

# In Credit

11 August 2025

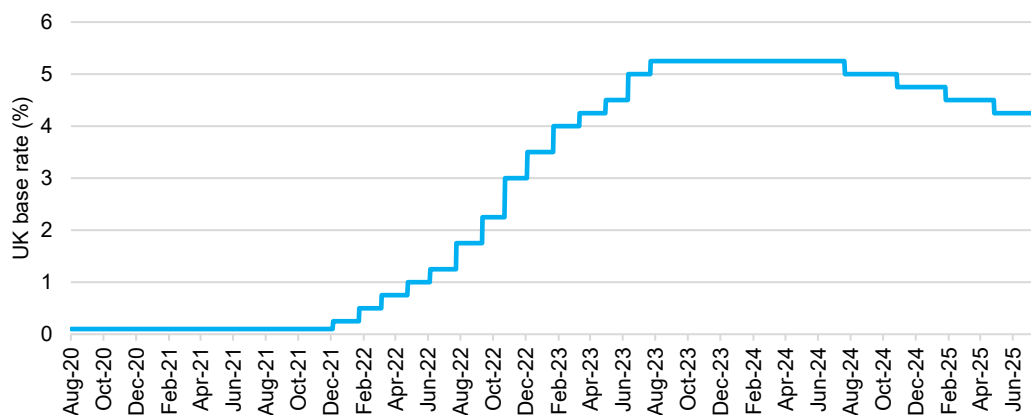
## Less interest in the UK

### Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.28%	7 bps	0.2%	4.0%
German Bund 10 year	2.70%	2 bps	-0.3%	-0.9%
UK Gilt 10 year	4.57%	4 bps	-0.5%	2.0%
Japan 10 year	1.49%	-7 bps	-0.7%	-3.4%
Global Investment Grade	80 bps	-2 bps	0.7%	4.2%
Euro Investment Grade	78 bps	-3 bps	0.5%	2.4%
US Investment Grade	80 bps	-2 bps	0.7%	4.9%
UK Investment Grade	73 bps	-1 bps	0.3%	3.7%
Asia Investment Grade	131 bps	-4 bps	1.1%	4.9%
Euro High Yield	287 bps	-11 bps	%	4.4%
US High Yield	294 bps	-19 bps	0.6%	5.2%
Asia High Yield	489 bps	-6 bps	1.6%	5.1%
EM Sovereign	269 bps	-17 bps	1.9%	7.5%
EM Local	5.9%	-3 bps	1.1%	13.5%
EM Corporate	248 bps	-11 bps	1.4%	5.5%
Bloomberg Barclays US Munis	3.9%	-4 bps	0.4%	0.1%
Taxable Munis	5.0%	5 bps	0.6%	4.2%
Bloomberg Barclays US MBS	38 bps	-1 bps	0.4%	4.6%
Bloomberg Commodity Index	249.39	0.3%	-0.7%	4.7%
EUR	1.1619	0.5%	-1.2%	12.4%
JPY	148.13	-0.2%	-2.5%	6.4%
GBP	1.3433	1.3%	-2.0%	7.5%

Source: Bloomberg, ICE Indices, as of 11 August 2025. \*QTD denotes returns from 30 June 2025.

### Chart of the week: UK interest rates, 2020-25



Source: Bloomberg, as of 11 August 2025



## Macro/government bonds

Simon Roberts

The issue of US Federal Reserve (Fed) independence remains in play. Governor Adriana Kugler resigned, and President Trump replaced her with Stephen Miran, chair of the Council of Economic Advisors. The appointment will only increase pressure on the Fed to loosen monetary policy.

Treasury bond yields were broadly stable until spiking higher late on Friday. The trigger was the cumulative effect of a series of weaker than expected US government bond auctions, and a reduction in long positions ahead of next week's US inflation data. ISM and PMI surveys pointed to upward pressure on costs in the services sector. Tariffs are likely to have contributed to this.

In the absence of major economic and political news in Europe, eurozone bonds took their lead from US Treasuries.

In the UK, the Bank of England voted to cut rates by 0.25% to 4% in a 5/4 split, reflecting the fact that economic data is pointing to sluggish economic growth, subdued hiring trends and moderating wage pressures (see [Chart of the Week](#)). The market pushed back the timing of the next rate cut from December to February, which saw short-dated bond yields move higher. The yield on the two-year gilt jumped by 11bps and the yield on the 10-year rose by 7bps.

We took the defensive measure of paring back duration in the US, ahead of US CPI, while maintaining yield curve steepening positions in Europe and the US.

A key data release this week will be the US CPI.



## Investment grade credit

David Oliphant

Investment grade bonds reversed recent weakness and spreads tightened back close to the recent narrowest point.

Year-to-date, the euro market has been the strongest of the main global markets, with spreads 22% tighter since the end of December. This contrasts with their US dollar counterparts where spreads are only 2% better.

The market remains supported by client inflows against the usual seasonal lull in primary market activity. Investor interest is being driven by above average yields – the global market currently offers a yield of 4.4% against a long-term (since 1996) average of 4%.



## US high yield credit and leveraged loans

Chris Jorel

The US high yield bond market reversed much of the prior week's widening as earnings continued to come in better than expected, fund inflows continued, and the primary market remained active ahead of an expected late-summer slowdown. The ICE BofA US HY CP Constrained Index returned 0.42% and spreads were 19bps tighter, primarily driven by Friday's sharp decline, ending at +310bps. The index yield to worst decreased to 6.97%. According to

Lipper, US high yield bond retail funds saw a \$1.7 billion inflow over the week, the largest weekly number since mid-June.

Meanwhile, US leveraged loan prices again saw a modest decline with repricing activity remaining heavy amid robust collateralised loan obligation origination and steady inflows. The S&P UBS Leveraged Loan index average price decreased \$0.10 to \$96.5. Retail floating rate funds saw a \$471 million inflow. This was a fifteenth consecutive weekly inflow with \$6.3 billion contributed over the period.



### European high yield credit

Angelina Chueh

European high yield (EHY) had another robust week, returning 0.25% as yields fell 4bps to 5.70% and spreads fell 9bps to 289bps. Strong technicals remain the theme, supported by continued positive flows to the asset class (the week's €189 million via ETFs and managed accounts was a 13<sup>th</sup> consecutive weekly inflow) and a slow-down in new issuance of only €1 billion equivalent. This was in spite of the recent softening/weakening of macro fundamentals. The bifurcation between distressed and core EHY returned strongly, with CCCs the only rating band that saw a negative performance (-0.43%) last week, as both BBs and Bs outperformed the market return.

Quarterly reporting figures showed weakness in the food retail sector and in some cyclicals, such as chemicals. One bright spot has been with auto suppliers, which have been reporting better relative performance than original equipment manufacturers (OEMs).

The trailing 12-month default rate for European HY fell by more than 0.5% to 3.5% in July, given the lack of defaults that month. Excluding distressed exchanges, the default rate now prints at 2.4%. At the same time, the recovery rate climbed higher to 70%, far above the 40% historical average.



### Asian credit

Justin Ong

The JACI index delivered returns of 68bps last week, thanks to positive rates (+48bps) and spread returns (+20bps). JACI investment grade posted 69bps of returns, while high yield generated 58bps.

In Beijing, more easing measures in HPR (home purchase restrictions) and HPF (housing provident funds) were announced last week. We could see similar policies being implemented in other Tier-1 cities such as Shanghai, Guangzhou and Shenzhen over the near term. For Beijing, HPR policies were eased to 30% for properties outside the Fifth Ring Road, a 98km ring road encircling the city at a radius of around 16km from Tiananmen Square at the centre. For the HPFs, the cap will be increased to CNY1 million from CNY600,000 for second-home purchases. The classification for first-time buyers applying for HPF mortgages has also been loosened. These measures sweeten the process for existing homeowners to purchase new homes outside of the core urban area. However, the overall impact on home sales and prices could still be muted given that certain potential home upgraders might be holding out to make purchases within the core urban area.

Last week, US president Donald Trump announced an additional 25% tariff on exports from India to the US. This move was intended to penalise India for continuing to import Russian oil. The tariff on India came into effect on 7 August and will be implemented on 27 August,

potentially lifting the aggregate tariff to 50% on Indian exports to the US. The US and India continue to hold trade talks and further changes to the 25% penalty tariff cannot be ruled out.

S&P has affirmed the BBB- rating of Adani Ports & Sez Ltd and upgraded the outlook to positive from negative. This reflects the business's strong competitive position and portfolio diversification. S&P also highlighted that the likely outcome of regulatory investigation will not materially affect funding access and governance risk for the firm. S&P also affirmed their ratings for Adani Electricity Mumbai (BBB-) and Adani Green Energy Ltd RG2 (AREN RJ bond, BB+) and upgraded their outlook to stable from negative. S&P added that the Adani entities continue to benefit from continuing funding access, with no evidence of higher costs or more onerous terms. The funding mix has shifted towards the domestic market.



## Emerging markets

Priyanka Prasher

Emerging market (EM) hard currency sovereigns returned 0.69% on the week, with spreads tightening by 17bps as risk sentiment improved. EM Europe led returns (+1.17%), once again driven by Ukraine (+8.53%). Local currency EM returned +1.49% in US dollar terms, continuing the recent strong run.

Markets found reassurance in renewed diplomatic efforts to end the Russia-Ukraine war. Reports emerged of a deal between Russia and Washington. Despite no mention of EU or Ukraine backing, Ukraine's sovereign dollar bonds rallied on the news. Spreads on bonds maturing in 2036 tightening by 176bps (-24%) on the week, reaching lows last seen in May.

The fallout from US president Donald Trump's tariff policies continued to reverberate. Last week, India emerged as a target in his push to broker a ceasefire for Ukraine, with the US announcing it would impose additional 25% tariffs on Indian exports on top of the original 25% reciprocal tariff. This was due to India's continued purchase of Russian oil purchases. India's state-owned oil refiners are now retreating from Russian crude purchases to avoid additional levies. Despite these concerns, the Indian rupee managed to advance from near-record lows, increasing 0.1% to 87.558, supported by declining oil prices and dollar weakness.

Last week, Mexican president, Claudia Sheinbaum unveiled the government's Pemex Plan for its national oil firm, Petróleos Mexicanos. The announcement disappointed markets as it lacked major operational changes or liability management exercises for the struggling corporate. While Sheinbaum pledged that Pemex would 'no longer need the finance ministry's support' after 2027, investors remained sceptical, sending spreads on 10-year bonds wider by 24bps.

No sovereign issuers came to market this week. In the week ahead, several Asian credits will release economic data.

# Fixed Income Asset Allocation Views

## 11 August 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>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.</li> <li>The conversation focussed on how the group is navigating this unattractive valuation environment, as well as fewer foreign investors could impact US credit markets.</li> <li><b>The group downgraded to a negative outlook on credit risk overall, with no changes to underlying sector views.</b></li> <li>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.</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 maintains a negative outlook as the sector's rich valuations are misaligned with trade-related fundamental uncertainty.</li> <li>The group maintains discipline regarding valuations and will take advantage of compelling opportunities as they arise.</li> <li>Tailwinds: Reduced default tail risks, ratings trend positive, dollar retracement.</li> <li>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.</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 significantly since the early April volatility. The group added exposure in April to cover underweights and has maintained those allocations.</li> <li>The group remains neutral on the sector given less attractive valuations and global trade uncertainty weighing on the fundamental backdrop.</li> <li>Earnings results were solid, showing historically strong credit metrics. Forward guidance was cautious as management teams struggle to quantify tariff impacts.</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 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.</li> <li>The earnings season largely met expectations; however forward guidance skewed lower due to trade and political concerns.</li> <li>Despite the negative outlook on the sector, the group remains open to attractive high quality reval opportunities.</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 moved tighter in the past month. In April, the group reduced their Agency MBS allocation to fund opportunistic credit purchases.</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>Mortgage rates steadily rose alongside interest rates, as home price increases and refinance applications are slowing. Purchase applications are steady at lower level.</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 MoM as mortgage rates increase. Fundamental metrics, like delinquencies, prepayments, and foreclosures remain solid overall.</li> <li>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.</li> <li>CLOs: AAA spreads are tighter MoM, below-IG market is weaker. Defaults remain low, but CCC buckets are rising with lower recoveries.</li> <li>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.</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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