

8 September 2025

## Gold ... indestructible?

As the price of the precious metal continues to climb, government bond yields fell in the wake of weaker US economic data and ongoing discussions about Fed independence. 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

Gold continues to print all-time highs in price terms. Although it is traditionally viewed as an inflation hedge, we would argue that over the past decade the buying of gold by global central banks has been driven by geopolitical tensions. This has also been a key driver of price.

The Princeton historian Harold James argues that the role of gold is more than simply monetary. He highlights that as the second world war approached, the rationale for holding gold became increasingly important for Poland and other nations bordering Nazi Germany. It wasn't just a foundation of domestic currency, rather a means of defending both the present and the future of the nation state.

This story has echoes. In 2018 the Polish central bank made a strategic decision to double its gold reserves by buying 125.7 tons. Following the Russian invasion of Ukraine, the Polish central bank governor explained that large and growing gold reserves made Poland a more credible country. The Hungarian and Czech central banks have also made significant additions to their gold holdings as the Russian shadow in eastern Europe has become more threatening.

Gold price (2024 to current)



Source: Bloomberg, as of 8 September 2025

## Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
<b>US Treasury 10 year</b>	4.09%	-14 bps	1.5%	5.3%
German Bund 10 year	2.66%	-6 bps	-0.2%	-0.8%
<b>UK Gilt 10 year</b>	4.66%	-7 bps	-0.7%	1.8%
Japan 10 year	1.57%	-3 bps	-1.4%	-4.1%
<b>Global Investment Grade</b>	81 bps	-1 bps	1.7%	5.2%
Euro Investment Grade	83 bps	0 bps	0.7%	2.6%
<b>US Investment Grade</b>	79 bps	-1 bps	2.3%	6.6%
UK Investment Grade	75 bps	2 bps	0.3%	3.7%
<b>Asia Investment Grade</b>	140 bps	8 bps	2.0%	5.9%
Euro High Yield	309 bps	10 bps	1.4%	4.3%
<b>US High Yield</b>	283 bps	1 bps	2.0%	6.6%
Asia High Yield	482 bps	4 bps	2.9%	6.5%
<b>EM Sovereign</b>	271 bps	1 bps	3.6%	9.3%
EM Local	5.9%	-2 bps	1.9%	14.4%
<b>EM Corporate</b>	251 bps	4 bps	2.7%	6.8%
Bloomberg Barclays US Munis	3.8%	-11 bps	1.6%	1.2%
<b>Taxable Munis</b>	4.8%	-12 bps	2.5%	6.1%
Bloomberg Barclays US MBS	32 bps	-2 bps	2.2%	6.5%
<b>Bloomberg Commodity Index</b>	256.68	-0.3%	1.2%	6.8%
EUR	1.1726	0.3%	-0.6%	13.2%
<b>JPY</b>	147.83	-0.2%	-2.3%	6.6%
GBP	1.3529	0.0%	-1.6%	7.9%

Source: Bloomberg, ICE Indices, as of 5 September 2025. \*QTD denotes returns from 30 June 2025



## Macro/government

Simon Roberts  
Product Specialist, Global Rates

Last week, bond yields were lower across the board: the US 10-year fell by 15bps, the German 10-year by 6bps and the UK 10-year by 8bps. The trigger for this was weaker US economic data. The non-farm payroll number revealed that 22,000 net new jobs had been created in August, below the +75,000 forecast. The report was accompanied by negative revisions to previous data. The market now fully prices in a 25bps rate cut in September and up to two further 25bps cuts by the end of December.

The theme of US Federal Reserve (Fed) independence remains in play. Scott Bessent, US Treasury Secretary, published an article in the Wall Street Journal in which he called for an independent review of the Fed's performance, and for a smaller central bank.

In Europe, with smaller yield declines, European Central Bank executive board member Isabel Schnabel argued that current monetary policy settings were mildly accommodative, diminishing market expectations of further rate cuts.

France's prime minister, Francois Bayrou, called for a vote of confidence in his government at the end of August, which he duly lost, collapsing his minority government and ushering in a further period of political instability. The spread of French 10-year bonds over German 10-year bonds remained elevated at 78bps on average last week.

In Japan, the leader of the Liberal Democratic Party, Shigeru Ishiba, will step down following the loss of majorities in both houses of Japan's parliament. This led to concern that a new LDP leader could pursue a more fiscally expansionary agenda.

**Positioning** We maintain tactical long duration position in the US and retain a bias for yield curve steepening positions in most markets.



### Investment grade credit

Charlotte Finch,  
Client Portfolio Manager, Investment Grade Credit

It was no surprise to see a huge amount of issuance in the first week of September. In the US dollar market alone, we saw 50 issuers bring more than \$70 billion in new paper. Despite this supply, IG spreads remained stable and at levels we would describe as rich versus both short- and longer-term averages.

All industry sectors are tighter year-to-date, with the leaders being banking, capital goods and media (the latter being distorted by the downgrade of Warner Brothers Discovery). The laggards are financial services, energy and insurance.

Although spreads are tight, absolute yield levels are still attractive and, in our view, will cap any future spread widening. The economic outlook is not strong, but neither are we expecting a recession. The Fed funds rate should be trimmed further over the coming months. Additionally, strong corporate and banking fundamentals are likely to persist and lend support to valuations.



### US high yield credit and leveraged loans

Chris Jorel,  
Client Portfolio Manager, US High Yield

US high yield bond spreads were stable over the week, despite weak US labour market data and an active start to September's new issue activity, with nearly \$10 billion priced over four days. The ICE BofA US HY CP Constrained Index returned 0.34%, while spreads were unchanged. The index yield to worst decreased to 6.64%, which is a three-year low. According to Lipper, US high yield bond retail funds saw a \$250 million outflow, the third outflow over the past six weeks, leaving year-to-date net inflows at \$13.1 billion.

US leveraged loan prices were stable amid continued inflows and light new issuance. The S&P UBS Leveraged Loan index average price increased slightly to \$96.6. The index's yield-to-three-year takeout, which incorporates market expectations for short-term interest rates, declined to a three-year low of 7.63% as Fed easing was solidified.

Retail floating rate funds saw a \$307 million inflow. This was the nineteenth consecutive weekly inflow with \$7.8 billion contributed over the period. Year-to-date inflows now total \$6.3 billion.



### European high yield credit

Angelina Chueh,  
Client Portfolio Manager, European High Yield

European high yield had a subdued trading week, resulting in a second week in a row of flat returns. BBs were the only rating band returning a modest positive performance. The divergence between higher and lower rated securities continues, with CCCs again the worst

performers, returning -0.4%. Meanwhile, GBP HY underperformed Euro HY, returning -0.3%. Yields rose modestly by 2bps to 5.81%, while spreads widened 6bps to 309bps. The primary market reopened, as September began, with a number of new corporate issues totalling €3 billion, mostly in BBs with a small issuance premium. All were relatively well received.

In credit rating news, building materials company Victoria saw its senior secured bonds downgraded by Fitch to CC from CCC. This followed a distressed debt exchange that resulted in a material reduction in terms, likely allowing Victoria to avoid an eventual default.

In sector news, pharma seems unperturbed by the ongoing tariffs situation, maintaining either an unchanged or improving outlook.



### Structured credit

Kris Moreton,  
Client Portfolio Manager, Structured Credit

The US Agency Mortgage-backed Security sector posted a 97bps total return led by 30-year mortgages, which outperformed as rates bull flattened. While spreads have moved tighter and now sit just inside 100bps, versus 140 in early April, they remain elevated relative to longer-term averages. Prepayment speeds also slowed in August given seasonality. We believe mortgage rates need to decline at least 1% before any real pick-up in prepaes occurs.

The Asset-backed Securities primary market picked up again last week after a slow back half of August. More than 18 deals started pre-marketing with a few more waiting in the wings. Historically, September is a busy month for new issue. Notable last week in the secondary market was the lack of selling. BWIC requests were below average, and overall Trace volume was below the typical \$1.0 billion a day, at around \$800 million.



### Asian credit

Justin Ong,  
Research Analyst, Asian Fixed Income

The JACI index posted 30bps of returns last week, primarily driven by rates (a gain of 50bps) that offset wider spreads (a loss of 20bps). JACI HY generated 36bps of returns while IG delivered 29bps.

In China, the August PMI data showed some monthly improvement. The official manufacturing PMI in August was relatively subdued at 49.4, albeit in line with consensus and higher than the prior month (49.3). The non-manufacturing PMI edged higher to 50.3 from 50.1 the previous month. Overall, the manufacturing PMI has stayed below 50 for five months, mainly due to the weakness in new export orders. The RatingDog China manufacturing PMI (formerly Caixin) increased to 50.5 in August, up from 49.5 in July. This was ahead of expectation and attributed to better underlying demand conditions. The RatingDog services PMI print for August also improved to 53 from 52.6 in July, reflecting positive domestic demand and higher summer travel activity.

Following in the footsteps of Beijing and Shanghai, Shenzhen became the next Tier-1 city to announce further easing of its HPR (home purchase restriction). Local residents and non-residents are now allowed to purchase unlimited housing units in certain districts. Non-residents unable to provide evidence of continuous contribution to social insurance or income tax payments for at least a year are limited to two housing units.

The primary market was active with issuances from semiconductor company SK Hynix, PTT Global Chemical (debut subordinated perpetual bonds) and conglomerate holding company Fosun International. PTT plans to use the proceeds of its US\$1.1 billion issuance to fund the tender offer for its long-dated bonds.



## Emerging markets

Priyanka Prasher,  
Product Specialist, Emerging Market Debt

The EMD hard currency index spread was barely changed last week. Technical dynamics remain positive despite relatively rich valuations. In particular, inflows remain strong and reached an eye-catching year-to-date milestone of \$7 billion last week.

Colombia was a stand-out performer last week (narrowing -15bps) as the market reacted favourably to details on a long-awaited debt tender. Venezuela prices rose sharply as more US military activity was observed in the Caribbean, fuelling hopes of regime change. Lebanon saw a further sharp increase in bond prices as the World Bank revised its 2025 GDP outlook sharply higher.

Protests in Indonesia continued despite platitudes from President Prabowo Subianto. There was little impact on bonds. At this stage there have been no personnel changes at the Ministry of Finance and the government appears on track to stay within 3% of the GDP deficit limit.

India's GST (goods and services tax) council has approved an overhaul that includes rate cuts across a range of sectors. These will take effect on 22 September. The government expects a net fiscal impact of 0.13% on GDP.

Turkey's credit spreads widened through the week on reports that the courts had annulled opposition party CHP's Istanbul congress. President Erdoğan is suspected to be instigating infighting between key CHP members. Despite this there are hopes of a rate cut from the central bank this week.



## Responsible investments

Sarah McDougall,  
Product Specialist, Investment Grade Credit

Overall labeled ESG (environmental, social and governance) debt sales have increased 4.4% year-to-date compared with the same period last year, exceeding \$760 billion, corporate ESG bond issuance has declined significantly. ESG-labeled bonds from non-financial companies now represent just 5.7% of global issuance, the lowest level since 2020 – down from 8.2% in 2022, according to Bloomberg. This reflects growing challenges for the ESG asset class, including political backlash (particularly from US Republicans), Wall Street firms pulling back from climate commitments, and diminishing financial benefits for issuers.

Highlighting a milestone in the ESG market, Denmark is pioneering sovereign green bonds aligned with the EU Green Bond Standard (EUGBS), targeting around \$1.56 billion for environmental initiatives including the transformation of the energy sector, sustainable transport and nature restoration.

Meanwhile, Finnish nuclear power producer Teollisuuden Voima Oyj (TVO) is issuing the first nuclear-focused bond under the EUGBS. This is a significant development in Europe's green debt market, connecting the GBS with nuclear power, which was controversially classified as a green activity by the EU in 2022 despite divided investor opinions. TVO has stressed that nuclear power is essential for the country's decarbonisation strategy. Proceeds will be used to finance eligible green projects, specifically climate change mitigation activities involving nuclear.

## Fixed Income Asset Allocation Views

### 8 September 2025



Strategy and positioning (relative to risk free rate)	Views	Risks to our views
<b>Overall Fixed Income Spread Risk</b>	<ul style="list-style-type: none"> <li>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.</li> <li>The conversation largely focused on dissecting fundamental and technical outlook for each of the sectors because valuations remain challenging.</li> <li><b>The group maintained a negative outlook on credit risk overall but upgraded their Emerging Market outlook to neutral.</b></li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>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.</li> </ul>
<b>Duration (10-year)</b> (P' = Periphery)	<ul style="list-style-type: none"> <li>Longer yields to be captured by long-run structural downtrends in real yields</li> <li>Inflation likely to normalize over medium term, although some areas will see persistent pricing pressures</li> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>Inflationary dynamics become structurally persistent</li> <li>Labour supply shortage persists; wage pressure becomes broad and sustained</li> <li>Fiscal expansion requires wider term premium</li> <li>Long run trend in safe asset demand reverses</li> </ul>
<b>Currency</b> (E' = European Economic Area)	<ul style="list-style-type: none"> <li>Dollar has been supported by US growth exceptionalism and deprecating of the Fed while the ECB looks set to embark on a cutting cycle.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>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</li> </ul>
<b>Emerging Markets Local (rates (R) and currency (C))</b>	<ul style="list-style-type: none"> <li>US weakness can enable EM currency performance.</li> <li>Inflation normalisation and currency strength allows EM central banks to stimulate domestic demand.</li> <li>Risk premium to leak out of local bond curves.</li> </ul>	<ul style="list-style-type: none"> <li>Global risk aversion restores bid for US dollar.</li> <li>Weaker oil environment requires fiscal premium among exporters</li> <li>Higher global term premium.</li> </ul>
<b>Emerging Markets Sovereign Credit (USD denominated)</b>	<ul style="list-style-type: none"> <li>The group upgraded to a neutral outlook given an improving technical backdrop.</li> <li>Emerging Markets offers better relative value than other credit sectors</li> <li>The group maintains discipline regarding valuations and will take advantage of compelling, higher quality opportunities as they arise.</li> <li>Tailwinds: Reduced default tail risks, ratings trend positive, dollar weakness.</li> <li>Headwinds: US tariff and trade policy, global trade disruption, lower oil prices, higher debt to GDP ratios, wider fiscal deficits and slow restructurings.</li> </ul>	<ul style="list-style-type: none"> <li>US trade policy aggression strengthens USD against EM currencies.</li> <li>EM policy makers constrained by currency pressure; rates remain tight.</li> <li>Fiscal concerns leak into local risk premia.</li> </ul>
<b>Investment Grade Credit</b>	<ul style="list-style-type: none"> <li>Spreads have tightened in the past month. The group added IG during the early April volatility and has continued reducing those allocations.</li> <li>Companies reported solid earnings and forecasts as the tariff furor had faded.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>Tighter financial conditions lead to European slowdown, corporate impact.</li> <li>Lending standards continue tightening, even after Fed pauses hiking cycle.</li> <li>Rate environment remains volatile.</li> <li>Consumer profile deteriorates.</li> <li>Geopolitical conflicts worsen operating environment globally.</li> </ul>
<b>High Yield Bonds and Bank Loans</b>	<ul style="list-style-type: none"> <li>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.</li> <li>Companies have reported strong earnings and guidance, generally beating expectations. The team is seeing greater differentiation in Loans sectors.</li> <li>Despite the negative outlook on the sector, the group still sees pockets of good opportunity, especially in higher quality issuers.</li> </ul>	<ul style="list-style-type: none"> <li>Lending standards continue tightening, increasing the cost of funding.</li> <li>Default concerns are revised higher on greater demand destruction, margin pressure and macro risks</li> <li>Rally in distressed credits, leads to relative underperformance</li> <li>Volatility in the short end of the curve, eroding potential upside where we are positioned for carry.</li> </ul>
<b>Agency MBS</b>	<ul style="list-style-type: none"> <li>Spreads remain wide relative to other high-quality sectors</li> <li>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.</li> <li>As the group reduces credit risk, they are reinvesting that allocation in Agency MBS.</li> <li>Prefer call-protected inverse IO CMO's, a large beneficiary of aggressive cutting cycle.</li> </ul>	<ul style="list-style-type: none"> <li>Lending standards continue tightening even after Fed pauses hiking cycle.</li> <li>Fed fully liquidates position.</li> <li>Market volatility erodes value from carrying.</li> <li>More regional bank turmoil leads to lower coupons to underperform.</li> </ul>
<b>Structured Credit Non-Agency MBS &amp; CMBS</b>	<ul style="list-style-type: none"> <li>The group maintains a large allocation of high-quality carry positions.</li> <li>RMBS: Spreads have tightened, and credit curves have flattened MoM. Fundamental metrics, like delinquencies, prepayments, and foreclosure, remain solid.</li> <li>CMBS: Stress continues with the highest delinquencies in office, but multi-family is increasing. New issue is plentiful, but valuations are unattractive &amp; underwriting is weak.</li> <li>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.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>Weakness in labour market</li> <li>Consumer fundamental position (especially lower income) weakens with inflation and Fed tightening. Consumer (retail/travel) behaviour fails to return to pre-covid levels</li> <li>Student loan repayments weaken consumer profile more than anticipated, affecting spreads on a secular level.</li> <li>High interest rates turn home prices negative, punishing housing market</li> <li>Cross sector contagion from CRE weakness.</li> </ul>



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