Information for investment professionals

In Credit

15 December 2025

Look to the future now, it’s only just begun

After an eventful 2025, what might be in store for 2026? Elsewhere, despite a few hurdles throughout the year, core investment grade markets are ending the year tighter than they started. Read on for a breakdown of fixed income news across sectors and regions.

Forecasting 2026

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

For the final In Credit this year we take inspiration from Slade’s 1973 Christmas number 1, and invite you to consider what “impossible” things might occur in 2026. As is usual in such an exercise, the forecast events are viewed as having low odds:

- President Trump will have a bitter argument with the new chair of the US Federal Reserve (Fed) before the end of 2026.
- Christine Lagarde will resign as president of the European Central Bank, and her successor will be the Dutch outsider Klass Knot.
- UK prime minister Keir Starmer, French president Emmanuel Macron and German chancellor Friedrich Merz will surprise the world by all remaining the heads of their respective nations.
- By contrast, not all four of the seemingly “forever” autocratic leaders of Russia, China, North Korea and Iran will be in power at the end of the coming year.
- Problems in private credit will multiply and 2026 may become known as the “Year of the Cockroach”.
- Scotland will overcome two top 11 sides in Brazil and Morocco and qualify for the group stage of the FIFA World Cup.

We accept that the Trump prediciton is perhaps more likely than the Scottish football team, but as is usual for this kind of exercise we will consider the list a success if two of the six are correct. As we retire to listen to the strains of Noddy Holder, we would like to echo Slade’s message of “Merry Christmas Everybody” and reflect on their assertion that the future has only just begun.

The next edition of In Credit will be published on 6 January 2026.

Markets at a glance

	Price / Yield / Spread	Change 1 week	Index QTD return*	Index YTD return
US Treasury 10 year	4.17%	4 bps	0.4%	5.8%
German Bund 10 year	2.84%	4 bps	-0.7%	-1.7%
UK Gilt 10 year	4.50%	3 bps	2.6%	4.4%
Japan 10 year	1.96%	1 bps	-1.7%	-5.7%
Global Investment Grade	79 bps	0 bps	0.3%	5.9%
Euro Investment Grade	77 bps	1 bps	0.0%	2.8%
US Investment Grade	80 bps	1 bps	0.4%	7.4%
UK Investment Grade	65 bps	0 bps	2.0%	6.2%
Asia Investment Grade	116 bps	-3 bps	0.8%	7.4%
Euro High Yield	290 bps	0 bps	0.2%	5.1%
US High Yield	291 bps	6 bps	0.7%	7.8%
Asia High Yield	452 bps	-8 bps	0.9%	8.9%
EM Sovereign	232 bps	-1 bps	2.5%	12.9%
EM Local	5.9%	5 bps	2.3%	18.0%
EM Corporate	241 bps	-2 bps	0.8%	8.2%
Bloomberg Barclays US Munis	3.6%	1 bps	1.3%	4.0%
Taxable Munis	4.9%	2 bps	0.4%	6.9%
Bloomberg Barclays US MBS	24 bps	0 bps	1.0%	7.8%
Bloomberg Commodity Index	274.52	-2.6%	5.0%	14.8%
EUR	1.1745	0.8%	0.1%	13.4%
JPY	155.15	-0.3%	-5.1%	0.9%
GBP	1.3386	0.3%	-0.6%	6.8%

Source: Bloomberg, ICE Indices, as of 12 December 2025. *QTD denotes returns from 30 September 2025.

Macro/government

Simon Roberts
Product Specialist, Global Rates

Government 10-year yields rose, on average, by 5bps in core markets (US, the eurozone and the UK) last week.

The Fed cut rates by 25bps to 3.75% in a widely anticipated move, although the language surrounding the move was more dovish than the market was expecting. Fed chair, Jay Powell, said rates had been adjusted sufficiently to support the labour market, while also emphasising the policy rate was now closer to its neutral zone.

The Fed also updated their economic projections, which pointed to stronger growth, lower inflation and a further quarter-point rate cut in 2026. This was in contrast to the market whose current pricing reflects the probability of two quarter-point rate cuts.

We saw further evidence of the continuing politicisation of the Fed. Trump stated in an interview with the Wall Street Journal that he expects to be consulted on monetary policy and to see rates at 1% or lower in a year's time.

In US economic news, the JOLTS labour market data reported a quit rate of 1.8%, suggesting US workers are less optimistic about finding new roles. The prospect of resilient economic growth in the US, alongside greater fiscal expansion, translated into some steepening of the US curve last week.

There were rate decisions in other markets last week, including the Reserve Bank of Australia, the Bank of Canada, and the Swiss National Bank, all of which left rates on hold at 3.6%, 2.25% and 0%, respectively. While the Australian central bank expressed concern at tightness in the labour market, the main preoccupation for the Swiss central bank has been the lack of inflationary pressure in the domestic economy.

In the UK, GDP for October came in at -0.1%, underlining the sluggishness of the UK economy. The market expects UK rates to be cut by 0.25% at the Bank of England's December meeting.

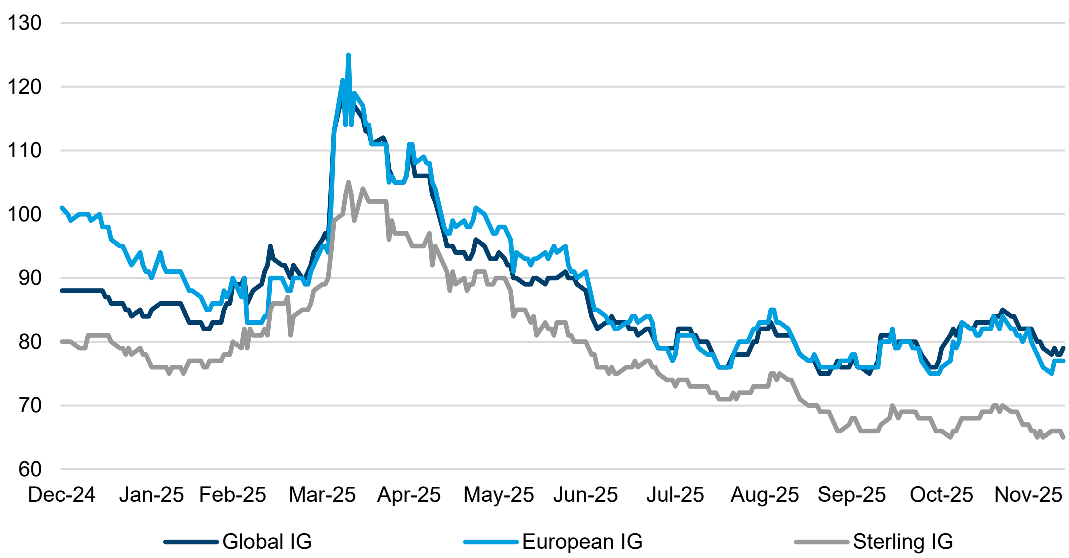
Positioning There were no major changes last week. We remain cautious on duration and retain a steepening bias.

Investment grade credit

Charlotte Finch,
Client Portfolio Manager, Investment Grade Credit

Investment grade spreads in core markets were flat last week, with the prospect of a break for the holidays looming. Spreads for global and sterling IG were flat, with European IG only 1bp wider. The primary market followed suit with low levels of new issuance, as is typical at this time of year. Year-to-date, and despite a few hurdles throughout the year, core markets are ending the year tighter than they started (see **Chart of the week**).

Chart of the week: IG credit spreads year-to-date



Source: Bloomberg and ICE BofAML Indices as of 12 December 2025.

In an unexpected turn early last week, Paramount Skydance, backed by the Ellison family, launched a hostile takeover bid for Warner Bros Discovery after the latter announced plans to sell its studio and streaming divisions to Netflix for $82.7 billion. Paramount's competing offer values the entire company at $108.4 billion and proposes $30 per share in cash, versus Netflix's $23.25 per share mixed offer. The competing offer included business units, such as cable news, that Netflix hadn't intended to buy. With the deal completion date months away, more developments will undoubtedly unfold.

Elsewhere, Generali and BPM announced they will not proceed with their proposed asset management joint venture, which would have created a manager overseeing nearly €2 trillion in assets. The decision follows complications from Italy's political environment, where there is sensitivity regarding foreign (and particularly French) financial institutions increasing stakes in Italian banks, despite the partnership's potential industrial benefits.

US high yield credit and leveraged loans

Chris Jorel,
Client Portfolio Manager, US High Yield

US high yield bond valuations widened slightly over the week but remain near the lower end of 2025's trading range. This came as the new issuance calendar remained active and the Federal Open Market Committee delivered an expected 25bps cut. The ICE BofA US HY CP Constrained Index returned -0.14% and spreads widened 7bps.The index yield-to-worst increased 6bps to 6.74%. According to Lipper, US high yield bond retail funds saw a $542 million inflow – the third consecutive inflow for the asset class. This brought year-to-date inflows to $18.4 billion.

US leveraged loan prices were largely unchanged as investors assessed a well-telegraphed Fed cut and fund outflows remained manageable. The S&P UBS Leveraged Loan index average price was unchanged at $96. Floating rate funds saw another modest outflow with $123 million withdrawn. This was the eighth outflow over the past nine weeks and brought year-to-date inflows to $3.7 billion.

European high yield credit

Angelina Chueh,
Client Portfolio Manager, European High Yield

It was a subdued week for European high yield: the market return was modestly negative at -0.07%, with spreads unchanged at 290bps but with yields up 6bps to 5.86%. Decompression continued as CCCs strongly underperformed BB and Bs, with the latter being the best performing rating band for the week.

The week saw good two-way price movement even as activity showed signs of slowing down. Inflows into the asset class continued with €148 million via both ETFs and managed accounts. This brings year-to-date net inflows to €9.34 billion. The primary market is finally slowing to a trickle with only €0.7 billion, via two deals, coming to market this past week. Even though we expect that will be it for 2025, there is already a fair amount of talk regarding deals coming in January.

In credit rating news, Moody's announced a second downgrade of the year for UK specialty chemicals company Ineos, with Ineos Finance downgraded to B2 from B1 and Ineos Quattro downgraded to B3 from B2. The rating agency cited poorer than expected Q3 earnings figures. In better news, Q-Park was upgraded to BB by S&P.

In M&A news, telecommunications firm Orange announced the signing of a binding agreement with Lorca to acquire their 50% stake in MasOrange for a cash sum of €4.25 billion. This formalises the non-binding agreement previously announced on 31 October.

This week we reported our default outlook for both European high yield and global high yield, with both showing materially lower rates for the next 12-24 months. For Europe the 12-month default forecast is 2.1% (down from 5.1%) and the 24-month forecast is 4.4% (down from 8.0%). For global, the 12-month default forecast is 2.7% (down from 4.1%) and the 24-month forecast is 5.9% (down from 8.0%). The improvement in these headline forecasts is driven by the completion of a number of restructuring and liability management exercise processes.

Structured credit

Kris Moreton,
Client Portfolio Manager, Structured Credit

US agency mortgage-backed securities (MBS) were down 19bps last week as the curve steepened. Overall, it has been a stellar year for the sector driven by a sharp rally in spreads and attractive carry. Total returns thus far sit at 7.84%, while excess returns have outpaced other high-quality sectors at 1.47%. Although we have strong conviction on the sector, we have reduced our overweight due to spread compression. Technicals are mixed and bank demand has been soft, while Government-Sponsored Enterprise (GSE) and Real Estate Investment Trusts (REIT) investments have been more supportive. Fortunately, supply is also subdued.

In the non-agency and asset-backed securities (ABS) sectors we have witnessed some deterioration in prime borrowers over several months. Combining those trends with tough affordability and pressure on housing prices, we are more cautious on credit overall. Delinquencies (DQs) have been ticking higher on regional softness in non-agency residential MBS, while ABS DQs remain elevated but stable. That said, there has been no loss of appetite for either sector. Non-agency RMBS issuance for Q3 reached about $52 billion, which was 52% higher year-on-year and was met by strong demand. Primary ABS issuance surged to the highest level since 2016 in November, with year-to-date issuance surpassing 2024.

In commercial MBS, idiosyncratic risk remains elevated. Defaults, downgrades and extensions in office and near-term maturities have been consistent themes that have spread into multi-family. Despite this, spreads have followed the broad market and tightened. As an example, new issue AAA spreads are near all-time tights in the single-family rental market.

Asian credit

Justin Ong,
Research Analyst, Asian Fixed Income

The JACI delivered flat total returns last week. Tighter spreads (19bps returns) were offset by higher rates (-18bps loss). JACI IG posted a 5bps loss, contrasting with the solid 43bps in positive returns by JACI HY.

China has concluded its annual two-day Central Economic Work Conference (CEWC), which set the priorities for economic policies for 2026.The main message was policy continuity – no major pivot to stimulus, albeit any ramp-up would be gradual to support growth. On fiscal policy, China will continue to implement a more proactive stance and maintain a necessary fiscal deficit and total debt size. This suggests a more modest fiscal expansion in 2026 following the tariff truce. Accordingly, the fiscal deficit ratio is likely to land at around 4% or slightly higher. Domestic demand remains the top priority, with potentially more consumption subsidies and other policies to support long-term demographic needs (ie healthcare, childcare and childbirth subsidies).

China's November macro data was broadly underwhelming, with poor retail sales (+1.3% year-on-year versus October's +2.9% year-on-year), weak fixed asset investments (-11% year-on-year versus October's -11.2% year-on-year), and industrial production that marginally decelerated to +4.8% year-on-year from 4.9%. However, exports rose +5.9% year-on-year from -1.1% in October, helped by stronger exports to non-US markets.

Emerging markets

Omotoke Joseph,
Product Specialist, Emerging Market Debt

Emerging market (EM) sovereign debt remained relatively flat over the week in both US dollar and local terms. EM corporates continued to lag sovereigns with a slight underperformance of -0.04%. EM flows over the week were up $4.3 billion with year-to-date flows into EM bonds of $27.4 billion (as of 12 December).

In Chile, far-right candidate José Antonio Kast was elected the country's next president, beating the governing left-wing coalition candidate with more than 58%. Bond's saw little reaction on this news. Earlier in the week, Argentina sold local-law dollar bonds as a "dry run" for the country's comeback to global credit markets. The bond is due in November 2029 with a 6.5% semi-annual coupon, priced to yield at 9.26%. Elsewhere in LATAM, Panama bonds saw strong outperformance, opening 5%-6% tighter after Friday's close. This was due to activity from local buyers, with real money buyers following suit.

In ratings news, Fitch upgraded Oman from BB+ to BBB- and confirmed a stable outlook for the country's foreign currency. It said the upgrade reflected the country's sustained improvement in public and external balance sheets. Elsewhere in Europe, Fitch downgraded Hungary's outlook from stable to negative, due to fears of the country's budget deficit significantly exceeding previous forecasts.

EM debt had a mixed but resilient year with solid carry helping to offset periods of volatility and uncertainty. Year-to-date, EM sovereign debt saw strong returns of around 14% and corporates saw returns of around 8%. We will continue to seek opportunities in the markets and areas of relative value add.

Fixed Income Asset Allocation Views

15th December 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 remain very tight across nearly all sectors and current valuations leave limited upside to returns in most areas. ▪ US macroeconomic growth fundamentals remain stable despite labor cooling. Policy and market outlook points to the Fed easing as inflation is moderating. ▪ **The group maintained a moderately underweight view on credit risk, with no changes to their underlying sector views.**	▪ 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)	P $ € Short -2 -1 0 +1 +2 Long ¥ £ A$	▪ 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)	A$ € £ Short -2 -1 0 +1 +2 Long EM ¥ $	▪ 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	▪ Spreads have tightened to recent lows. Even after good performance, Emerging Markets offer a somewhat unique set of risks relative to other sectors. ▪ 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 smaller and more issuer specific, especially because the 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	▪ Valuations have widened about 10 basis points from September's historic tights. ▪ Fundamentals remain strong, but the group is monitoring industry dispersion and low-end consumer weakness. 3Q earnings were above expectations. 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. ▪ Technicals are modestly weaker this month, as AI-related hyperscaler issuance has come with meaningful confessions, impacting other high quality spread curves.	▪ 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	▪ Valuations have widened about 35 basis points from September's recent tights. ▪ 3Q earnings have been generally solid and the group has started to add exposure in select battered Industrials names. Despite the negative outlook on valuations, the group still sees pockets of good opportunity, especially in higher quality issuers. ▪ Despite the First Brands default, the Loans LTM default rate fell to 3.3%, the lowest level in 2025. In general, the sector's fundamentals and technical remain solid.	▪ 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 have tightened significantly but remain wide relative to other high-quality sectors. The group remains positive on Agency MBS because the carry and convexity are still attractive. ▪ Falling mortgage rates accelerated prepayment speeds in October, though they are still muted. Technicals have improved as REITS stepped in and GSEs are permitted to increase holdings. ▪ The Administration has signalled it wants to use Agency reform to lower mortgage rates and has floated launching a 50-year mortgage.	▪ 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 widened with supply as credit curves have flattened. 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, with spreads widening this month. 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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