

Fixed Income asset class overview

October 2025

Markets performed well in October, buoyed by the US-China trade truce, solid economic data, and encouraging earnings. These positive factors helped offset concerns around private credit and speculation about a potential artificial intelligence (AI) bubble.

Month in review

Sovereign bonds delivered positive performance despite Federal Reserve Chair Jerome Powell's hawkish tone towards the end of October, leaving the 10-year Treasury yield at its lowest monthly close in over a year at 4.08%. Treasuries, bunds and gilts all delivered positive returns in October. This was driven by better-than-expected inflation prints and weak economic data, particularly in the job market, as well as sluggish growth. Credit markets continued in a "risk-on" mood with credit spreads around historic tight levels. In commodities, gold surpassed \$4,000/oz for the first time, while silver reported a sixth consecutive gain for the first time since 1980. Traditionally, this would be a potential bearish signal, which is in contrast to the signals in equity and credit markets.

In October, investment grade (IG) corporate bond spreads in the US edged slightly wider amid increased market volatility, but remain near historically tight levels. By late September, US IG spreads had reached post-pandemic lows around 72 basis points (bps), but in October they widened, finishing the month at 80 bps. European IG spreads initially moved in tandem with US spreads but outperformed and tightened by 2bps by the end of the month.

Global high yield (HY) markets delivered positive returns of 0.2% in October, taking year-to-date (YTD) performance to 7.1%. Performance was driven mainly by rates, with spreads widening 10-15 bps during the month. Global HY floating-rate notes (FRNs) underperformed (-0.4%) with no duration tailwind and wider spreads (by around 11 bps) due to isolated stories affecting some issuers.

October proved to be another strong month for emerging markets (EM), with all portions of the market delivering positive returns. Hard currency sovereigns led the way returning 2.1% during the month, buoyed by both spreads continuing to compress and underlying rates falling. Local currency sovereigns returned 0.5% despite currency detracting, as this was more than offset by strong levels of carry (income). For local currency sovereign bonds, year-

to-date performance now stands at 15.9%, which leads most fixed income markets.

Developed market sovereigns

October 2025 delivered sharply contrasting economic signals across major economies. In the US, a temporary government shutdown at the start of the month delayed key data releases. However, alternative data on jobs showed that US job growth had nearly ground to a halt in September.

The eurozone enjoyed inflation very close to the 2% target for a second month, allowing the European Central Bank (ECB) to stick to a 'wait-and-see' stance even as growth flat-lined. The UK continued to suffer the highest inflation in the G7 at 3.8%, showing virtually no improvement and forcing the Bank of England (BoE) to pause rate cuts despite a stagnating economy. Japan's inflation rose to 2.9%.

Mid-October US jobless claims spiked, signalling rising layoffs. Overall, US employment growth has hit a wall, with joblessness creeping higher and wage growth modest.

Inflation data in October sent mixed signals, with headline CPI holding at about 3.0% year-over-year and core CPI near 3%. Producer prices surprised to the upside in September, though this was largely due to temporary energy effects rather than a broader trend.

In the euro area, the European Central Bank (ECB) held interest rates unchanged at its mid-September meeting and did not convene an October rate-setting meeting, effectively ending its rate-cutting cycle after bringing the deposit rate to 2.00% in June. In communications through October, ECB officials struck a cautiously optimistic tone – acknowledging that "inflation has rapidly come down to around 2%" and that policy is now likely in the restrictive zone needed to maintain price stability.

On the activity front, the eurozone's problems have shifted from inflation to lack of growth. Country data revealed divergence: Germany's economy stagnated in Q3, as US tariffs and weak global demand affected its exports. Italy also saw GDP stagnating. In contrast, France

and Spain saw growth, with the latter helped by services and tourism.

In the UK, the consumer price index rose 3.8% in the 12 months to September, unchanged from August. That made the UK an outlier among advanced economies – its inflation is roughly double that of the eurozone or US. One particularly troubling component is services inflation, which remains over 4.5% – indicating persistent domestic price pressures largely driven by rapid wage growth.

Despite the uncertainty around fiscal repair and the annual government budget statement to be announced on 26 November, the inflation report sent rate cut bets racing and shot through UK markets. Long-term government borrowing rates lurched lower, with the benchmark 10-year gilt yield hitting a low for the year at one point, and sterling plunged.

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	4.1	0.6	6.1
Bunds	2.6	0.7	-0.3
Gilts	4.4	2.7	4.7

Source: Bloomberg, 31 October 2025

Investment grade credit

In October 2025, IG corporate bond spreads in the US and Europe edged up from historically tight levels amid increased market volatility. European IG spreads initially moved in tandem with US spreads, but outperformed towards the end of the month.

Surging bond supply was a primary driver of wider spreads, especially in the US where IG bond issuance was exceptionally high. For instance, September saw a record US\$229 billion of supply, and October continued the heavy pace with large debt deals. These large issuance volumes – roughly a quarter of US net supply in 2025 was tied to AI-related deals – put upward pressure on credit spreads by increasing the amount of debt investors had to absorb. In contrast, Europe faced a more benign supply backdrop, as euro IG issuance had been subdued since the summer. The lighter supply in Europe meant less widening pressure on European spreads compared to the US.

At the same time, credit-specific concerns sparked bouts of risk aversion in early October. In the US, markets were rattled by loan default headlines and lending worries. These credit jitters caused an initial jump in spreads as

investors demanded more yield to compensate for perceived higher risk. Still, robust corporate earnings helped counteract these fears – a strong third-quarter earnings season provided fundamental support, keeping high-grade spreads relatively tight by historical standards despite the turbulence. In other words, solid fundamentals and technical support (like continued investor inflows) prevented a more pronounced spread widening.

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Investment grade total returns

	Credit spread (bps)	Total return % (1m)	Total return % (ytd)
US IG	80	0.4	7.4
Euro IG	76	0.7	3.5
UK IG	82	2.2	6.5

Source: Bloomberg, 31 October 2025

High yield credit

Global HY markets delivered positive returns with performance driven mainly by rates, with spreads widening during the month. Global HY FRNs underperformed.

After grinding near the tightest level in the cycle in prior months, spreads moved higher in October. The widening was driven by a combination of various factors including early-month volatility (uncertainty created by US government shutdown and data vacuum), a hawkish Fed interest rate cut (with hints that no further cuts are guaranteed), heavy supply with slower market take-up and isolated issuer-specific issues. By month-end, high yield spreads were c. 10-15 bps wider, but it's worth noting they were still relatively tight by historical standards.

October's spread widening was not uniform across credit qualities – there was notable dispersion by rating. Higher-rated segments held up as investors favoured quality while lower-rated ones (CCCs) underperformed as spreads jumped on weaker credits.

Carry remains a key technical driver, with all-in yields of c. 6.8% for US HY (USD), c. 5.0% for EU HY (EUR) and c. 6.3% for Global HY FRN (USD).

Outlook

- **Attractive all-in yields:** HY bonds offer attractive all-in yields of around 5-7%, providing strong carry despite tight spreads. In a carry-driven environment, this supports potential high single-

digit returns, aided by broadly supportive central bank policies.

- **Benign default expectations:** Defaults remain low, projected below 3% over 12–18 months, with the recent uptick limited to isolated distressed exchanges. The focus is on avoiding idiosyncratic risks, which is where our analyst team adds value.
- **Supportive market technical:** Net supply is low and demand from exchange-traded funds (ETFs) and coupon reinvestments is strong. Despite higher volatility due to macroeconomic and trade concerns, the supply-demand imbalance continues to support spreads. We believe that US HY bonds, with yields near 6.8%, are likely to attract yield-focused investors.
- HY FRNs retain an edge even in rate-cutting cycles thanks to lower volatility—historically capturing most upside with less downside—plus their senior secured status, which boosts recovery (60–80%) in defaults. They offer competitive yields despite minimal duration, appealing to income-focused investors, and their low correlation with sovereign and IG credit adds diversification, making them a resilient allocation for income and stability.

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High yield total returns

	Credit spread (bps)	Total return % (1m)	Total return % (ytd)
US HY	294	0.2	7.3
Euro HY	292	0.1	5.0

Source: Bloomberg, 31 October 2025

Emerging market bonds

Emerging market debt (EMD) delivered solid gains in October. The hard currency sovereign index rose 2.1%, marking its sixth consecutive month of positive returns. Corporate debt continued to lag, returning 0.6%, though both segments benefited from spread compression and supportive interest rate dynamics. Despite the US dollar strengthening by around 2% during the month, local currency debt held up well, returning 0.5% thanks to strong carry.

The rally remained broad-based, with Argentina leading hard currency performance following Javier Milei's mid-term election victory. The scale of the rebound surprised to the upside, reflecting renewed investor optimism. The

top and bottom 15 performers in the index showed wide dispersion, but overall sentiment remained constructive.

Historically, the beginning of a Fed rate-cutting cycle has provided a meaningful tailwind for emerging market debt, and this cycle appears to be following that pattern.

Year-to-date, a softer US dollar has supported local currency returns, and as investors look to diversify away from US assets, EMD is increasingly viewed as a relatively stable refuge. Fundamentals remain robust across both sovereign and corporate sectors, with many economies benefiting from contained inflation and accommodative monetary policy.

October also brought encouraging developments on the trade front. The US and China made progress toward de-escalation, and President Trump's diplomatic outreach to several Asian economies helped improve sentiment around global trade. These developments supported risk assets more broadly and added to the constructive backdrop for EMD.

While spreads continue to compress, yields remain elevated, offering an attractive entry point for investors rotating out of other parts of the market. With EMs still expected to outpace developed economies in growth, the case for the asset class remains compelling, in our view.

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Emerging market bonds total returns

	Credit spread (bps)	Total return % (1m)	Total return % (ytd)
Local currency government	n/a	0.5	15.9
Hard currency government	269	2.1	13.0
Hard currency corporate	236	0.6	8.0

Source: Bloomberg, 31 October 2025

Currencies

The US dollar posted strong performance in October, gaining approximately 2% against a basket of major currencies. Despite the Fed delivering a widely expected 25bps rate cut, the dollar rallied following Chair Powell's hawkish messaging, which pushed back against expectations of a third consecutive cut in December.

The dollar's strength was broadly felt across G10 currencies, all of which depreciated against the greenback. The Japanese yen was among the weakest performers, despite a positive reaction in equity markets to the appointment of Sanae Takaichi as Prime Minister.

EM currencies fared relatively better, with several posting gains over the month. Latin America continued to stand out, particularly the Andean region, where all major currencies appreciated. The Peruvian sol was the top performer, supported by improving terms of trade and a rebound in copper prices. The Colombian peso also strengthened, showing resilience despite heightened rhetoric from Donald Trump targeting President Gustavo Petro.

In Argentina, Javier Milei's mid-term election victory provided a boost to local assets, but the peso remained under pressure. Even with US support measures in place, the currency continues to lag its regional peers.

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Key currency pairs

	Change % (1m)	Change % (ytd)
GBP/USD	-2.2	5.1
GBP/EUR	-0.5	-5.7
EUR/USD	-1.7	11.4

Source: Bloomberg, 31 October 2025

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