In Credit

23 June 2025

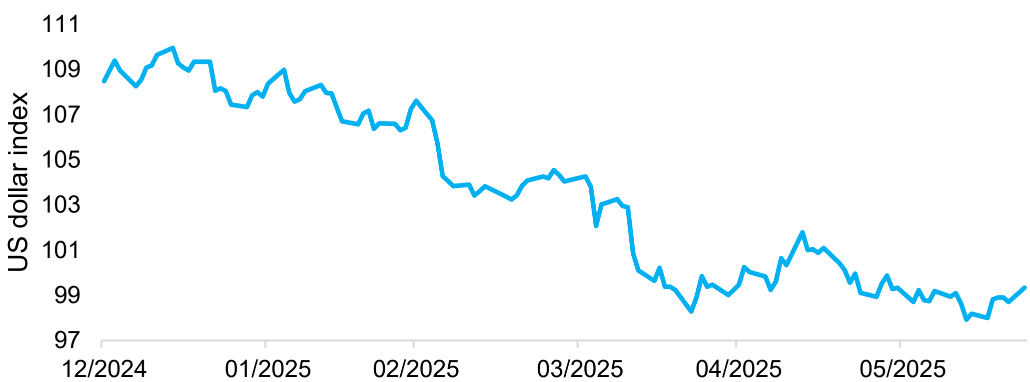
The dollar devalued

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.39%	0 bps	-0.2%	2.8%
German Bund 10 year	2.54%	1 bps	1.7%	-0.1%
UK Gilt 10 year	4.56%	1 bps	1.8%	2.3%
Japan 10 year	1.42%	0 bps	-0.2%	-2.6%
Global Investment Grade	90 bps	0 bps	0.9%	2.6%
Euro Investment Grade	94 bps	1 bps	1.6%	1.7%
US Investment Grade	88 bps	0 bps	0.7%	3.0%
UK Investment Grade	83 bps	2 bps	2.2%	3.0%
Asia Investment Grade	132 bps	-3 bps	0.7%	3.1%
Euro High Yield	335 bps	6 bps	2.0%	2.7%
US High Yield	313 bps	-5 bps	2.5%	3.4%
Asia High Yield	500 bps	-2 bps	0.0%	2.9%
EM Sovereign	299 bps	5 bps	1.8%	4.2%
EM Local	6.1%	-2 bps	5.9%	10.4%
EM Corporate	267 bps	3 bps	0.9%	3.3%
Bloomberg Barclays US Munis	4.0%	-2 bps	-0.4%	-0.6%
Taxable Munis	5.2%	-3 bps	-0.9%	1.9%
Bloomberg Barclays US MBS	39 bps	0 bps	0.0%	3.1%
Bloomberg Commodity Index	262.81	1.4%	1.3%	10.3%
EUR	1.1491	-0.2%	6.5%	11.3%
JPY	147.40	-1.4%	2.7%	7.6%
GBP	1.3435	-0.9%	4.1%	7.5%

Source: Bloomberg, ICE Indices, as of 20 June 2025. *QTD denotes returns from 31 March 2025.

Chart of the Week: The weaker US dollar (DXY index year-to-date)



Source: Bloomberg, as of 23 June 2025

Macro/government bonds
Simon Roberts

Government bond yields were broadly unchanged last week. This reflected cautious messaging from central banks, as well as a sanguine attitude from investors to heightened geopolitical risk. The consensus view is that the Iran crisis can remain relatively contained, as long as the oil price does not rise sharply from current levels. The continued supply of oil through the Strait of Hormuz will likely be key.

US Federal Reserve chair, Jerome Powell, gave a cautious message following the conclusion to the latest rates meeting, at which the federal funds target was left unchanged at 4.5%. Powell called for more time to assess the impact of tariffs on the broader US economy. While he expects tariffs to boost prices, it is currently unclear if this will be a temporary or persistent phenomenon. The Fed also published its quarterly macroeconomic projections, which pointed to lower growth and higher inflation through the remainder of the year.

At the Bank of England's MPC meeting, it left rates on hold at 4.25%. It justified its current restrictive approach as necessary to squeeze out persistent inflationary pressures in the UK economy. This followed on the heels of higher-than-expected inflation in the UK, even though this could be blamed on higher regulated prices and energy prices. Meanwhile, the Bank of Japan kept rates on hold at 0.5%, while the Swiss National Bank cut rates to 0% as it sought to combat deflation and a surging Swiss franc.

Investment grade credit
David Oliphant

Global investment grade spreads were unchanged and stable over last week and are barely moved year-to-date. After the volatility seen in April and May it would appear that calm has been restored. The weekend's escalation in the Middle East conflict has had very little impact on the IG market. Global spreads are trading at 90bps over government bonds, according to data from ICE indices. As they stand, spreads are on the 'wrong' side of average, both compared to shorter- (five-year) and longer-term averages.

US high yield credit and leveraged loans
Chris Jorel

US high yield bond valuations were stable for the second consecutive week as markets absorbed geopolitical headlines, and there were few surprises from the week's Fed meeting. The ICE BofA US HY CP Constrained Index returned 0.28% and spreads tightened 4bps to +332bps. The index yield-to-worst declined to 7.3%. According to Lipper, US high yield bond retail funds saw a $356 million inflow over the week. Over the past seven weeks, the asset class has seen around $11.1 billion of retail fund inflows, recouping nearly 90% of the withdrawals seen in early-April.

US leveraged loan prices were again largely unchanged over the week. Mild inflows continued and new issue activity began to increase. The S&P UBS Leveraged Loan index average price remained at $96.2. Meanwhile, retail floating rate funds saw a $291 million inflow, which was an eighth consecutive positive observation. This brings the trailing six-week inflow to $2.7 billion.

European high yield credit

Angelina Chueh

European high yield performance was largely contained last week, returning a flat performance in spite of the sharp rise in geopolitical risk in the Middle East. CCCs were the main underperformer as decompression continued in this rating space, while single Bs outperformed. It was the eighth straight week of rising inflows (€508 million) bringing the year-to-date inflows to €4 billion gross (€2.6 billion net).

The primary market dominated the week with €9 billion of new issuance across eight deals. It was the fifth largest week of corporate supply since 2010, with Wednesday's €7.3 billion the largest ever single day of primary issuance. This brings the year-to-date figure to €54.3 billion. Demand was strong with books three to four times oversubscribed and new bonds seeing good demand post-launch. Primary market strength is expected to continue in the coming weeks before summer holidays start.

In M&A news, Solenis, a provider of water treatment processes and hygiene solutions, announced the acquisition of water products firm NCH Corporation as part of a plan to diversify the company's business. In stock-specific news, satellite operator Eutelsat announced a €1.35 billion capital raise with the French government investing €717 million, increasing their stake to 30%.

In other news, the beleaguered Ardagh Packaging announced that Ardagh Group chairman, Paul R Coulson, is close to an agreement to step down and give control of the group to creditors for $250 million. This would help bring the restructuring plan (with unsecured creditors to take a majority equity position and secured creditors' bonds reinstated at par) nearer to a close. As part of the agreement, creditors are expected to provide $1.4 billion in new financing to refinance facilities, shore up liquidity and fund the payout to Coulson.

Asian credit

Justin Ong

The JACI index posted 3bps of losses last week, largely due to higher rates (a 25bps loss) offsetting the tighter index spreads (a 22bps gain). By ratings, JACI IG saw a 5bps loss while HY delivered 10bps of positive returns.

ReNew Energy reported positive results for fiscal year-end (FYE) March 2025, thanks to an increase in total operating capacity to 10.7GW (net of 300MW of assets sold during the year), compared with 8.9GW at the end of March 2024. For FYE March 2026, management expects EBITDA to grow to INR87-93 billion (versus INR79.2 billion for FYE March 2025).

In Thailand, political instability has increased after the Bhumjaithai (BJT) party withdrew from the coalition government led by Prime Minister Paetongtarn Shinawatra. BJT is the second largest party, with 69 seats, in the coalition government. Its departure left the ruling coalition with a slim majority of 253 seats, versus a majority threshold of 247. Paetongtarn has faced criticisms for not taking a more assertive stance in a border dispute with Cambodia, in contrast to the tougher position taken by the Thai military.

Elsewhere, KT Corp, one of the leading telecommunications and broadband services companies in South Korea, has printed a 3.5-year bond. Hanwha Energy is also issuing a three-year bond, which is unconditionally and irrevocably guaranteed by Korea EXIM Bank.

Emerging markets

Priyanka Prasher

Emerging markets (EM) shrugged off the geopolitical tensions that dominated headlines last week. Sovereigns returned 0.08% on the week in US dollar terms, despite spreads widening by 4bps. Oil-linked African credits led gains as energy prices continued to rally. Local currency EM returned 0.24% on the week.

The US carried out an airstrike on three Iranian nuclear sites on Sunday morning. Oil prices subsequently rose by 5% to $74 a barrel on concerns of supply chain disruptions, before stabilising early on Monday morning as investors awaited Iran’s response.

Elsewhere, Romania’s newly elected president, Nicușor Dan, named pro-EU politician Ilie Bolojan as prime minister. Bolojan will be tasked with improving Romania’s fiscal deficit, which sat at 9.3% at the end of 2024 – the widest in the EU. The new ruling coalition has pledged to approve a plan to reduce their deficit through tax increases and spending cuts. So far, spreads have tightened slightly on the news (-5bps).

Coming up Central bank rate decisions are expected this week from Hungary, Thailand, Mexico and Colombia. China will host the World Economic Forum’s 16th Annual Meeting of the New Champions, also known as the Summer Davos Forum. More than 40 political leaders are expected to attend.

Responsible investment

Charlotte Finch

Major Canadian pension funds are taking opposing stances on sustainable investing, reflecting growing tensions around the nation's climate policy. While the Canada Pension Plan Investment Board and the Royal Bank of Canada have recently abandoned their net zero pledges, other institutional investors are holding firm on their environmental commitments.

La Caisse, one of Canada's largest pension funds, pledged last Thursday to invest an additional $400 billion by 2030 in decarbonisation and climate solutions, after meeting its 2024 targets early. CEO, Charles Emond, says sustainable investing remains core to the fund's fiduciary duties, emphasising the focus on companies with credible decarbonisation plans. La Caisse has also publicly stated its sustainable investment strategy is purely profit-driven. ‘We aren't doing this to save the planet. We are doing this to make money,’ says Bertrand Millot, head of sustainability.

Despite political headwinds favouring fossil fuels, the Ontario Teachers' Pension Plan and the British Columbia Investment Management Corporation are maintaining their 2050 net zero targets. Industry experts suggest this divide reflects broader debates about the financial viability of green investments, with some viewing the energy transition as key to future market competitiveness and energy security.

Fixed Income Asset Allocation Views

23 June 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.

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