

27 October 2025

Crude intentions

US sanctions against two Russian oil giants saw prices spike, as well as putting upward pressure on bond yields. Elsewhere there is optimism that presidents Trump and Xi will find sufficient common ground for a US/China trade deal. 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

There have been large moves in commodities, especially in oil and precious metals. Brent crude oil jumped almost 8% to around \$66 a barrel last week after the US announced sanctions against Russia's two largest oil companies, Rosneft and Lukoil. This was in response to Vladimir Putin dragging his feet on meaningful discussions on Ukraine. The ripple-effect power of US sanctions was again visible: Chinese oil majors curtailed Russian oil purchases and Indian refiners were reported to be looking to cut imports. The EU also approved its new Russia sanctions package, which targets some Chinese entities for buying Russian oil and tightens restrictions on transactions with Russia's largest state-owned oil producers.

Gold saw a 5% slump last Tuesday – the biggest daily drop in five years. It is now around 10% below the peak seen in early October, but still 40% higher year-to-date.

Oil price moves, 2025



Source: Bloomberg, 27 October 2025

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.02%	1 bps	1.1%	6.6%
German Bund 10 year	2.63%	5 bps	0.7%	-0.3%
UK Gilt 10 year	4.42%	-11 bps	2.6%	4.4%
Japan 10 year	1.67%	4 bps	0.1%	-4.0%
Global Investment Grade	78 bps	-2 bps	1.0%	6.6%
Euro Investment Grade	77 bps	-3 bps	0.6%	3.4%
US Investment Grade	77 bps	-3 bps	1.2%	8.3%
UK Investment Grade	68 bps	-1 bps	1.7%	5.9%
Asia Investment Grade	121 bps	3 bps	0.8%	7.3%
Euro High Yield	308 bps	-16 bps	-0.2%	4.7%
US High Yield	288 bps	-16 bps	0.3%	7.4%
Asia High Yield	453 bps	-1 bps	0.8%	8.8%
EM Sovereign	254 bps	-9 bps	1.6%	11.8%
EM Local	5.9%	1 bps	0.6%	16.1%
EM Corporate	247 bps	-3 bps	0.5%	7.9%
Bloomberg Barclays US Munis	3.6%	-1 bps	1.3%	4.0%
Taxable Munis	4.7%	-1 bps	2.0%	8.5%
Bloomberg Barclays US MBS	26 bps	-1 bps	1.4%	8.3%
Bloomberg Commodity Index	267.97	1.7%	2.9%	12.5%
EUR	1.1641	-0.2%	-0.9%	12.3%
JPY	152.83	-1.5%	-3.2%	2.8%
GBP	1.3346	-0.9%	-1.0%	6.4%

Source: Bloomberg, ICE Indices, as of 24th October 2025. *QTD denotes returns from 30 September 2025.



Macro/government

Simon Roberts

Product Specialist, Global Rates

The US 10-year Treasury yield finished the week broadly unchanged at 4%, in the face of the conflicting forces of a spike in oil prices and a softer than expected CPI print. The US sanctions on two Russian oil companies (see [Chart of the Week](#)) not only caused the oil price to spike higher by around 8%, it also exerted upward pressure on bond yields.

On Friday, softer than expected US inflation data led to a bond market rally. The market is currently pricing in two quarter point rate cuts from the Federal Reserve in October and December. We also had the PMI report for the US. While the economy remains relatively resilient, business confidence in the outlook has deteriorated, with companies worried about the impact of tariffs on costs.

There was, however, increased optimism that presidents Trump and Xi would find sufficient common ground to reach a US/China trade deal when the pair meet at the Asia Pacific Economic Corporation summit in South Korea this week.

Elsewhere, the best performing core market last week was the UK. The yield on the 10-year UK government bond fell 10bps to 4.43%, reflecting a surprise downside print for UK inflation. Core CPI came in at 3.5% for the 12 months to September, contributing to positive market sentiment that the Bank of England could adopt a faster pace to monetary easing.

Staying in the UK, the PMI report continued to highlight a sluggish UK economy, as well as caution from the UK corporate sector towards taking investment and spending decisions in the run up to the UK budget.

The German 10-year yield rose 5bps on the week to 2.63%, largely on the back of accelerating growth in the services sector and expectations of increased issuance.



Investment grade credit

Sarah McDougall,
Product Specialist, Investment Grade Credit

Although investment grade (IG) spreads are wider month-to-date, spreads tightened last week. The Global Corporate Bond index offered a spread of between 78bps and 80bps during that period, according to data from ICE indices.

Year-to-date, euro spreads are 24% tighter and the US dollar market has seen a 6% tightening. In both cases, spreads are around 1.3 standard deviations (SDs) tight to five-year averages and around 0.8 SDs to a two-decade comparison.

The IG market appears to have shrugged off concerns (at least for now) that problems of fraud in the private credit market might spill over into public markets. We are watching this closely but note that lending to non-bank financial institutions by banks is only 4% of overall bank lending.



US high yield credit and leveraged loans

Chris Jorel,
Client Portfolio Manager, US High Yield

US high yield bond valuations tightened over the week amid light new issuance, declining outflows and a constructive start to earnings season. The ICE BofA US HY CP Constrained Index returned 0.44% and spreads tightened 16bps. The index yield-to-worst decreased 15bps to 6.60%. According to Lipper, US high yield bond retail funds saw a \$98 million outflow, a stark improvement from the prior week's \$1.3 billion withdrawal.

Despite ongoing outflows, US leveraged loan prices rose modestly as capital market activity remained muted. The S&P UBS Leveraged Loan index average price increased \$0.10 to \$96.0. Floating rate funds continued to see notable outflows with a \$796 million withdrawal over the week.



European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

European high yield continued its recovery, as weekly returns improved to +0.31% with spreads tightening 16bps to 308bps. Yields fell -7bps to 5.81%. Decompression accelerated with BBs strongly outperforming Bs (+0.38% versus +0.27%), and CCCs deteriorating further (-1.1%). Flows also accelerated, with €197 million coming in – for the first time in a very long time this was solely via ETFs as managed accounts experienced modest outflows. The primary market, saw four issues at €2.85 billion. These included a €1 billion new issue from security equipment company Verisure to pay dividends, as well as an upsized deal (€600 million) from cable and satellite company Digi Romania. The other two were two hybrids (Softbank and Aroundtown). This brings year-to-date issuance to €107.4 billion.

The week saw some improvement in the outlook for a number of cyclical sectors. The chemicals sector saw some recovery as Ineos posted relatively stronger than expected results. In the food sector, chicken supplier Boparan also reported a remarkable turnaround. The leisure sector saw solid results for Punch pubs with improvement in profitability while leverage fell. The auto sector had good-to-solid earnings news from Volvo and Renault.

Gambling software firm Playtech is being sued by Evolution. In a New Jersey court the business was accused of requesting a report on Evolution be produced, which was very inflammatory.

In other news, Moody's is putting retailer B&M on watch, with the rating agency announcing a review for downgrade due to the retailer's disclosure of an accounting error. B&M has now taken the step to hire an external advisor for a third party review on the matter.



Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income

The JACI index delivered positive returns of 26bps over the week, thanks to tighter spreads (a 20bps return) and treasury (6bps return). JACI high yield posted 33bps in returns while investment grade generated 21bps.

The outcome from the trade talks between US and China, as well as with other South-East Asian countries, as announced during the ASEAN Summit, is broadly positive. The scope for an extended trade truce between US and China is higher, with China stating it will start to buy some US soybeans and ease the restriction on rare earth metals. The 90-day trade truce for the US reciprocal tariff, which is set to expire on 10 November, could be extended again. According to the US Treasury Secretary, Scott Bessent, the potential threat of a 100% tariff (effective on 1 November) on China has gone away.

That said, on 24 October 2025, the US Trade Representative initiated the Section 301 investigation of China's implementation of the Economic and Trade Agreement between the US and China in relation to a December 2019 Phase One Agreement. For context, China agreed to purchase at least US\$200 billion of goods (2020 and 2021) above a 2017 baseline amount. But there was a huge shortfall in the actual amount purchased, partly due to disruption from the Covid pandemic (\$287 billion versus a target of \$503 billion).

With regards to other South-East Asian countries, the US has reportedly reached an agreement with Thailand that will largely remove trade barriers on US imports by Thailand, in return for certain exemptions on Thai exports from reciprocal tariffs. Cambodia has also reportedly agreed to drop all tariffs on US agricultural imports and industrial products.

In India, the oil refiners are reportedly planning to reduce or suspend shipments of crude oil imports from Russia. This follows the latest sanctions by the US Treasury Department on Russia's two largest oil companies – Rosneft and Lukoil. The US has also highlighted the potential of secondary sanctions on foreign institutions with significant transactions with those two Russian companies. Currently, around 33% of India's crude oil imports come from Russia.



Emerging markets

Omotoke Joseph,
Product Specialist, Emerging Market Debt

Emerging market (EM) sovereigns returned 0.69% on the week. All regions showed positive performance, with Africa leading with returns of 1.16%. Local currency bonds returned 0.15% on the week. Returns were mixed across regions, but the Middle East dominated with local currency returns of 1.63%.

It was a week of key elections. In Argentina, Javier Milei won the country's midterm elections. This saw bond prices open around 20% higher on Monday morning from Friday's close. Elsewhere, investors welcomed a market-friendly presidential win in Bolivia's election of centrist Rodrigo Paz, who has stated his desire to stimulate foreign investment. Ivory Coast also saw a key election, with President Alassane Ouattara winning his fourth term over the weekend.

Tensions began to resurface between the US and Russia as the White House confirmed that plans for Trump and Putin to meet were cancelled due to Russia lacking 'enough action' in terms of securing peace with Ukraine. This was followed by the US announcing oil sanctions (see [Chart of the Week](#)).

Tensions between the US and Colombia remain high after Trump accused Colombian president Gustavo Petro of encouraging drug production in Colombia and announced the suspension of aid payments and subsidies to the country. Colombian hard and local currency bonds have so far been resilient to the news.

Fixed Income Asset Allocation Views

27th 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 deprecating 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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