In Credit

20 October 2025

Up, up and away

Government debt continues to dominate discourse, with the IMF predicting that globally it will soon exceed 100% of global GDP. Elsewhere we saw regional bank problems in the US and more trouble for France. Read on for a breakdown of fixed income news across sectors and regions.

Chart of the Week

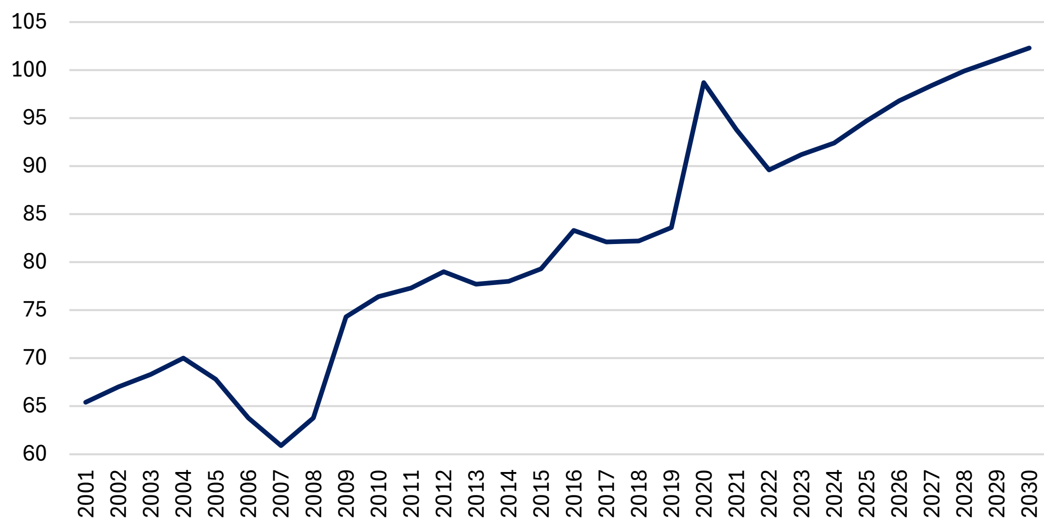
Gary Smith,
Head of Client Portfolio Management team, Fixed Income, EMEA

Government debt at the global level is on course to hit 100% of global gross domestic product (GDP) by 2029, according to the International Monetary Fund (IMF). This is the highest level since just after the second world war.

In its latest Fiscal Monitor published last week, the IMF said aggregate government debt had risen more rapidly than expected before the Covid pandemic. Entering the fifth dimension of national ratios above 100% of GDP will be the UK, France, Japan, Canada, China and the US. The IMF also added that as many as 55 emerging market countries were experiencing debt distress, despite having debt-to-GDP ratios below 60%.

Looming expenditures on defence, natural disasters, disruptive technologies and ageing demographics only add to public spending demands. 'All these pressures and demands come together with sharp political red lines against tax increases and diminished public awareness of fiscal limits,' the IMF said.

IMF projections of global debt (% GDP)



Source: Bloomberg, October 2025

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.01%	-2 bps	1.0%	6.5%
German Bund 10 year	2.59%	-5 bps	1.0%	0.0%
UK Gilt 10 year	4.53%	-15 bps	1.6%	3.3%
Japan 10 year	1.67%	-1 bps	0.0%	-4.0%
Global Investment Grade	80 bps	-1 bps	0.8%	6.4%
Euro Investment Grade	80 bps	0 bps	0.6%	3.4%
US Investment Grade	80 bps	-1 bps	0.9%	7.9%
UK Investment Grade	69 bps	2 bps	1.0%	5.2%
Asia Investment Grade	118 bps	2 bps	0.8%	7.3%
Euro High Yield	324 bps	1 bps	-0.5%	4.3%
US High Yield	304 bps	-14 bps	-0.1%	6.9%
Asia High Yield	454 bps	8 bps	0.6%	8.6%
EM Sovereign	263 bps	-2 bps	0.9%	11.1%
EM Local	5.9%	-3 bps	0.4%	15.9%
EM Corporate	249 bps	4 bps	0.2%	7.6%
Bloomberg Barclays US Munis	3.6%	-6 bps	1.0%	3.7%
Taxable Munis	4.7%	-5 bps	1.7%	8.2%
Bloomberg Barclays US MBS	27 bps	-3 bps	1.2%	8.1%
Bloomberg Commodity Index	266.15	1.5%	1.1%	10.6%
EUR	1.1661	0.3%	-0.7%	12.6%
JPY	150.51	0.4%	-1.8%	4.4%
GBP	1.3435	0.5%	-0.1%	7.3%

Source: Bloomberg, ICE Indices, as of 17 October 2025. *QTD denotes returns from 30 September 2025.

Macro/government

Simon Roberts
Product Specialist, Global Rates

Last week was positive for government bonds as yields fell across core markets: the US 10-year finished 2bps lower at 4%, the German 10-year was 6bps lower at 2.58%, and the UK 14bps lower at 4.53%.

The backdrop for lower yields in the US was continuing affirmation of a softening labour market. The Federal Reserve (Fed) published its Beige Book, which pointed to a 'low fire, low hire' economy, and we also heard from several senior policy makers at the Fed who made the case for looser monetary policy to combat a weaker labour market.

The other trigger for lower government bond yields was a 'flight to quality' scare. This came as news emerged of write-downs at two regional banks, Zions and Western Alliance Bancorp, on loans to the Cantor Group, which invests in distressed debt. This followed bankruptcies at Tricolor and First Brands, raising concerns over a broadening credit crisis. JP Morgan CEO, Jamie Dimon, quipped that 'when you can see one cockroach, there's probably more'.

UK gilts performed strongly as UK unemployment rose higher than expected to 4.8%, suggesting wage increases might start to soften, and that the Bank of England might have scope to cut rates.

UK chancellor, Rachel Reeves, spoke at the IMF, stating that she would rebuild fiscal headroom through a mix of tax rises and spending cuts. This was greeted positively by market participants who have also been attracted to the gilt market by higher yields.

France saw S&P cut its rating in an unscheduled move on Friday, from AA- to A+, citing the country's rising debt burden, sluggish fiscal consolidation and political instability. The impact on French government bond yields was relatively muted. This occurred in a week in which Sébastien Lecornu once again became prime minister of France. The support of the socialists came at the price of effectively scrapping pension reform.

Investment grade credit

Charlotte Finch,
Client Portfolio Manager, Investment Grade Credit

Although investment grade spreads are wider month-to-date, spreads tightened last week following volatility on the previous Friday. The Global Corporate Bond index offered a spread of between 79bps and 81bps during that period, according to data from ICE indices.

Year-to-date, euro spreads are 21% tighter and the US dollar market has seen a 2% tightening. In both cases, spreads are around 1.2 standard deviations (SDs) tight to five-year averages and around 0.8 SDs to a two-decade comparison.

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

US high yield credit and leveraged loans

Chris Jorel,
Client Portfolio Manager, US High Yield

US high yield bond valuations recovered a portion of the prior week's trade-driven widening, despite percolating credit concerns and fund outflows. The ICE BofA US HY CP Constrained Index returned 0.53% and spreads tightened 14bps.The index yield-to-worst decreased 19bps to 6.75%. According to Lipper, US high yield bond retail funds saw a $1.3 billion outflow, which was the largest weekly outflow since April.

US leveraged loan prices were stable over the week in the face of increasing idiosyncratic credit issues and large fund outflows. The S&P UBS Leveraged Loan index average price was unchanged at $95.9. Floating rate funds also saw their largest outflows since April with $1.3 billion withdrawn over the week.

European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

European high yield credit bounced back modestly after the previous week's consolidation. It returned 0.15% for the week as spreads held steady at 324bps and yields fell -6bps to 5.88%. Decompression continued with BBs being the best performing rating band, outperforming the market with a return of +0.21%, while CCCs showed further deterioration returning -0.83%. Flows slowed but remained positive at €50 million coming into the strategy across both ETFs and managed accounts. This brought the year-to-date figure to €8.3 billion.

The primary market also picked up with four new issues – mostly refinancings – as well as a bumper €1 billion offering from gaming business Cirsa, and one from new healthcare issuer Gruppo San Donato. In total, €2.7 billion came to market, bringing the year-to-date gross issuance to more than €100 billion.

The market also saw bounce backs for chemical and auto names, which had been hit the previous week. There is a sense that sectors deemed to be quite cyclical are experiencing more weakness as dispersion becomes more apparent across sectors.

In telecoms news, the consortium (Bouygues, Orange and Iliad) that bid for the majority of Altice France assets was rejected. More negotiations are expected.

Structured credit

Kris Moreton,
Client Portfolio Manager, Structured Credit

With rates rallying and the 10-year Treasury breaking through 4% on the risk-off move, US Agency mortgage-backed securities posted a positive total return of 58bps. Spreads widened modestly, with higher coupons seeing the brunt of the underperformance. Fed chairman, Jay Powell, said last week that the Federal Open Market Committee's plan is to stop balance sheet run-off when reserves 'are somewhat above the level we judge consistent with ample reserve conditions', which could be sometime in the coming months. He went on to state that its goal is 'a portfolio consisting primarily of Treasury securities'. These comments are not necessarily supportive of the sector as it relates to Fed demand, but ending quantitative tightening could be offset by increased bank demand on higher deposit growth.

Valuations on mortgages continue to look more attractive than other high quality asset classes. Conventional net issuance is negative year-to-date, which is a positive, and while Ginnie Mae (Government National Mortgage Association) net issuance is high, bank and overseas demand is strong in that space.

Asset-backed securities (ABS) saw another very busy week. Twenty deals priced for a total of just over $12.5 billion of new issuance. This brought the total for the past two weeks to a staggering 46 deals for just under $30 billion in new issuance. Year-to-date new issuance is now just over $300 billion and in line with last year. Pricing has started to show a little resistance with several deals wider than their comps. There is nothing scheduled to issue this week with the market occupied by the ABS East conference that is taking place in Miami. The secondary ABS market was choppy throughout the week with spreads ending slightly wider. While there are some specific credit concerns, fundamentals as a whole remain solid.

Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income

The JACI index delivered positive returns of 49bps over the week, largely driven by Treasuries (+53bps) offsetting wider spreads (-5bps). JACI investment grade outperformed with 55bps, while JACI high yield posted 9bps of returns.

Semis giant TSMC delivered strong Q3 results, with revenues of $33 billion (+41% year-on-year) beating guidance. Gross margins reached 59.5% driven by cost improvements and higher utilisation. The technology mix was led by advanced nodes: 3nm (23%) and 5nm (37%). High-performance computing dominated at 57% of revenue, with smartphones accounting for 30%. For Q4, TSMC predicted revenues of $32.2-$33.4 billion and a gross margin of 59%-61%. The company raised its full-year revenue growth guidance to mid-30% and increased capex to $40-$42 billion from a previous $38-$42 billion. This reflected stronger-than-expected AI demand.

Rating agencies reacted negatively to gaming firm Genting's privatisation offer for GENM. S&P noted the deal would narrow Genting's headroom, but believes the low premium offers limited incentive for minority shareholders to accept, estimating that Genting could acquire up to 20% more shares. Moody's also placed Genting's Baa2 rating on review for possible downgrade, warning of potential multiple-notch downgrades depending on funding structure. One positive for Genting's growth strategy is that its prospect of receiving a license in New York has improved after MGM withdrew, leaving three bidders. Genting said its Resorts World New York City (RWNYC) could begin operations in the second half of 2026, four years ahead of competitors, positioning it as the frontrunner for one of three available licenses.

For the non-banking financial institutions sector in India, Moody's has raised the standalone credit ratings of power sector firms REC Limited and Power Finance Corp Ltd by a notch to ba2 and affirmed their final ratings of Baa3. Moody's highlighted that the two-notch uplift reflects the highly likely support from the Indian government, given the strategic importance of both firms to the power sector.

Emerging markets

Omotoke Joseph
Product Specialist, Emerging Market Debt

Emerging market (EM) hard currency sovereigns returned 0.61% last week. Numbers were positive across all regions, but the Middle East led with returns of 0.81%. Local currency EM returned 0.70% in US dollars, driven by performance in Europe (1.29% USD).

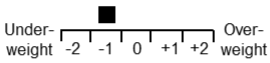
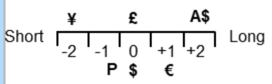
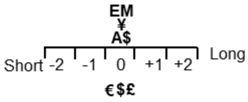
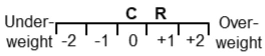
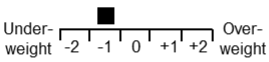
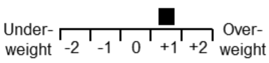
Last week got off to a bumpy start as trade and tariff tensions between China and the US bubbled away. Aside from this, headlines were dominated by the IMF annual meetings. Senegal saw its bonds underperform towards the end of the week as concerns arose around the extent of the country's debt during talks with the IMF. Elsewhere, Pakistan received a $1 billion commitment from the IMF under its Extended Fund Facility and $200 million under its Resilience and Sustainability Facility. This saw a modest rally in Pakistan 36s, with yields falling 0.55% from Thursday to the close of the week.

Argentina remained a key topic. The US authorised a $20 billion financial lifeline for the country amid its ongoing economic crisis. There are concerns over potential strings attached to this help, with Donald Trump stating that the US wants China 'out' of Argentina. This led to the Argentine peso depreciating to 1,465 versus the dollar on Friday morning, having closed on Thursday at 1,430. Tensions between the US and Columbia also rose at the end of the week after Trump called Columbian president, Gustavo Petro, an 'illegal drug leader' and threatened to pull US aid from the country.

Upcoming The Chinese government will discuss its five-year plan for 2026-2030, and the Argentine mid-term elections will take place on 26 October.

Fixed Income Asset Allocation Views

20th 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, specifically considering the best places to invest new money. Despite September's flurry of global political news, the global markets remained remarkably steady. During the US government shutdown, the group is using data vendors to monitor macroeconomic trends. ▪ **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, especially for long maturity Investment Grade. ▪ IG analysts are predicting industrial leverage near the lows of the last decade and margins near all-time highs. M&A activity has been increasing. ▪ 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 Administration has signalled it wants to use Agency reform to lower mortgage rates, and the basis has tightened, but still lags what is implied by rate volatility. ▪ 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. ▪ 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, and home equity is at the highest levels ever. ▪ CMBS: Stress continues with the highest delinquencies in office, but multi-family is increasing. New issue is plentiful but unattractive. ▪ 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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