

8 December 2025

## Big in Japan

Bond yields ratcheted higher globally last week, with a key trigger being shifting interest rate expectations in Japan. Will there be moves to repatriate overseas bond holdings to take advantage of these higher domestic rates? 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

Japan's 10-year government bond yield has climbed towards the key 2% rate and is now at levels not seen since 2007. Reasons for this include the dual threats of a spending splurge from new prime minister, Sanae Takaichi, and increased expectations that the Bank of Japan will imminently hike its policy rate.

Is there a level of JGB yields that triggers the return of money that has been invested overseas? The song suggest that things are easy when you are Big in Japan, but for the new government we are not too sure.

### Japan government 10-year bond yield



Source: Bloomberg as at 8 December 2025.

## Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
<b>US Treasury 10 year</b>	4.15%	14 bps	0.6%	6.0%
German Bund 10 year	2.84%	15 bps	-0.4%	-1.3%
<b>UK Gilt 10 year</b>	4.51%	7 bps	3.0%	4.8%
Japan 10 year	1.98%	16 bps	-1.7%	-5.7%
<b>Global Investment Grade</b>	79 bps	-3 bps	0.5%	6.1%
Euro Investment Grade	76 bps	-4 bps	0.3%	3.1%
<b>US Investment Grade</b>	79 bps	-3 bps	0.6%	7.6%
UK Investment Grade	65 bps	-2 bps	2.2%	6.4%
<b>Asia Investment Grade</b>	119 bps	-7 bps	0.9%	7.4%
Euro High Yield	290 bps	-12 bps	0.3%	5.1%
<b>US High Yield</b>	285 bps	-10 bps	0.9%	8.0%
Asia High Yield	460 bps	-12 bps	0.4%	8.5%
<b>EM Sovereign</b>	234 bps	-11 bps	2.5%	12.9%
EM Local	5.9%	-1 bps	2.2%	18.0%
<b>EM Corporate</b>	243 bps	-7 bps	0.7%	8.1%
Bloomberg Barclays US Munis	3.6%	2 bps	1.4%	4.0%
<b>Taxable Munis</b>	4.8%	11 bps	0.8%	7.3%
Bloomberg Barclays US MBS	24 bps	-5 bps	1.2%	8.0%
<b>Bloomberg Commodity Index</b>	279.41	1.5%	7.8%	17.9%
EUR	1.1652	0.4%	-0.8%	12.4%
<b>JPY</b>	155.51	0.5%	-4.8%	1.2%
GBP	1.3318	0.7%	-0.9%	6.5%

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



## Macro/government

Simon Roberts  
Product Specialist, Global Rates

Bond yields ratcheted higher last week, a move that was amplified by the dampened liquidity of early December.

A key trigger was shifting interest rate expectations in Japan. Bank of Japan governor, Kazuo Ueda, said the central bank would consider “the pros and cons” of raising its policy rate at its December meeting. The market-derived probability of a December rate hike rose from 58% to 90%, while the yield on the Japanese two-year rose 7bps to 1.05%, while the Japanese 10-year rose 14bps to 1.95%. Both are levels not seen since 2007 (see Chart of the week). The move prompted concerns that Japanese life assurance companies might start to repatriate overseas bond holdings to take advantage of more attractive domestic rates.

In the US it was a week of mixed economic data, and we saw Kevin Hassett, Director of the National Economic Council, emerge as favourite to replace Jay Powell as Chair of the Federal Reserve (Fed). Hassett is widely regarded by the market as a more malleable candidate, and his likely nomination will highlight the politicisation of the Fed under Donald Trump.

In the eurozone, European Central Bank (ECB) executive board member, Isabel Schnabel, said she expected the next move in eurozone rates would be up, describing risks to the economy and inflation as “tilted a little bit to the upside”. Her more hawkish tone contrasted with that of other ECB policymakers who described eurozone monetary policy as appropriate.



## Investment grade credit

Charlotte Finch,  
Client Portfolio Manager, Investment Grade Credit

Investment grade credit markets posted strong gains this week, supported by growing optimism around future interest rate cuts. Credit spreads have tightened to within a few basis points of historic lows, with European IG leading the charge at 25% tighter year-to-date. Sterling non-gilt spreads followed with 15% tighter spreads, while US IG lagged at 4% tighter.

Netflix has arranged \$59 billion in financing from major Wall Street banks to support its proposed \$72 billion acquisition of Warner Bros Discovery, positioning it among the largest corporate loans on record. The unsecured bridge facility, provided by numerous leading lenders, is expected to be refinanced through a combination of permanent financing: \$25 billion in bonds, \$20 billion in delayed draw term loans, and a \$5 billion revolving credit facility. In time these would become bonds for the market to buy. The bond issuance would likely receive investment grade ratings, reflecting Netflix's current A-rating from both Moody's and S&P. This is a significant upgrade from its high yield status prior to 2023. Warner Bros Discovery initiated the sale process in October following expressions of interest from multiple potential acquirers. President Trump threw a spanner in the works stating the deal "could be a problem" due to market concentration issues. Trump indicated he "would be involved in the decision" regarding approval of the acquisition, suggesting heightened scrutiny ahead.



## US high yield credit and leveraged loans

Chris Jorel,  
Client Portfolio Manager, US High Yield

US high yield bond valuations tightened over the week amid fund inflows, mixed macroeconomic data and an active start to December new issue activity. The ICE BofA US HY CP Constrained Index returned 0.20% and spreads tightened 12bps. The index yield-to-worst declined 20bps to 6.68%. According to Lipper, US high yield bond retail funds saw a \$1.2 billion inflow – the largest inflow for the asset class in eight weeks. This brought year-to-date inflows to \$17.5 billion.

US leveraged loan prices were largely unchanged as investors braced for another 25bps cut at next week's Federal Open Market Committee meeting. The S&P UBS Leveraged Loan index average price increased slightly to \$96. Floating rate funds saw another modest outflow, with \$182 million withdrawn – the seventh outflow over the past eight weeks – bringing year-to-date inflows to \$3.8 billion.



## European high yield credit

Angelina Chueh,  
Client Portfolio Manager, European High Yield

European high yield started the last month of the year with a firm week, returning 11bps as the spread tightened back in by 13bps to 290bps, while yields fell 2bps to 5.8%. Decompression returned to the market as CCCs again sharply underperformed BBs and Bs (+0.1% and +0.3% respectively) – the only rating band to have a negative return (-1.2%).

Flows were once again positive, with a €276 million inflow via both ETFs and managed accounts. Even as activity slows as the holiday season approaches, the primary market still showed a flurry of activity with €3.3 billion via seven tranches from four issuers. These were largely single Bs with the only BB rating being a Grand City perpetual. There is already background chatter around a number of new issues to come in January.

In terms of distressed names, it is interesting how different issuers' approaches are in addressing their situations. Last week we mentioned how Patrick Drahi is taking Altice International through a liability management exercise (LME). He is playing hardball with creditors, utilising significant corporate moves including the designation of certain businesses as unrestricted subsidiaries in order to separate them from the consolidated group's assets. The news caused Altice bond prices to fall. At the other end of the spectrum, Spanish auto supplier Antolin this week announced an asset sale of three entities in India. The €159 million that was raised should reduce leverage by 0.5x. The price on Antolin's bonds rose on the news.

In credit rating news, Asda was downgraded to B stable by S&P. The ratings agency cited significant disruption from its IT systems initiative, Project Future, which has taken longer to complete and at a higher cost. Expectations are now for a sales drop in 2025 of 2.5%-3% with leverage forecast amended to 8.8x by the end of 2026. The aforementioned Altice International was further downgraded by S&P to CCC from CCC+. S&P cited the increased expectation that there will be a distressed exchange likely within the next 12 months.

Investor sentiment for expected 2026 returns is that it will be a coupon year for the asset class, albeit with some fat tail risk lurking underneath. This could range from geopolitical developments to rate-cut/inflation dynamics and the future trajectory of AI (boom or bust?), not to mention LMEs.



### Asian credit

Justin Ong,  
Research Analyst, Asian Fixed Income

The JACI posted a 14bps loss over the week, with negative Treasury returns (-52bps) offsetting tighter spreads (+38bps return). Due to higher rates, JACI IG was disproportionately impacted with a 14bps loss, compared with JACI HY (+4bps return).

S&P has revised the outlook on Xiaomi to positive. S&P. The ratings agency highlighted that Xiaomi's business profile has become more diversified and less reliant on volatile smartphone sales. The company's Internet of Things segment will contribute more than 35% of the company's total profit (excluding electric vehicles) in 2025-2026 (up from 30% in 2024).

JSW Steel Limited (JSTL) will transfer its subsidiary, Bhushan Power and Steel Ltd (BPSL), to a 50/50 joint venture with JFE Steel for a cash consideration of INR244.8 billion (around US\$2.7 billion) called JSW Kalinga Steel. There is scope for a potential ratings upgrade upon completion of this transaction, which could be in six to nine months (subject to regulatory approval).

Genting Berhad (GENT) announced that its takeover offer has concluded with a 73.1% stake in Genting Malaysia Berhad (GENM). This falls short of the 75% shareholding level, above which GENT had said it would delist GENM. Since the launch of the takeover offer, GENT has acquired an additional 23.7% stake in GENM for around MYR3.16 billion (US\$765 million). GENM also announced that its subsidiary Genting New York LLC has been selected by the New York Gaming Facility Location Board to proceed to licensure consideration by New York State Gaming Commission (NYSGC). GENM expects the commission to announce the issuance of licenses by 31 December.



## Emerging markets

Omotoke Joseph,  
Product Specialist, Emerging Market Debt

Emerging market (EM) sovereign debt saw modest returns of 0.1% over the week, with spreads tightening by 12bps. Corporates remained relatively flat with a marginal underperformance of -0.02%. Local currency EM debt saw positive returns of 0.43% as EM FX continues to strengthen.

South Africa saw further success as December began, raising \$3.5 billion through a heavily oversubscribed, dual-tranche Eurobond issuance of 12-year and 30-year bonds. Both tranches priced lower than last year's issue: 6.25% versus 7.1% for the 12-year bond, and 7.38% versus 7.95% for the 30-year.

In Brazil, Flávio Bolsonaro, son of former president Jair Bolsonaro, announced that he received his father's endorsement to run for president in 2026. The senior Bolsonaro was arrested last month after being convicted of attempting a coup. Rates spiked 50bps on the news.

US president, Donald Trump, voiced his "disappointment" on the progress of the Ukraine peace deal, claiming that Ukraine president, Volodymyr Zelenskyy, has not yet reviewed a US peace proposal. Zelenskyy landed in London on 8 December to meet with European leaders. The price of Ukraine bonds was little changed on this news.

Elsewhere in Europe, Poland saw a 25bps cuts to its benchmark rate to 4% – the lowest level since March 2022. This came as annual inflation unexpectedly slowed to 2.4% in November, which was below market expectations.

The International Monetary Fund (IMF) said Sri Lanka had requested financial assistance of approximately \$200 million following the destruction caused by Cyclone Ditwah. Despite a positive response from the IMF, with the organisation stating that this request was of immediate focus, Sri Lanka bond prices fell by around 0.6% at the Monday open.



## Responsible investments

Charlotte Finch,  
Client Portfolio Manager, Investment Grade Credit

Global labelled bond issuance for 2025 reached \$994.4 billion as of last week, according to Bloomberg data, with several weeks remaining in the year. The continued growth occurs alongside the introduction of various regulatory frameworks and standards throughout 2025, providing greater clarity for environmental, social and governance (ESG) debt market participants. The pricing premium historically associated with green, social, sustainability and sustainability-linked bonds – known as the "greenium" – has largely disappeared in recent years as the market has matured. Despite this normalisation, investor demand continues with Barclays and Bloomberg both forecasting sustained (albeit potentially moderated) issuance levels for 2026.

ABN Amro Bank completed the first sterling-denominated bond issuance under the new European Green Bond Standard (EuGB) last week, marking an expansion of the EU framework beyond euro-denominated transactions. The Dutch bank structured the deal as a dual-tranche offering, comprising a five-year senior non-preferred benchmark and a three-year senior preferred note. This represents the practical implementation of the EuGB across different currencies and demonstrates how European financial institutions are incorporating the standardised framework into their funding strategies. The execution provides a reference point for other issuers considering sterling green bonds under the EU standard.

## Fixed Income Asset Allocation Views

8<sup>th</sup> December 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>Spreads remain very tight across nearly all sectors and current valuations leave limited upside to returns in most areas.</li> <li>US macroeconomic growth fundamentals remain stable despite labor cooling. Policy and market outlook points to the Fed easing as inflation is moderating.</li> <li><b>The group maintained a moderately underweight view on credit risk, with no changes to their underlying sector views.</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>Spreads have tightened to recent lows. Even after good performance, Emerging Markets offer a somewhat unique set of risks relative to other sectors.</li> <li>EM High Yield and local currency bonds provide more value than EM Investment Grade, though this varies on an issuer-by-issuer basis.</li> <li>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.</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>Valuations have widened about 10 basis points from September's historic tight.</li> <li>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&amp;A activity has been increasing.</li> <li>Technical are modestly weaker this month, as AI-related hyperscaler issuance has come with meaningful confessions, impacting other high quality spread curves.</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>Valuations have widened about 35 basis points from September's recent tight.</li> <li>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.</li> <li>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.</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 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.</li> <li>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.</li> <li>The Administration has signalled it wants to use Agency reform to lower mortgage rates and has floated launching a 50-year mortgage.</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 widened with supply as credit curves have flattened. Delinquencies remain low and home equity is at the highest levels ever.</li> <li>CMBS: Stress continues with the highest delinquencies in office, but multi-family is increasing. New issue is plentiful but unattractive.</li> <li>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.</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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