

# In Credit

28 July 2025

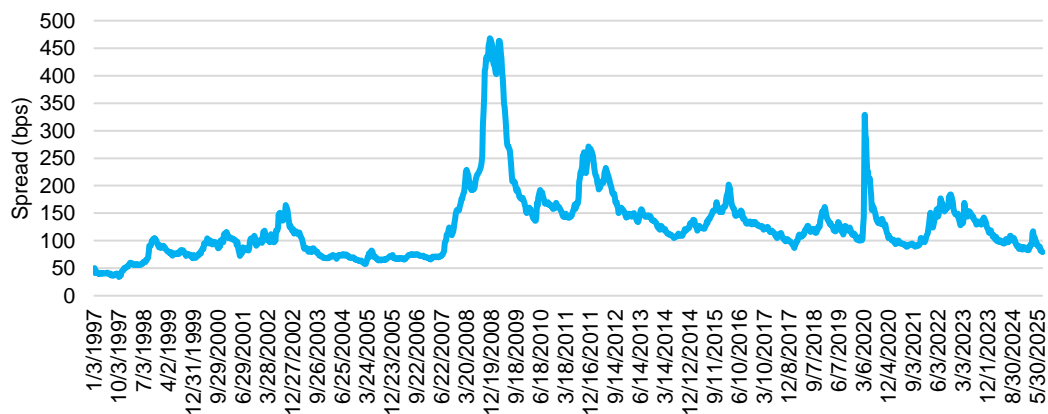
All time high.

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.37%	-4 bps	-0.6%	3.2%
German Bund 10 year	2.69%	-1 bps	-0.6%	-1.2%
UK Gilt 10 year	4.61%	-6 bps	-1.0%	1.5%
Japan 10 year	1.57%	3 bps	-1.3%	-4.0%
Global Investment Grade	79 bps	-2 bps	0.0%	3.5%
Euro Investment Grade	79 bps	-4 bps	0.3%	2.1%
US Investment Grade	78 bps	-2 bps	0.0%	4.1%
UK Investment Grade	75 bps	-1 bps	-0.2%	3.2%
Asia Investment Grade	130 bps	-3 bps	0.2%	4.0%
Euro High Yield	294 bps	-17 bps	0.9%	3.9%
US High Yield	284 bps	-9 bps	0.4%	5.0%
Asia High Yield	491 bps	-5 bps	0.8%	4.3%
EM Sovereign	277 bps	-7 bps	0.7%	6.2%
EM Local	6.0%	-1 bps	0.5%	12.8%
EM Corporate	251 bps	-2 bps	0.7%	4.7%
Bloomberg Barclays US Munis	4.0%	-5 bps	-0.7%	-1.0%
Taxable Munis	5.1%	-6 bps	-0.6%	2.9%
Bloomberg Barclays US MBS	37 bps	1 bps	-0.5%	3.7%
Bloomberg Commodity Index	256.08	-1.5%	1.7%	7.3%
EUR	1.1667	1.0%	-0.4%	13.4%
JPY	148.38	0.8%	-2.5%	6.4%
GBP	1.3415	0.2%	-2.1%	7.4%

Source: Bloomberg, ICE Indices, as of 25<sup>th</sup> July 2025. \*QTD denotes returns from 30 June 2025.

Chart of the week: Global IG spreads, 1996-2025



Source: ICE BofAML and Bloomberg, as of 28th July 2025



## Macro/government bonds

Simon Roberts

There was a bear-flattening trend in core bond markets last week. The flattening trend reflected progress on US trade negotiations worldwide, and a generally more hawkish tone from central bank officials.

In Japan the ruling Liberal Democratic party lost its majority in the Upper House, as voters expressed their dissatisfaction with the governing party's response to higher inflation. However, news came on Tuesday of a Japan-US tariff deal, which would reduce the rate on Japanese exports to the US from 25% to 15%. Japan would also invest \$550bn in the US and commit to buy more rice.

Core CPI in Japan remained elevated, coming in at 3.1% for July and reports emerged that officials at the Bank of Japan might hike again this year, while a lacklustre auction of 40-year debt further dampened investor appetite for long-dated JGBs. Against this backdrop, the yield on the Japan 2 year rose by 9 basis points (bps) while the yield on the Japan 10 year rose by 3 bps.

The European Central Bank (ECB) left interest rates unchanged at 2%. Christine Lagarde, ECB President, argued that the ECB would adopt a "meeting by meeting" approach. The market priced out a September cut. Given disinflationary trends in Europe, we think the market may be overly pessimistic on the prospect of monetary easing into year end.

Over the weekend the EU and US announced a trade deal. Tariffs on EU exports would be reduced from 30% to 15%, the EU would commit to investing \$600bn in the US and purchase \$750bn of energy.

On the Global Rates desk, we remain constructive on duration and maintain curve-steepening positions.



## Investment grade credit

David Oliphant

It was another quiet week in the investment grade market.

Just as the US equity market keeps printing new all-time highs so credit spreads (globally) ended the week at 79 basis points. This is the tightest level since 2007 according to data from ICE Indices ([see chart of the week](#)). The euro market continued to lead the charge tighter ahead of the trade deal sealed last weekend.

This week will see a huge wave of corporate results ahead of the normal summer recess in August. Though spreads are very tight, the outright yield continues to attract investor interest and is providing support for the market. Supply is light given results and the summer season.



## High yield credit and leveraged loans

Chris Jorel

US high-yield bond spreads tightened to their post-Liberation Day lows alongside US equity market gains and solid kick-off to second-quarter earnings reports. The ICE BofA US HY CP Constrained Index returned 0.35% and spreads were 9 bps tighter, ending at 303 bps. The index yield-to-worst decreased, driven by spreads, to 6.99%. According to Lipper, US high-yield bond retail funds saw an \$912m inflow over the week, marking the 12<sup>th</sup> inflow over 13 weeks with \$17bn contributed over the period.

US leveraged loan prices gave back last week's modest gain despite steady retail-fund inflows as a surge (\$61bn) of new issuance weighed on secondary prices. The S&P UBS Leveraged Loan index average price decreased \$0.10 to \$96.80. Retail floating-rate funds saw a \$716m inflow. While this marks 13 consecutive weekly inflows, the asset class has only recouped 44% of the withdrawals seen in March/April.



## European high yield credit

Angelina Chueh

European high yield had a strong week as the market was skewed towards real-money buying (helped by some large portfolio trading) versus hedge funds trimming. Market returned 0.36% as spreads contracted -17 bps to 294 bps (breaking through the 300-bps floor) and yields fell -8 bps to 5.86%. Spreads are now not far from the 12-months lows seen in mid-February this year. Flows into the asset class continued for the 14th week in a row with €519m inflows across both ETFs and managed accounts. This takes the year-to-date inflows to €6.6bn gross and €5.4bn net. Performance is, however, still very much focused on higher-rated credits as BBs strongly outperformed, returning 35 bps vs CCCs' meagre return of 4 bps as decompression continues. The primary market showed signs of finally starting to slow down into the summer lull as there were only two issues last week, totalling €900bn.

In credit rating news, the restructuring for Intrum, the debt collector, is now complete. S&P has upgraded the issuer's bonds to 'CCC+' from 'D' with Outlook Stable. The new bonds (maturities 2027 through 2030) are trading around par with 9-10% yields. In other news, Cirsa, the gaming company, was upgraded by S&P to BB- (PIK to B) following their IPO, given the more-conservative leverage.

In sectors news, autos rallied, in both equities and bonds, on the back of the US-Japan trade deal as the tariff was set at 15%.

In stock-specific news, Elo, the parent company of Auchan, the French mega grocery store, saw their bonds rally (up 5 to 10 bps) on a debt-restructure announcement. The company is seeking to substitute bonds from ELO SACA to New Immo Holding. This will transform bonds from a struggling BB- grocer to BB+ real-estate issuer. Moody's commented favourably on the proposed debt push-down transaction, placing an expected Ba1 rating on the bonds to be transferred.



## Asian credit

Justin Ong

The JACI index delivered a 34 bps gain last week, helped by spread returns (19 bps) and rates (16 bps). JACI IG posted a 30 bps return, trailing behind JACI HY (65 bps return) thanks to stronger spread returns in the HY (52 bps return).

The 145-day period for exclusive negotiation between Hutchison Ports and the consortium of Blackrock-TiL (Terminal Investment Limited) expired on 27 July. Despite missing the deadline, the negotiation for Hutchison Ports to sell its global ports business to the Blackrock-TiL consortium will continue. There is a possibility that China Cosco could be the next strategic investor in the consortium, in order for the transaction to receive the necessary regulatory approval from China. As a recap, there are 43 port terminals (including two in Panama) across 23 countries in this geopolitically contentious transaction. China is keen on positioning itself strategically in this portfolio of global ports.

In Taiwan, the ruling DPP (Democratic Progressive Party) was unsuccessful in pushing out 24 lawmakers from the opposition party KMT (Kuomintang) in a recall vote. According to the Taiwan constitution, lawmakers who have completed their first year in office can be subject to a recall vote if at least 10% of registered voters in their constituencies sign the petition to recall them. In the scenario where 12 out of the 24 lawmakers were recalled, the DPP would have gained a majority in the legislature until the next by-elections, which would be held within three months. However, with DPP facing this setback in the recall vote, KMT maintained its majority in the legislature.

S&P upgraded Pakistan to B- from CCC+, reflecting the government's positive efforts to expand revenue, and more benign inflation which is helping the pace of fiscal consolidation. The Indian Commerce Minister Piyush Goyal expressed optimism that India can reach an agreement with the US ahead of the 1 August deadline. His comments were made on the sidelines of the free-trade agreement signed by UK and India.

LG Energy Solutions (LGES) posted good 2Q numbers with operating profit growth of 15% year-on-year. The company continues to benefit from the US Advanced Manufacturing Production Credit. For 2H outlook, LGES is expecting more growth in energy-storage solutions, which will cushion the challenges on the EV side. LGES has been shifting more capacity in US away from EV batteries towards energy-storage demand, thanks to the demand from renewable energy and grid networks.

SK Hynix reported positive 2Q results, primarily driven by strong sales of memory chips for AI applications. The company experienced accelerated demand in Q2 as customers built inventory buffers amid tariff uncertainties. The company has announced that its 2025 capital expenditure will exceed initial projections. These investment plans are generally calibrated based on customer negotiations, with final figures to be disclosed upon completion of these discussions. For context, demand for specialised products like high-bandwidth memory is typically contracted a year in advance with customers.

Freeport McMoRan (FCX), which is the parent company of PT Freeport Indonesia (PTFI), recently presented its Q2 results. FCX's production is evenly distributed across three regions: US, Indonesia and Peru/Chile. In response to questions whether PTFI would export copper to the US, management clarified that minimal copper exports have flowed from Indonesia to the US, with most copper concentrates being sold within Asian markets. However, with PTFI's new smelter now operational and no long-term contracts binding the company to Asian buyers, PTFI maintains the flexibility to export to any market where economic conditions prove favourable.



## Emerging markets

Priyanka Prasher

Emerging market (EM) sovereigns posted a strong return of 0.76% on the week. High yield significantly outperformed investment grade (1.01% vs 0.49%) as risk sentiment rebounded. Africa led regional returns, while Venezuela outperformed on a country level. Local markets returned 0.29% on the week in US dollar terms.

Venezuela's sovereign bonds outperformed on the week, returning 7.54% on news of a détente with the US. Following headlines of a high-profile prisoner exchange, spreads on bonds maturing in 2036 compressed by -294 bps on the day and then continued their gains on reports that the US may allow Chevron to pump oil in Venezuela. Over the week spreads compressed by -396 bps.

Senegal's bonds enjoyed a strong performance last week, despite recent ratings downgrades, as the International Monetary Fund (IMF) said it would begin discussions on the nation's new programme in August. Spreads on bonds maturing in 2031 compressed by -98 bps, representing a shift of -11%.

No sovereign issuers came to market last week. Turkey's central bank resumed its cutting cycle and reduced its policy rate by -300 bps to 43%.

Turning to the week ahead, all eyes are on the extended tariff deadline on 1 August. Without trade agreements, there is potential for policy rates to rise amongst EM economies.



## Responsible investment

Charlotte Finch

Global sustainable debt from corporates and governments has performed in line with the traditional broad global aggregate index year to date. Returns on the Bloomberg Global-Aggregate Bond Index (GBP hedged) reached 2.45% at the end of last week, versus 2.49% from the Bloomberg Global Aggregate Green Social Sustainable Bond Index (GBP hedged). Reduced labelled debt supply from the US has led to overall global supply to be lower year on year, but demand is still high with recent deals coming in at nearly 10 times oversubscribed - last week German energy company EnBW issued a green bond that was 9.3 times oversubscribed, according to Bloomberg.

Any Formula One (F1) fans might be interested to know that the high-speed motorsport has been able to reduce its carbon emissions by 26% since 2018. Ellen Jones, head of ESG at F1, claims this is thanks to improved logistics, operations and factories, and a shift to more sustainable aviation fuel being used across the various teams. F1 has a minimum 50% carbon reduction target for 2030.



# Fixed Income Asset Allocation Views

## 28<sup>th</sup> July 2025

Strategy and positioning (relative to risk free rate)	Views	Risks to our views
<b>Overall Fixed Income Spread Risk</b> 	<ul style="list-style-type: none"> <li>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.</li> <li>The conversation focussed on how the group is navigating this unattractive valuation environment, as well as fewer foreign investors could impact US credit markets.</li> <li><b>The group downgraded to a negative outlook on credit risk overall, with no changes to underlying sector views.</b></li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>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.</li> </ul>
<b>Duration (10-year)</b> ('P' = Periphery) 	<ul style="list-style-type: none"> <li>Longer yields to be captured by long-run structural downtrends in real yields</li> <li>Inflation likely to normalize over medium term, although some areas will see persistent pricing pressures</li> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>Inflationary dynamics become structurally persistent</li> <li>Labour supply shortage persists; wage pressure becomes broad and sustained</li> <li>Fiscal expansion requires wider term premium</li> <li>Long run trend in safe asset demand reverses</li> </ul>
<b>Currency</b> ('E' = European Economic Area) 	<ul style="list-style-type: none"> <li>Dollar has been supported by US growth exceptionalism and depriving of the Fed while the ECB looks set to embark on a cutting cycle</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>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</li> </ul>
<b>Emerging Markets Local (rates (R) and currency (C))</b> 	<ul style="list-style-type: none"> <li>US weakness can enable EM currency performance.</li> <li>Inflation normalisation and currency strength allows EM central banks to stimulate domestic demand.</li> <li>Risk premium to leak out of local bond curves.</li> </ul>	<ul style="list-style-type: none"> <li>Global risk aversion restores bid for US dollar.</li> <li>Weaker oil environment requires fiscal premium among exporters</li> <li>Higher global term premium.</li> </ul>
<b>Emerging Markets Sovereign Credit (USD denominated)</b> 	<ul style="list-style-type: none"> <li>The group maintains a negative outlook as the sector's rich valuations are misaligned with trade-related fundamental uncertainty.</li> <li>The group maintains discipline regarding valuations and will take advantage of compelling opportunities as they arise.</li> <li>Tailwinds: Reduced default tail risks, ratings trend positive, dollar retracement.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>US trade policy aggression strengthens USD against EM currencies.</li> <li>EM policy makers constrained by currency pressure, rates remain tight.</li> <li>Fiscal concerns leak into local risk premia.</li> </ul>
<b>Investment Grade Credit</b> 	<ul style="list-style-type: none"> <li>Spreads have tightened significantly since the early April volatility. The group added exposure in April to cover underweights and has maintained those allocations.</li> <li>The group remains neutral on the sector given less attractive valuations and global trade uncertainty weighing on the fundamental backdrop.</li> <li>Earnings results were solid, showing historically strong credit metrics. Forward guidance was cautious as management teams struggle to quantify tariff impacts.</li> </ul>	<ul style="list-style-type: none"> <li>Tighter financial conditions lead to European slowdown, corporate impact.</li> <li>Lending standards continue tightening, even after Fed pauses hiking cycle.</li> <li>Rate environment remains volatile.</li> <li>Consumer profile deteriorates.</li> <li>Geopolitical conflicts worsen operating environment globally.</li> </ul>
<b>High Yield Bonds and Bank Loans</b> 	<ul style="list-style-type: none"> <li>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.</li> <li>The earnings season largely met expectations, however forward guidance skewed lower due to trade and political concerns.</li> <li>Despite the negative outlook on the sector, the group remains open to attractive high quality relval opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>Lending standards continue tightening, increasing the cost of funding.</li> <li>Default concerns are revised higher on greater demand destruction, margin pressure and macro risks</li> <li>Rally in distressed credits, leads to relative underperformance</li> <li>Volatility in the short end of the curve, eroding potential upside where we are positioned for carry.</li> </ul>
<b>Agency MBS</b> 	<ul style="list-style-type: none"> <li>Spreads have moved tighter in the past month. In April, the group reduced their Agency MBS allocation to fund opportunistic credit purchases.</li> <li>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.</li> <li>Mortgage rates steadily rose alongside interest rates, as home price increases and refinancing applications are slowing. Purchase applications are steady at lower level.</li> <li>Prefer call-protected inverse IO CMO's, a large beneficiary of aggressive cutting cycle.</li> </ul>	<ul style="list-style-type: none"> <li>Lending standards continue tightening even after Fed pauses hiking cycle.</li> <li>Fed fully liquidates position.</li> <li>Market volatility erodes value from carrying.</li> <li>More regional bank turmoil leads to lower coupons to underperform.</li> </ul>
<b>Structured Credit Non-Agency MBS &amp; CMBS</b> 	<ul style="list-style-type: none"> <li>The group maintains a large allocation of high-quality carry positions.</li> <li>RMBS: Spreads have tightened MoM as mortgage rates increase. Fundamental metrics, like delinquencies, prepayments, and foreclosures remain solid overall.</li> <li>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.</li> <li>CLOs: AAA spreads are tighter MoM, below-IG market is weaker. Defaults remain low, but CCC buckets are rising with lower recoveries.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>Weakness in labour market</li> <li>Consumer fundamental position (especially lower income) weakens with inflation and Fed tightening. Consumer (retail/travel) behaviour fails to return to pre-covid levels</li> <li>Student loan repayments weaken consumer profile more than anticipated, affecting spreads on a secular level.</li> <li>High interest rates turn home prices negative, punishing housing market</li> <li>Cross sector contagion from CRE weakness.</li> </ul>





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