In Credit

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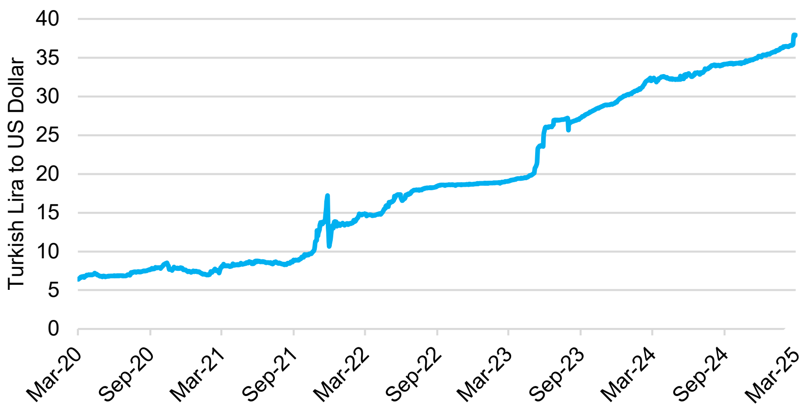
Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.29%	-2 bps	2.7%	2.7%
German Bund 10 year	2.79%	-9 bps	-2.1%	-2.1%
UK Gilt 10 year	4.71%	4 bps	0.2%	0.2%
Japan 10 year	1.55%	3 bps	-2.8%	-2.8%
Global Investment Grade	92 bps	-1 bps	1.6%	1.6%
Euro Investment Grade	90 bps	0 bps	0.0%	0.0%
US Investment Grade	92 bps	-2 bps	2.3%	2.3%
UK Investment Grade	84 bps	-2 bps	0.7%	0.7%
Asia Investment Grade	126 bps	6 bps	2.3%	2.3%
Euro High Yield	326 bps	-8 bps	1.1%	1.1%
US High Yield	321 bps	-4 bps	1.5%	1.5%
Asia High Yield	529 bps	6 bps	3.3%	3.3%
EM Sovereign	297 bps	-5 bps	2.8%	2.8%
EM Local	6.4%	4 bps	4.4%	4.4%
EM Corporate	258 bps	4 bps	2.5%	2.5%
Bloomberg Barclays US Munis	3.8%	-2 bps	0.4%	0.4%
Taxable Munis	5.0%	-5 bps	2.8%	2.8%
Bloomberg Barclays US MBS	35 bps	0 bps	2.9%	2.9%
Bloomberg Commodity Index	257.55	0.5%	7.6%	7.6%
EUR	1.0849	-0.6%	4.5%	4.5%
JPY	149.62	-0.5%	5.3%	5.3%
GBP	1.2966	-0.1%	3.2%	3.2%

Source: Bloomberg, ICE Indices, as of 21 March 2025. *QTD denotes returns from 31 December 2024

Chart of the week: Turkish Lira continues to weaken



Source: Bloomberg, as of 24 March 2025

Macro/government bonds

Last week saw a marginal decline in European and US bond yields amid concerns over the outlook for the broader global economy.

At its March rate-setting meeting, the US Federal Reserve left interest rates unchanged at 4.5%, although it indicated that it would slow the pace of asset sales of Treasury bonds from $25 billion to $5 billion a month, which was market positive. Two key themes emerged from the meeting: first, despite recent progress inflation remains elevated; and second, uncertainty surrounding the macroeconomic impact of tariff policy has intensified. This was reflected in the accompanying summary of economic projections. Policymakers' median forecasts combined a small modest upward adjustment to headline inflation over 2025 and 2026, with a small downward adjustment to growth. The difficulty in estimating the economic impact of the Trump administration's policies at this early stage meant that Fed Chair, Jay Powell, was keen to remind his audience that the Fed was not necessarily in a hurry to adjust interest rates. The economy remains in a good state, while longer-term inflation expectations are still relatively well anchored.

In the UK, the Bank of England (BoE) left interest rates on hold at 4.5% and echoed the gradualism of the Fed. Two scenarios are currently shaping debate within the bank: first, the potential for demand in the UK economy to slow; and second, the potential for constrained supply to maintain upward pressures on prices and wages. The bank's governor, Andrew Bailey, argued that more data is needed before they can settle this debate, which justifies a more patient approach. The gilt market bucked the trend towards marginally lower yields in Europe and the US, with yields edging higher over the course of the week.

Investment grade credit

There was a degree of greater stability in investment grade spreads last week. The market had followed other risk assets by weakening in the face of concern about economic growth and increased government borrowing.

As was the case last week, there remains considerable dispersion between the spread performance of US dollar and euro credit with the latter significantly outperforming the former so far this year. Globally, all sectors have seen spreads widen in 2025 aside from banks, where valuations are slightly tighter than at the end of December.

High yield credit & leveraged loans

US high yield bond spreads stabilised over the week, tightening from the recent highs as investors absorbed an uneventful Fed meeting and slightly better macroeconomic data. The ICE BofA US HY CP Constrained Index returned 0.45% and spreads tightened 4bps to +339bps. The index yield-to-worst decreased 10bps to 7.41%. According to Lipper, US high yield bond retail funds saw a $1 billion inflow over the week, fully recouping the prior week's outflow. Inflows were largely concentrated in HY ETF vehicles.

US leveraged loan prices also found support over the week as Fed easing expectations were largely unchanged following the Federal Open Market Committee meeting, while fund outflows, although large, remained manageable and largely concentrated in ETF products. The average price of the S&P UBS Leveraged Loan index was unchanged at $96.1. Retail floating rate funds saw a second consecutive week of outflows with $1.6 billion withdrawn, with ETFs once again taking most of the share. This was the largest outflow for the asset class in seven months.

European High Yield recovered the previous week's negative performance with a positive return of 0.44%. However, decompression continued as low beta outperformed high beta with BBs the strongest performing rating band for HY (+0.47% compared to CCCs +0.15%). GBP HY marginally outperformed euro HY (+0.45% versus +0.43%). Asset class flows were positive, seeing an increase of €243 million and led by ETFs. This was the first time this year that ETFs experienced inflows while there was a small outflow from managed accounts. In the primary market, new issuance was steady with €1.6 billion of new largely broad BB-rated bonds. This included a new issuer, French waste recycling company Sechi.

In UK utilities, the beleaguered Thames Water received good news last week as a court approved emergency funding, provided by group of senior creditors, to Thames Water. This will allow the utility to access as much as £3 billion to avoid temporary nationalisation.

In other news, the loan market in Europe is looking relatively weak. Seemingly, the collateralised loan obligation (CLO) arbitrage is no longer working, with AAA spreads getting too tight. As a result, some warehouses unwound some of their trades causing further weakness in the market.

Structured credit

The US Agency mortgage-backed securities sector generated a 51bps total return last week. In addition, 30-year and lower coupon mortgages outperformed as the curve bull-steepened. The big news was mounting speculation around the potential privatisation of government-sponsored enterprises as the Trump administration removed several board members of both Fannie Mae and Freddie Mac (the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation respectively). Details are currently scarce and the market's reaction has been completely benign. While privatisation could have significant implications for investors, given the two bodies collectively guarantee roughly $6.6 trillion of agency mortgages, the funding of the entities remains unknown. However, Bill Pulte, the newly appointed director of the Federal Housing Finance Agency, has made many affirming statements that neither the housing market nor mortgage rates would be disrupted.

It was a fairly muted week in asset-backed securities on the primary side, with 10 deals pricing for just over $8.3 billion. A number of deals struggled to get across the finish line with many tranches pricing wide of initial price talk. This week appears to be even lighter with only three deals pre-marketing. On the secondary side, spreads continued to leak wider earlier in the week before finding some footing following Wednesday's FOMC meeting. Week-over-week we are around 2bps to 10bps wider. Although the market has certainly widened from year-to-date tights, spreads are still not cheap as we are generally still around the 80th percentile of historical spreads.

The primary market in CLOs has slowed in recent weeks, but deals continue to keep pricing. Over last week there were nine new issue deals that priced, totalling $5.3 billion, nine resets ($3.7 billion), and five refinances ($2 billion). Month-on-month spreads have widened across the credit stack: AAAs are around 10bps wider, AAs around 10bps-15bps wider, As around 10bps-15bps wider, BBBs around 15bps-20bps wider, and BBs around 25bps-50bps wider. Secondary markets have seen spread widening similar to new issuance. This has been well received by buy-side investors as dollar prices on secondary bonds are closer to par, which helps callability concerns. BWIC volumes remain healthy with more than $6 billion in volume through the first three weeks in March alone. For comparison, in the past six months the previous largest volume in a single month was around $5 billion. Most of the BWIC volume this month was in IG tranches, with only around $1.3 billion between BB and equity.

Asian credit

The JACI delivered positive returns of 27bps over the past week, with the compression in treasuries (+51bps return) helping to offset wider spreads (-25bps). By ratings, JACI IG posted positive returns of 28bps while HY delivered 19bps.

The Indian government is recommending a 12% safeguard duty on certain steel imports for 200 days. This would be a temporary positive for India steel producers because the imports of Chinese steel have pressured the domestic ASP (steel products) in India. Various countries have been taking protectionist steps in response to US tariffs on steel and aluminium, which took effect on 12 March. Countries with domestic producers are worried that excess steel could be diverted due to a deluge of imports on their shores. In February, South Korea pre-emptively imposed provisional anti-dumping tariffs on Chinese steel plate imports of up to 38%, while Vietnam has imposed an anti-dumping levy (up to 27.8%) on some steel products from China.

In China, the earnings season has started on a generally positive footing for the major technology and internet platform companies. Xiaomi's FY24 performance was supported by a steady growth in smartphones and solid market share gains. Its new electric vehicle segment is also performing satisfactorily with net losses narrowing each quarter. Xiaomi raised its FY25 delivery target to 350,000 units, up from 300,000 units, and against a 2024 delivery volume of 136,850 units. Elsewhere, Tencent's Q4 results were strong, underpinned by online advertisements and gaming. The company has been using AI for ad targeting and content creation and will increase its capex spend in 2025, which includes the purchase of more graphics processing units. Specifically for FY25, Tencent management expects capex to reach the low teens in percentage terms of revenue, which for FY24 was US$10.8 billion, or 12% of revenue.

In the primary market, Greenko Energy printed a new 3.5-year bond totalling $1bn to refinance an existing $750 million bond (Restricted Group 5) that will mature in May 2025 and other debt.

Emerging markets

Emerging markets (EM) were up on the week, with sovereigns returning 0.34% in US dollar terms. EM local currency underperformed amid modest dollar recovery, returning -0.1%.

Turkey became a key focus in EM as president Recep Erdogan's top rival, Istanbul mayor Ekrem İmamoğlu, was detained on corruption charges. This sparked protests across the country and triggered a selloff in the Turkish lira (see **Chart of the week**). İmamoğlu is one of the most popular Turkish politicians and his arrest seemingly comes as part of Erdogan's campaign to silence dissent and consolidate power ahead of a potential attempt to run again, having hit Turkey's constitutional two-term limit. The lira weakened as much as 11.47% versus the US dollar before the central bank sold around $8 billion to $9 billion of reserves to stabilise the currency, correcting the loss to 3.43% on the day. Meanwhile, 10-year dollar bond spreads widened 43bps on the week.

China's local currency government bonds recovered from their earlier sell-off as the People's Bank of China added ¥937 billion (around $135 billion) into the money market over four days. This support signal seemed to boost confidence in bonds as the 10-year yield fell 3bps to 1.84% on Wednesday. However, Chinese bonds are likely to remain under pressure as demand for liquidity continues to rise.

In South America, an informal meeting last week between Argentina and the International Monetary Fund (IMF) aimed to procure fresh funding for the Argentine government. The country is waiting for sovereign bond yields to reach below 10% before returning to the market for the first time since defaulting in 2020. The 10-year yield currently sits at 10.47%. However, the release last week of February's trade surplus disappointed the markets at $227 million versus a $750 million consensus. Bond prices declined by 1.42% on the week as yields remained elevated.

There were no sovereign new issues last week, while data flow is expected to be light in the week ahead, although China will report industrial profit growth and India will report its March PMI. Banco de Mexico is expected to continue its easing cycle with a 50bps cut while the central banks of Hungary and the Czech Republic are expected to hold policy rates.

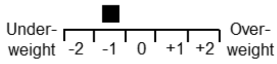
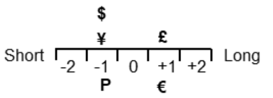
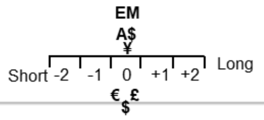
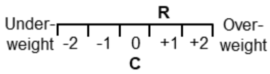
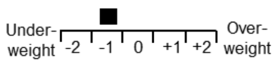
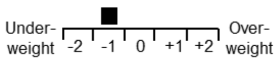
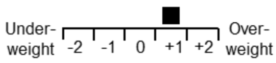
Responsible investments

Last week a pension fund in Australia was fined AU$10.5 million after the Australian Securities and Investments Commission (ASIC) identified misleading environmental, social and governance (ESG) credentials around multiple sector screens it applies to its sustainability products. ASIC have been cracking down on greenwashing risk in recent months, with a new climate reporting framework due to be enforced across the country as well as a new ESG-labeling standard for products sold as sustainable.

Elsewhere, JP Morgan have become the latest asset manager to leave the Net Zero Asset Managers initiative. The initiative remains suspended.

Fixed Income Asset Allocation Views

24th March 2025

Strategy and positioning (relative to risk free rate)		Views	Risks to our views
Overall Fixed Income Spread Risk		■ In the past month, credit spreads have widened considerably from their historic tights. Volatility has increased in the past month and fundamentals remain stable. ■ Now that valuations are more compelling, the conversation focused on which sectors and regions the group prefers when adding credit allocations. ■ **The group remains cautious on credit risk overall, with no changes to underlying sector outloks.** ■ 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)		■ 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)		■ 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))		■ 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)		■ The group maintains a neutral outlook as valuations have gotten more attractive in the past month; fundamentals continue to improve and technical remain healthy. ■ The group maintains discipline regarding valuations, rotating into more compelling opportunities as they arise. ■ Tailwinds: Strong primary market and growth outlook, ratings trends, dollar retracement. ■ Headwinds: US trade policy, 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		■ Spreads have widened to levels last seen in Q3 2024. With this new valuation environment, the group is looking to add investment grade corporate credit risk. ■ Earnings were within expectations. Results and commentary from issuers do not indicate fundamental deterioration amidst tariff and policy noise. ■ IG analysts expect strong fundamentals and decade-low leverage for 2024/2025. ■ Given the cheapening of US IG, global portfolios now prefer US 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		■ The group upgraded is looking to add high yield corporate credit risk given more attractive valuations and a positive earnings season. They are cautious of tariff risks and the lingering threats of lender-on-lender violence and LME. ■ Weaker outlook for cyclical industrial and consumer sectors. ■ The Group is still conservatively positioned but is open to attractive high quality relval opportunities, particularly in sectors experiencing near-term repricing and volatility.	■ 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		■ Agency MBS has had a positive start to the year, with spreads unchanged 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		■ Valuations are rich; the group prefers higher quality, liquid securities with good carry. ■ RMBS: Spreads near recent tights.. Fundamental metrics, such as delinquencies, prepayments, and foreclosures remain solid overall. Pockets of weakness emerging. ■ CMBS: Spreads wider since last month. Technicals are worse with stretched new issue underwriting. 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.

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