Information for investment professionals

In Credit

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Calm after the storm

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.27%	-5 bps	0.0%	3.0%
German Bund 10 year	2.51%	4 bps	1.9%	0.0%
UK Gilt 10 year	4.50%	-6 bps	1.6%	2.0%
Japan 10 year	1.32%	0 bps	0.5%	-2.0%
Global Investment Grade	105 bps	-6 bps	0.1%	1.7%
Euro Investment Grade	105 bps	-6 bps	1.0%	1.2%
US Investment Grade	104 bps	-7 bps	-0.3%	2.0%
UK Investment Grade	97 bps	-5 bps	1.0%	1.7%
Asia Investment Grade	151 bps	-5 bps	-0.4%	1.9%
Euro High Yield	373 bps	-33 bps	0.3%	1.1%
US High Yield	367 bps	-35 bps	0.1%	1.0%
Asia High Yield	575 bps	-20 bps	-1.0%	1.8%
EM Sovereign	324 bps	-9 bps	-0.1%	2.3%
EM Local	6.1%	-6 bps	2.5%	7.0%
EM Corporate	291 bps	-8 bps	-0.7%	1.8%
Bloomberg Barclays US Munis	4.1%	0 bps	-1.4%	-1.6%
Taxable Munis	5.1%	-8 bps	-1.2%	1.6%
Bloomberg Barclays US MBS	41 bps	-3 bps	-0.2%	2.8%
Bloomberg Commodity Index	250.71	-0.2%	-3.3%	5.3%
EUR	1.1347	0.0%	5.1%	9.8%
JPY	143.49	-0.9%	4.4%	9.4%
GBP	1.3336	0.4%	3.1%	6.4%

Source: Bloomberg, ICE Indices, as of 25 April 2025. *QTD denotes returns from 31 March 2025.

Chart of the week: Global IG credit spreads – LTM

Source: ICE BofAML and Bloomberg, as of 24 April 2025

Macro/government bonds

We saw a flattening of the US Treasury yield curve and a relief rally in risk assets. There were several factors at play.

First, President Trump suggested that there had been a de-escalation in the trade war between the US and China, which would result in tariffs coming down significantly between the two countries. Treasury secretary, Scott Bessent, also acknowledged the unsustainability of a prolonged trade war, linking a tariff reduction with concessions from China. China, however, contradicted the narrative, stating there had been no negotiations with the US. The market preferred to focus on the more conciliatory tone from the Trump administration rather than the Chinese response.

Second, the market drew relief that Trump walked back from an aggressive characterisation of Federal Reserve (Fed) Chair, Jerome Powell, as 'a major loser' and 'Mr Too Late' on social media site, Truth Social, for not having cut interest rates. His attack raised questions about the politicisation of the Fed, as well as the safe haven status of US Treasuries. Trump later said he had no intention of firing Powell, although he would still like him to ease monetary policy. The apparent step back, for the time being, from his attack on the Fed comforted investors that there could still be a level of independence between monetary policy and fiscal policy in the US.

Third, the rally in Treasuries also benefited from dovish comments from Fed policy makers. Fed governor, Christopher Waller, said he would support rate cuts in the event of tariffs driving job losses, while Beth Hammack, Cleveland Fed President, said the Fed could move as early as June if there was clear evidence that the economy was deteriorating. Both comments suggested that the Fed could react relatively quickly to an economic downturn. Reflecting the shifting political and economic backdrop, the market moved from pricing in three to four quarter point rate cuts by year end.

In terms of market data, we had the Beige Book, a survey of economic conditions across the US, and the most recent PMI report on the state of the US economy. Both pointed to a softening economy, reluctance by businesses to invest, and rising price pressures. The International Monetary Fund (IMF) also released its latest growth forecasts. The major theme was a ratcheting back in expectations of growth amid escalating trade tensions, heightened market uncertainty and disruption to global supply chains. Strength in the US Treasury market was broadly replicated in the UK, although eurozone bond valuations finished the week broadly unchanged.

Investment grade credit

Global investment grade spreads followed other risk markets, with spreads tighter over the week in euros, US dollars and sterling. New issuance activity picked up after recent market turmoil.

By the end of the week, spreads have narrowed to 105bps from 121bps barely two weeks ago. Earlier in year spreads were as tight as 82bps in February **(see chart of the week).**

Over the course of 2025, more defensive sectors have held in better in the spread widening environment – with utilities, healthcare and telecoms widening the least – while autos, technology and financial services have widened the most. Meanwhile, credit curves have flattened with shorter dated bonds underperforming their longer dated cousins. Euro credit has substantially outperformed the US dollar market through this year.

In terms of outlook; we remain fairly neutral on spreads. We point to interest rates that are restrictive and likely to remain so – especially if the tariff war is not resolved. The economic outlook has deteriorated - but the consensus view is for growth to remain low but positive – which is neutral environment for high quality spreads. We feel valuations - after the widening seen this year - have moved from expensive to represent more fair value than was the case. Credit quality remains strong with robust metrics noted for both corporates and banks. Market volaility has picked up - but has not remained high for long enough for us to recalibrate our assessment.

High yield credit & leveraged loans

US high yield bond valuations tightened over the week as markets weighed potential de-escalation of the global trade war, improved technicals, and a benign start to the earnings season. The ICE BofA US HY CP Constrained Index returned 1.24% and spreads tightened 34bps to +384bps. The index YTW decreased 36bps to 7.72%. According to Lipper, US high yield bond retail funds saw a $1.5 billion withdrawal. While negative, the outflow represented moderation from more than $10 billion withdrawn over the prior two weeks. US leveraged loan prices rose $0.55 over the week and have retraced ~40% of the decline from 2025's peak level. The average price of the S&P UBS Leveraged Loan index increased to $95.2. Retail floating rate funds saw a $648 million outflow.

It was a strong week for European HY last week as the market took hope that the US would reverse their tariff policy. The improved atmosphere resulted in EHY returning 1.0% as spreads tightened in 33 bps to 373 bps while EHY yield fell 26 bps to 6.37%. Compression returned to the market with CCCs outperforming the market (CCCs outperformed BBs by 2x). However, flows were light last week with modest net inflows as managed account inflows were largely balanced by ETF outflows. The primary market re opened, post the Easter weekend, with an upsized and well received deal (five times oversubscribed) by Lottomatica. The offering was increased from Euro 600 to Euro 1.1 billion with final price coming in at 4.875% from IPT of 5.25%. It should be noted that this is a name that does not have exposure to the US tariffs. Overall new offerings should pick up as there are more expected in the weeks to come. In general, trading was heavily skewed to better buying on bonds but with dispersion remaining quite high. Defensive names remain well bid for while tariff sensitive names are a bit weaker.

In rating news, Fitch cut Nissan's rating to BB from BB+, citing deteriorating market dynamics, especially in the US, as well as rising cost constraints due to the US tariffs.

In sector news, chemicals and autos benefited from the improved market atmosphere. Some of the auto suppliers who have provided trading updates have confirmed full year guidance. This is based on the expectation that a chunk of the sales to the US will be compliant or that the company will be able to pass on the increased costs to the customers.

Asian credit

The JACI delivered positive returns of 59bp for the week, helped by spreads (+45bp) and lower rates (+14bp). JACI IG posted positive returns of 51bp and JACI HY delivered 109bp.

In China, no additional major stimulus was announced during the monthly Politburo meeting. The policy approach remains incremental with a reiteration of support in several areas. The government will increase the implementation of proactive macro policies which include fiscal support and monetary easing (more reserve requirement reduction reduction). China will also step up the issuance of special Local Government Special Bonds (LGSBs) and China Government Bonds (CGBs), of which the LGBSs can be used by the local governments to fund the purchase of home inventories and land (undeveloped or idle land from property developers). The government will also undertake measures to improve the income of low and middle-income groups, implement the package of local government debt reduction as well as support technology development (launching the sci-tech board for bond issuances).

Sands China's 1Q25 performance was weak with an erosion of market share to 22.4% (-0.4ppt q/q, -1.7ppt y/y) but this is likely to recover over the coming quarters. The company has completed the renovation work for its Londoner Grand and all the 2,405 rooms are available for the May Golden Week. SK Hynix reported a positive first quarter, thanks to the strong sales of HBM (high bandwidth memory products) and AI-driven demand. However, the company did not provide any detailed assessment of the tariff impact given the complexity of the global semiconductor chain and uncertain tariff policies.

Emerging markets

Shifting US policy signals and positive emerging market (EM) fundamentals set a helpful tone last week. EM sovereigns returned 1.28% on the week in USD terms. Spreads tightened by 12bps. Local currencies posted a similarly strong week, returning 1.12% as the dollar softened. Returns were driven by a better risk sentiment across the week; high-beta credits such as Gabon, Kenya, Argentina and Ecuador benefited from this.

Global finance leaders descended upon Washington D.C. last week for the IMF Spring Meetings. The meeting discussions were dominated by tariffs and economic uncertainty as the IMF slashed its growth forecasts but, importantly, did not predict a global recession. EM growth is expected to slow from 4.3% in 2024 to 3.7% in 2025 but was also praised for general resilience and improving external debt metrics. Growth in advanced economies is projected to be only 1.4% in 2025. Mexico and China saw the largest growth forecast reductions to -0.3% and 4.0%, down from 1.4% and 4.6% respectively.

Long-standing tensions between Pakistan and India escalated last week after gunmen killed dozens of tourists in Kashmir. India expelled Pakistani defence advisers and suspended the Indus Waters Treaty, which was established in 1960 and has withstood two wars. The Treaty ensures that Himalayan water flows are protected to generate electricity and avoid disrupting agriculture across both nations. Pakistan's dollar bonds were the biggest losers. Bonds maturing in 2031 widened by 58bps in spread terms.

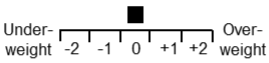
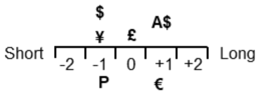
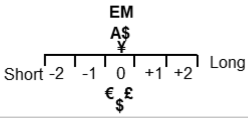
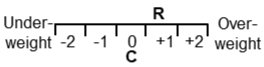
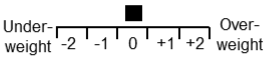
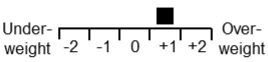
No sovereign issuers came to market last week. PMI data from China will be a key release on Tuesday.

Responsible investments

Last week saw A2A SpA, an Italian utility company, fail on a target set by themselves on a sustainability linked bond they issued in 2022. The structure of a sustainability linked bond allows the issuer to allocate the capital raised on whatever business needs they like, so long as they do not miss sustainability related targets they set upon themselves by a certain time. Unfortunately, A2A did not install the targeted amount of renewable energy capacity by the end of 2024. Thus, a 25bps coupon step up will be given to investors each year on the bond due to mature in 2028. In a report published by A2A, its main reason for failing is due to the energy crisis sparked by the Russia/Ukraine war.

Fixed Income Asset Allocation Views

28th April 2025

Strategy and positioning (relative to risk free rate)		Views	Risks to our views
Overall Fixed Income Spread Risk		▪ Since the US tariff announcements on 2nd April, corporate credit spreads have dramatically widened, market volatility has soared, and the 10-year Treasury has sold off by over 30 basis points. The group took this opportunity to buy credit risk. ▪ The group discussed how they are improving their portfolio's resiliency to this uncertainty, as well as how they are looking to take advantage of further repricing. ▪ **The group upgraded to a neutral outlook on credit risk overall, upgrading their views on corporate credit and downgrading Emerging Markets credit.** ▪ 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	▪ 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)		▪ Despite valuations becoming more attractive in the past month, the group has downgraded the sector to a negative outlook because of worsening fundamentals. ▪ The group maintains discipline regarding valuations, rotating into more compelling opportunities as they arise. ▪ Tailwinds: Strong primary market and growth outlook, ratings trends, dollar retracement. ▪ Headwinds: US tariff and trade policy, global trade destruction, 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 widened to levels last seen in Q3 2023. In this new valuation environment, the group has covered their underweight to IG credit risk. ▪ The group upgraded their outlook due to this recent spread decompression. This outlook was only increased to neutral, however, because the same tariff uncertainty driving this repricing is also worsening the fundamental and technical backdrop. ▪ Earnings season is kicking off with large banks; results and commentary from issuers will be important indicators of future global corporate stress.	▪ 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		▪ Given the more compelling valuations, the group has added high yield credit risk and upgraded their outlook on the sector. ▪ This outlook was only increased to neutral, however, because the same tariff uncertainty was driving this repricing is also worsening the fundamental and technical backdrop. ▪ When earnings season begins in a few weeks, the group will be monitoring issuers' forward guidance and insights into tariff-related industry differentiation.	▪ 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		▪ Agency MBS has underperformed during the recent volatility. ▪ This sector has been a source of cash because it has decent liquidity compared to the rest of the securitised market. The group has pared down the Agency MBS position 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. 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 reduced high quality carry positions to fund opportunistic credit purchases. ▪ RMBS: Spreads wider MoM. Fundamental metrics, like delinquencies, prepayments, and foreclosures remain solid overall. On the margin, housing affordability is improving. ▪ 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: Spreads wider MoM driven by ETF outflows. Defaults remain low but CCC buckets are rising with lower recoveries. ▪ ABS: 60+ Day delinquencies are elevated, driven by inflation and credit score drift. Spreads tighter over the past month; 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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