In Credit

3 November 2025

A solid bond in your heart

With the UK budget looming, gilts rallied through October – helped somewhat by an interest rate cut. There were also rate moves elsewhere, with the US and Canada cutting, while Japan and the ECB kept things on hold. Read on for a breakdown of fixed income news across sectors and regions.

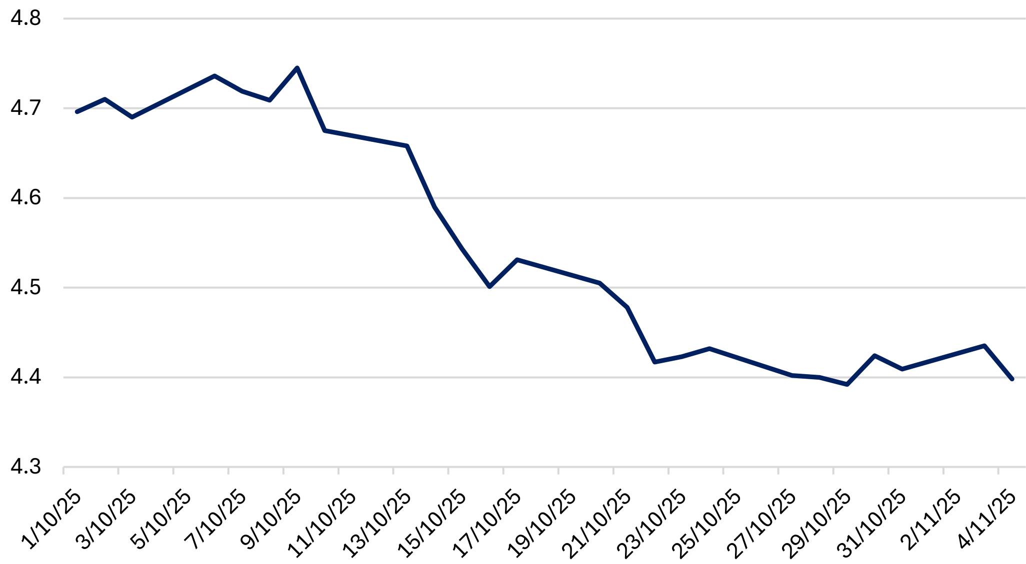
Chart of the Week

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

A month ago the UK gilt market was in a dark place. Higher yields threatened a doom loop of ever-worsening fiscal calculations ahead of the autumn budget. Some wise heads did counsel that the pessimism was overdone, and gilts have indeed rallied back in great style – helped by better-than-expected inflation data, a rate cut from the Bank of England, and renewed expectations of an additional cut to come.

Look out for a forthcoming viewpoint on the UK gilt market ahead of the budget.

10-year gilt yield



Source: Bloomberg, 3 November 2025

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.08%	8 bps	0.6%	6.1%
German Bund 10 year	2.64%	1 bps	0.7%	-0.3%
UK Gilt 10 year	4.40%	-3 bps	2.9%	4.6%
Japan 10 year	1.67%	1 bps	0.2%	-3.9%
Global Investment Grade	79 bps	1 bps	0.6%	6.2%
Euro Investment Grade	76 bps	-1 bps	0.7%	3.5%
US Investment Grade	80 bps	3 bps	0.4%	7.4%
UK Investment Grade	66 bps	-2 bps	2.0%	6.2%
Asia Investment Grade	112 bps	-9 bps	0.6%	7.1%
Euro High Yield	298 bps	-10 bps	0.1%	4.9%
US High Yield	294 bps	6 bps	0.2%	7.3%
Asia High Yield	441 bps	-11 bps	1.1%	9.2%
EM Sovereign	236 bps	-18 bps	2.2%	12.5%
EM Local	5.9%	2 bps	0.5%	15.9%
EM Corporate	236 bps	-11 bps	0.6%	8.0%
Bloomberg Barclays US Munis	3.6%	2 bps	1.2%	3.9%
Taxable Munis	4.8%	9 bps	1.3%	7.8%
Bloomberg Barclays US MBS	28 bps	2 bps	0.9%	7.7%
Bloomberg Commodity Index	270.29	0.0%	2.9%	12.5%
EUR	1.1516	-0.8%	-1.7%	11.4%
JPY	154.14	-0.7%	-3.9%	2.1%
GBP	1.3123	-1.2%	-2.2%	5.1%

Source: Bloomberg, ICE Indices, as of 31 October 2025. *QTD denotes returns from 30 September 2025.

Macro/government

Simon Roberts
Product Specialist, Global Rates

The US Federal Reserve (Fed) cut rates by 0.25% to 4% last week. Fed chair, Jay Powell, said that while conditions in the economy remain relatively resilient, they have noted a gradual cooling in the labour market. He characterised the rate cut as a risk management exercise, as the Fed brought monetary policy closer towards more neutral levels. He also remarked that a rate cut in December is not a foregone conclusion and that there were strongly differing views over how to proceed. On the news, two-year Treasury yields rose by 9bps to 3.57%. The market moved from fully pricing in a quarter point rate cut in December to around a 70% probability. The Fed also brought an end to sales of securities, citing higher short-term funding costs, ample bank reserves and – to date – a 50% reduction in the balance sheet.

In other rates news, the European Central Bank left rates on hold at 2% with inflation still close to their 2% target. The market had broadly anticipated this outcome, with yields at the two-year and 10-year tenors broadly unchanged over the week. The Bank of Canada announced a 25bps cut to 2.25%, signalling to markets that monetary policy had reached a more neutral stance. The Bank of Japan left rates on hold at 0.5% but, in a more hawkish shift, governor Kazuo Ueda stated that rates could rise as soon as December if wage and inflation data maintained upwards momentum. On this news the Canada 10-year rose 3bps on the week to 3.1% while the Japan 10-year rose 1bps to 1.67%.

Trade tensions between US and China dissipated as presidents Trump and Xi met in South Korea. The US dialled back tariffs from 57% to 47%, while China agreed to pause export controls on rare earths for one year. The easing of trade tensions supported risk assets.

Investment grade credit

Luke Copley
Client Portfolio Manager

Spreads versus government bonds in the investment grade credit market were little changed last week, and therefore remain at historically tight levels. Resilient earnings and trade de-escalation headlines offset a Federal Open Market Committee meeting that underwhelmed on guidance for a December rate cut. Euro spreads modestly outperformed, with the macro backdrop driving higher confidence in euro-area economic conditions (GDP data was strong, PMIs shrugged off tariff concerns again).

Technicals also remain very supportive as net investment flows into the market remain positive (until very recently, supply of new issues was running slightly behind the trend of last year). Of course, this could change over the remainder of the year and in recent days we have seen jumbo issuance from tech giants Meta ($30 billion) and Google's parent Alphabet (around a $25 billion multi-currency multi-tranche deal). Part of the rationale for this issuance is to finance AI investment, as well as the ever-expanding need for data centres.

On earnings, there have been no materially adverse surprises so far. The mainstream banks in particular have published healthy numbers, which has offered some comfort to the market given recent fears that problems in private credit – and loans to non-bank financial institutions in particular – might capture fresh headlines and lead to poor results. Nevertheless, the topic of problems in the private credit space is one we will continue to monitor closely.

US high yield credit and leveraged loans

Chris Jorel,
Client Portfolio Manager, US High Yield

US high yield bond spreads were largely unchanged over the week as fund inflows returned and the third quarter earnings season got off to a strong start. The ICE BofA US HY CP Constrained Index returned -0.10% and spreads tightened 6bps.The index yield-to-worst increased 18bps to 6.78%. According to Lipper, US high yield bond retail funds saw a $459 million inflow.

Despite ongoing outflows and Fed easing, US leveraged loan prices rose modestly again. The S&P UBS Leveraged Loan index average price increased $0.10 to $96.1. Floating rate fund outflows continued, albeit at a declining rate, with $132 million withdrawn over the week.

European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

European high yield finished October with another strong week, returning 0.26%, with spreads tightening 10bps to 298bps as yields fell 6bps to 5.75%. We also saw decompression as CCCs strongly underperformed, returning only +0.08% compared to a single B return of 0.36% (and BB return of 0.22%). Given the negative performance through much of October, this culminated in a write down of -4.0% for CCCs. BBs were the strongest performing rating (+0.47%) and the only one to outperform the market.

There was a pickup in inflows with €488 million coming into the asset class, almost entirely via ETFs with modest inflows only from managed accounts. The primary market was solid but made of smaller deals: six new issues totalling €2 billion. This brings year-to-date gross issuance to €119 billion with net issuance at €30 billion.

In terms of sector, news from the chemical space was not as bad as feared. Although numbers are still not strong, they are coming in on the right side, albeit after expectations had been lowered. Improvement is not expected until sometime later in 2026. From the real estate sector, meanwhile, there was positive news for Heimstaden Bostad as S&P upgraded its outlook to ‘stable’ citing improving issuer credit rating, fiscal discipline, reduced debt/EBITDA and lower loan-to-value.

Structured credit

Kris Moreton,
Client Portfolio Manager, Structured Credit

The bear flattener was not positive for agency mortgage-backed securities (MBS) last week, as the sector returned -53 bps. There are multiple catalysts for performance from here. New investors are creating some energy. While Fed balance sheet runoff is slow and will be reinvested in T-bills as per chair Powell’s comments week, the sector is gaining traction from Real Estate Investment Trusts (REITs) and government-sponsored enterprises (GSEs). REITS added $22 billion in Q3 and Fannie added about $5 billion in September. Furthermore, the Federal Housing Finance Agency raised Freddie’s $20 billion mortgage-backed securities investment limit to $40 billion and now allows collateralised mortgage obligations to be held as well. Greater potential for GSEs to be buyers in an environment of zero net new production is ultimately a positive, as is volatility continuing to decline in terms of bringing back bank demand. On the flip side, however, lower conviction in future rate cuts isn’t great for mortgages, nor are bear flatteners given poorer funding costs.

In the asset-backed securities (ABS) primary market it was a calmer week with 10 deals pricing for less than $6 billion in issuance. Deals seem to be getting done with very little issue. Secondary ABS also felt more constructive. Flows were slightly elevated with just over $1.2 billion flowing through TRACE per day. Spreads closed out the week around 2bps tighter in on-the-run paper and the pricing of a couple of auto deals helped provide some clarity on where clearing levels were in support of secondary. There is some good demand lower down in credit, with the recent widening in subprime autos.

Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income

The JACI index delivered a small 6bps return for the week, driven by spread returns (9bps gain) offsetting the Treasury loss (-3bps). JACI IG posted 7bps return, ahead of HY (3bps loss).

The US and China have reached an agreement to de-escalate trade tensions during a summit of presidents Trump and Xi in South Korea. The US will reduce the fentanyl tariff to 10% from 20%. The overall average US tariff rate on China will be reduced to around 30% (baseline reciprocal tariff, 10%; remaining fentanyl tariff, 10%; pre-Trump 2.0 tariff, 11%). The baseline reciprocal tariff will remain at 10% with the US agreeing to extend the second 90-day suspension on the 24% reciprocal tariff (which will expire on 10 November) by a year. The US will also suspend the 50% affiliate rule in export controls for one year.

In return, China will suspend the rare earth export controls that were announced on 9 October for one year. Another agreement is the suspension in implementing the port services fees on vessels by both countries. China will resume purchases of soybeans and other farm products from the US. According to US Treasury Secretary, Scott Bessent, China will buy 12 million metric tonnes of soybeans for the current season through January 2026 and at least 25 million metric tonnes annually for the next three years.

The US and South Korea have also made further progress in their trade and investment deal, since preliminary versions were announced in July. The US will maintain the 15% reciprocal tariff but cut the automobiles and auto parts tariffs to 15% from 25%). South Korea's $350 billion investment commitment will comprise $200 billion of cash investment and $150 billion of investment in shipbuilding. For the cash investment portion, South Korea will have a $20 billion annual cap, which means the total is effectively spread over a 10-year investment horizon.

In company news, SK Hynix posted another record quarterly revenue in Q3 and the company has secured the full customer demand for the entire DRAM and NAND production in 2026. According to management, the tight supply of HBM (high bandwidth memory) will continue into 2027.

Emerging markets

Omotoke Joseph,
Product Specialist, Emerging Market Debt

Emerging market (EM) sovereign debt saw positive returns of 0.56% on the week. Latin America led with strong returns of 1.56%, with Africa following with 0.67%. Local currency bonds displayed negative returns of 0.13% over the week as the US dollar strengthened against EM currencies.

Argentina took centre stage following President Milei's landslide victory in regional elections. His party won nearly 41% of the vote. Bonds prices rose 3% over the week.

Jamaican 20-year sovereigns took a hit amid the devastation from Hurricane Melissa, with spreads widening by 7% before retightening somewhat. In Africa, Nigerian bonds were stable following President Trump's threats of rescinding aid and of employing military action over an alleged failure to combat religious extremists.

In other news, S&P upgraded Mongolia from BB- to B+ despite the country's political uncertainty. Spreads tightened by around 4% on this news.

Upcoming we expect sovereign bond issuance over the next week from Hong Kong, Thailand and Côte d'Ivoire. There is an upcoming general election in Chile.

Fixed Income Asset Allocation Views

3rd November 2025

Strategy and positioning (relative to risk free rate)		Views	Risks to our views
Overall Fixed Income Spread Risk	Under-weight -2 -1 0 +1 +2 Over-weight	▪ 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)	£ ¥ A$ Short -2 -1 0 +1 +2 Long $ P €	▪ 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)	EM ¥ A$ Short -2 -1 0 +1 +2 Long €$£	▪ 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))	C R Under-weight -2 -1 0 +1 +2 Over-weight	▪ 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)	Under-weight -2 -1 0 +1 +2 Over-weight	▪ 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	Under-weight -2 -1 0 +1 +2 Over-weight	▪ 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	Under-weight -2 -1 0 +1 +2 Over-weight	▪ 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	Under-weight -2 -1 0 +1 +2 Over-weight	▪ 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	Under-weight -2 -1 0 +1 +2 Over-weight	▪ 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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