

# In Credit

14 July 2025

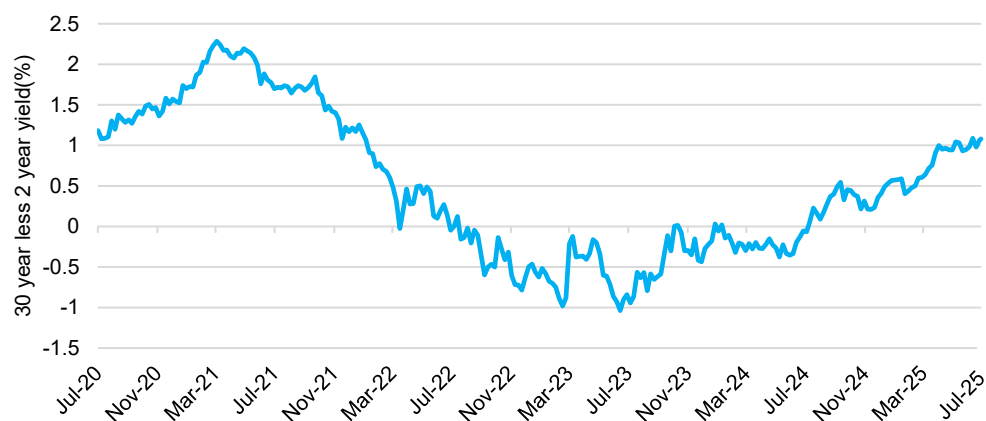
## The deadline is the headline

### Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.43%	8 bps	-0.9%	2.8%
German Bund 10 year	2.73%	12 bps	-0.6%	-1.2%
UK Gilt 10 year	4.62%	7 bps	-1.0%	1.5%
Japan 10 year	1.58%	15 bps	-0.8%	-3.5%
Global Investment Grade	83 bps	1 bps	-0.5%	2.9%
Euro Investment Grade	82 bps	-3 bps	0.1%	1.9%
US Investment Grade	83 bps	3 bps	-0.7%	3.4%
UK Investment Grade	75 bps	-1 bps	-0.3%	3.1%
Asia Investment Grade	134 bps	7 bps	-0.1%	3.7%
Euro High Yield	305 bps	-16 bps	0.6%	3.5%
US High Yield	297 bps	17 bps	-0.1%	4.5%
Asia High Yield	495 bps	5 bps	0.1%	3.6%
EM Sovereign	280 bps	1 bps	0.1%	5.5%
EM Local	6.0%	2 bps	0.1%	12.3%
EM Corporate	251 bps	-3 bps	0.1%	4.2%
Bloomberg Barclays US Munis	3.9%	-3 bps	0.1%	-0.3%
Taxable Munis	5.2%	6 bps	-1.3%	2.2%
Bloomberg Barclays US MBS	35 bps	0 bps	-0.7%	3.5%
Bloomberg Commodity Index	258.33	0.5%	1.9%	7.5%
EUR	1.1683	-0.8%	-0.8%	12.9%
JPY	147.30	-2.0%	-2.3%	6.6%
GBP	1.3484	-1.2%	-1.7%	7.8%

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

### Chart of the Week: US Treasury yield curve (30-year yield less 2-year yield)



Source: Bloomberg, as of 14 July 2025



## Macro/government bonds

Simon Roberts

Yield curves in core markets steepened last week (see [Chart of the Week](#)) on fiscal pressure concerns. The minutes of the US Federal Reserve's June meeting highlighted a debate over whether tariffs were likely to have a one-off or more persistent impact on inflation and growth. Fed officials argued for more time to evaluate this. Jay Powell, Fed Chair, again came under pressure from the President Trump, who labelled him "Too Late" for not having eased monetary policy quickly. The administration also used the high cost of renovations to the Fed's headquarters as a new stick with which to beat Powell. Speculation about his tenure as Fed chair will continue to bubble.

Ahead of the 1 August end-date for the pause on 'Liberation Day' tariffs, a barrage of new announcements was made last week, ranging from a 30% tariffs for the European Union to 50% on Brazil. Although the latter has a trade deficit with the US, Trump justified the rate by citing the ongoing legal action against former Brazilian president, Jair Bolsonaro – illustrating the increased politicisation of trade policy (see Emerging markets).

The market appears unperturbed in the face of continuous tariff headlines, however, and arguably expects pragmatic deals to emerge.

In the UK, concern over the nation's finances continues to influence market positioning. A report from the Office of Budget Responsibility pointed to the longer-term fiscal challenges facing the UK economy, many of them structural. Higher taxes in the October budget are likely inevitable.

In the eurozone, factors placing upward pressure on yields included German fiscal expansion and Dutch pension reforms, which will reduce demand for longer-dated bonds.

**Positioning** We remain constructive on US duration and retain a bias for yield curve steepening positions.



## Investment grade credit

David Oliphant

It was a quiet week in the investment grade credit market with global spreads ending the week at 83bps, a move of only 1bps wider in the past five trading sessions, according to data from ICE indices. Year-to-date US dollar spreads are wider by 1%, while euro spreads have tightened by 19%.

From a 'technical' perspective, the market remains in inflow even as new issuance starts to wane ahead of the summer months. Primary issuance is being well received, with demand remaining for relatively high yields in the markets – although spreads are historically tight.

**Coming up** This week might prove more eventful as the Q2 results season kicks off. As usual, the leaders will be the banking giants, with JP Morgan, Wells Fargo and Citibank revealing earnings on Tuesday, followed by others including Morgan Stanley, Goldman Sachs, BlackRock, American Express, General Electric and Netflix to name a few. In Europe, earnings releases will include Novartis and Volvo.



## US high yield credit and leveraged loans

Chris Jorel

US high yield bond returns were unremarkable over the week, with increasing trade uncertainty and modest outflows reversing the recent tightening trend. The ICE BofA US HY CP Constrained Index returned -0.27% and spreads widened by 16bps to +316bps. The index yield-to-worst increased to 7.17%. According to Lipper, US high yield bond retail funds saw a \$304 million outflow over the week, breaking the asset class's 11-week inflow streak.

US leveraged loan prices saw modest gains amid continued inflows and light net new issuance. The S&P UBS Leveraged Loan index average price increased \$0.10 to \$96.8. Retail floating rate funds saw a \$565 million inflow – a 10<sup>th</sup> consecutive positive observation.



## European high yield credit

Angelina Chueh

European high yield (EHY) had another strong, technically well supported week with returns of 0.3%. Spreads tightened -14bps to 305bps and yields fell 10bps to 5.9%. Inflows accelerated with around €700 million via both ETFs and managed accounts, with the latter dominating. This brings the year-to-date figure to €3.8 billion. Cash was firm with better buying flows, largely supported by large portfolio trades, while the ETF premium reached 30 cents. The primary market slowed down from the previous week with only €2.6 billion offered in HY corporates. This was largely made up of the first Nissan offering (totalling €1.3 billion) since their entry into HY indices and a Morrison offering in both euro and GBP (totalling €900 million).

In stock-specific news, French satellite operator Eutelsat received another boost with the UK government committing €163 million. Combined with the French government's support, this brings the total capital raise to €1.5 billion with 30% ownership by France and 11% by the UK.

In the French grocery sector, the media reported creditor pressure on Casino and Auchan. There is talk that Casino will begin debt restructuring after the summer holidays, while Auchan is getting heat from French banks for a capital injection by the Mulliez family owners.

In UK retail news, who remembers the takeover drugstore chain Boots by KKR, the last big M&A deal before the start of the global financial crisis? The business is back in the news, this time as a buyout with a valuation of \$4.25 billion.

The EHY default rate fell to 4% by the end of June given the lack of news that month. Excluding 'distressed exchanges' it now stands at 2.8%, while recoveries remained at the higher than historic average of 65%..



## Structured credit

Kris Moreton

US Agency mortgage-backed securities was lower week-on-week, alongside high quality bond markets. Total returns were -30bps, while excess returns were essentially flat on the bear steepening of the curve. Volatility continued to decline with the MOVE Index at its lowest level since January 2022. In housing activity, house price growth continued to slow across the US, with 31% of the 100 largest Metropolitan Statistical Areas (MSAs) experiencing year-on-year declines. Months of existing supply are back to levels last seen in early 2020. However, the

absolute level of inventory remains 26% below Q4 2019. In addition, new home pricing continues to be weaker than for existing homes.

In commercial risk, Conduit 2.0 delinquencies increased across several property types, while the overall rate for single asset and commercial real estate collateralised loan obligations (CRE CLOs) fell on the month. Payment data also showed an uptick in foreclosure activity. Despite this weakening, spreads continued to tighten in secondary markets in tandem with the broader upswing in equity markets. SASB (single asset single borrower) spreads tightened 5bps-25bps down the stack across property types.

The primary asset-backed securities (ABS) market picked up after a quiet holiday week. Six deals worth \$4.8 billion priced, with clearing levels and subscription impressive across the stack. We should see a busy week with 10 deals slated to price. Weekly secondary volumes were at the top of the average and supply had a typical split of 72% AAA/28% sub. Investors were net buyers of both investment grade and high yield paper, marking the fourth consecutive week of investor net buying. Spreads have materially tightened up and down the capital stack with levels largely reverted to year-to-date tights.



## Asian credit

Justin Ong

The EMBI Global index posted a 36bps loss last week, primarily due to spread widening on tariff headlines. The JACI index also made a 24bps loss due to wider spreads (-24bps) while the Treasury return was flat.

China export growth in June was solid (+5.8% year-on-year) and ahead of the 5% consensus. Imports also increased 1.1% in June, a partial reversal of the 3.4% drop seen in May. Together this gave a trade surplus of US\$115 billion, which was up 19% year-on-year. The China-US trade surplus was around \$26.6 billion in June, down 16.3% year-on-year, reflecting the higher tariff environment. That said, on a monthly basis the trade surplus with the US rose 47% month-on-month due to exporters frontloading their outbound shipments. The 90-day tariff truce between the US and China ends in mid August.

Also in China, PPI (Producer Price index) inflation was materially weaker in June, down 3.6% year-on-year, and below consensus. Chinese manufacturers are in the midst of aggressive price competition for export orders against the backdrop of US-China trade tension. On the other hand, headline CPI inflation was slightly positive in June, up 0.1% year-on-year, likely supported by the consumer trade-in program. The Chinese government has been taking steps to address any disorderly price competition, for example, in the electric vehicles and solar sectors where there are oversupply issues. There is still deflationary pressure in China from soft domestic demand and declining external demand.

Semis firm TSMC announced solid June quarterly revenue figures, up 11% quarter-on-quarter and 39% year-on-year. The demand for its advanced nodes (2nm and 3nm) remains strong, with the volume production of 2nm set to start in the second half of this year. This could help offset the potential slowdown from the demand pull-in seen in Q2. The appreciation of the Taiwan dollar could limit the upside to gross margins. Positively, a high utilisation rate (3nm and 5nm) as well as a high average selling price could enable the business to maintain its Q2 gross margin within its guidance (57%-59%) versus 58.8% in Q1.

US president Donald Trump's proposal for a 50% tariff on copper imports has led to a meaningful divergence between the US COMEX and global LME copper prices. The negative impact on Asian producers such as Freeport Indonesia is limited, given its US parent (Freeport-McMoRan Inc) would benefit from US-based production. Additionally, there is limited copper

export from Asia to US. Instead, Chile, Canada and Peru are the major copper exporters to the US. For now, there is no clarity on which specific copper products would be affected (ore, concentrates, refined copper, scraps) and whether certain categories or countries could receive exemption.



## Emerging markets

Priyanka Prasher

The Trump administration has announced a 50% tariff on Brazilian exports, scheduled to commence on 1 August. This is larger than the 10% minimum rate imposed on 2 April. The tariff is surprising given the US actually runs a trade surplus with Brazil, but the 50% figure is not driven purely by trade issues. Instead, it appears to be driven by President Trump's displeasure with both the Brazilian Supreme Court trial of former president Jair Bolsonaro, and Brazilian court rulings over the suspension of social media accounts. The US-Brazil relationship remains fluid given the current Brazilian president, Luiz Inácio Lula da Silva, is maintaining a confrontational stance and his administration has initiated a political campaign to uphold the sovereignty of Brazil.

Moody's has upgraded Oman's credit from Ba1 (positive outlook) to Baa3 with a stable outlook to reflect the expectation that the country's government debt profile will remain robust even if oil prices moderate below the medium-term assumption of US\$65 per barrel.

## Fixed Income Asset Allocation Views

14<sup>th</sup> July 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 depricing 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 decomposition. 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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