

1 September 2025

If I could turn back time

Even though, historically, we're perhaps in a period of accommodative interest rates, in the US the Fed chair has raised the prospect of future cuts. There is also growing concern around the US labour market. Read on for a breakdown of fixed income news across sectors and regions.



Chart of the Week

Gary Smith,
Head of Client Portfolio Management team, Fixed Income, EMEA

Some politicians have been wringing their hands over the current 'high' level of interest rates. Paul Temperton of economic consultancy TIER has put together a fascinating chart showing a 5,000-year history of interest rates, beginning in Babylonian times. For the past 300-plus years the G7 proxy is represented by the Bank of England rate (BoE). The chart highlights that the period of extraordinary interest rates was the zero (and near-zero) rates in place between the global financial crisis (2008) and the post-Covid (2022) recovery phase. The average BoE rate from 1694 is 4.5%, which means the current rate of 4% is arguably on the accommodative side of history.

Interest rates since Babylonian times



Source: Homer & Sylla, Edward Chancellor, Bank of England, Paul Temperton, LSEG, as at 31 August 2025.

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.23%	-3 bps	0.6%	4.4%
German Bund 10 year	2.75%	3 bps	-0.5%	-1.1%
UK Gilt 10 year	4.75%	5 bps	-1.4%	1.0%
Japan 10 year	1.63%	0 bps	-1.5%	-4.1%
Global Investment Grade	82 bps	4 bps	0.9%	4.4%
Euro Investment Grade	83 bps	3 bps	0.5%	2.4%
US Investment Grade	81 bps	4 bps	1.2%	5.4%
UK Investment Grade	73 bps	1 bps	-0.1%	3.4%
Asia Investment Grade	131 bps	3 bps	1.8%	5.6%
Euro High Yield	303 bps	9 bps	1.4%	4.3%
US High Yield	284 bps	-4 bps	1.6%	6.2%
Asia High Yield	477 bps	-10 bps	2.6%	6.2%
EM Sovereign	269 bps	3 bps	2.7%	8.4%
EM Local	5.9%	1 bps	1.4%	13.8%
EM Corporate	247 bps	-1 bps	2.2%	6.3%
Bloomberg Barclays US Munis	3.9%	-2 bps	0.7%	0.3%
Taxable Munis	4.9%	-5 bps	1.1%	4.7%
Bloomberg Barclays US MBS	34 bps	-1 bps	1.2%	5.5%
Bloomberg Commodity Index	255.49	1.2%	1.5%	7.1%
EUR	1.1721	-0.3%	-0.9%	12.9%
JPY	147.14	-0.1%	-2.1%	6.9%
GBP	1.3527	-0.2%	-1.7%	7.9%

Source: Bloomberg, ICE Indices, as of 29 August 2025. *QTD denotes returns from 30 June 2025.



Macro/government

Simon Roberts
Product Specialist, Global Rates

We saw further yield curve steepening in the US through the week. The yield differential between the five-year and 30-year bond reached 1.2% – its highest level since June 2021 – as the US five-year fell by 6bps while the yield on the US 30-year rose 5bps.

Positive investor sentiment towards short- and medium-dated bonds reflected the recent remarks by US Federal Reserve (Fed) chair, Jay Powell, at the Jackson Hole economic symposium in August, at which he opened the door to an interest rate cut at the next meeting. Healthy bid-to-cover ratios at two-, five- and seven-year US government bond auctions were also helpful.

The focus at the Fed has shifted from inflation to the state of the labour market. In a speech, Fed governor Chris Waller argued that labour demand might be on the edge of a sharp decline, while the inflationary impact of tariffs would likely prove temporary. Meanwhile, PCE headline inflation came in at 2.9% year-on-year for July, which was broadly in line with market expectations. Services remained the biggest contributor to price increases.

The theme of Fed independence undermined 30-year bond prices. President Trump announced the dismissal of Fed governor Lisa Cook citing allegations of mortgage fraud. Cook sued Trump, arguing that he did not have 'cause' to fire her. The market also reacted negatively to reports that the administration wants to exert greater influence over the selection of regional Fed presidents.

Market price action in the US set the tone for bond markets globally. In Europe, we saw the re-emergence of idiosyncratic country risk as French president, François Bayrou, called for a confidence vote on 8 September as he seeks the authority to make significant spending cuts. The spread over German bonds briefly rose from 69bps to 82bps as the market priced in increased political volatility in France.

Performance in government bond mandates continues to benefit from strategic yield curve steepening positions in the US and the eurozone.



Investment grade credit

Charlotte Finch,
Client Portfolio Manager, Investment Grade Credit

The investment grade market has continued to show signs of resilience amid wider macro noise in recent weeks. Spreads ended last week broadly in line with recent tights, albeit a handful of basis points wider, with the UK outperforming and the US underperforming. Issuance is expected to make for a busy September as the final weeks of August ended the summer lull with modest supply to the market.

Last week saw French bank BPCE bring a €750 million bond to the market, which was the first 'European defence bond'. In the same way that a green bond can ringfence the use of proceeds to environmentally friendly projects, this bond will instead fund military firms. The bond attracted impressive investor appetite with more than €2.8 billion in orders, despite recent weakness in French bank spreads as a side effect to the current political chaos.



European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

European high yield had a subdued finish to August with a flat return. Continuing the month's decompression trend, CCCs underperforming BBs and Bs. This was reflected in the month's performance figures with CCCs the only rating bucket with a negative outcome (-1.9%), compared with positive returns for the higher rated credits (0.17% for BBs and 0.24% for Bs).

Technicals continued to be supportive with a 16th consecutive week of inflows (+€125 million) across both ETFs and managed accounts, though still tilted to the latter. This brings the year-to-date net inflow figure to €7.2 billion. The primary market continued the summer hiatus but market talk is already turning to upcoming deals in September, with as many as 10 deals waiting in the wings.

Second quarter results are coming to a close and, with the exception of chemicals, are generally as expected or better. European car sales were better than expected with strong July figures of more than a million sales. Hybrids and electric vehicles did well despite fewer subsidies and incentive schemes.

In M&A news, despite German drug maker Stada (formerly Nidda Healthcare) saying talks with CapVest were off the table and they were proceeding with an IPO, CapVest confirmed that it is buying a majority stake in the company. Surprisingly, the terms of the transaction have not been disclosed and are subject to regulatory approvals and other customary closing conditions. The deal is valued at close to €10 billion.

In ratings news, the market welcomed a new 'fallen angel' as French payment processing company WorldLine was downgraded by S&P to BB. It is a significant addition to the market with approximately €2.15 billion of bonds.



Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income

The JACI index delivered 46bps of returns last week, helped by a +50bps rates rally. This offset wider spreads of -4bps. JACI high yield posted 52bps of returns while investment grade generated 45bps.

China is reportedly preparing a comprehensive overhaul of its petrochemicals and oil refining sector, focusing on eliminating smaller facilities to address persistent overcapacity. The plan would require retrofitting those petrochemical facilities that are older than 20 years, which represents approximately 40% of China's total petrochemical capacity. The effectiveness of this will depend entirely on implementation rigour and whether additional measures will be introduced to manage the upcoming pipeline of additional ethylene capacity. More details may emerge in the next China Five-Year Plan (2026-2030).

Alibaba delivered a mixed Q1 June 2025 performance, with strong growth in its AI cloud business (revenue are up 26% year-on-year) and steady growth in its core Customer Management Revenue segment. The company's Quick Commerce segment, which includes the Ele.me food delivery business, is loss-making but is driving more user, tariff and advertisement revenue on its Taobao app. The company retains its commitment to its three-year CNY380 billion AI investment while working to improve Quick Commerce economics through scale and optimisation.

Elsewhere, Meituan's Q2 25 results were poor, reflecting the intense competition from the entry of JD.com and the market share gains by Ele.me (Alibaba) in the food delivery business.

In Thailand, both Thai Oil and PTT Global Chemical (PTTGC) have launched tender offers for their long-dated bonds. Thai Oil is targeting a maximum amount of US\$200 million in buyback across its 43s, 48s and 50s bonds. PTTGC is targeting the buyback of its long-dated bonds (51s and 52s) in conjunction with the debut issuance of subordinated perpetual bonds.



Emerging markets

Priyanka Prasher,
Product Specialist, Emerging Market Debt

Emerging markets (EM) returned 0.13% on the week in US dollar terms, despite spreads widening by +4bps. Africa led the regional returns (+0.41%) while Venezuela outperformed on a country level (+3.99%). Local currencies posted a negative return of -0.19% in US dollar terms.

US president Donald Trump deployed warships to Venezuela as part of his 'maximum pressure' campaign to disrupt the flow of illicit drugs into the US. This garnered criticism from China, Russia, Iran and Brazil. Spreads on Venezuelan bonds maturing in 2034 compressed by -71bps on the week after the country refrained from issuing retaliatory measures.

Spreads on Indonesia's 10-year bonds widened by +7bps on the week as demonstrators protested at the large housing allowances given to lawmakers. Indonesia's president, Prabowo Subianto, deployed security forces late on Sunday to quell the protests and revoked the lawmaker's housing allowance. Markets await the announcement of fiscal support measures to ease political unrest.

India's bonds fell to their lowest level since March on resurfacing fiscal worries and added tariff concerns. Despite a surprise pickup in Q2 growth and a recent credit upgrade from Fitch, yields on 10-year benchmark bonds (issued in rupees) rose by +6bps on the week and +22bps over the month. The Indian rupee slipped to a record low of 88.33 as investors reacted to the Trump administration's threat to impose 50% tariffs.

Senegal remained in the headlines amid rumours of possible debt default. The International Monetary Fund (IMF) are expected to opine on the situation shortly.

Turning to the week ahead, we await an uptick in sovereign issuance after the summer lull.



Responsible investments

Charlotte Finch,
Client Portfolio Manager, Investment Grade Credit

Labelled environmental, social and governance (ESG) debt continued its momentum through the summer, with year-to-date levels exceeding \$700 billion, according to Bloomberg. Despite a slowdown from issuers in the US, European borrowers have kept up pace, exemplified by last Wednesday when nearly half of the total day's issuance was labelled debt. This ongoing growth reflects an evolving market landscape where fewer first-time ESG debt issuers are entering the space compared to previous years, signaling increasing market maturity.

The US Department of Transportation has pulled out of an agreed permit for a \$6 billion Maryland Offshore Wind Project, which would have included 114 turbines situated 10 miles off Ocean City. Approved under former president Joe Biden in 2024, construction was set to begin in 2026. This follows the US Bureau of Ocean Energy Management halting an 80%-complete Rhode Island wind farm by Denmark's Orsted last week, which caused the company's shares to plummet. Connecticut governor, Ned Lamont, plans to negotiate with the Trump administration to revive the offshore wind development, suggesting there's 'a deal to be had', despite the current opposition.

Fixed Income Asset Allocation Views

1 September 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"> During the second half of 2025, markets have become less reactive to global trade developments and credit valuations have become richer. The group has continued to reduce credit risk but still holds much of what was added during April's volatility. The conversation largely focused on dissecting fundamental and technical outlook for each of the sectors because valuations remain challenging. The group maintained a negative outlook on credit risk overall but upgraded their Emerging Market outlook to neutral. 	<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 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 	<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 <u>deprecating</u> 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"> 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. 	<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> The group upgraded to a neutral outlook given an improving technical backdrop. Emerging Markets offers better relative value than other credit sectors The group maintains discipline regarding valuations and will take advantage of compelling, higher quality opportunities as they arise. Tailwinds: Reduced default tail risks, ratings trend positive, dollar weakness. Headwinds: US tariff and trade policy, global trade disruption, lower oil prices, higher debt to GDP ratios, wider fiscal deficits and 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 tightened in the past month. The group added IG during the early April volatility and has continued reducing those allocations. Companies reported solid earnings and forecasts as the tariff furor had faded. Despite fundamental stability, the group remains a negative view on the sector given near all-time tight spreads and lingering uncertainty. Spread of long duration IG are especially attractive. 	<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 has reduced some of the risk that they added during April's dramatic spread widening. The group remains cautious on the sector because current rich valuations are hard to square with weaker fundamental outlook. Companies have reported strong earnings and guidance, generally beating expectations. The team is seeing greater differentiation in Loans sectors. Despite the negative outlook on the sector, the group still sees pockets of good opportunity, especially in higher quality issuers. 	<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"> Spreads remain wide relative to other high-quality sectors 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. As the group reduces credit risk, they are reinvesting that allocation in Agency MBS. Prefer call-protected inverse IO CMO's, a large beneficiary of aggressive cutting cycle. 	<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"> The group maintains a large allocation of high-quality carry positions. RMBS: Spreads have tightened, and credit curves have flattened MoM. Fundamental metrics, like delinquencies, prepayments, and foreclosures, remain solid. CMBS: Stress continues with the highest delinquencies in office, but multi-family is increasing. New issue is plentiful, but valuations are unattractive & underwriting is weak. CLOs: AAA spreads are tighter MoM. Defaults remain low, but CCC buckets are rising with lower recoveries. AAAs are attractive for a defensive high quality credit play. ABS: The group prefers higher quality, liquid securities. Fundamentals have deteriorated (60+ delinquencies are elevated, debt service ratios worsening) but not to a degree to affect bond performance, especially higher-quality tranches. 	<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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