their first outflow in 11 weeks and the second largest outflow in two years with a $1.1 billion withdrawal. ETFs accounted for more than 100% of the outflow with $1.5 billion withdrawn.

European High Yield gave in to the wider macro volatility with higher spreads and yields, returning -0.56% over the week. Credit spreads rose 26bps to 334bps while the yield increased 16bps to 6.37%. It was clearly a decompression week with BBs outperforming, and the negative performance of CCCs twice that of BBs. Asset class flows pivoted as €406 million exited via both ETFs and managed accounts, with ETF pricing moving to a discount. New issuance picked up sharply last week with almost €2.4 billion in corporate debt and another almost €2 billion in subordinated bank debt issued.

In credit rating news, Tui Group (TUIGR) was upgraded by S&P to BB- from B+. The rating agency cited better-than-expected 2024 performance with further earnings growth expected in 2025. They expect continued positive free operating cashflow generation, boosting liquidity and reducing retained cashflow reliance. In the auto sector, Vale (FRFP) was downgraded to BB stable by S&P due to near-term uncertainty and as electric vehicle adoption weighs on both the company and the wider industry.

In restructuring news, Intrum (INTRUM) announced they had reached a settlement with its 2025 noteholder group who have been launching appeals both in the Chapter 11 and Swedish reorganisation process. This means that about 92% of creditors will be part of the lock-up agreement. The restructuring of Altice France is also coming to a close as the company announced it has sufficient creditor consents to implement transaction and the extension of expiration time.

In M&A news, ZF is mulling the sale of its ZF Lifetec (airbags and seat belt) business as it looks to raise funds to help slash costs.

Structured credit

The US Agency mortgage-backed security (MBS) sector was down 11bps through the week, outperforming credit sectors as interest rates ended the week mostly flat. The 15-year MBS outperformed the 30-year MBS and spreads were mostly unchanged. There was more noise on the credit side, broadly speaking, as macro uncertainty continued to spook investors. The overall tone was softer through the entire week with spreads leaking every day. While there wasn’t an inordinate amount of customer selling, the bid side was weaker and spreads further down the quality spectrum felt it the most: AAA residential mortgage-backed securities (RMBS) were 15bps wider, BBB RMBS were 25bps wider, while RMBS paper below IG level was closer to 50bps wider. Commercial mortgage-backed securities weren’t immune to the change in sentiment. Primary issuance is getting done at wider levels – easily 20-25bps wider on 10-year papers. The consensus view is for potentially 5bps-10bps of additional widening almost entirely due to a continued push for primary deals to get done before quarter end.

It was a relatively busy week in the primary asset-backed securities (ABS) market with 12 deals pricing for more than $6 billion. Many deals priced at or near initial price talk levels, however, saw weaker subscription levels. We are currently seeing deals anywhere between 10bps-25bps wider versus just a few weeks ago. The amount of supply should support this trend into this week. The ABS secondary market had a busy week with multiple days of more than twice the average trading volumes. Investors are looking to raise cash as close to par as possible, which has led to heavy front-end selling.

Asian credit

The JACI posted negative returns of 17bps over the week, largely due to wider treasuries, which had a -14bps return. By ratings bucket, JACI IG registered negative returns of 20bps, compared with HY which had negative returns of 2bps.

On 16 March, the State Council of China communicated its plan to boost consumption in China. There will be more measures to stabilise stock markets and the property sector, as well as to provide more supportive childcare subsidies and elderly care.

In ratings news, Fitch has placed the A- credit rating of CK Hutchison Holdings (CKHH) on ‘Watch Positive’ due to the potential for credit profile improvement if the company completes the sale of its international ports business. This would generate cash proceeds of more than US$19 billion. However, Chinese authorities have intensified their criticism of CKHH over this plan, which includes the sale of CKHH’s two ports in Panama. The business is treading a difficult line with both the rebuke by pro-Beijing media and US pressure on its presence in the Panamanian ports.

In India, Fitch has taken positive rating actions on several Adani businesses (Adani Energy Solutions, Adani Electricity Mumbai and Adani Ports & SEZ) by removing the ‘Watch Negative’ outlook. While Fitch left the ratings outlook at Negative, this eases the risk that these companies could be downgraded to HY. Fitch stated that the Adani companies continue to benefit from adequate access to funding since the US Department of justice indictment of Gautam Adani and Sagar Adani. That being said, the noise around these indictments and the US Securities and Exchange Commission civil proceedings has not entirely receded. The Indian Ministry of Law & Justice has instructed a district court in Ahmedabad to deliver a SEC summons to Gautam Adani with regards to the alleged securities fraud and the bribery scheme.

Emerging markets

Despite weaker data on the US economy last week, emerging market debt remained relatively resilient, losing only 0.18% on the week in US dollar terms. Sovereign spreads were wider by 3bps.

US and Ukrainian officials met in Saudi Arabia last week to propose an 'immediate, interim 30-day ceasefire'. Trump and Putin are meeting soon to discuss whether Russia will agree to the terms, with Trump asserting that there is a 'very good chance' for a ceasefire. Ukraine's 10-year bonds jumped almost 2% in price terms over the week on these hopes.

Egypt dollar bonds maturing in 2033 gained 0.40% last week after an International Monetary Fund (IMF) disbursement of US$1.2 billion. The IMF commended Egyptian authorities on their policies to preserve macroeconomic stability, despite political headwinds regarding attacks in the Red Sea and their negative impact on Suez Canal revenues. The Egyptian Canal is a vital transport route between Europe and Asia. Traffic volumes have recently been affected by conflict between the Houthis and Israel in the Red Sea.

South Africa's finance minister, Enoch Godongwana, presented the 2025 budget last week, after a delay due to disagreements over VAT rates. The budget outlined a fiscal deficit of 4.4% of GDP for the year ahead, down from 4.7% in the fiscal year 2024/25, and estimates 2025 real GDP growth of 1.9%. Inflation expectations for 2025 fell from 4.4% to 4.3%. Bonds maturing in 2036 gained slightly by 0.22%.

Markets will be waiting for the US Federal Open Market Committee rate decision and forecasts on Wednesday. In China, investors will look at February's economic data to evaluate retail sales, as well as the People’s Bank of China's rate decision.

Fixed Income Asset Allocation Views

17th March 2025

COLUMBIA THREADNEEDLE INVESTMENTS

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	▪ Spreads remain near generational tights. Volatility has continued to fall so far this year, and fundamentals remain stable. ▪ The meeting focussed on strategies to navigate tight spreads without a clear catalyst for widening. The group refers higher quality and shorter duration assets. ▪ **The group improved the outlook for High Yield and Emerging Market credit but remains negative on credit risk overall.** ▪ The Federal Reserve paused their rate cutting cycle in January. The CTI Global Rates base case view is that the pace and magnitude of additional cuts is uncertain and dependant on inflation data and labor market conditions.	▪ 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)	$ ¥ £ 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	▪ 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	▪ Disinflation under threat but intact; EM central banks still in easing mode. ▪ Real yields remain high. ▪ Selected curves continue to hold attractive risk premium.	▪ Global carry trade unwinds intensify, hurting EMFX performance. ▪ Stubborn services inflation aborts EM easing cycles. ▪ Uptick in volatility. ▪ Disorderly macro slowdown boosts USD on flight-to-safety fears
Emerging Markets Sovereign Credit (USD denominated)	Under-weight -2 -1 0 +1 +2 Over-weight	▪ The group upgraded the outlook to neutral due to improved fundamentals, as technical remain healthy and valutations remain rich. ▪ The group has a neutral position in the sector; reducing exposure where risk premium has compressed materially and switching into compelling high yield opportunities. ▪ Tailwinds: Strong primary market and growth outlook, ratings trends, IMF programs. ▪ Headwinds: US trade policy & USD strength, variation in monetary policy paths, Middle East tensions, higher debt to GDP ratios, wider fiscal deficits, 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 remain near tights of this cycle. Current valuations limit spread compression upside and provide little compensation for taking on additional risk. ▪ 2024 earnings are within expectations. Results and commentary from issuers do not indicate fundamental deterioration. ▪ IG analysts expect strong fundamentals and decade-low leverage for 2025. ▪ Most global portfolios prefer Euro IG	▪ 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	▪ The group upgraded the outlook because of a strong start to the earnings season, however they remain cautious on high yield given rich valuations, tariff risks, and the lingering threats of lender-on-lender violence and LME. ▪ Weaker outlook for cyclical industrial and consumer sectors. ▪ The Group is conservatively positioned but remains open to attractive high quality relval opportunities, particularly in sectors experiencing near-term volatility. Prefer loans due to cheaper relative valuations and strong market technicals.	▪ 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	▪ Agency MBS has had a positive start to the year, with spreads modestly tighter MoM. ▪ The Group remains positive on Agency MBS because the carry and convexity are still attractive, and prepayment risk is low because of elevated mortgage rates. Valuations are still cheap relative to longer term averages. ▪ Prefer call-protected Inverse IO CMOs, a large beneficiary of aggressive cutting cycle. Difficult to increase position sizing as few holders are willing to sell into the current rate environment.	▪ 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	▪ Valuations are rich; the group prefers higher quality, liquid securities with good carry. ▪ RMBS: Spreads near YTD tights.. Fundamental metrics, such as delinquencies, prepayments, and foreclosures remain solid overall. Pockets of weakness emerging. ▪ CMBS: Spreads tighter YTD. Technicals are better with strong issuance. Stress continues, particularly in office, floaters, and near-term maturities. ▪ CLOs: Strong ETF inflows keep pushing spreads tighter. Defaults remain low, but CCC buckets are rising with lower recoveries.. ▪ ABS: 60+ Day delinquencies are elevated, driven by inflation and credit score drift. Spreads tighter over the past month; 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.

COLUMBIA THREADNEEDLE INVESTMENTS

Important Information

For use by professional clients and/or equivalent investor types in your jurisdiction (not to be used with or passed on to retail clients). Source for all data and information is Bloomberg as at 17.3.2025, unless otherwise stated.