

Fixed Income asset class overview

November 2025

Risk assets experienced early weakness before rebounding later in November. Market sentiment continued to be driven primarily by the Federal Reserve (Fed), as expectations for interest rate cuts shifted throughout the month.

Month in review

At the beginning of November, the market reduced the chances of an interest rate cut after Fed Chair Jerome Powell warned that a December reduction was ‘not a foregone conclusion’. However, some hawkish concerns over an AI-driven market bubble persisted, weighing on US risk assets. European assets fared relatively better, supported by optimism around a potential peace deal for Ukraine. In the UK, markets reacted positively to the government’s latest budget announcement, with 10-year gilt yields falling seven basis points (bps) on the day, after some initial concerns in the run up to it. The move was driven by larger-than-expected fiscal headroom, which restored investor confidence. Japan saw declines following the unveiling of a major fiscal stimulus package. Bond yields surged, with the 10-year Japanese Government Bond (JGB) yield rising 14 bps to 1.81%, its highest since 2008, and the 30-year jumping 29 bps to a record 3.34%.

Sovereign bonds painted a mixed picture in November. JGBs were the biggest underperformer (-1.3% total return). Meanwhile, after a bumpy ride, US Treasury 10-year yields fell for a fourth consecutive month and prices, which move inversely to yields, posted a 0.6% total return. Gilts also experienced rising yields at the start of the month, but breathed a sigh of relief after the budget, recovering ground to end the month relatively flat. Eurozone government bonds were also relatively flat in November at an aggregate level.

In investment grade (IG), all major indices ended November at similar spread levels. Risk assets initially sold off and spreads widened, before improving sentiment mid-month led to spreads recovering somewhat. They eventually finished slightly wider than they had been at the end of October.

In high yield (HY), spreads experienced a similar round trip, widening at the start of the month, before this partially reversed. Global HY returned 0.3%, whilst HY floating-rate notes (FRNs) outperformed, returning 0.4%, supported by carry and tighter spreads. Fundamentals remain on solid ground.

In emerging markets (EM), there was another month of positive returns, but more muted than in October. Hard currency sovereigns returned 0.4%, mostly thanks to the rate component. There was a similar dynamic in hard currency corporate bonds, which also delivered a small positive performance. Local currency sovereigns remained the standout performer, returning 1.3%. FX performance was generally positive.

Developed market sovereigns

The Fed was the biggest story of the month at a global level, with expectations of a cut in December beginning the month slightly lower after Powell’s comments in the October press conference sowed seeds of doubt in investors’ minds. However, weak labour market data releases led to an 83% chance of a cut being priced in by the end of the month. Eurozone inflation continues to remain around target after the European Central Bank (ECB) left rates on hold at the end of October. The UK saw inflation fall to 3.6%, whilst the budget announcement was taken well by the market following some negative sentiment and fear in the run up. In Japan, core CPI inflation came in at 2.8%, but JGBs underperformed after the government announced a large fiscal stimulus package.

The Fed continued to fly blind in November without key economic data being produced, but the market seemed to take this relatively in its stride. Near the beginning of the month, markets priced in a 68% possibility of an interest rate cut given Powell’s warning that a December cut was ‘not a foregone conclusion’. Markets dialled this back after further hawkish data such as the ISM services index where prices paid hit a three-year high. By 20 November, the probability of a December cut had hit 24.5%. However, the delayed September jobs report showed that the unemployment rate had risen to 4.4%. This, coupled with more dovish “Fed speak” led to a rate cut being priced back in, finishing the month at 83% probability.

There was no US inflation number printed in November due to the government shutdown. Given the lack of data, we are somewhat in the dark. The Bureau of Labour Statistics (BLS) cancelled the October CPI release, meaning that the Fed will have to make its next policy

rate decision without this information. November's number has been delayed until 18 December.

In the absence of official GDP data, EY and University of Michigan forecasts predict real GDP growth around 2.0% for 2025, with the government shutdown shaving off 0.1-0.2 percentage points from the numbers.

In the euro area, there was no ECB meeting in November. Inflation remains around target at 2.2%. Policy rates in the eurozone seem to be at the terminal rate, with the market not pricing in any hikes or cuts to the end of 2026.

Aggregate PMI fell to 49.6, with a number of smaller economies experiencing growth in industry, while the readings in France and Germany are at nine-month lows. Sluggish growth continues to be a theme.

In the UK, all eyes were on the budget. The market sold off in the lead-up to it, because of concerns that it would not meet investors' hopes for fiscal tightening. The budget itself ended up being somewhat of a non-event, with markets taking it pretty well after the Chancellor increased fiscal headroom.

The October CPI number fell to 3.6% from 3.8% in September, supporting the view that perhaps we have seen the peak in the second bout of inflation. Inflation is expected to continue to fall into 2026, which should allow the Bank of England to cut interest rates to support the economy. The market is pricing in 2.5 cuts to the end of 2026.

Past performance is not a guide to future performance.

Government bond total returns (in local currency)

	10-year yield %	Total return % (1m)	Total return % (ytd)
Treasuries	4.0	0.6	6.7
Bunds	2.7	-0.4	-0.7
Gilts	4.4	0.1	4.8

Source: Bloomberg, 30 November 2025

Investment grade credit

Investment grade (IG) credit spreads widened in the first half of the month before recovering somewhat. By the end of November 2025, spreads remained slightly wider than the previous month's range.

Interestingly, all major IG markets ended November at similar spread levels. This convergence is notable given the divergence seen earlier in the year. In particular, UK IG spreads deserve attention. After trading wider than US and European counterparts for most of 2025, UK spreads have finally closed the gap. This reflects improving

sentiment towards UK credit, supported by a smoother-than-expected budget announcement and potentially stabilising macroeconomic conditions. The alignment across regions suggests a more balanced risk environment as we head into year-end, although relative value opportunities may remain limited in the near term.

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Investment grade total returns

	Credit spread (bps)	Total return % (1m)	Total return % (ytd)
US IG	82	0.6	8.1
Euro IG	80	-0.2	3.2
UK IG	84	0.1	6.6

Source: Bloomberg, 30 November 2025

High yield credit

HY spreads experienced a round-trip in November – initial widening amid early-month risk aversion was later partially reversed as dovish signals, including expectations of further Fed cuts, helped restore sentiment. Lower quality credits (CCC) underperformed as investors favoured higher quality amid uncertainty.

By month-end, high yield spreads hovered around 300 bps – still near historically tight levels – reflecting continued investor confidence underpinned by resilient fundamentals and subdued default activity.

From a fundamental perspective, the high yield asset class remained on solid ground. Corporate earnings were robust, and default rates remained low across both the US and Europe. This combination of resilient credit metrics and elevated all-in yields provided investors with attractive carry, helping to cushion the impact of spread volatility during the month.

The HY primary market remained strong in November, with issuance slightly below the year-to-date average but higher than October. Issuance continued to skew upwards in quality, with CCCs accounting for just 3% of YTD supply, on track towards the lowest share in the past decade. On the demand side, HY flows were flat this month but YTD inflows remain positive but below last year's pace. Cash generation from calls and coupons continued to support the market's technical features.

In the year to date, global HY has returned a strong 7.4%, with performance largely driven by carry across most markets amid shifting macroeconomic signals. With yield-to-worst (YTW) at approximately 6.71% for US HY (USD) and 5.10% for European HY (EUR), carry remains the primary contributor to total return, providing both income and downside protection.

Outlook

- **Elevated income:** HY bonds offer attractive yields (c. 5–7%), with carry still able to drive mid-single-digit returns next year, in our view, supported by accommodative central banks.
- **Benign default expectations:** Defaults remain low (<3% expected), with recent increases limited to isolated cases. Active, bottom-up selection is the key to avoiding issuer-specific risk, in our opinion.
- **Market technical features:** Slowing net supply and steady demand should keep spreads well bid.
- **HY FRNs advantage:** Low volatility, senior secured status, and strong recovery rates make them resilient. We believe they offer competitive yields with minimal duration and with diversification benefits.

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High yield total returns

	Credit spread (bps)	Total return % (1m)	Total return % (ytd)
US HY	295	0.5	7.8
Euro HY	296	0.1	5.0

Source: Bloomberg, 30 November 2025

Emerging market bonds

Emerging market debt (EMD) posted another month of positive returns. The relative underperformance of hard currency corporates vs sovereigns continues to reflect their lower duration profile and IG bias. This dynamic is also reflected in the disparity of returns between the IG and HY portions of the hard currency indices whereby the high yield portion has notably outperformed. In hard currency sovereigns, the returns of each portion, respectively, stand at 10.40% and 16.59%. Local currency sovereign bonds remained the primary driver of returns in November. Gains were supported by currency appreciation (76 bps) and carry (56 bps), aided by a weaker US dollar and broadly lower local rates.

Unlike October, when most countries within the hard currency sovereign index posted positive returns, November saw greater dispersion. Bolivia, Ecuador, and Venezuela were among the strongest performers, with Venezuela now up approximately 97% year-to-date. In contrast, Senegal, Lebanon, and Gabon delivered negative returns, with Senegal continuing to face pressure amid concerns over its debt burden.

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Emerging market bonds total returns

	Credit spread (bps)	Total return % (1m)	Total return % (ytd)
Local currency government	n/a	1.3	17.5
Hard currency government	277	0.4	13.5
Hard currency corporate	250	0.2	8.2

Source: Bloomberg, 30 November 2025

Currencies

The US dollar ended November marginally weaker, slipping by 0.6% as measured by the DXY index. This move extends the broader trend of dollar softness seen throughout 2025, with YTD losses now at approximately 8.3%. The dollar's decline reflects a sustained period of pressure, interrupted only by brief episodes of strength earlier in the year. G10 currencies broadly strengthened against the dollar, though performance was uneven. The Japanese yen remained an outlier, extending its three-month depreciation streak. Elsewhere, commodity-linked currencies such as the Australian and Canadian dollars appreciated, while the euro and sterling posted modest gains.

In emerging markets, FX performance was generally positive, supported by positive carry dynamics. Latin America continued to stand out, with the Colombian peso, Mexican peso, and Chilean peso among the strongest performers both during the month and on a year-to-date basis. In contrast, several Asian currencies faced headwinds, including the South Korean won and Taiwanese dollar.

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Key currency pairs

	Change % (1m)	Change % (ytd)
GBP/USD	0.6	5.7
GBP/EUR	0.1	-5.6
EUR/USD	0.5	12.0

Source: Bloomberg, 30 November 2025

The value of investments will fluctuate, which will cause prices to fall as well as rise and you may not get back the original amount you invested.

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