

# In Credit

18 August 2025

## Under pressure

### Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.29%	1 bps	0.0%	3.8%
German Bund 10 year	2.75%	6 bps	-0.9%	-1.5%
UK Gilt 10 year	4.67%	7 bps	-1.2%	1.2%
Japan 10 year	1.57%	8 bps	-1.2%	-3.8%
Global Investment Grade	76 bps	-4 bps	0.7%	4.2%
Euro Investment Grade	76 bps	-3 bps	0.4%	2.3%
US Investment Grade	75 bps	-5 bps	0.9%	5.1%
UK Investment Grade	71 bps	-2 bps	0.0%	3.5%
Asia Investment Grade	127 bps	-5 bps	1.3%	5.1%
Euro High Yield	277 bps	-12 bps	1.6%	4.6%
US High Yield	288 bps	-6 bps	0.9%	5.5%
Asia High Yield	486 bps	-7 bps	2.0%	5.6%
EM Sovereign	260 bps	-12 bps	2.5%	8.2%
EM Local	5.9%	-1 bps	1.5%	13.9%
EM Corporate	242 bps	-6 bps	1.8%	5.9%
Bloomberg Barclays US Munis	3.9%	1 bps	0.4%	0.1%
Taxable Munis	5.0%	3 bps	0.2%	3.8%
Bloomberg Barclays US MBS	36 bps	-2 bps	0.3%	4.6%
Bloomberg Commodity Index	248.28	-0.3%	-1.1%	4.4%
EUR	1.1681	0.5%	-0.7%	13.0%
JPY	147.37	0.4%	-2.1%	6.8%
GBP	1.3546	0.8%	-1.3%	8.3%

Source: Bloomberg, ICE Indices, as of 15 August 2025. \*QTD denotes returns from 30 June 2025.

### Chart of the Week: US 5-30Y at steepest point since late 2021



Source: ICE BofAML and Bloomberg, as of 18 August 2025



## Macro/government bonds

Simon Roberts

The driver of fixed income markets last week was PPI inflation data in the US. Core PPI (ex-food and energy) rose 0.9% for July versus market expectations of 0.2%. Most of the advance in PPI was in the services sector. US Treasury yields rose in response. Market pricing saw the probability of a quarter point rate cut in September decline to 85%.

By contrast US Core CPI for July was broadly in line with expectations at +0.3%, only marginally higher than 0.2% for June. This translated into a year-on-year figure of 3.1%.

Adding to upward pressure on US bond yields was a robust US retail sales figure, which came in at 0.5% for July. The yield on the US 10-year rose by 3 basis points (bps) during the week. In fact, steeper curves have been a key theme in government bond markets in 2025 (and curve-steepening trades have been a successful strategy for the global rates desk). **Chart of the Week** shows the US 5-30 curve, which is at its steepest since late 2021

Treasury Secretary, Scott Bessent, suggested that the Federal Reserve (Fed) should be open to a 0.5% rate cut in September. This prompted push back from some Fed policy makers. Bessent also asserted that models pointed to a need for rate cuts of 1.5%. However, most market players were left scratching their heads about where these models existed.

In the thin liquidity of late summer, European markets took their cue from developments in the US and continuing concerns over an expansionary fiscal outlook. The yield on the German and UK 10-year increased by 10bps respectively.

The Reserve Bank of Australia cut rates from 3.85% to 3.60%, pointing to disinflation and further weakening in the labour market.

Geopolitics returned as a market driver, as US president Donald Trump met Russian president Vladimir Putin in Alaska to discuss Ukraine (see Emerging markets).

**Positioning** There were no major changes last week. We remain constructive on duration at the front end of curves and maintain yield curve steepening positions.



## Investment grade credit

David Oliphant

Global investment grade spreads reached a new year-to-date and five-year low last week, closing Friday at 76bps. The same was experienced within sterling, US and euro markets, which ended the week at 71bps, 75bps and 76bps respectively. Sector outperformers continue to be within media, banking, and capital goods.

The last few results have been coming through to close out earnings season. Generally, they have been in line with expectations, continuing the trend of strong fundamentals and low levels of leverage.



## High yield credit and leveraged loans

Chris Jorel

US high yield bond valuations continued to grind tighter amid strong US equity returns, a strong conclusion to earnings season, and a dovish Fed narrative. The ICE BofA US HY CP Constrained Index returned 0.28% and spreads were 6bps tighter. The index yield-to-worst decreased to 6.87%, a three-year low. According to Lipper, US high yield bond retail funds saw a modest inflow of \$137 million. US leveraged loan prices were unchanged over the week with a lighter pace of capital market activity and ongoing fund inflows. The S&P UBS Leveraged Loan index average price was unchanged at \$96.5. Retail floating rate funds saw a \$330 million inflow. This was a sixteenth consecutive weekly inflow, with \$6.7 billion contributed over that period.



## European high yield credit

Angelina Chueh

European high yield continued its run of robust performance as a constructive tone in macro and rates news supported the market. The asset class returned 0.38% as yields fell 6bps to 5.64% and spreads fell 12bps to 277bps. Technicals continued to be positive given the lack of new issuance, while market demand continued with inflows for the fourteenth consecutive week – €269 million was added via both ETFs and managed accounts, with the latter dominating. That takes the year-to-date figure to €6.8 billion.

In sector news, autos outperformed over the week, retracing their recent underperformance. Production numbers for the sector are also being upgraded as the expected tariff news slowdown hasn't really transpired. Chemicals also rebounded at the end of the week, showing some recovery from their recent underperformance. However, the news continues to be poor with the long expected turn around in sales yet to materialise.

Turning to liability management exercises, there was good news for packaging company Ardagh, as they confirmed that a substantial majority of bond holders (99% for unsecured and secured bonds) had agreed to support the proposed recapitalisation deal. As such the company is inching closer to restructuring their debt.



## Asian credit

Justin Ong

The JACI index generated 26bps of returns thanks to spread tightening (+41bps), which more than compensated wider rates (-15bps). JACI HY was the outperformer with 58bps of returns, ahead of IG (21bps).

Lenovo reported positive first quarter results for the fiscal year 2025/26, with its core PC business continuing to outperform (with a more than 30% market share in Windows AI PCs). It also benefited from the Windows 11 transition, which management expects to remain supportive through the second half of the year. However, the ISG (server) division posted another quarter of negative operating profit as the company continues investing to scale up AI server capabilities and develop its Enterprise/small-medium business (SMB) segment. The former is likely to remain loss making in the near term, but the growth of the latter could help compensate.

Technology firm Hon Hai reported strong momentum in its AI server business, with Q2 revenue growing more than 60% year-on-year and Q3 expected to accelerate to above 170% year-on-year growth. According to management, the company easily exceeded its original target of AI servers representing 50% of total server revenue in Q2.

S&P has upgraded the long-term sovereign credit rating of India from BBB- to BBB, with a stable outlook. S&P highlighted strong economic growth, improved credibility in monetary policy and sustained fiscal consolidation. S&P expects tariff impact to be manageable due to India's limited reliance on external trade, with domestic demand continuing to dominate the economy.



## Emerging markets

Priyanka Prasher

Emerging markets (EM) remained resilient as geopolitical developments continued to unfold. EM sovereigns returned 0.63% on the week in US dollar terms, with spreads tightening by -12bps. Regional returns were led by Africa (+0.92%) while Armenia led country returns (+1.98). EM local returned +0.38% in US dollars on the week.

Last week, President Trump met with Russia's president, Valdimir Putin, in a meeting aimed at achieving a ceasefire between Russia and Ukraine. Territory is perhaps the biggest obstacle to this as Moscow is demanding control of territories it does not occupy. European leaders said they are 'ready' to work towards a trilateral summit including the US and Ukraine. Ukraine's bonds were little changed on the news.

Bonds from both Armenia and Azerbaijan rallied after the ceasefire talks. Spreads on Armenia's 10-year bonds compressed by -30bps, while spreads on Azerbaijan's 2032 bond's compressed by -7bps on the week.

The trade truce between China and the US was extended for another 90 days; the revised deadline is now 10 November. China's 10-year bonds compressed by -9bps on the week.

In credit rating news, both India and Pakistan's ratings were upgraded. S&P upgraded India to BBB (see Asian credit), while Pakistani authorities were praised by Moody's for an improved external picture and successful IMF reforms, with the credit upgraded to Caa1 'stable.' Bonds were unchanged on the news.

There was no hard currency sovereign new issuance last week.



## Responsible investment

Charlotte Finch

Issuance for environmental, social and governance-labelled bonds continues to be steady in Europe and Asia. Sizeable new issues in Europe last week included green bonds from Danske Bank, Svenska Handelsbanken, and Deutsche Bank. In Asia, a mix of green, social and sustainable debt came to the market including Japan International Cooperation Agency (sustainability), Korea Housing Finance (social), and the Industrial Bank of Korea (social).

Danske Bank's asset management business said last week that they plan to reduce their investment universe by 1,700 companies that are involved in the fossil fuel industry. The bank judged these issuers to be behind the curve and failing to prepare for climate change. The reality of the impact is small as only a 'very limited share' of their current investments will need to be sold. The shift is partly due to an alignment with the majority of their customers, and their commitment to invest in companies with credible carbon reduction plans.

## Fixed Income Asset Allocation Views

18<sup>th</sup> 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 focused 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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