

In Credit

31 March 2025



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Tariff fears rattle risk markets

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.19%	-5 bps	2.7%	2.7%
German Bund 10 year	2.69%	-8 bps	-1.9%	-1.9%
UK Gilt 10 year	4.66%	-6 bps	0.3%	0.3%
Japan 10 year	1.49%	-3 bps	-2.7%	-2.7%
Global Investment Grade	94 bps	2 bps	1.5%	1.5%
Euro Investment Grade	92 bps	2 bps	0.2%	0.2%
US Investment Grade	94 bps	2 bps	2.1%	2.1%
UK Investment Grade	88 bps	4 bps	0.6%	0.6%
Asia Investment Grade	128 bps	2 bps	1.9%	1.9%
Euro High Yield	345 bps	19 bps	0.9%	0.9%
US High Yield	347 bps	26 bps	1.0%	1.0%
Asia High Yield	531 bps	3 bps	3.0%	3.0%
EM Sovereign	313 bps	16 bps	2.3%	2.3%
EM Local	6.4%	0 bps	4.2%	4.2%
EM Corporate	263 bps	5 bps	2.4%	2.4%
Bloomberg Barclays US Munis	3.9%	15 bps	-0.6%	-0.6%
Taxable Munis	5.0%	3 bps	2.4%	2.4%
Bloomberg Barclays US MBS	35 bps	0 bps	2.9%	2.9%
Bloomberg Commodity Index	259.87	0.5%	8.2%	8.2%
EUR	1.0827	0.1%	4.6%	4.6%
JPY	149.14	-0.3%	4.9%	4.9%
GBP	1.2940	0.2%	3.4%	3.4%

Source: Bloomberg, ICE Indices, as of 28 March 2025. *QTD denotes returns from 31 December 2024.

Chart of the week: US Inflation expectations trend higher



Source: Bloomberg, as of 31 March 2025

Macro/government bonds

Last week saw two trends emerge in the bond market: first, downward pressure on yields across core markets amid growing anxiety about a potential global trade war; and second, the steepening of yield curves as investors mulled the inflationary impact of higher tariffs. Part of this anxiety could be attributed to a lack of detail – and, so far, a lack of cohesion – on US tariff policy. Trump added to the air of uncertainty by announcing a 25% tariff on imports of automobiles and auto parts to the US, effective from 2 April. US Federal Reserve policymakers reinforced their message that they were well placed to deal with any negative consequences of a more protectionist trade stance given that monetary policy is still in restrictive territory. US economic data also pointed to a less optimistic environment, as consumer confidence edged lower and inflation expectations rose.

In the eurozone, short-dated bond yields fell and the yield curve steepened, reflecting the increased prospect of slower growth and higher inflation. The UK gilt market was impacted primarily by domestic issues. UK chancellor, Rachel Reeves, made a statement in which she restored fiscal headroom of approximately £10 billion over the next five years, which accounts for approximately 1% of total government spending. She achieved this through a mix of cuts to government spending, planning reforms, welfare reforms and enhanced tax compliance. The Office of Budget Responsibility estimated that the chancellor's new fiscal headroom could be eliminated by a 0.6% rise in gilt yields or a 20% rise in tariffs between the US and the rest of the world. As gilt yields edged lower, gilt market participants focused on the fragility of UK government finances and the growing likelihood of higher taxation to meet future shortfalls.

Investment grade credit

The investment grade market was a little weaker over the past five days. This reflects the trend of more nervous 'risk markets' in the face of worries about global economic stagflation – wherein interest rates would need to remain restrictive, but growth would still stutter. It comes at a time of tight credit spreads, but also as euro spreads have moved in a different direction to their US dollar counterparts: euro spreads are tighter while US dollar spreads are wider, with longer-dated credit underperforming as credit curves steepen. All-in-all this is suggestive that now is not a time to increase credit risk.

Sector-wise, all the sectors we monitor globally are wider, but the widest on a percentage basis according to ICE indices is technology (18% wider), while banking is the least weak/strongest (only 2% wider). The market continues to see a 'normal' amount of supply, which is being easily absorbed by healthy investor demand. We presume this demand is driven more by yield than spreads.

High yield credit & leveraged loans

European high yield was weaker last week, returning -0.2%, in the wake of more tariff hikes and the addition of increased hostile aggression towards Europe from the Trump administration in the US. Spreads moved 19bps wider to 345bps, while yields rose 6bps to 6.34%. March decompression continued as BBs outperformed the higher Beta-rating bands. However, net fund flows were positive at €77 million. This was due to managed accounts as ETFs saw net outflows. What was exceptional last week was new issuance in EHY. The corporate primary market saw a whopping €5.2 billion over the week, the strongest level since the start of the year. All of these were BBs, with the exception of two single-B deals totalling €1.15 billion, reaffirming that the stronger names wanted to make the most of current high demand. As such, the final prices came well inside initial price talk. The primary market is expected to be robust over the coming weeks as issuers look to get to market before Easter.

Credit rating news was also busy last week. S&P lowered German auto parts firm Mahle's rating to BB- from BB on the back of overall negative sentiment. By chance this happened on the day that Trump enacted a 25% tariff on cars not made in the US. There was also more bad news for

packaging manufacturer the Ardagh Group, which was downgraded to CC. Elsewhere, however, S&P upgraded computer component firm CCL to BB+ but cautioned that 'an investment grade upgrade would be highly unlikely over the next 12 months'. Italian gaming firm Lottomatica was upgraded to BB, and board game company Asmodee was upgraded to BB- following their IPO and deleveraging as debt was paid down. Rising star, Nexi, which is a payments technology firm, was upgraded to BBB- by S&P. Given their Fitch rating of BBB- as well, this issuer will leave the EHY universe at the end of March.

In stock-specific news, Thames Water announced that KKR has been chosen to work with the utility business to raise equity and help turn the company around. The aim is to finalise a recapitalisation in the second half of the year.

Structured credit

The US Agency mortgage-backed securities (MBS) sector was essentially flat last week with a 1bps total return led by carry. While marginal, returns were in the black unlike the Bloomberg US Aggregate Bond Index and Investment Grade corporate bonds. As the curve bear steepened, 15-year MBS outperformed 30-year week-on-week. Agency spreads were mostly wider across the coupon stack.

In terms of data, mortgage applications were down again, roughly 2%, led by refinances. Pending home sales were up slightly owing to better weather and more listings. Federal Housing Finance Agency head, Bill Pulte, released a string of policy reforms at Fannie Mae and Freddie Mac. The end of the government-sponsored enterprises' Special Purpose Credit Programs (SPCP), which supported underwriting flexibilities and financial support such as down payment/closing cost assistance to underserved borrowers, received the most attention. Despite all the noise in the market related to continued deregulations, there has been no material impact on mortgage performance to date.

Asian credit

The JACI posted negative returns of 45bps for the week, primarily due to the step-up in Treasury yield (-42bps returns). Specifically, the JACI IG delivered returns of -48bps while HY made a loss of 29bps.

According to Reuters, CK Hutchison Holdings Ltd (CKHH) may consider spinning off its global telecommunications business, which comprises its telecoms operations in Europe, Hong Kong and South-east Asia. CKHH clarified that no decision has been made about the telecom-related transaction. In addition, Bloomberg reported that CKHH may consider delaying the signing of the divestment agreement for its global ports business to BlackRock. While the deal remains in progress, there is increasing criticism from pro-Beijing media around the transaction. Additionally, both CKHH and BlackRock may require more time to complete the formalities and due diligence.

A major earthquake on 28 March saw a state of emergency introduced in Myanmar, while Thailand prime minister, Paetongtarn Shinawatra, also declared Bangkok an emergency area. The Bank of Thailand (BoT) instructed financial institutions and non-bank retail lenders to provide financial assistances such as an emergency credit line (above the BoT's stipulated rate for supervised personal loans and digital loans) and reducing minimum repayment rates for credit card loans.

According to Thai Oil, an unincorporated Joint Venture (UJV) has initiated arbitration proceedings against Thai Oil at the Singapore International Arbitration Center. The UJV is a consortium that comprises Samsung Engineering, Petrofac and Saipem. It is challenging Thai Oil's enforcement of the US\$358 million portion of the \$500 million performance bond related to the Clean Fuel Project (CFP) contract. During an investor call, Thai Oil stated it is holding the \$58 million claims on its balance sheet. Additionally, the decision on whether to keep UJV or find a new company as the main contractor will be made by the end of April or early May. Thai

Oil added that it will likely drive the ramp-up of the CFP by the end of 2025, which implies that the additional capex spending will be back-loaded. As such, the CFP-related capex spending for 2025 may be lower than the initial guidance of \$1 billion.

Emerging markets

Emerging market debt remained under pressure last week. Nervous anticipation ahead of Trump's 2 April 'Liberation Day' tariff announcements was a key factor. Spreads were 16bps wider overall, with investment grade 6bps wider and high yield 34bps wider during the week.

In Turkey, financial markets stabilised after the sell-off triggered by the 19 March detention of opposition politicians including Istanbul mayor, Ekrem İmamoğlu. However, markets remain stressed.

In South Africa, there were signs late last week that the two largest parties in the coalition government might have reached a deal ahead of the scheduled budget vote due on Wednesday this week.

In central abnk news, the Hungarian central bank held its policy rate at 6.5%, in line with expectations. The first meeting under the helm of new governor Varga retained the language from previous meetings and reiterated its hawkish cautious stance on monetary policy. The Czech National Bank also left its policy rate on hold, at 3.75%, with all MPC members voting for a pause in easing. The decision was in line with consensus. And in Mexico, Banxico reduced the key policy rate 25bps to 9% as expected. It acknowledged that global risks continue to intensify, noting the weaker outlook for global and local economic activity.

Elsewhere, news on a ceasefire in Ukraine appears to have stalled. Notably there has been the first sign of Trump impatience with Vladimir Putin's foot-dragging, leading to speculation of a US tariff response.

Finally, following the acrimonious presidential debate between Luisa Gonzales and Daniel Noboa in Ecuador last week, bond prices have been volatile. The run-off election will take place on 13 April.

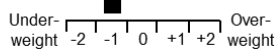
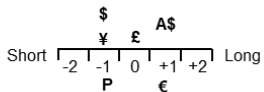
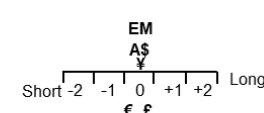
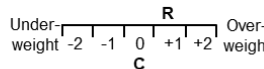
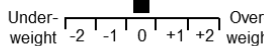
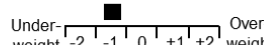

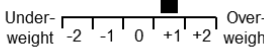

Responsible investments

In the US the Republican-led anti-ESG agenda has caused a significant decline in labelled bond issuance from US-based companies. Since Trump returned to the White House new issuance has plummeted, with Bloomberg saying all labelled bonds from US corporations and financial institutions are down around 89% from last year. However, early indications point towards issuers continuing to spend proceeds on environmental projects, but not outwardly calling the bond 'green'. The same is not true across the Atlantic in Europe, where labelled bond issuance is keeping pace with 2024's stellar issuance levels.

Fixed Income Asset Allocation Views

31st March 2025



Strategy and positioning (relative to risk free rate)	Views	Risks to our views
Overall Fixed Income Spread Risk 	<ul style="list-style-type: none"> In the past month, credit spreads have widened considerably from their historic tightness. 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 outlooks. 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. 	<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> Dollar has been supported by US growth exceptionalism and deprioring 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. 	<ul style="list-style-type: none"> 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)) 	<ul style="list-style-type: none"> Disinflation under threat but intact, EM central banks still in easing mode. Real yields remain high. Selected curves continue to hold attractive risk premium. 	<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> 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 retraction. Headwinds: US trade policy, variation in monetary policy paths, Middle East tensions, higher debt to GDP ratios, wider fiscal deficits, slow restructurings. 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 reval opportunities, particularly in sectors experiencing near-term repricing and volatility. 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Valuations are rich, the group prefers higher quality, liquid securities with good carry. RMBS: Spreads near recent tightness. 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. 	<ul style="list-style-type: none"> 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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