Information for investment professionals

In Credit

13 October 2025

Give peace a chance

Geopolitics continues to dominate with the welcome news of a ceasefire between Israel and Hamas. This, as well as ongoing tariff threats from the US, had a feed-through impact on commodity prices. Read on for a breakdown of fixed income news across sectors and regions.

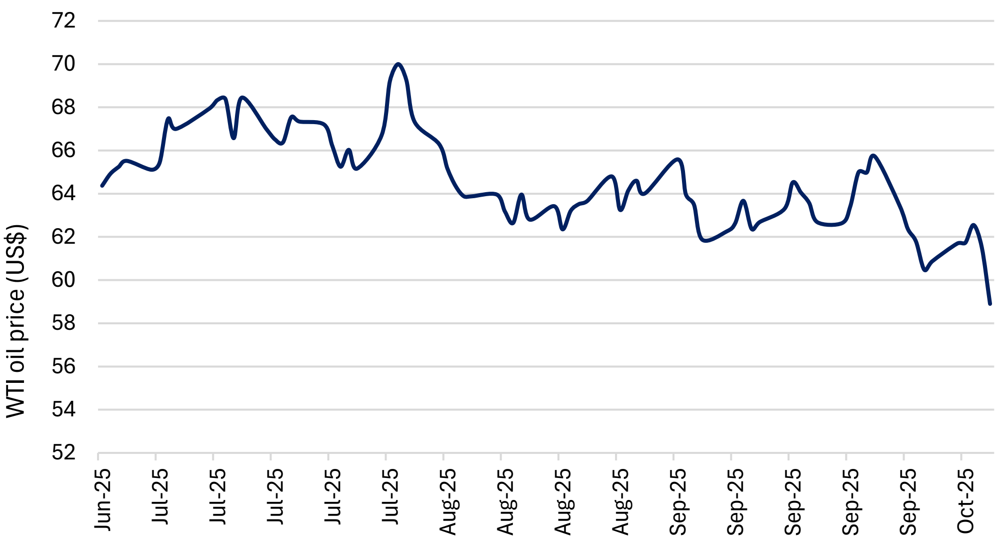
Chart of the Week

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

The ceasefire agreement between Israel and Hamas was a key factor in driving WTI crude oil futures below the $60 level. The interpretation is that threats to shipping routes, as well as further Iranian supply disruptions, are now less likely. Additionally, renewed trade tensions sparked by US tariff threats against China added to macroeconomic concerns and contributed to downward pressure on commodity prices.

In other peace news, we congratulate Maria Corina Machado who won the Nobel Peace Prize. She lives in hiding in Venezuela, and has been a key opposition figure to both the Chavez and Maduro regimes for many years. A worthy winner?

West Texas Intermediate (WTI) oil futures price



Source: Bloomberg, October 2025

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.03%	-9 bps	0.7%	6.1%
German Bund 10 year	2.65%	-5 bps	0.5%	-0.4%
UK Gilt 10 year	4.67%	-2 bps	0.4%	2.1%
Japan 10 year	1.69%	3 bps	-0.4%	-4.5%
Global Investment Grade	81 bps	5 bps	0.4%	5.9%
Euro Investment Grade	80 bps	4 bps	0.3%	3.1%
US Investment Grade	81 bps	6 bps	0.4%	7.4%
UK Investment Grade	67 bps	1 bps	0.3%	4.5%
Asia Investment Grade	116 bps	-1 bps	0.3%	6.8%
Euro High Yield	323 bps	34 bps	-0.6%	4.2%
US High Yield	318 bps	38 bps	-0.7%	6.3%
Asia High Yield	446 bps	1 bps	0.5%	8.5%
EM Sovereign	265 bps	10 bps	0.3%	10.5%
EM Local	5.9%	-2 bps	-0.3%	15.1%
EM Corporate	245 bps	10 bps	0.0%	7.3%
Bloomberg Barclays US Munis	3.6%	-2 bps	0.5%	3.2%
Taxable Munis	4.7%	-8 bps	1.2%	7.7%
Bloomberg Barclays US MBS	30 bps	2 bps	0.6%	7.4%
Bloomberg Commodity Index	262.98	-1.1%	-0.4%	8.9%
EUR	1.1597	-1.0%	-1.0%	12.2%
JPY	152.29	-2.5%	-2.2%	4.0%
GBP	1.3332	-0.9%	-0.6%	6.7%

Source: Bloomberg, ICE Indices, as of 10 October 2025. *QTD denotes returns from 30 September 2025.

Macro/government

Simon Roberts
Product Specialist, Global Rates

Yields fell across core markets last week, especially on Friday, amid rising geopolitical and tariff uncertainty. The US 10-year fell 9bps to 4.03% and the German 10-year by 5bps to 2.64%.

On Friday morning, news broke that the coalition in Japan between the Liberal Democratic Party (LDP) and Komeito had collapsed. Although the break-up of this coalition complicates the path to power for the LDP's newly elected leader, Sonae Takaichi, she is likely to make it through in the second round of voting for the post of prime minister. However, the consequent lack of a majority means the LDP will have to negotiate each bill on a case-by-case basis. The news exerted downward pressure on Japanese government bond yields, which spilled into global bond markets.

In the US, Donald Trump also provided a trigger for lower yields. After China announced new export controls on rare earths, Trump announced that tariffs on Chinese imports would rise from 30% to 130%. We await further developments to this story.

In France, elevated political uncertainty caused the 10-year yield spread of French bonds over German bonds to reach +0.86% – its highest level since the eurozone debt crisis. The French prime minister, Sébastien Lecornu, resigned at the start of the week, although Macron asked him to continue negotiating with the other parties in order to help identify a path forward. This is likely to involve some dilution of pension reforms. In an unexpected turn, Lecornu was then reappointed prime minister late on Friday.

With the US shutdown continuing, there was little in the way of market-moving data. Minutes from the Federal Reserve's September meeting confirmed an increased focus on downside risks to the US labour market.

Positioning We increased our short positions in Japan in global mandates.

Investment grade credit

Charlotte Finch,
Client Portfolio Manager, Investment Grade Credit

Investment grade spreads remained stable until the volatility on Friday disrupted markets. US bonds experienced the most significant impact, widening by 6bps, while European spreads increased by 4bps. UK markets showed minimal movement, rising just 1bp.

The banking and real estate sectors continue to outperform year to date, with technology and financial services underperforming in comparison.

New issuance activity remains subdued as we enter earnings season. Major financial institutions – JP Morgan, Citibank, Wells Fargo, Bank of America and Goldman Sachs – will report their results this coming week.

US high yield credit and leveraged loans

Chris Jorel,
Client Portfolio Manager, US High Yield

US high yield bond valuations widened sharply on resurfacing trade tensions between the US and China. The ICE BofA US HY CP Constrained Index returned -0.80% and spreads widened 38bps. The index yield-to-worst increased 31bps to 6.96%. According to Lipper, US high yield bond retail funds saw inflows of $2.1 billion for the week, the largest for the asset class in 16 weeks, although outflows resurfaced late in the week.

US leveraged loan prices saw their largest decline since April given the increasing trade tensions, with weakness concentrated within the chemical and autos sectors. The S&P UBS Leveraged Loan index average price declined $0.44 to $95.9. Floating rate funds saw a $544 million inflow over the week, with withdrawals increasing as the week progressed.

European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

European high yield posted its first negative weekly return for some time, with -0.69% on the back of both widening spreads (+34bps to 323bps) and rising yields (+22bps to 5.94%). Decompression continued with only BBs outperforming the market and CCCs posting a negative return of -2.24% for the week. On a sector basis, underperformance came mostly from cyclicals with weakness especially in chemicals and autos. The gaming sector also underperformed due to concerns around potential tax changes in the UK. The sell-off was largely on the back of market weakness on Friday following Trump's threat of new tariffs on China. In spite of this, the week's flows were still net positive, specifically via ETFs (a first in several weeks) with managed accounts posting their first outflows since mid-summer. Following the heavy issuance of previous weeks, last week was tame with just two new deals (one of which was a €500 million issuance from real estate group Alstria).

Notably, the sell-off in CCCs last week took performance to -1.0% year-to-date, while BBs and Bs are still up 4.2% and 4.1% year-to-date respectively.

In auto news, S&P downgraded Aston Martin to CCC+ from B-, outlook stable. The rating agency's key concerns were heavy cash burn expected in 2025 (contrary to previous expectations) and a fear that failure to deliver planned cash flow improvement in 2026 could raise liquidity concerns.

Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income,

The JACI index was broadly flat week-on-week, with Treasury returns (3bps) offsetting the small negative spread return (-1bp). JACI investment grade posted a marginal positive return (2bps), while high yield delivered a negative -2bps.

In China, the National Day Golden Week saw mixed activity data. Cross-border travel was positive (+12% year-on-year to 16 million entry/exit trips) while domestic cross-regional passenger flow hit 2.4 billion person-times (+6% year-on-year). Consumer sentiment, however, continues to be weak: daily per capita spend dropped 13% year-on-year to CNY113 and the daily average movie box office fell 24%. Property sales were also subdued. In Hong Kong, tourist arrivals rose 6% year-on-year in the first week of the month – weaker than the government's expectation of 11% growth.

China has expanded its rare earth restrictions to cover processing and downstream steps (machinery, tools, magnet technologies). The expanded restrictions also exclude defence users from access to rare earth, impose a higher bar for license approvals and emphasise enforcements. Chinese companies are also restricted from establishing rare earth partnerships with other foreign companies without the approval by the Ministry of Commerce of China.

China also initiated an antitrust probe on Qualcomm over its recent acquisition of chip designer Autotalks, and added 14 entities (including BAE Systems and TechInsights) to its Unreliable Entity List. In the US the Trump administration retaliated by announcing a 100% tariff on all Chinese imports, effective from 1 November. This cycle of escalation started in late September when the US Department of Commerce, through the Bureau of Industry and Security (BIS), expanded its Entity List to include affiliates of listed entities. The tit-for-tat moves could jeopardise the upcoming Trump-Xi meeting at the sidelines of the APEC meeting in South Korea later this month.

Emerging markets

Omotoke Joseph,
Product Specialist, Emerging Market Debt

Emerging market (EM) sovereigns returned -0.21% over the past week with Africa the largest underperformer (-0.89%). Asia and the Middle East saw marginal outperformance of 0.03% and 0.01% respectively. EM local returned +0.21% as the US dollar weakened towards the end of the week due to the re-escalation in trade tensions between the US and China.

The EM primary market saw much activity, with Dubai Aerospace Enterprise a headline story as it issued a US$500 million five-year sukuk (a Sharia-compliant Islamic financial certificate). S&P raised Egypt's long-term sovereign credit rating from a B- to a B, citing the country's growth prospects and improving balance of payment trend. Its credit outlook also remains stable, although S&P warned of a potential downward revision if the government's macroeconomic reform initiatives were to wane.

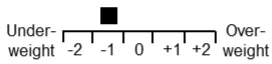
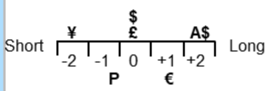
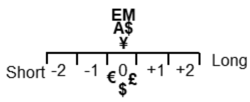
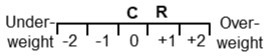
On Friday, Malaysia's government unveiled a draft 2026 budget, which suggested the country's finances are on track to meet the fiscal consolidation plan. A deficit of 3.5% GDP in 2026 (down from 3.8% this year) is forecast, based on GDP growth expectations of around 4.5%.

Argentina remained another key theme with the US Treasury Secretary, Scott Bessent, announcing the finalisation of a $20 billion financial rescue plan for the country, which led to a modest strengthening in the Argentine peso versus the dollar.

The week ahead We will see the annual meetings of the International Monetary Fund (IMF) and the World Bank Group. Headlines from this event will potentially set the tone for the week.

Fixed Income Asset Allocation Views

13th October 2025

Strategy and positioning (relative to risk free rate)		Views	Risks to our views
Overall Fixed Income Spread Risk		▪ Spreads are historically tight across nearly all sectors. Investor demand post-tariff volatility has been robust as balance sheets of borrowers remain strong. However, current valuations leave limited upside to returns in most credit sectors. ▪ The group discussed relative value across sectors that should fare better if the labor market in the US continues to deteriorate, while acknowledging that the creditworthiness of many issuers has become less influence by economic growth. ▪ **The group maintained a moderately underweight view on credit risk, with no changes in views since last month.**	▪ 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)		▪ Even after good performance, Emerging Markets offer a somewhat unique set of risks relative to other sectors. In addition, spreads are not as historically tight despite stellar performance. ▪ EM High Yield and local currency bonds provide more value than EM Investment Grade, though this varies on an issuer-by-issuer basis. ▪ The expected headwinds from tariffs have been more issuer specific, especially because broad weakening of the US dollar has eased EM financial conditions.	▪ 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 are as tight as they have been since before the 1998 Asian Financial Crisis. ▪ Demand has remained strong despite spread, as a function of the high all-in yield. ▪ This is especially true for long maturity Investment Grade. ▪ The group discussed that the AI infrastructure build out will increasingly be funded via debt instead of equity, as many of the large tech issuers will no longer be able to use retained earnings to do so.	▪ 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 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. ▪ Most companies continue to report solid earnings and financials. However, companies that report weak earnings are being increasingly punished in financial markets. ▪ Despite the negative outlook on the sector, the group still sees pockets of good opportunity, especially in higher quality issuers.	▪ 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 remain wide relative to other high-quality sectors ▪ 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. ▪ As the group reduces credit risk, they are reinvesting that allocation in Agency MBS. ▪ Prefer call-protected inverse IO and Agency Floaters, 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 but are still wide of longer-term medians. Delinquencies remain low. ▪ CMBS: Stress continues with the highest delinquencies in office, but multi-family is increasing. New issue is plentiful, but valuations are unattractive & underwriting is weak. ▪ CLOs: AAAs are attractive for a defensive high-quality credit option but are nonetheless fairly tight. Extra spread compensation for taking on more credit risk is low. ▪ 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 ▪ 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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