Information for investment professionals

# In Credit

1 December 2025

## Tired of waiting for you

The European Central Bank is contending with increased fiscal spending and a massive shift in the Dutch pension system, leaving markets seeking clarity. Read on for a breakdown of fixed income news across sectors and regions.

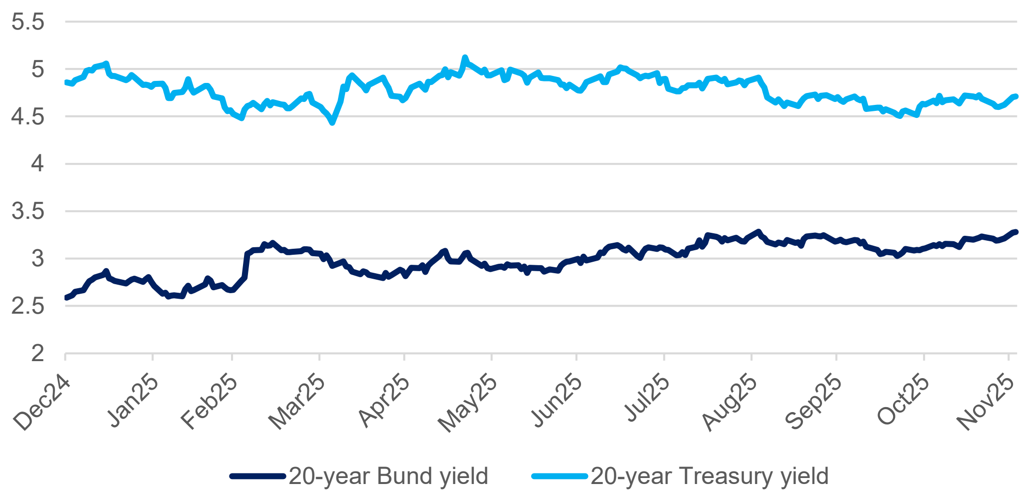
### Chart of the Week


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


The divergent paths of US and European interest rates in 2025 tell a tale of economic desynchronisation. While the US has finally begun its descent from peak rates, Europe finds itself on an unexpected upward trajectory.

The European Central Bank, having previously signalled an end to its easing cycle, now contends with increased fiscal spending (particularly for defence) without bond-buying support that once anchored markets. Further complicating matters is the Dutch pension transition scheduled for January 2026, with around 25 pension funds repositioning their LDI portfolios shorter. Markets have long anticipated this, contributing to severe curve steepening and pushing long-term rates higher. But several funds have postponed implementation until later in 2026 or beyond, while others plan to distribute the impact over a full year. This mixed timing suggests we could see rates move higher or lower in January 2026 if selling volumes don't match market expectations. The expected result: heightened rates volatility as markets wait for clarity – much like the Kinks' frustrated narrator, they're tired of waiting for resolution.

**US Treasury and German Bund yields (20-year)**




Source: Bloomberg, 30 November 2025

## Markets at a glance

| | Price / Yield / Spread | Change 1 week | Index QTD return* | Index YTD return |
|---|---|---|---|---|
| **US Treasury 10 year** | 4.04% | -2 bps | 1.2% | 6.7% |
| German Bund 10 year | 2.72% | 2 bps | 0.3% | -0.7% |
| **UK Gilt 10 year** | 4.47% | -8 bps | 3.0% | 4.8% |
| Japan 10 year | 1.87% | 9 bps | -1.0% | -5.1% |
| **Global Investment Grade** | 82 bps | -3 bps | 0.9% | 6.5% |
| Euro Investment Grade | 82 bps | -2 bps | 0.4% | 3.2% |
| **US Investment Grade** | 82 bps | -4 bps | 1.1% | 8.1% |
| UK Investment Grade | 67 bps | -3 bps | 2.1% | 6.4% |
| **Asia Investment Grade** | 127 bps | 5 bps | 1.0% | 7.6% |
| Euro High Yield | 303 bps | -13 bps | 0.2% | 5.0% |
| **US High Yield** | 292 bps | -27 bps | 0.7% | 7.8% |
| Asia High Yield | 472 bps | 16 bps | 0.4% | 8.5% |
| **EM Sovereign** | 244 bps | -3 bps | 2.5% | 12.9% |
| EM Local | 5.9% | -2 bps | 1.8% | 17.5% |
| **EM Corporate** | 250 bps | 1 bps | 0.8% | 8.2% |
| Bloomberg Barclays US Munis | 3.6% | -1 bps | 1.5% | 4.2% |
| **Taxable Munis** | 4.7% | -3 bps | 1.8% | 8.4% |
| Bloomberg Barclays US MBS | 29 bps | 0 bps | 1.5% | 8.4% |
| **Bloomberg Commodity Index** | 277.88 | 2.8% | 6.2% | 16.1% |
| EUR | 1.1630 | 0.7% | -1.2% | 12.0% |
| **JPY** | 155.07 | 0.1% | -5.3% | 0.7% |
| GBP | 1.3242 | 1.0% | -1.6% | 5.7% |

Source: Bloomberg, ICE Indices, as of 30 November 2025. *QTD denotes returns from 30 September 2025.

## Macro/government

Simon Roberts
Product Specialist, Global Rates

Last week, US 10-year yields fell 5bps to 4.01%, German 10-year yields fell 2bps to 2.69%, and UK 10-year yields fell 11bps to 4.44%. The trigger for the move lower in the US was, as discussed below, increased market expectations of a December rate cut, while in the UK the decline reflected a positive reaction to the UK budget after pre-budget scares, coupled with news of planned reduced long-end issuance.

Economic data from the US was weak this week. The Federal Reserve's Beige Book and consumer confidence data pointed to declining consumer spending, margin compression and a softening labour market. Market pricing of a quarter point rate cut in December rose from a probability of 75% to 88% during the week.

Meanwhile, the UK government delivered a budget that combined welfare spending increases with back-loaded tax rises. The expected broadening of the higher rate tax base over the next five-year period meant that the chancellor, Rachel Reeves, could increase her fiscal headroom to £22 billion by 2029-30. This was greeted positively by gilt market participants who had been expecting a smaller estimate of headroom.

Eurozone bond yields were barely changed as European Central Banks officials argued that eurozone interest rates were appropriate.

The Reserve Bank of New Zealand cut its cash rate from 2.50% to 2.25% to combat growing spare capacity in the economy. Conversely, the governor of the Bank of Japan, Kazuo Ueda, hinted that the central bank could move as soon as December to tighten monetary policy.

**Positioning** The global rates desk took profits on a long-duration position in gilts. However, we still retain a yield curve steepening position in the gilt market, as well as steepening positions in euro and US bond markets.

## Investment grade credit

Charlotte Finch,
Client Portfolio Manager, Investment Grade Credit

Spreads in investment grade were tighter across all core markets last week. Global investment grade overall is now 6bps tighter year-to-date, with European investment grade continuing strength at 21bps tighter year-to-date. New issuance was steady despite a shorter week in the US with the Thanksgiving holiday. The expectation is for the market to begin its seasonal slowdown of issuance ahead of Christmas and the new year.

In corporate news, UK government ministers have approved Heathrow Airport's £49 billion plan to build a third runway, rejecting a cheaper alternative from Arora Group. The project will re-route part of the nearby M25 motorway through a tunnel, demolish more than 750 homes and increase flight capacity from 480,000 to more than 750,000 annually with a new 3.5-kilometer runway. A planning decision is expected by 2029, with the new runway in use by 2035.

## European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

European high yield finished November with a strong week, returning 0.34%. This meant the month finished with a modest overall return of 0.08%. Spreads ground tighter last week, coming in 13bps to 303bps as the yield fell 7bps to 5.82%. That still leaves the month-on-month spread change at +5bps and a yield rise of 7bps.

Fund flows turned negative in the last week of November, with net -€90 million of outflows. This was due to managed accounts with ETFs experiencing inflows last week. This takes the year-to-date net inflow to €8.8 billion.

The primary market was relatively light with only three new issues totalling €2.5 billion. This included a €1 billion hybrid from energy business EDP and a €1 billion AT1 deal from Deutsche Bank. This takes year-to-date gross issuance to €131 billion.

In liability management exercise (LME) news, now that Altice France (SFR) is sorted, controlling shareholder Patrick Drahi announced on Friday the start of a strategic review for Altice International. Here we go again.

## Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income

The JACI index was flat week-on-week, with only a 10bps positive return, while a positive rates return (42bps) was offset by spread widening (32bps loss). JACI IG delivered 19bps of positive return, while HY was -52bps.

China's official and private PMI data have been released, with both falling short of expectations. Two key takeaways emerge: weak domestic demand persists, while new export orders remain positive. The official PMI for November 2025 came in at 49.2 (down from 49 in September). The private manufacturing PMI (RatingDog) was also weaker month-on-month at 49.9 (down from 50.6 in September), marking the eighth consecutive monthly decline. However, new export orders posted their strongest growth in eight months, supported by robust overseas demand.

CTF Enterprises (known locally as Chow Tai Fook Enterprises), which is the parent company of New World Development (NWD), is looking to sell its Rosewood Hotel Group. The latter operates 58 properties worldwide. This divestment would represent one of several ongoing transactions aimed at supporting NWD's liquidity position. The controlling Cheng family is also seeking an investment partner to participate in a potential HK$10 billion (circa US$ 1.3 billion) capital injection. Potential partners include Blackstone and CapitaLand.

According to Bloomberg, the Pentagon recommended designating several major Chinese companies (Alibaba, Baidu and BYD) as Chinese Military Companies (CMC). The recommendation was submitted in early October, before the Trump-Xi meeting in South Korea. While the potential designation is marginally negative for sentiment, the overall impact has been limited. When Tencent and CATL were added to the CMC list in January, there was minimal effect on credit or fundamentals.

China Vanke, one of the largest property developers to avoid default thus far, is showing signs of stress. The company's proposal to delay onshore bond repayments triggered a sharp selloff of more than 30% in such bonds. Despite government directives for local banks to extend credit to surviving property developers, Vanke has struggled to secure fresh loans to service its bonds. This reflects broader banking sector scepticism about a property sector recovery, with lenders maintaining low confidence in the sector's near-term prospects.

## Emerging markets

Omotoke Joseph,
Product Specialist, Emerging Market Debt

Emerging market (EM) sovereign debt continued to see positive returns over the final week of November, returning 0.6% in US dollar terms. This continued sovereign outperformance against corporates, with the latter seeing only a modest return of 0.09%. Local currency EM debt saw strong positive returns of 1.14% over the week.

Tensions between Venezuela and the US rose during the week as the US increased its military presence near the Venezuela coast in what it called an "anti-narcotics operation". Things escalated after Donald Trump announced that airspace surrounding Venezuela should be closed. Nicolás Maduro's government responded defiantly, arguing that Trump's comments posed a "colonialist threat". Venezuelan medium-term bonds fell by 1.6% over the week amid the standoff.

Elsewhere in LATAM, Ecuadorian bonds continued to rally following the recent referendum result rejecting constitutional change. The 10-year bond spread tightened by around 13% over the week.

In Africa, friction between Senegal and the International Monetary Fund (IMF) continued as the latter suggested a possible debt restructuring ahead of facilitating a debt bailout. The IMF raised concerns over Senegal's liquidity needs; Senegal government bond prices subsequently fell.

In other news, Ghana saw a 3.5% rate cut to 18%, which was the third rate reduction this year. Policymakers cited an improved macroeconomic outlook and expectations of falling inflation.

## Responsible Investment

Charlotte Finch,
Client Portfolio Manager, Investment Grade Credit

The UK government has revised its Green Financing Framework to include nuclear energy as an eligible green expenditure, replacing the previous framework established in June 2021. The updated framework allows nuclear projects to qualify for green financing, subject to specific criteria and exclusions. The change will only apply to future bonds, with all currently issued bonds maintaining the original terms that exclude nuclear energy. This policy shift reflects nuclear power's growing importance in the UK's energy strategy, as a low-carbon alternative that complements intermittent renewable sources and reduces dependence on volatile gas markets.

The decision aligns with broader international trends, as the EU Taxonomy now conditionally includes nuclear energy, while France is already actively using green financing mechanisms for its nuclear assets. Investor attitudes towards nuclear in sustainable finance portfolios are also gradually shifting. Financial analysts suggest this framework update strategically positions Britain to attract more diverse investors for future green gilt issuances, potentially deepening the market for government-backed sustainable bonds as the country works toward its energy transition goals.

# Fixed Income Asset Allocation Views

1st December 2025

| 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 very tight across nearly all sectors and current valuations leave limited upside to returns in most areas.<br>■ US macroeconomic growth fundamentals remain stable despite labor cooling. Policy and market outlook points to the Fed easing as inflation is moderating.<br>■ **The group maintained a moderately underweight view on credit risk, with no changes to their underlying sector views.** | ■ 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<br>■ 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)**<br>('P' = Periphery) | $ P € £<br>Short -2 -1 0 +1 +2 Long<br>¥ A$ | ■ Longer yields to be captured by long-run structural downtrends in real yields<br>■ Inflation likely to normalize over medium term, although some areas will see persistent pricing pressures<br>■ 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<br>■ Labour supply shortage persists; wage pressure becomes broad and sustained<br>■ Fiscal expansion requires wider term premium<br>■ Long run trend in safe asset demand reverses |
| **Currency**<br>('E' = European Economic Area) | A$<br>€ £<br>Short -2 -1 0 +1 +2 Long<br>EM<br>¥<br>$ | ■ Dollar has been supported by US growth exceptionalism and depricing of the Fed while the ECB looks set to embark on a cutting cycle.<br>■ 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))** | C R<br>Under-weight -2 -1 0 +1 +2 Over-weight | ■ US weakness can enable EM currency performance.<br>■ Inflation normalisation and currency strength allows EM central banks to stimulate domestic demand.<br>■ Risk premium to leak out of local bond curves. | ■ Global risk aversion restores bid for US dollar.<br>■ Weaker oil environment requires fiscal premium among exporters<br>■ Higher global term premium. |
| **Emerging Markets Sovereign Credit (USD denominated)** | Under-weight ■ -2 -1 0 +1 +2 Over-weight | ■ Spreads have tightened to recent lows. Even after good performance, Emerging Markets offer a somewhat unique set of risks relative to other sectors.<br>■ EM High Yield and local currency bonds provide more value than EM Investment Grade, though this varies on an issuer-by-issuer basis.<br>■ The expected headwinds from tariffs have been smaller and more issuer specific, especially because the broad weakening of the US dollar has eased EM financial conditions. | ■ US trade policy aggression strengthens USD against EM currencies.<br>■ EM policy makers constrained by currency pressure; rates remain tight.<br>■ Fiscal concerns leak into local risk premia. |
| **Investment Grade Credit** | Under-weight ■ -2 -1 0 +1 +2 Over-weight | ■ Valuations have widened about 10 basis points from September's historic tights.<br>■ Fundamentals remain strong, but the group is monitoring industry dispersion and low-end consumer weakness. 3Q earnings were above expectations. IG analysts are predicting industrial leverage near the lows of the last decade and margins near all-time highs. M&A activity has been increasing.<br>■ Technicals are modestly weaker this month, as AI-related hyperscaler issuance has come with meaningful confessions, impacting other high quality spread curves. | ■ Tighter financial conditions lead to European slowdown, corporate impact.<br>■ Lending standards continue tightening, even after Fed pauses hiking cycle.<br>■ Rate environment remains volatile.<br>■ Consumer profile deteriorates.<br>■ Geopolitical conflicts worsen operating environment globally. |
| **High Yield Bonds and Bank Loans** | Under-weight ■ -2 -1 0 +1 +2 Over-weight | ■ Valuations have widened about 35 basis points from September's recent tights.<br>■ 3Q earnings have been generally solid and the group has started to add exposure in select battered Industrials names. Despite the negative outlook on valuations, the group still sees pockets of good opportunity, especially in higher quality issuers.<br>■ Despite the First Brands default, the Loans LTM default rate fell to 3.3%, the lowest level in 2025. In general, the sector's fundamentals and technical remain solid. | ■ Lending standards continue tightening, increasing the cost of funding.<br>■ Default concerns are revised higher on greater demand destruction, margin pressure and macro risks<br>■ Rally in distressed credits, leads to relative underperformance<br>■ 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 | ■ Spreads have tightened significantly but remain wide relative to other high-quality sectors. The group remains positive on Agency MBS because the carry and convexity are still attractive.<br>■ Falling mortgage rates accelerated prepayment speeds in October, though they are still muted. Technicals have improved as REITS stepped in and GSEs are permitted to increase holdings.<br>■ The Administration has signalled it wants to use Agency reform to lower mortgage rates and has floated launching a 50-year mortgage. | ■ Lending standards continue tightening even after Fed pauses hiking cycle.<br>■ Fed fully liquidates position.<br>■ Market volatility erodes value from carrying.<br>■ 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 | ■ The group maintains a large allocation of high-quality carry positions.<br>■ RMBS: Spreads have widened with supply as credit curves have flattened. Delinquencies remain low and home equity is at the highest levels ever.<br>■ CMBS: Stress continues with the highest delinquencies in office, but multi-family is increasing. New issue is plentiful but unattractive.<br>■ CLOs: AAAs are attractive for a defensive high-quality credit option, with spreads widening this month. Extra spread compensation for taking on more credit risk is low.<br>■ 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. | ■ Weakness in labour market<br>■ Consumer fundamental position (especially lower income) weakens with inflation and Fed tightening. Consumer (retail/travel) behaviour fails to return to pre-covid levels<br>■ Student loan repayments weaken consumer profile more than anticipated, affecting spreads on a secular level.<br>■ High interest rates turn home prices negative, punishing housing market.<br>■ Cross sector contagion from CRE weakness. |

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