In Credit

7 July 2025

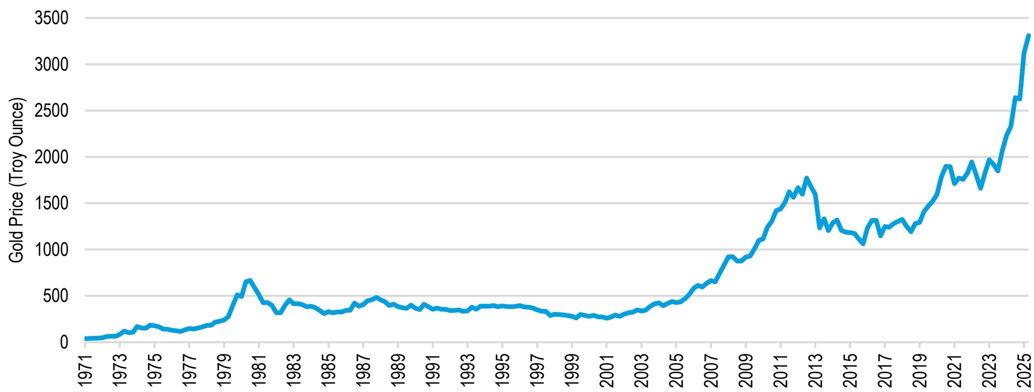
'New Gold Dream'

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.36%	8 bps	-0.6%	3.2%
German Bund 10 year	2.63%	3 bps	0.3%	-0.3%
UK Gilt 10 year	4.56%	6 bps	-0.4%	2.1%
Japan 10 year	1.46%	2 bps	-0.1%	-2.8%
Global Investment Grade	82 bps	-7 bps	0.0%	3.4%
Euro Investment Grade	85 bps	-5 bps	0.5%	2.3%
US Investment Grade	80 bps	-8 bps	-0.2%	4.0%
UK Investment Grade	76 bps	-4 bps	0.0%	3.4%
Asia Investment Grade	127 bps	-13 bps	0.1%	3.9%
Euro High Yield	321 bps	-14 bps	0.3%	3.2%
US High Yield	280 bps	-22 bps	0.2%	4.7%
Asia High Yield	491 bps	-14 bps	0.2%	3.7%
EM Sovereign	279 bps	-15 bps	0.4%	5.9%
EM Local	6.0%	-4 bps	0.8%	13.2%
EM Corporate	254 bps	-16 bps	0.1%	4.2%
Bloomberg Barclays US Munis	4.0%	-1 bps	0.0%	-0.4%
Taxable Munis	5.1%	5 bps	-0.8%	2.8%
Bloomberg Barclays US MBS	35 bps	-1 bps	-0.4%	3.8%
Bloomberg Commodity Index	252.50	0.6%	1.4%	7.0%
EUR	1.1729	0.5%	-0.1%	13.8%
JPY	145.57	0.1%	-0.3%	8.8%
GBP	1.3620	-0.5%	-0.6%	9.1%

Source: Bloomberg, ICE Indices, as of 4 July 2025. *QTD denotes returns from 30 June 2025.

Chart of the Week: The price of gold, 1970-2025



Source: Bloomberg, as of 7 June 2025

Macro/government bonds
Simon Roberts

The US yield curve 'bear flattened' last week, as short-term interest rates rose faster than long-term rates. This reflected the stronger tone of economic data. The bellwether indicator of the strength of the US economy, nonfarm payrolls, was stronger than expected, while the previous month's number on labour market growth was revised up. This evidence of continuing resilience in the US economy, and the relatively limited impact of tariffs so far, caused market participants to price out the prospect of a July rate cut and reduce the probability of one in September.

The other factor playing on investor sentiment towards the US bond market was the 'big beautiful bill', President Trump's signature tax-cutting bill, which passed both the Senate and the House before Trump's deadline of 4 July. Its provisions should stimulate the US economy in the short term. However, the market remains concerned at the prospect of further growth in the US budget deficit, the funding of which will require higher bond issuance.

In the UK, gilt yields finished the week higher as the government appeared to step back from meaningful welfare reform. The chancellor, Rachel Reeves, was seen in tears in the House of Commons, which she attributed to a private matter. Markets initially interpreted her personal state as reflective of the pressure the chancellor had come under to change policy direction. The about-turn in government policy raised questions about the funding of the welfare budget, as the level of dissent in the Labour party raised the bar for further reform. This will require the chancellor to either loosen her self-imposed fiscal rules by issuing more gilts, or raise taxes. The UK's deteriorating fiscal backdrop remains a key headwind for the gilt market.

Price action in the European bond market was muted. Minutes from the European Central Bank's June meeting highlighted the risk of a strong euro, while several senior policymakers called attention to the risk of undershooting the inflation target.

Meanwhile, as the US dollar fails to find many friends this year, the price of gold and silver continue to impress – both are up by more than 25% year-to-date (see **Chart of the Week**).

Investment grade credit
David Oliphant

What goes up must come down! Global investment grade spreads, at 82bps, are back down to their lowest level in the past year. Indeed, you need to go back to 2007, in the months preceding the global financial crisis, to find spreads tighter than this. Measured by standard deviations (SDs), by our calculations global IG valuations are around 1.2 SDs rich to a five-year average and 0.8 SDs to a longer term 20-year comparison at present levels.

Thus far, however, 2025 has not been a level playing field, with the euro market significantly outperforming its US dollar and GBP cousins (in terms of percentage change in spreads). By industry, all global sectors are tighter than they were at the opening of trading in 2025. The leaders are Media (Warner Bros Discovery was downgraded to high yield recently), Banking and Capital Goods. The laggards are Autos, Utilities and Insurance.

So, with spreads so tight it must be time to sell? As always, the answer should be looked at with corporate fundamentals that, in our analysts' view, are strong and likely to remain so in coming years. Meanwhile, for investors searching for income, the spread is probably less important than the all-in yield. According to ICE indices, the yield available on the global market is around 4.4% today, which compares favourably to the 20-year average of 3.6% and the 1.3% this index offered as recently as the end of 2020. The credit market being the beneficiary, it would seem of a significant recalibration in government bond yields in the last four to five years.

US high yield credit and leveraged loans

Chris Jorel

US leveraged credit returns were strong over the second quarter, with fixed rate high yield bonds (3.57%) outperforming floating rate loans (2.33%). The total returns mask the notable underlying volatility over the period. The quarter kicked off with ‘Liberation Day’ and notable price declines for both, alongside other risk assets. Prices reached their nadir on 7 April and began to recover following the announcement of a 90-day pause of reciprocal tariffs on all countries excluding China. The subsequent temporary reduction and negotiation period with China accelerated the risk-on tone. Leverage credit prices were further supported by a reversal of the fund outflows seen in early April and a constructive conclusion to Q1 earnings.

Given the potential impact of policies on forward fundamentals, the changes to the global trade landscape, and the geopolitical situation across the globe, we have been surprised by the pace of market recovery. We believe there will be some degree of volatility going forward, which could allow for the identification of attractive risk-adjusted opportunities for portfolios. Although there are some signs that the US consumer is softening, as well as some weakness in other economic indicators, corporate fundamentals remain quite robust and we do not envisage a material pick-up in defaults.

We believe portfolios are positioned well for potential increased volatility and uncertainty, while recognising the resilience of risk markets. We remain selective but have been buyers of risk-on widening events. This includes companies that operate in sectors likely to be affected by increased tariffs or more cyclical issuers, subject to our view that the longer-term fundamentals are solid and we are being compensated attractively. Barring a sustained level of market spread widening, we believe future relative performance to primarily be driven by idiosyncratic volatility, both at the issuer and sector level.

European high yield credit

Angelina Chueh

It was relatively firm but quiet week for European high yield. There were marked dispersion as spreads continued to grind tighter for higher quality credit while widening CCCs were still in the doldrums. Inflows picked up with €438 million coming to the asset class. The primary market was the main focus with 15 deals announced for €8.5 billion in new issuance. This brings the year-to-date gross to €67 billion (€13 billion net). Some of the outperformers last week were BB autos as tariff concerns seemed to fade away.

In ratings news, Italian bank Monte dei Paschi had its long-term rating improved to BBB- from BB+. Fitch cited structural improvements achieved by the bank in its business model relaunch.

In company news, there is talk of Bouygues and Free as potential bidders for some of the Altice France telephone business. And in the gaming sector, Cirsa’s IPO is said to be targeting a €2.5 billion valuation.

With a yield around 6% and technicals supportive, demand for the asset class is strong and looks likely to continue. New issuance, despite the size and amount, was oversubscribed, with spreads coming inside initial price talks. Given the increase in inflows, the demand for yield remains strong. The primary market should remain reasonably robust until late July when the summer lull takes over.

Structured credit

Kris Moreton

The US agency mortgage-backed securities (MBS) sector was down 13bps in total return last week, underperforming other high quality asset classes. As rates bear flattened, 15-year agency MBS outperformed 30-year MBS week-on-week. On an excess returns basis the sector was positive, driven by tighter spreads across the entire coupon stack. 30-year conventional prepayment speeds are expected to be relatively flat in June due to one less business day, lower refinancing and higher rates.

In non-agency, issuance was $600 million across two deals and spreads were 5-10 bps tighter in non-qualified mortgage (NQM) and credit risk transfer (CRT) paper. It was a busy week in commercial risk with seven deals pricing for a total of $3.1 billion. Secondary trading remained firm but relatively light, and it is becoming more difficult to source the more conservative tranches.

Benchmark conduit spreads were flat to tighter down the capital stack. June payment performance data suggested that the conduit commercial MBS 60-day-plus delinquency rate increased to 7.7%. Office loans were the primary drivers of this, with delinquency rates of around 13%. Conversely, retail loans experienced the largest decrease in delinquencies, falling to 6.5%. The 2014 vintage continued to underperform – its serious delinquency rate remaining elevated at 58%, primarily due to maturity defaults and loan paydowns.

Asian credit

Justin Ong

The JACI index posted +28bps returns last week, helped by positive spread returns (62bps) that offset treasury losses (-34bps). JACI high yield delivered 51bps in positive returns, ahead of JACI investment grade (24bps).

In China, the competition in the ecommerce services and food delivery sector remains heated, with companies focused on boosting cross-selling of products and gaining new users. According to shopping platform Meituan, daily orders of food and retail on its instant delivery service exceeded 120 million on 5 July, with food orders accounting for 83% – an all-time high. Delivery services were actually disrupted by technical glitches in certain areas due to the overwhelming demand.

On 2 July, Alibaba launched a CNY50 billion (US$7 billion) subsidy program for its ‘Taobao Instant Commerce’ service, which offers one-hour delivery for products bought on the platform. Over the next 12 months it will provide subsidy incentives for both customers (vouchers, subsidised products) and merchants (store subsidies, commission-waivers). Meanwhile, JD.com is investing aggressively in food delivery. It is waiving commissions for the first year for merchants who signed up early to its platform. It is also providing comprehensive insurance benefits (medical and accident) for both full-time and part-time riders, to build up its rider base.

Genting Berhad has submitted an initial $5.5 billion bid for a license to operate a casino with full-scale gaming tables in New York, through its US business Resorts World NYC. There are eight bidders for the three available casinos, with Genting Berhad and MGM regarded as the frontrunners

Indonesia sovereign wealth fund, Danantara, has circulated requests for proposals (RFPs) to banks for a loan of up to US$10 billion on a three to five-year tenor. The loan will be unsecured and does not benefit from any guarantee or letter of support from the government.

Emerging markets

Priyanka Prasher

It was a week of idiosyncratic stories in emerging markets (EM). EM sovereigns returned 0.70% and spreads tightened by -19bps. The biggest outperformer was Bolivia, returning 3.03% as bonds rallied on election optimism. Spreads on bonds maturing in 2030 tightened by -147bps. Local currency EM returned 0.48%.

Romania's bonds extended their rally after the new government unveiled a fiscal spending plan to cut the country's budget deficit and avoid credit rating downgrades. Spreads on 10-year bonds tightened by -46bps over the week.

Ethiopia agreed a memorandum of understanding to restructure its loans with official creditors, relieving US$3.5 billion of debt. Since defaulting on a $1bn euro bond in December 2023, Ethiopia has undergone economic reforms to restructure debt through fresh financing and economic reforms. Yields on the distressed bond were little changed.

Elsewhere it was another quiet week for sovereign issuance with only Latvia and the Dominican Republic tapping the markets.

Coming up Indian prime minister, Narendra Modi, will embark on the first bilateral visit to Argentina by an Indian PM in almost 60 years. This is part of a five-nation tour to strengthen the country's ties with BRICS, the African Union and the Economic Community of West African States (ECOWAS). Stops include Brazil, Ghana, Namibia and Trinidad and Tobago.

Responsible investments

Charlotte Finch

The second quarter delivered robust levels of issuance for environmental, social and governance-labelled debt markets. Bloomberg reports year-to-date issuance reaching $578 billion – a 3.2% increase compared to the same period in 2024. Despite macroeconomic and political turbulence temporarily halting new issuances in mid-April, the market rebounded through May and June with substantial offering activity. Green bonds maintain their dominant position in the sector, commanding $328 billion of the total issuance volume so far this year.

Slovenia became the first European government to issue €1 billion in sustainability-linked bonds that tie interest payments to greenhouse gas emission targets. The 10-year bonds attracted €6.5 billion in orders despite challenges such as democratic concerns and potential higher interest costs if targets are missed. Slovenia faces a 50bps penalty if emissions aren't reduced by 35% by 2030, but earns the same discount if reductions exceed 45%. This precedent could inspire similar sovereign climate finance across Europe.

Fixed Income Asset Allocation Views

7 July 2025

COLUMBIA THREADNEEDLE INVESTMENTS

Strategy and positioning (relative to risk free rate)		Views	Risks to our views
Overall Fixed Income Spread Risk		■ In the past month, markets have become less reactive to global trade developments and credit valuations have gotten more expensive. The group has begun reducing credit risk that was added during April's volatility. ■ The conversation focussed on how the group is navigating this unattractive valuation environment, as well as fewer foreign investors could impact US credit markets. ■ **The group downgraded to a negative outlook on credit risk overall, with no changes to underlying sector views.** ■ The CTI Global Rates base case view is that the pace and magnitude of additional cuts is uncertain and dependant on growth, inflation and labor market data.	■ 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 ■ 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 ■ 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))		■ 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.	■ 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)		■ The group maintains a negative outlook as the sector's rich valuations are misaligned with trade-related fundamental uncertainty. ■ The group maintains discipline regarding valuations and will take advantage of compelling opportunities as they arise. ■ Tailwinds: Reduced default tail risks, ratings trend positive, dollar retracement. ■ Headwinds: US tariff and trade policy, global trade disruption, weaker net supply, lower oil prices, higher debt to GDP ratios, wider fiscal deficits and 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 tightened significantly since the early April volatility, The group added exposure in April to cover underweights and has maintained those allocations. ■ The group remains neutral on the sector given less attractive valuations and global trade uncertainty weighing on the fundamental backdrop. ■ Earnings results were solid, showing historically strong credit metrics. Forward guidance was cautious as management teams struggle to quantify tariff impacts.	■ 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 has started reducing the risk they added during early April's dramatic spread decompression. The group remains negative on the sector because current rich valuations are misaligned with a weaker fundamental outlook.. ■ The earnings season largely met expectations; however forward guidance skewed lower due to trade and political concerns. ■ Despite the negative outlook on the sector, the group remains open to attractive high quality relval opportunities.	■ 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		■ Spreads have moved tighter in the past montth. In April, the group reduced their Agency MBS allocation to fund opportunistic credit purchases. ■ 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. ■ Mortgage rates steadily rose alongside interest rates, as home price increases and refinance applications are slowing. Purchase applications are steady at lower level. ■ Prefer call-protected inverse IO CMO's, a large beneficiary of aggressive cutting cycle.	■ 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		■ The group maintains a large allocation of high-quality carry positions. ■ RMBS: Spreads have tightened MoM as mortgage rates increase. Fundamental metrics, like delinquencies, prepayments, and foreclosures remain solid overall. ■ CMBS: Spreads wider MoM. Stress continues with the highest delinquencies in office, but multi-family is increasing. Continue to monitor health of new issue market. ■ CLOs: AAA spreads are tighter MoM, below-IG market is weaker. Defaults remain low, but CCC buckets are rising with lower recoveries. ■ ABS: 60+ Day delinquencies are elevated, driven by inflation and credit score drift. Debt service ratios worsening broadly. 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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