In Credit

21 July 2025

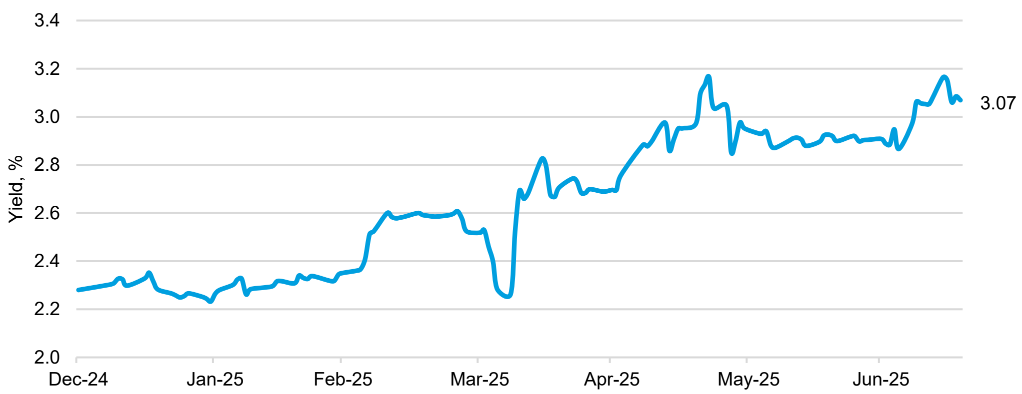
Fed divided on rates

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury Index	4.38%	-3 bps	-0.9%	2.8%
German Government Index	2.61%	-11 bps	-0.4%	-1.0%
UK Gilt Index	4.60%	-2 bps	-1.5%	1.0%
Japan Government Index	1.54%	2 bps	-1.0%	-3.7%
Global Investment Grade	82 bps	-1 bps	-0.0%	3.4%
Euro Investment Grade	84 bps	2 bps	0.3%	2.1%
US Investment Grade	80 bps	-3 bps	-0.6%	3.6%
UK Investment Grade	77 bps	2 bps	-0.6%	2.8%
Asia Investment Grade	134 bps	0 bps	0.0%	3.8%
Euro High Yield	311 bps	6 bps	0.6%	3.6%
US High Yield	289 bps	-8 bps	0.1%	4.6%
Asia High Yield	497 bps	1 bps	0.4%	3.9%
EM Sovereign	281 bps	1 bps	0.0%	5.4%
EM Local	6.0%	0 bps	0.2%	12.5%
EM Corporate	253 bps	2 bps	0.3%	4.4%
Bloomberg Barclays US Munis	4.0%	11 bps	-1.0%	-1.4%
Taxable Munis	5.1%	-5 bps	-1.5%	2.0%
Bloomberg Barclays US MBS	37 bps	2 bps	-0.8%	3.4%
Bloomberg Commodity Index	259.12	1.3%	3.3%	9.0%
EUR	1.1694	-0.5%	-1.4%	12.3%
JPY	147.37	-0.9%	-3.2%	5.6%
GBP	1.3490	-0.6%	-2.3%	7.2%

Source: Bloomberg, ICE Indices, as of 18 July 2025. *QTD denotes returns from 30 June 2025.

Chart of the Week: YTD moves in the Japan 30-year government bond



Source: Bloomberg, as of 21 July 2025

Macro/government bonds

Simon Roberts

Yield movements in major developed fixed income markets were relatively muted last week. US CPI was 0.3% for June, equating to a year-on-year figure of 2.7%. Core CPI came in at 0.2% for June – a little lower than market expectations. The figures suggest that firms have not yet passed through all the tariff increases. Yet the effects of higher tariffs could be detected in a few select categories such as household furnishings, video/audio products and toy prices, which climbed more than 1%.

The US Federal Reserve's Beige Book (officially known as the Summary of Commentary on Current Economic Conditions) highlighted a wary outlook. Hiring was cautious and wage growth was flat to moderate, while some employers had ramped up investment in automation and artifical intelligence (AI).

Fed governor Dr Adriana Kugler suggested it was appropriate to hold rates at current levels as they awaited more information on tariff impacts. However, fellow Fed governor Chris Waller made the case for a rate cut. His belief rested on the fact that tariffs were likely to lead to a one-off increase in price levels, and that the economy had already begun to slow as consumers curtailed spending. He argued that monetary policy should move from restrictive to neutral.

In the UK, inflation surprised to the upside, rising 0.3% during June and 3.6% year-on-year. Much of the increase could be attributed to higher food prices. The market interpreted the data as slowing the case for rate cuts. The gilt market underperformed German bunds and US Treasuries, with 10-year gilt yields finishing the week 5bps higher, while the US 10-year was unchanged and the German 10-year fell 3bps.

In Japan, 30-year government bonds remained under pressure (see **Chart of the Week**) as markets awaited the outcome of the upper house election (on Sunday we learned that the ruling Liberal Democratic party lost its majority). Many opposition parties had stood on a ticket of lower cuts and greater spending, raising concerns about Japan's long-term fiscal outlook.

Investment grade credit

David Oliphant

Earnings season began well last week, with strong bank earnings plus good results from technology companies, which helped keep credit spreads stable. JP Morgan, Wells Fargo and Citigroup all reported decent but not overwhelming results, although loan growth was up across the board.

US investment grade credit was the outperformer versus its European and UK counterparts, tightening by 3bps through last week to 80bps. This is a sign of improvement after a weaker start to the year. In contrast, European and UK spreads widened by around 2bps.

Issuance have been slow, as expected, but investors are still eager to buy with most new deals being oversubscribed.

US high yield credit and leveraged loans

Chris Jorel

US high yield bond valuations were stable over the week with a benign start to second quarter earnings season and a resumption of inflows supporting the asset class. The ICE BofA US HY CP Constrained Index returned 0.17% and spreads were essentially unchanged. The index yield-to-worst decreased modestly to 7.08%. According to Lipper, US high yield bond retail funds saw an $872 million inflow over the week. This returns the asset class to inflows after an 11-week inflow streak was broken last week.

US leveraged loan prices again saw modest gains amid continued inflows and the most active new issuance calendar for five months. The S&P UBS Leveraged Loan index average price increased $0.10 to $96.9. Meanwhile, the retail floating rate funds saw a $490 million inflow, a which was a 12th consecutive positive observation.

European high yield credit

Angelina Chueh

European High Yield had a flat week as yields remained unchanged at 5.9%, even as spreads widened 6bps to 311bps. Technicals were strong with €786 million inflows via both ETFs and managed accounts. This brings the year-to-date net inflows to €4.9 billion. New issuance also picked up (+€3.7 billion) helped by the return of Boots to the market with both euro and GBP tranches (€1.1 billion equivalent). Refinancings still dominate new issuance, although there were also some dividend recapitalisation deals.

On a sector basis, chemicals underperformed while autos experienced a rebound towards the end of the week after earlier underperformance. The rebound came as Standard & Poor's gave a small upgrade to global auto production, coming from North American and China. Although it still looks like 2026 will be flat to slightly down, this is relative improvement.

In credit rating news, UK pub group Stonegate was downgraded by Moody's to Caa1 from B3. The rating agency cited a decline in volumes and cost pressures.

In other news, beleaguered telecoms and media firm Altice International, where a liability management exercise (LME) is eventually expected, saw some respite with the expectation that it will be able to dispose of its Israeli assets.

Structured credit

Kris Moreton

The agency mortgage-backed securities sector was down 4bps last week as interest rates bear steepened on a CPI number that came in below expectations. There was continued uncertainty related to tariff headlines, while the possibility that President Trump might remove Federal Reserve chair Jay Powell wasn't supportive. As such, the mortgage index widened slightly. Bank demand appeared to be relatively sluggish, partially offset by net positive overseas demand. On a relative basis, the sector's yield profile was neck and neck with IG corporates with a yield-to-worst of 5.1%.

The collateralised loan obligation (CLO) market continued to pump out new issue deals as well as resets and refinancings. Year-to-date there has been $92 billion of true new issue volume, as well as $153 billion of resets/refinancings. Demand has kept up and spreads continue to grind tighter. On a one-year look back, AAA-BB spreads sit in the top third on a percentile basis, having largely rebounded from Liberation Day. Flows have resumed and are back in positive territory with nearly $6 billion in net inflows year-to-date.

The primary asset-backed security (ABS) market was busy last week with at least 12 deals pricing around $10 billion in issuance. This week is stacking up a further 21 deals in different stages for around $15+ billion. Spreads continue to hover around January/February levels at the top of the capital stack and subs are 5bps-15bps off their tights. Issuers appear to be looking to get to market before the August slow down hits.

Asian credit

Justin Ong

The JACI index made a 4bps gain last week, with spread returns (+18bps) offsetting the widening in Treasuries (-14bps). JACI investment grade, which is more sensitive to rates movement, posted a 1bps gain, in contrast to HY (+25bps).

In China, Prime Minister Li Qiang chaired a State Council executive meeting to study the implementation of key policies to boost domestic consumption. The State Council also reaffirmed its scrutiny on the irrational competition in certain sectors such as the electric vehicle industry. There will be more measures on price monitoring and regulating competition in the sector. The next spotlight is on the upcoming Politburo meeting at the end of July, during which the government will review the country’s H1 economic performance and set the policy tone for the second half of the year.

The tension in the US-China trade and technology relationship could ease over the near term. The US government has reversed its decision to impede the exports of advanced US chip technology to China. The Trump administration announced the lifting of the export restriction on Nvidia H20 and the AMD MI308 chips to China.

TSMC’s Q2 net revenue rose by 44% year-on-year (US$30 billion) ahead of management guidance. The gross profit also increased 53% year-on-year with a gross margin of 58.6%, which was ahead of company guidance. The demand for AI chips and advanced technology nodes is the key driver. In Q2 alone, the company’s 3nm and 5nm technology nodes accounted for 60% of its revenue. The company raised its outlook for FY25 revenue growth to 30% year-on-year in US dollar terms, versus previous guidance of growth of mid-20%.

Adani Ports & SEZ has launched a tender offer to repurchase up to US$450 million of three outstanding bonds with maturities in 2027 and 2029. In the primary market, Indonesia issued US$2.2 billion of sukuk bonds (Sharia-compliant). San Miguel Global Power Holdings (SMGP) issued a US$400 million senior perpetual note (SMCGL 8.95%) in conjunction with the exchange offer for two existing perpetuals (SMCGL 7% and SMCGL 5.7% perp). The company’s total issuance of $400 million comprises $223.2 million issued as part of the exchange offer and $176.8 million of new money.

Emerging markets

Priyanka Prasher

It was a muted week in emerging markets (EM). Sovereign credits returned -0.04% on the week in US dollars, with spreads widening +3bps. Local market strength continued, returning 0.12% on the week. Senegal outperformed on an issuer level, while Asia drove regional returns.

Senegal's finance ministry announced that a plan to rebase nominal GDP data is underway and will be completed 'in the coming months'. The news came after Standard & Poor's cut the sovereign's rating for the second time in five months citing its debt burden. However, this did not account for the rebasing. Bonds outperformed on the credit-positive news and the expectation that the rebase will improve debt ratios. Spreads on bonds maturing in 2033 tightened -110bps, a move of almost -11%.

A Turkish court sentenced key opposition figure and Istanbul mayor, Ekrem İmamoğlu, to almost two years in prison for insulting Istanbul's chief prosecutor. İmamoğlu is widely seen as a potential frontrunner for the presidency in 2028. His arrest in March sparked protests throughout Turkey. Spreads on 10-year benchmark bonds widened by +5bps on the week, suggesting the country's political risk was already priced in.

The Dominican Republic appointed a new Minister of Finance, Magin Diaz. Diaz held positions including Deputy Minister of Fiscal Policy and Public Credit. He has also consulted for the World Bank and the Inter-American Development Bank. Spreads tightened on the news before widening back to earlier levels.

In primary market activity, Indonesia returned to market with a $2.2 billion five- and 10-year sukuk following a trade agreement with the US.

Coming up The week ahead will see several EM economies make policy rate decisions including Hungary, Nigeria, Sri Lanka and Turkey. The EU-China summit will commence in Beijing and Thailand will name its incoming central bank chief.

Responsible investment

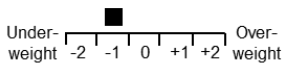
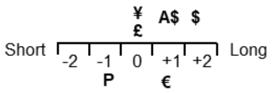
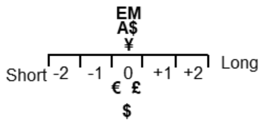
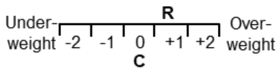
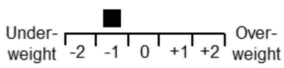
Charlotte Finch

The UK government has decided not to create its own framework for sustainable investments, abandoning a project first announced in 2020. According to a consultation document released on Tuesday, officials found insufficient evidence that such a 'taxonomy' would effectively stop greenwashing or direct money to greener activities. Instead, the UK will focus on sustainability reporting standards and corporate transition plans. Economic secretary, Emma Reynolds, stated that 'a UK taxonomy would not be the most effective tool to deliver the green transition', noting that consultation responses showed other policies were higher priority for reaching net zero goals.

Environmental, social and governance (ESG) debt issuance has remained steady in recent weeks, despite less issuance coming out of the US. Growth in the APAC region has kept monthly levels at around $135 billion, according to Bloomberg.

Fixed Income Asset Allocation Views

21st July 2025

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

Important Information

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