

22 September 2025

Don't cry for Milei, Argentina

The Argentine peso has taken a battering, but could the US ride to the rescue of Trump ally President Javier Milei? Elsewhere, interest rates dominated, with the Fed cutting and the BoE and ECB holding. Read on for a breakdown of fixed income news across sectors and regions.



Chart of the Week

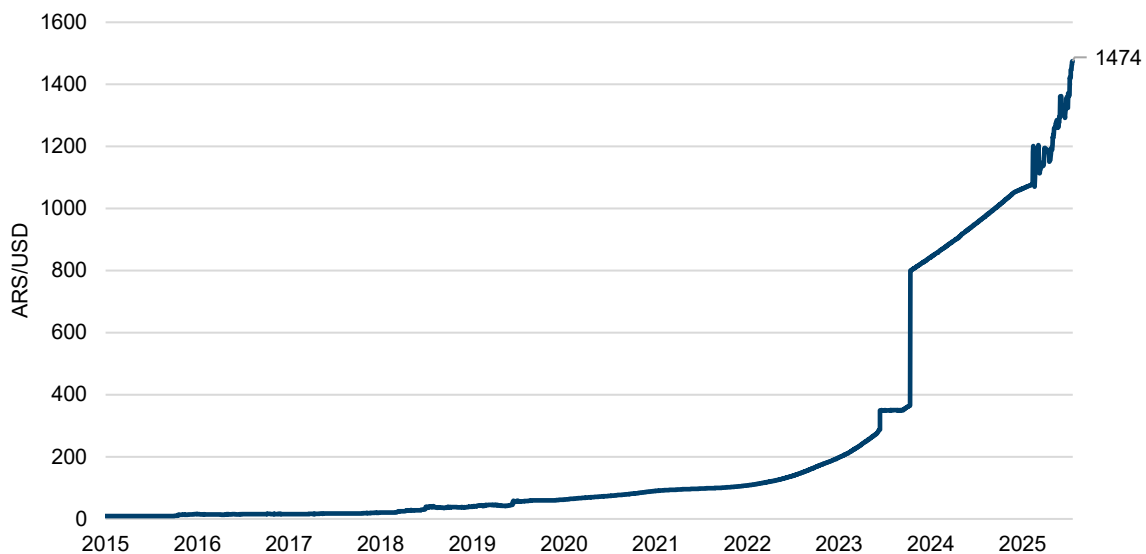
Gary Smith,
Head of Client Portfolio Management team, Fixed Income, EMEA

US Treasury Secretary, Scott Bessent, made remarkable comments on Argentina this week. He made it clear that the US stood ready to help, because Argentina under President Javier Milei is a friend and ally of the current US administration.

We will find out more after Milei meets Donald Trump this week, but options include the comfort blanket of a US dollar swap line and outright buying of Argentine pesos in order to prop up the battered currency. There has been an immediate bounce in the currency and bond prices, which may last until the Argentine midterm elections in October, when voters will get the chance to express their own opinion on the desirability of that blanket.

Geopolitical analysts will pour over the implications as the world continues to drift towards separate and distinct spheres of great power influence.

Argentine peso/US dollar reaches new highs



Source: Bloomberg, Columbia Threadneedle Investments, September 2025

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.13%	7 bps	1.5%	5.4%
German Bund 10 year	2.74%	3 bps	-0.7%	-1.3%
UK Gilt 10 year	4.70%	3 bps	-1.0%	1.4%
Japan 10 year	1.65%	6 bps	-1.5%	-4.1%
Global Investment Grade	75 bps	-3 bps	2.0%	5.6%
Euro Investment Grade	76 bps	-2 bps	0.8%	2.6%
US Investment Grade	74 bps	-3 bps	2.8%	7.1%
UK Investment Grade	69 bps	-2 bps	0.4%	3.9%
Asia Investment Grade	124 bps	-3 bps	2.5%	6.4%
Euro High Yield	286 bps	-13 bps	1.9%	4.8%
US High Yield	272 bps	-7 bps	2.5%	7.2%
Asia High Yield	455 bps	-10 bps	4.3%	8.0%
EM Sovereign	266 bps	2 bps	4.0%	9.7%
EM Local	5.9%	-2 bps	3.2%	15.8%
EM Corporate	238 bps	-5 bps	3.2%	7.4%
Bloomberg Barclays US Munis	3.6%	-2 bps	3.3%	2.9%
Taxable Munis	4.8%	4 bps	2.7%	6.4%
Bloomberg Barclays US MBS	29 bps	0 bps	2.6%	6.9%
Bloomberg Commodity Index	256.24	-0.7%	1.9%	7.5%
EUR	1.1768	0.1%	-0.3%	13.4%
JPY	147.89	-0.2%	-2.7%	6.3%
GBP	1.3495	-0.6%	-1.9%	7.6%

Source: Bloomberg, ICE Indices, as of 19 September 2025. *QTD denotes returns from 30 June 2025.



Macro/government bonds

Simon Roberts

Product Specialist, Global Rates

We saw a modest rise in yields across markets last week: the yield on the US 10-year rose by 7bps to 4.13%, while the yield on the UK 10-year rose by 3bps to 4.70%.

The US Federal Reserve (Fed) cut interest rates by 0.25% to 4.25% in line with market expectations. Fed chair, Jay Powell, pointed to a softening US labour market, characterising the current environment as 'low firing, and low hiring'. This combination has helped keep a lid on the unemployment rate.

The Fed also published its summary of economic projections, in which policy makers make individual forecasts for the economy and the Fed funds rate. The median estimate showed a decline in policy rate to 3.6% by year-end and to 3.1% by the end of 2027.

The Bank of England (BoE) left interest rates on hold at 4%, justifying its decision on the need to balance upside risks to inflation with downside risks to demand. Although the trajectory for bank rate remains downward over the next 12 months, the Bank emphasised the importance of 'gradualism' in its approach to easing monetary policy. The Bank also announced it would reduce the pace of asset sales over the next year from £100 billion to £70 billion, while shifting the focus of sales away from longer-dated gilts. This news disappointed hopes of a larger cut and put upwards pressure on gilt yields.

European Central Bank policy makers Joachim Nagel and Isabel Schnabel pushed back against further rate cuts in the eurozone, arguing that inflation risks remained tilted to the upside.

The Bank of Japan also voted to keep policy rates on hold, although the market continues to price for another rate hike by December given the elevated level of inflation in the country.

Positioning Last week, as a defensive measure, we scaled back our yield curve steepening positions and reduced our long duration exposure.



Investment grade credit

Charlotte Finch,
Client Portfolio Manager, Investment Grade Credit

It was a strong week for investment grade markets across the board, with spread tightening seen in all core markets. Both sterling and US IG spreads ended the week at all-time lows of 69bps and 74bps respectively. In Europe, IG spreads also moved back towards year-to-date tight, ending the week at 76bps, which 25% tighter year-to-date.

On the supply side, after the Fed's rate cut in the US, several large issuances were placed. This included telecommunications firm AT&T raising \$5 billion in a four-part tranche deal with the longest portion a 29-year note, as well as other issuers like UBS and Credit Agricole also tapping the market.

Globally, the IG market benefited from further expected rate cuts and continued strong technicals.



US high yield credit and leveraged loans

Chris Jorel,
Client Portfolio Manager, US High Yield

US high yield bond spreads tightened to six-month lows amid steady inflows, active capital markets and the resumption of Fed easing. The ICE BofA US HY CP Constrained Index returned 0.31% and spreads tightened 8bps. The index yield-to-worse declined to 6.54%, remaining at three-year lows. According to Lipper, US high yield bond retail funds saw inflows of \$940 million for the week. This brings post-Liberation Day inflows for the asset class to just under \$19 billion.

US leveraged loan prices were stable with modest fund inflows, despite the resumption of Fed easing putting pressure on investor returns. The average loan coupon has now declined to 7.5%, having been as high as 9.3% in October 2023. The S&P UBS Leveraged Loan index average price was unchanged at \$96.6. Floating rate funds saw a \$125 million inflow following the first withdrawal for the asset class in 20 weeks the previous week.



European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

European high yield (EHY) gave a strong performance last week, returning 0.33% as spreads tightened 13bps to 286 and yields fell -9bps to 5.72%. Single Bs were again the outperformer while CCCs strongly underperformed but at least remained positive. EHY also outperformed US high yield, recovering from recent relative underperformance. Inflows picked up to €166 million.

This was solely from managed accounts as ETFs remained on the sidelines. It was another busy primary week with about €4 billion of new issuance across eight deals, split between BBs and Bs. These were largely refinancings, so net new issuance remained unchanged. Heavy issuance is expected this week, however, with seven deals already reported in the wings.

In credit rating news, chemical company Ineos was downgraded by Moody's to B1, while its subsidiary Styro was downgraded to B2. The rating agency cited minimal earnings recovery over the next two years. In better news, Moody's upgraded SoftBank's corporate family rating to Ba2 citing a lack of major blow ups in the past 12-18 months.

In autos, there was a fair amount of issuance last week, with more expected in the coming weeks. Given this demand, it is looking likely that the market may be using new issuance to close any underweight positions in the sector via the primary market.

The strong demand for Euro BBs has resulted in the B-BB spread differential widening to 200bps from the 150bps low last seen in February.



Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income

The JACI index posted a small 2bps loss for the week. This was due to higher rates (-18bps) offsetting the spread rally (+18bps). The IG segment fared poorly with a 12bpd loss driven by its sensitivity to rates. However, the high yield segment, which is less rate-sensitive, delivered 62bps of positive returns.

Last week saw the Hong Kong Policy Address 2025. There were measures around the Capital Investment Entrant Scheme (some easing on the maximum amount for non-residential property investment and price thresholds for residential investment) and the development of the Northern Metropolis (which could see the voluntary surrender of land to the government and the payment of a land premium in phases by developers). Other points covered included enhancing Hong Kong's position as a global financial centre through gold trading and regulation of digital assets.

In India, the Securities and Exchange Board of India (SEBI) dismissed allegations that the Adani Group was using related party transactions to route funds into listed units, which would be in violation of the minimum public shareholding rules.

In the primary market, Melco Resorts issued US\$500 million of 8NC3 senior unsecured bonds, along with a concurrent tender offer for the MPEL 5.25% 2026s (it plans to redeem any untendered amount of the MPEL '26s, a callable bond with a 30-day notice). For Tencent, it accessed the offshore CNY bond market with a CNH9 billion (around \$1.27 billion) three-tranche deal. Oil firm Petron issued \$475 million of NC3 perpetuals (PCORPM 7.35%), along with a tender offer for the existing perpetual (PCORPM 5.95%, callable in April 2026).



Emerging markets

Priyanka Prasher,
Product Specialist, Emerging Market Debt

Emerging market (EM) sovereigns returned -0.28% on the week as investor sentiment diverged across credit buckets. Investment grade sovereigns remained broadly flat while high yield credits underperformed (-0.54%). Local currency outperformed by 0.39% in US dollar terms on the week.

Elsewhere, Ukraine's government bonds outperformed last week following headlines of renewed support from the EU. Progress has been made on a plan to provide loans to Ukraine backed by €200 billion of frozen assets from Russia's central bank. Spreads on 10-year benchmark bonds compressed by -56bps (-4.81%) over the week.

A strong local currency performer last week was the Dominican peso, which returned 3.51% in US dollar terms over last week. The DOP was supported by good reception to a reformulated budget, which was praised by the International Monetary Fund.

India's rupee fell on Monday after US president Donald Trump slapped a \$100,000 fee on H-1B visa applications, 70% of which are owned by Indians. The US dollar/Indian rupee weakened to 88.316 on the news, while bond yields held steady.

Mexico was the only sovereign to come to market last week.

The week ahead Central banks from Mexico, China, Hungary and the Czech Republic will make policy rate decisions.

Fixed Income Asset Allocation Views

22nd September 2025

Strategy and positioning (relative to risk free rate)	Views	Risks to our views
Overall Fixed Income Spread Risk 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> Dollar has been supported by US growth exceptionalism and depriving 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. 	<ul style="list-style-type: none"> 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)) 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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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