

FIXED INCOME



US Bonds

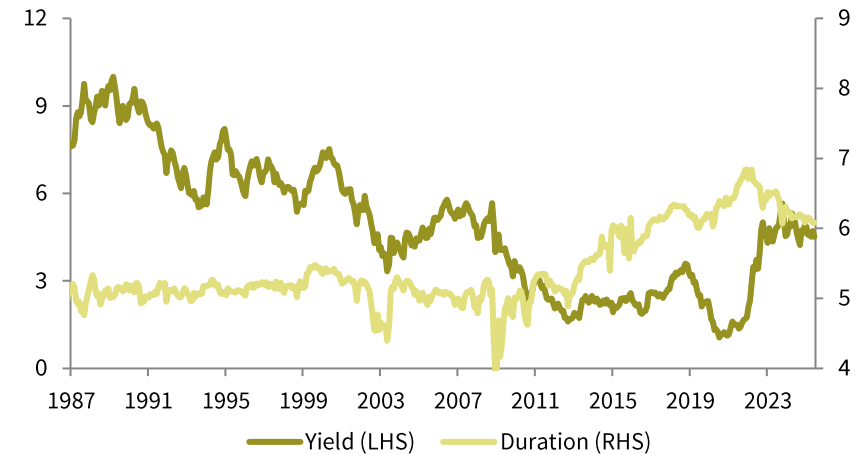
Facts & Figures Second Quarter 2025

Core US bonds returned 1.2% in 2Q as US Treasury yields dipped. Inflation has softened and US economic data has weakened. The Fed may resume easing later in 2025 but faces challenges given tariffs could prove inflationary yet also curb economic growth.

- The Bloomberg US Aggregate Bond Index returned 1.2% in 2Q, bringing its trailing 12-month return to 6.1%. Core fixed income has demonstrated its diversifying benefits in recent months. While equity markets ultimately finished 2Q higher, they initially suffered steep losses given concerns over the impact of tariffs and a trade war.
- The yield on the Bloomberg Agg fell slightly in 2Q to 4.51%. Yields on underlying benchmark Treasuries were mostly unchanged. Investors are trying to balance concerns over the potential inflationary aspects of tariffs and rising debt issuance given the passage of the reconciliation bill with weakening economic data and ebbing inflationary pressures.
- The Fed has been on hold in 2025 despite weakening economic data and easing inflationary pressures. The labor market has remained healthy and potential tariffs could prove inflationary. Should the Fed resume easing, this could help pull longer term yields lower and benefit longer duration bonds.
- The Bloomberg Aggregate Index has a high-quality asset mix—over 70% of the index carries an AA or higher rating—and most of this is a direct or indirect obligation of the US government. This should serve to insulate it should US economic growth deteriorate. The flipside is that questions are arising around ongoing demand for US Treasuries from investors as large ongoing federal budget deficits mean supply remains elevated.
- Around 25% of the index is corporate bonds. Credit spreads are below historical medians despite tariff-related uncertainty and offer little cushion if growth weakens. However, US IG corporate fundamentals have been healthy and borrower leverage is low.
- The duration of the Bloomberg US Aggregate index (around six years) has declined as rates have backed up but leaves it vulnerable to unexpected spikes in long-term yields.

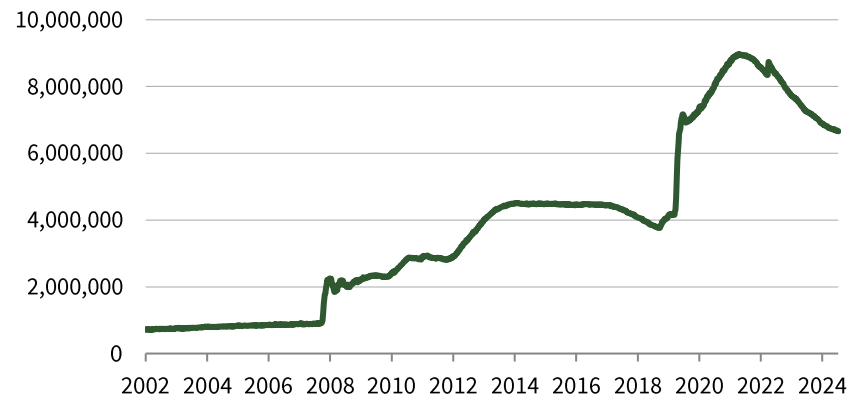
YIELD VS DURATION: BBG US AGGREGATE BOND INDEX

Jan 31, 1987 – Jun 30, 2025



FED BALANCE SHEET TOTAL ASSETS

Dec 18, 2002 – Jun 30, 2025 • US\$M



Sources: Bloomberg Index Services Limited, Federal Reserve Bank of St. Louis, and Thomson Reuters Datastream.

Notes: Fed balance sheet assets are weekly and not seasonally adjusted. Total assets are less eliminations from consolidation.

US Treasuries

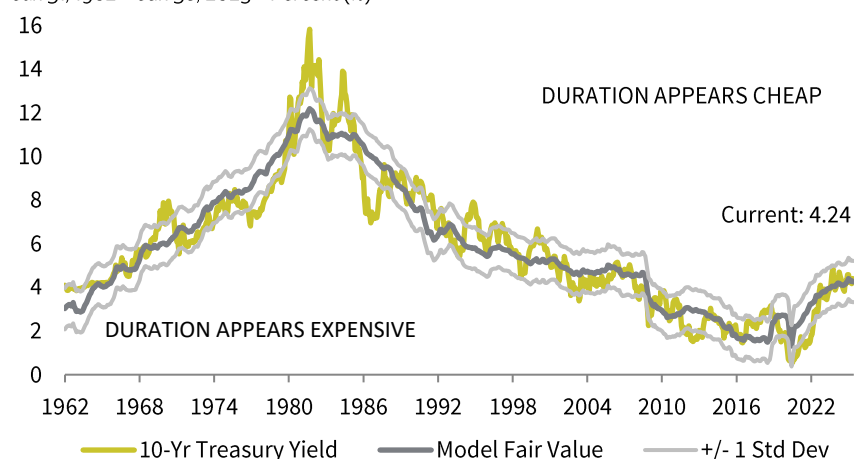
Facts & Figures Second Quarter 2025

US Treasury securities returned 0.8% in 2Q and are up 3.7% YTD. US Treasury yields have declined in response to growing growth and tariff-related concerns, despite heightened inflation and fiscal risks.

- Nominal ten-year US Treasury yields settled at 4.24% as of June 30, down from a high of roughly 4.7% early this year. Following the move, US Treasury valuations appear fairly valued. Yields are squarely within the middle of their implied fair value range of 3.3%–5.2%, which is based on the trend in the nominal GDP growth.
- US economic activity has moderated this year as data broadly has mostly surprised to the downside and both consumer and business sentiment has slipped in response to tariffs. While underlying inflation pressures have eased—the seasonally adjusted three-month annualized rate of US core CPI was 1.7% as of May—inflation will likely rise in response to higher tariffs.
- The latest consensus among analysts suggests US real GDP growth will expand 1.5% and headline CPI will rise 2.9% in 2025, compared to 2.1% and 2.5%, respectively as of December 2024.
- The somewhat stagflationary outlook has challenged the Fed's ability to act decisively. The Fed's current target policy rate range of 4.25%–4.50% remains restrictive compared to its estimated longer-run neutral rate of 3.0%. While the Fed still projects it will cut rates by 50 bps this year, division within the Fed about the rate outlook has increased, with nearly half of FOMC members anticipating only a single 25-bp cut or no cuts at all.
- The yield curve has steepened somewhat this year. The spread between ten-year and two-year yields has increased from 33 bps at the end of 2024 to 52 bps as of June 30. Yields at the long-end of the curve have been stickier as the term-premium for holding longer-dated debt has increased. The ten-year term premium reached 0.9% in May, its highest rate in over a decade.
- The higher term premium reflects several factors, including Fed easing, increased policy and economic uncertainty, and fiscal/supply concerns. The recently passed One Big Beautiful Bill locks in large deficits for the foreseeable future. The US deficit is currently running close to 7% of GDP—well above the historical average of 3.7%.

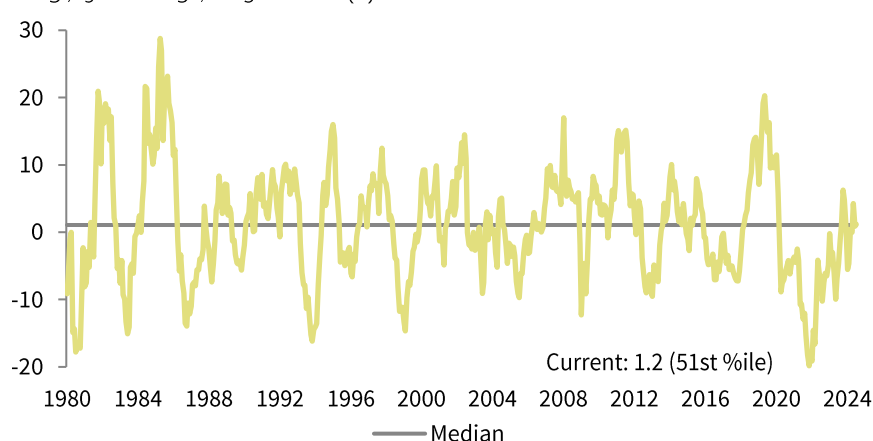
VALUATIONS: 10-YR TREASURY

Jan 31, 1962 – Jun 30, 2025 • Percent (%)



12-MONTH PRICE MOMENTUM: 10-YR TREASURY

Dec 31, 1980 – Jun 30, 2025 • Percent (%)



Sources: Federal Reserve and Thomson Reuters Datastream.

Notes: The Model Fair Value is the predicted range of ten-year yields based on a multiple linear regression model that includes trailing ten-year real GDP and CPI change. CPI data are as of May 31, 2025.

US Cash

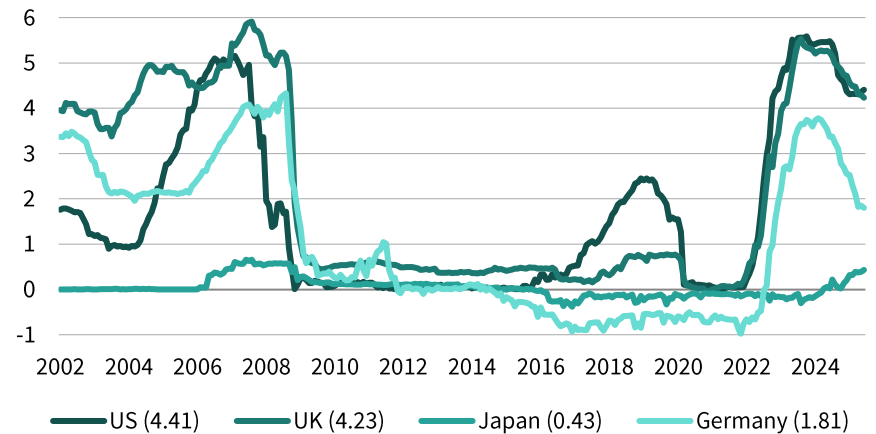
Facts & Figures Second Quarter 2025

Cash has remained a stable source of returns this year. This will likely remain the case in the near-term given elevated short-term yields and flat yield curves in major countries. However, the outlook for cash versus bonds is less favorable as most major central banks have begun to cut rates and Treasury yield curves have steepened in most major countries.

- Policy rates have risen significantly from their post-COVID lows, but the Fed, ECB, and BOE each started to lower their main policy rates over the previous year. While tariffs complicate the outlook, interest rates markets project each central bank will cut rates further in the future, with 1 to 4 cuts expected over the next 12 months.
- Cash yields traded above treasury yields for an extended period, reducing the opportunity cost of holding cash. While the spread between cash and treasury yields remains compressed, yield curves steepened significantly since mid-2024 as central banks lowered policy rates. Cash yields should move further below treasury yields if DM central banks lower rates as much as expected over the next 12 months.
- Cash provides stability and is important for liquidity needs. Both are a priority in today's market environment, particularly for investors with heavy operational spending, significant unfunded commitments, or that have currency and other hedging overlays.
- US investors should stick to secure instruments such as US T-bills. In the eurozone, cash should be kept in a core country bank within prudent limits. For investors that use money market funds, we recommend Treasury and government funds. Prime funds invest in bank commercial paper, corporate notes, and other credits and may have gating and floating-NAV provisions, making them slightly riskier.
- Holding cash for an extended period can be challenging, given the risk that inflation erodes the value of cash in real terms and the opportunity costs of not investing in assets with higher expected returns over longer periods. Additionally, reinvestment risk will likely increase as central banks cut rates, and the yield curve steepens.

T-BILL RATES

Jan 31, 2002 – Jun 30, 2025 • Percent (%)



MARKET EXPECTATIONS FOR FUTURE CENTRAL BANK RATES

As of Jun 30, 2025 • Percent (%)

| | CURRENT | 3M | 6M | 1Y | 2Y |
|-------|---------|------|------|------|------|
| UK | 4.25 | 4.00 | 3.75 | 3.55 | 3.54 |
| Japan | 0.50 | 0.53 | 0.64 | 0.77 | 1.00 |
| EMU | 2.00 | 1.90 | 1.78 | 1.74 | 2.00 |
| US | 4.38 | 4.03 | 3.66 | 3.24 | 3.08 |

Sources: Bloomberg L.P. and Thomson Reuters Datastream.

Notes: ECB data represented by the ECB overnight deposit rate. Feds funds target range is 4.25%-4.50%. The mid-point of 4.38% is used for future market expectations.

US Corporate Bonds

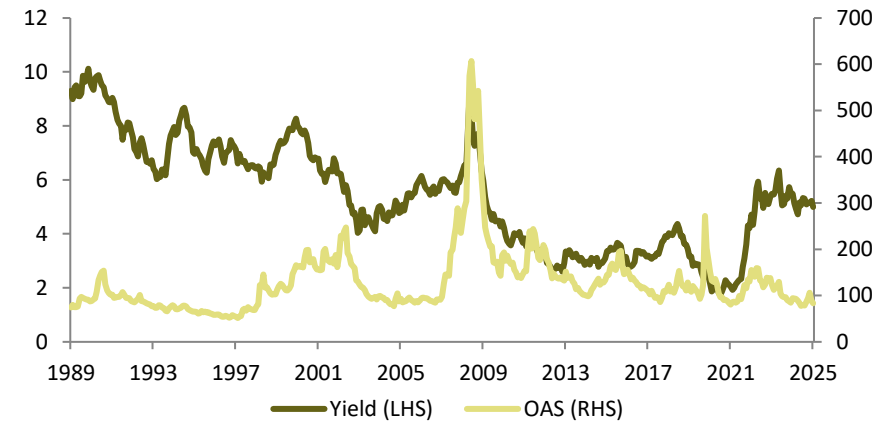
Facts & Figures Second Quarter 2025

US investment-grade (IG) corporate bonds returned 1.8% in 2Q and are now up 4.2% YTD. The 4.99% index yield is above its ten-year average and should serve to underpin future returns, though tariffs could threaten the Fed's ability to ease later in 2025 and cause some retracement in underlying Treasury yields.

- The Bloomberg Corporate Investment-Grade Index returned 1.8% in 2Q and is now up 6.9% over the past 12 months.
- Spreads fell slightly in 2Q despite tariff-related volatility and downward revisions to US growth forecasts. The current OAS of 83 bps is in the bottom quintile of historical observations. While credit risk is limited by the high-quality nature of the index, the current OAS offers little cushion if sentiment or fundamentals soften.
- Yields fell slightly in 2Q to 4.99% and are about 30 bps lower than where they began 2025. Underlying Treasury yields have moved lower in 2025 as inflation has fallen and growth forecasts have weakened, which for now are offsetting growing concern over the inflationary impact of tariffs and diminished demand for US assets from foreign investors.
- Should growth deteriorate and a recession ensue, IG corporate fundamentals would deteriorate but from a strong position. Morgan Stanley reports the median interest coverage ratio for investment-grade corporate borrowers was 10.3x at the end of 1Q, unchanged from the previous quarter. Healthy Ebitda growth also means gross leverage for the median IG issuer stood at just 2.4x at the end of 1Q.

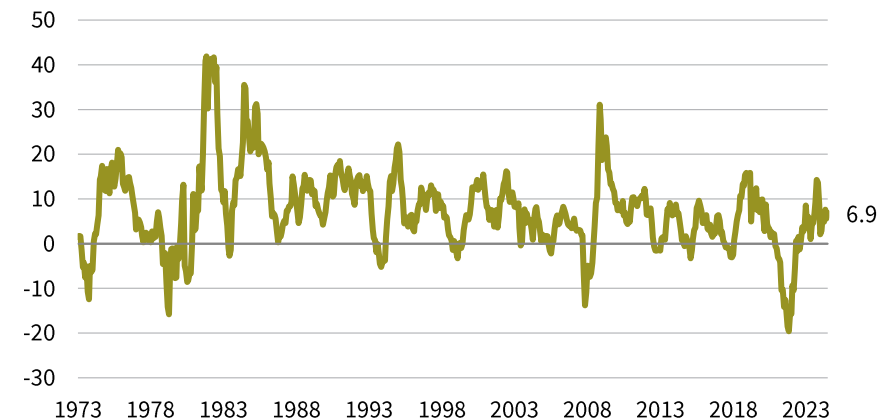
YIELD AND OPTION-ADJUSTED SPREAD: US INVESTMENT-GRADE CORPORATES

Jun 30, 1989 – Jun 30, 2025 • Percent (%)



TRAILING 12-MONTH RETURN: US INVESTMENT-GRADE CORPORATES

Dec 31, 1973 – Jun 30, 2025 • Percent (%)



Sources: Bloomberg Index Services Limited and Thomson Reuters Datastream.

US Tax-Exempt Bonds

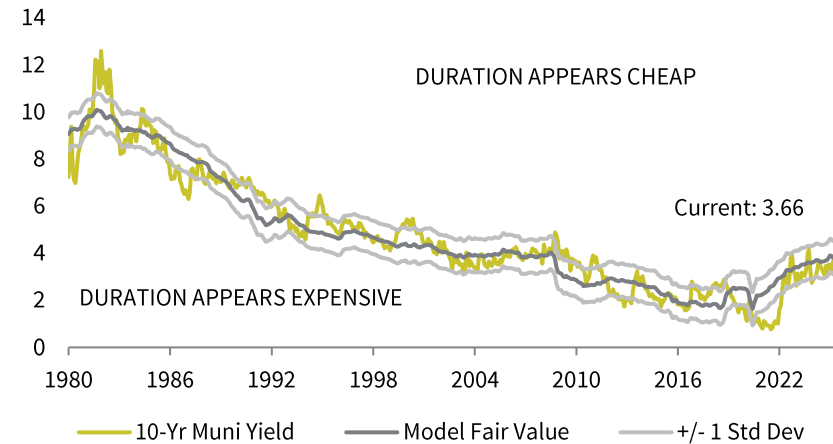
Facts & Figures Second Quarter 2025

US munis returned -0.1% in 2Q and are down 0.3% YTD. Munis are one of the few major fixed income asset classes with negative returns this year. They have been weighed down by rich starting valuations, elevated market/policy uncertainty, and challenging supply conditions.

- US ten-year muni yields were 3.7% as of June 30, up slightly from the end of last year. Muni yields have increased despite taxable Treasury yields falling. The divergence coincided with increased market volatility and muni supply this year.
- Ten-year muni yields are in the 75th percentile of their trailing 20-year distribution, but yields remain slightly below their implied fair value of 3.8%, which is based on their relationship with the trailing ten-year nominal GDP growth adjusted for the average muni/Tsy yield ratio.
- Munis are starting to look more compelling relative to taxable Treasury bonds given the divergence in yields and attractive tax-equivalent yields. The current ten-year muni/Tsy ratio of 0.86 is slightly above its long-term median, and for high tax bracket individuals, ten-year munis offer a 157-bps yield advantage over taxable-equivalents after taxes.
- Munis could remain under pressure in the near term if market volatility persist. However, flows from retail investors, which are the largest holders of munis, have been healthy after a strong 2024—investors have added \$17B to muni ETFs and funds this year and \$43B in 2024.
- US policy remains a risk. Importantly, the One Big Beautiful Bill did not remove the tax-exempt status of munis. The increase in the SALT cap included in the bill could challenge demand for munis in high tax states at the margin, and cuts to Medicaid and Medicare and reduced federal funding for states could weigh on states balance sheets and keep issuance elevated for the foreseeable future. However, these risks appear to be mostly priced into the market at this point.
- The risk of default among high-quality muni issuers is low and the sector is well prepared for a slowdown given the relatively healthy credit fundamentals of high-quality issuers. The pullback in federal funding should not materially impact credit quality.

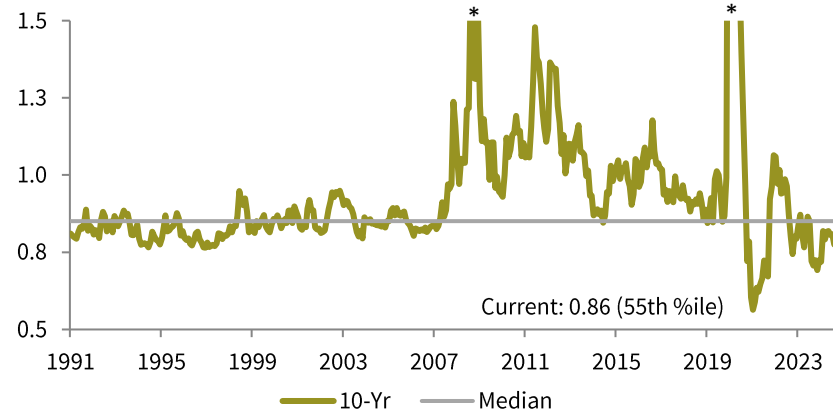
VALUATIONS: 10-YR MUNI

Jan 31, 1980 – Jun 30, 2025 • Percent (%)



RATIO OF 10-YR MUNI YIELDS TO TREASURY YIELDS

Apr 30, 1991 – Jun 30, 2025



* Axis is capped for scaling purposes. Ratio hit a high of 3.16 on 4/30/2020.

Sources: Bloomberg Index Services Limited and Thomson Reuters Datastream.

Notes: The Model Fair Value is the predicted range of ten-year yields based on a multiple linear regression model that includes trailing ten-year real GDP and CPI change. CPI data are as of May 31, 2025.

US Inflation-Linked Bonds

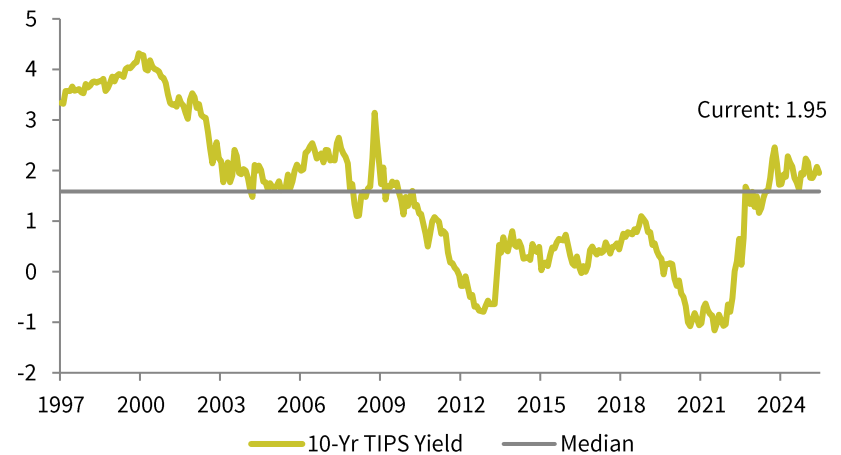
Facts & Figures Second Quarter 2025

US TIPS returned 0.5% in 2Q and are up 4.7% YTD, compared to 3.7% YTD for nominals. TIPS have outperformed nominals this year as inflation breakeven rates have been sticky, while real yields have fallen, amid tariff-related stagflation concerns.

- US ten-year TIPS yields settled at 1.95% as of June 30, which is down from 2.2% at 2024 year-end but above their long-term median of 1.6%.
- Real yields appear relatively attractive around 2%. Ten-year real yields are 0.8 standard deviation above their implied fair value yield of 1.2%, which is based on their relationship with trailing real GDP growth.
- US economic activity has moderated this year, while underlying inflation pressures have eased—the seasonally adjusted three-month annualized rate of US core CPI was 1.7% as of May.
- Tariffs complicate the outlook, as they will likely further weigh on growth but boost inflation. The latest consensus among analysts suggests US real GDP growth will expand 1.5% and headline CPI will rise 2.9% in 2025, compared to 2.1% and 2.5%, respectively as of year end.
- The market has largely focused on the downside growth risk posed by tariffs rather than the upside inflation risk and the Fed is still expected to cut rate by 50 bps this year, according to futures markets.
- While some survey-based measures of inflation expectations have seen a marked increase in response to tariffs, market-based inflation expectations have been more stable. The ten-year breakeven inflation rate (2.3%) has declined slightly this year. The current rate sits slightly above its long-term median but is in line with its median since COVID.
- TIPS are contractually linked to CPI and less liquid than Treasuries, which has led to them underperforming Treasuries when inflation is falling and during periods of markets stress.
- However, TIPS are one of the few assets that provide defense against unexpectedly high inflation. TIPS may offer more value if inflation is stickier than expected given higher real yields and relatively subdued breakeven inflation rates for the current environment.

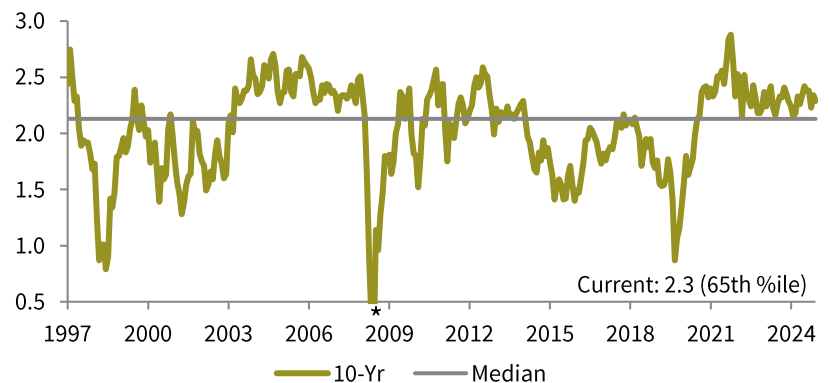
HISTORICAL YIELD: 10-YR TIPS

Jan 31, 1997 – Jun 30, 2025 • Percent (%)



10-YR BREAKEVEN INFLATION

Jul 31, 1997 – Jun 30, 2025 • Percent (%)



* Capped for scale purposes. 10-Yr BE Inflation hit a low of 0.11% on 12/31/2008.

Sources: Bloomberg Index Services Limited, Global Financial Data, Inc., and Thomson Reuters Datastream.

Global Inflation-Linked Bonds

Facts & Figures Second Quarter 2025

Global linkers returned 0.8% in 2Q and are up 2.6% YTD, compared to 1.8% for global nominal bonds. Linkers have outperformed nominals this year as inflation breakeven rates have been sticky amid tariff-related stagflation concerns.

- Global linkers were yielding 1.8% as of June 30, slightly below their post-COVID high of 1.9% and about 40 bps above their long-term median.
- Global real yields appear relatively attractive at current levels as they are more than 1 standard deviation above their implied fair value yield of 0.6%, which is based on their relationship with trailing real GDP.
- Tariffs complicate the macroeconomic outlook. They will likely weigh on growth and lift inflation, but they will have varied effects across countries. The latest consensus among analysts suggests DM real GDP growth will expand 1.3% and headline CPI will rise 3.3% in 2025, compared to 1.7% and 3.0%, respectively, as of year-end.
- While some survey-based measures of inflation expectations have seen a marked increase in response to tariffs, market-based measures of inflation expectations have been rangebound and remain near their post-pandemic median.
- Most major central banks continue to guide toward more rate cuts, despite the uncertainty. According to futures markets, the BOE, ECB, and Fed are forecast to cut rates between 25 bps–100 bps over the next 12 months.
- Concerns about elevated government debt burdens within DMs and heightened policy uncertainty have raised term premiums and have supported higher real yields even as short-term policy rates have fallen.
- Linkers are contractually linked to inflation and less liquid than Treasuries, which has caused them to underperform when inflation is falling and in periods of economic/market stress.
- Linkers are one of the few assets that protect against unexpectedly high inflation. Linkers may offer more value if inflation continues to be stickier than expected given higher real yields and relatively subdued breakeven inflation rates in most DM countries.

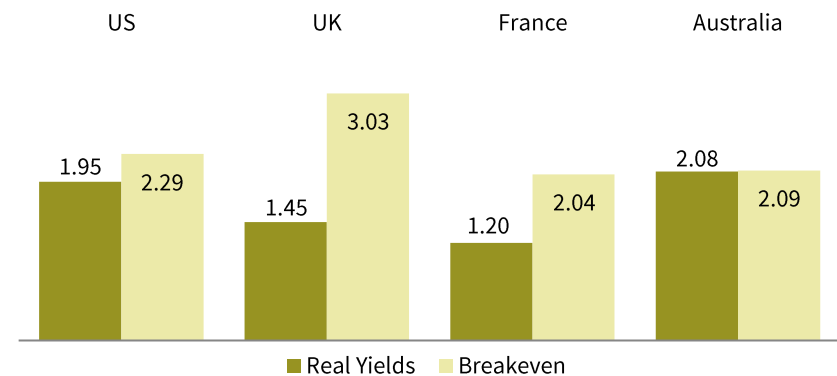
HISTORICAL INDEX YIELD: BBG GLOBAL LINKERS

Dec 31, 1996 – Jun 30, 2025 • Percent (%)



10-YR REAL YIELDS AND BREAKEVEN INFLATION

As of Jun 30, 2025 • Percent (%)



Sources: Bloomberg Index Services Limited and Thomson Reuters Datastream.

Notes: France data are based on the underlying securities within the Bloomberg Global Agg Treasuries and Bloomberg World Govt Inflation-Linked indexes. All other data are based on the Bloomberg real yield and breakeven series.

UK Gilts

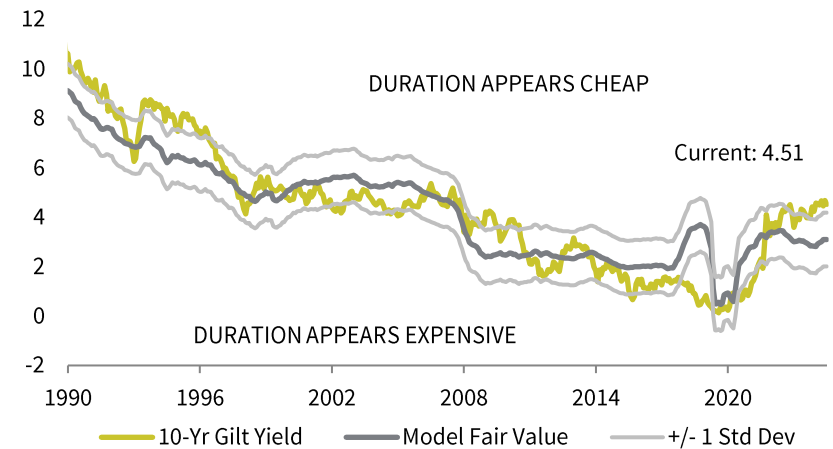
Facts & Figures Second Quarter 2025

UK gilts returned 2.0% in 2Q and are up 2.5% YTD in LC terms as of June 30. Weak domestic growth and tariff-related concerns have supported Gilts, but inflation and fiscal risks are elevated.

- Ten-year gilt yields settled at 4.5%, down from a recent peak of 4.7% but still near their highest level since 2008 and well above their trailing 20-year median of 2.7%.
- Gilt yields still trade well above their implied fair value. UK ten-year yields are 1.3 standard deviations above their implied fair value yield of 3.1%, which is based on the trend in nominal GDP growth.
- While gilt performance has rebounded from its 2022 trough, momentum has waned more recently. The trailing 12-month performance is negative and near the bottom quartile of observations.
- UK economic growth has been lackluster in recent years, and both labor and economic data have surprised to the downside more recently. Inflation remains a challenge in the UK—annual headline CPI rose by 3.4% in May, compared to 2.5% in December 2024.
- However, the UK is one of only a few countries to secure a trade deal with the US, locking in a 10% tariff rate and greater access to the US market, which has boosted economic sentiment.
- The latest consensus among analysts suggests UK real GDP growth will expand 1.1% and headline CPI will rise 3.2% in 2025, compared to 1.4% and 2.5%, respectively as of December 2024.
- The Bank of England, which began cutting rates in 2024 and has already lowered them by 100 bps, is expected to lower rates this year by another 50 bps, according to futures markets.
- Renewed fiscal concerns, which have been a headwind for the gilt market in recent years, led to a sharp jump in yields intra-quarter. The OBR projects the UK government's net debt-to-GDP ratio will rise from 98% to 274% over the next 50 years.
- The UK yield curve has steepened over the previous year. The ten-year gilt yield spread over cash was about 30 bps as of June 30.

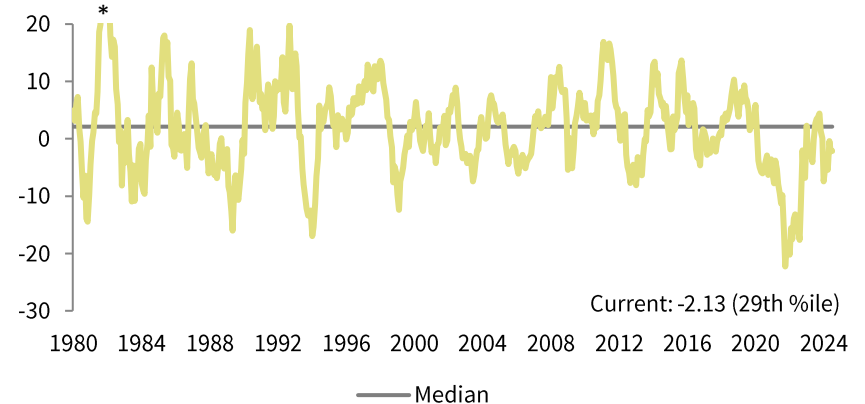
VALUATIONS: 10-YR GILTS

Jan 31, 1979 – Jun 30, 2025 • Percent (%)



12-MONTH PRICE MOMENTUM: 10-YR GILTS

Dec 31, 1980 – Jun 30, 2025 • Percent (%)



* Capped for scale purposes. The rolling 12-M Momentum was 44.5% in October 1982.

Source: Thomson Reuters Datastream.

Notes: The Model Fair Value is the predicted range of ten-year yields based on a multiple linear regression model that includes trailing ten-year real GDP and RPI/CPI change. CPI data are as of May 31, 2025.

UK Corporate Bonds

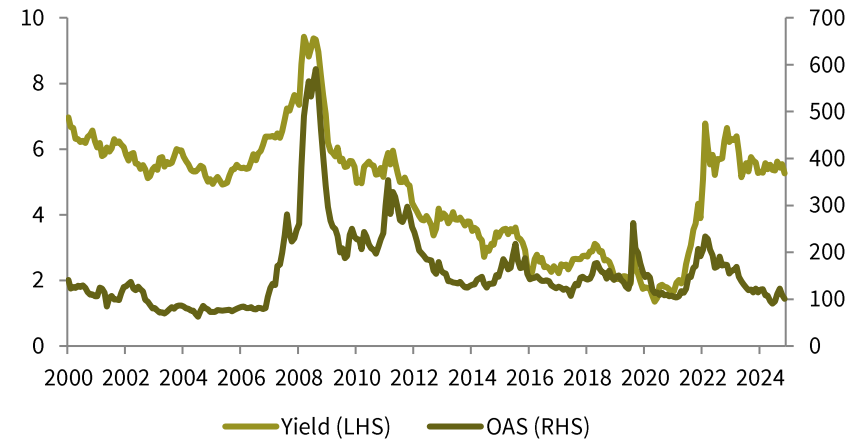
Facts & Figures Second Quarter 2025

Sterling-denominated investment-grade corporate bonds posted healthy 2Q returns, bouncing back from a lackluster start to the year. The Bank of England (BOE) continues to slowly ease, and underlying gilt yields and credit spreads moved lower.

- Sterling investment-grade corporate bonds returned 3.1% in 2Q after a flattish start in 1Q.
- Investment-grade yields fell 36 bps during the quarter to 5.27%. Current yields, which remain nearly 200 bps above their ten-year average, suggest future returns may be higher than they have been in recent years.
- Underlying gilt yields fell during the quarter as the BOE again cut its policy rate in May to 4.25%.
- While the BOE cut again in May, it did so before data was released later that month which showed CPI rose by 3.5% in April, more than had been expected. Persistent inflationary pressures may limit the BOE's ability to cut further.
- The flipside is that its base rate is above that in many developed economies, providing more income and potential upside for bond investors if inflation decisively rolls over.
- The option-adjusted index spread fell slightly during the quarter to 101 bps, reflecting the 19th percentile of observed values. UK IG spreads are slightly above those seen in the United States and Eurozone.
- The macro backdrop for UK corporate credit has become murkier in recent months. The ten-year gilt yield remains close to the highest level since the GFC—a level which if sustained will surely serve to curb growth and consumer spending.
- Very low net issuance remains a technical tailwind for the market. Net issuance in 2025 YTD has totaled just GBP £3.2B.

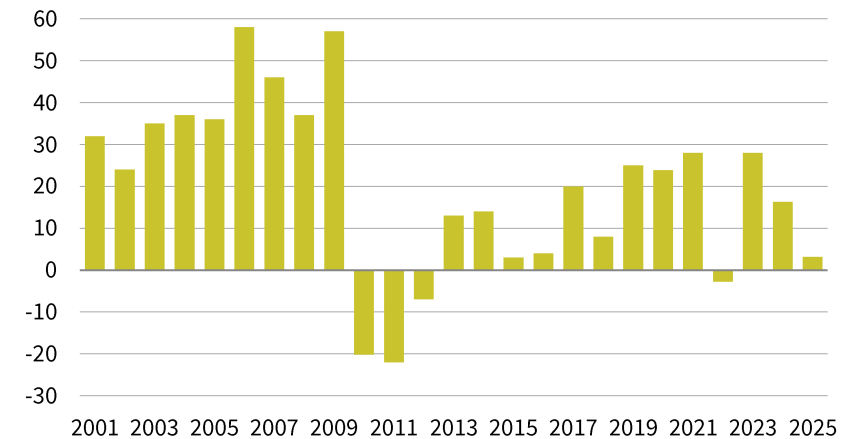
YIELD AND OPTION-ADJUSTED SPREAD: STERLING CORPORATES

Aug 31, 2000 – Jun 30, 2025 • Percent (%)



NET ANNUAL ISSUANCE: STERLING CORPORATES

2001-25 • Sterling (Billions)



Source: Bloomberg Index Services Limited.

Note: Issuance data for 2025 are through June 30.

Euro Area Sovereign Bonds

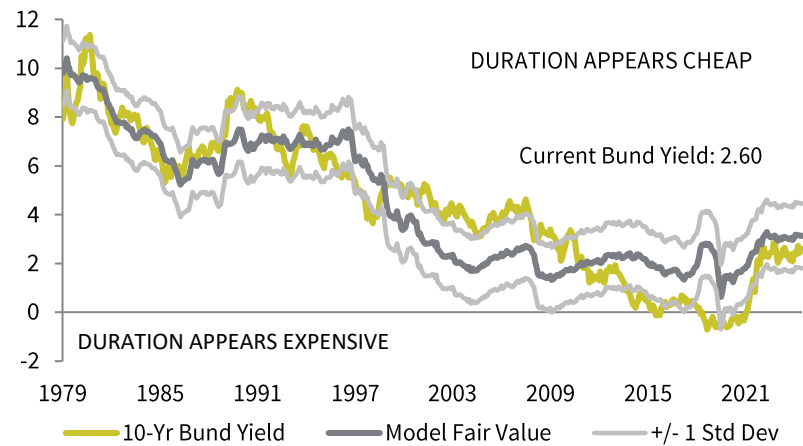
Facts & Figures Second Quarter 2025

Core EA sovereigns (i.e., German bunds) returned 1.2% in 2Q but remain down 0.5% YTD in LC terms. While government bonds in most major countries have rallied this year, EA bonds have been challenged by the recently announced fiscal stimulus and improved growth sentiment.

- Ten-year bund yields settled at 2.6% as of June 30, slightly below their recent peak of 3.0% but well above their trailing 20-year median of 1.7%.
- Ten-year bund yields are within their implied fair value range of 1.8%–4.5% but are about a 0.4 standard deviation below their implied fair value yield of 3.1%, which is based on the trend in nominal GDP growth.
- Core EA bond yields have risen this year driven by higher bund yields on the back of improved growth sentiment and fiscal reforms. Germany, and to a lesser extent, the EA more broadly, have announced new fiscal stimulus that includes increased infrastructure and defense spending, relaxed fiscal constraints, and common borrowing among EA members.
- Unlike most other major DMs, the growth and inflation outlook in the EA has been stable this year. The latest consensus among analysts suggests EA real GDP growth will expand 1.0% and headline CPI will rise 2.0% in 2025, compared to 1.0% and 2.0%, respectively as of December 2024.
- Potential US tariffs are a risk. The US threatened the EA with a 20% tariff in April, however, there has been positive momentum toward a potential deal recently ahead of the new August 1 deadline.
- The ECB, which started cutting rates in 2024 and has led other central banks by cutting by 200 bps, is expected to lower rates this year another 25 bps, according to futures markets.
- Increased coordination within the EA and structural reforms within the periphery have reduced fiscal risk and kept EA spreads in check, despite the ECB reducing its bond holdings and EA increasing spending. However, concerns about debt sustainability have risen in France in the wake of its recent political turmoil. The ten-year OATs-bunds spread was 68 bps as of June 30, above its trailing 20-year median of 36 bps.
- The yield curve has steepened as the ECB has cut rates. The ten-year bund yield spread over cash reached roughly 80 bps as of June 30.

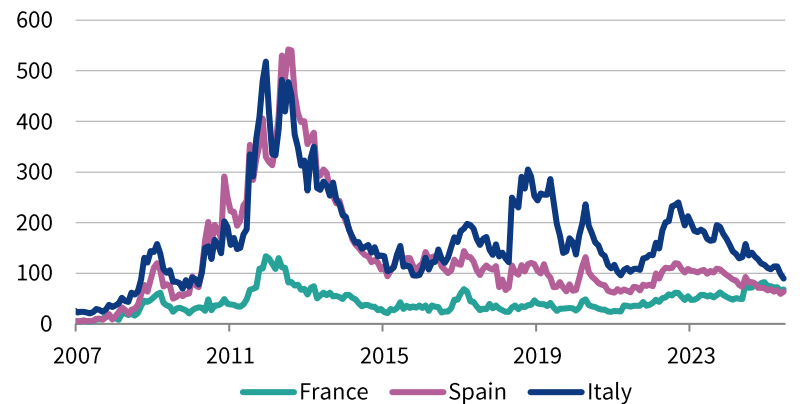
VALUATIONS: 10-YR BUNDS

Dec 31, 1979 – Jun 30, 2025 • Basis Points (bps)



HISTORICAL 10-YR SPREADS OVER BUND YIELDS

Jan 31, 2007 – Jun 30, 2025 • Basis Points (bps)



Source: Thomson Reuters Datastream.

Note: The Model Fair Value is the predicted range of ten-year yields based on a multiple linear regression model that includes trailing ten-year real GDP and CPI change.

Euro Area Corporate Bonds

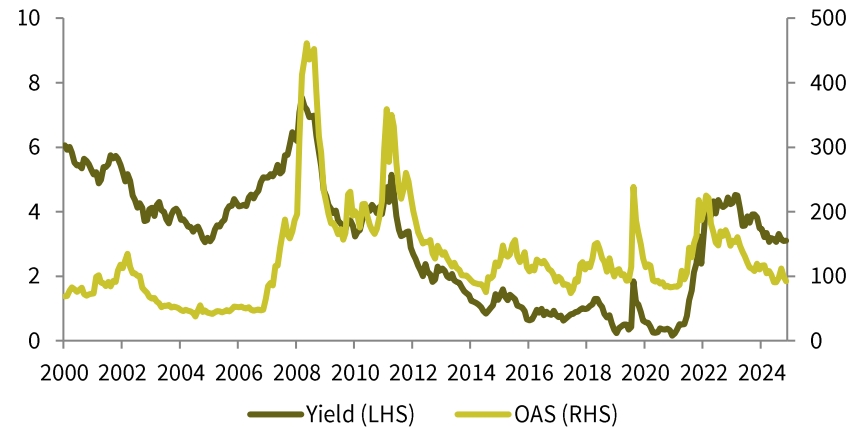
Facts & Figures Second Quarter 2025

The Bloomberg Euro-Aggregate Corporate Index bounced back and posted a healthy return in 2Q. Underlying benchmark yields fell as the ECB continued to cut rates.

- The Bloomberg Euro-Aggregate Corporate Index returned 1.8% in 2Q after a flat start to 2025. Returns were supported by a drop in underlying benchmark yields as cooling inflation allows the ECB to continue lowering rates.
- Yields on euro corporate bonds fell over 20 bps during the quarter to 3.10%. Yields have declined around 140 bps since their cyclical peaks in fall of 2023.
- The corporate bonds OAS also was basically unchanged in 2Q and at 92 bps looks expensive (33rd percentile) relative to its historical median OAS of 113 bps. This spread looks attractive relative to other more expensive international fixed-rate IG bond markets (e.g., the US) but declining index credit quality means there isn't a significant cushion for investors if fundamentals weaken.
- According to Schrodgers, Euro IG issuers had a leverage ratio of around 2.2x at the end of 1Q, below the comparable figure for the US IG index.
- The macro backdrop has been mixed for corporate bonds but is improving. Lower base rates mean companies should be able to refinance existing debt at lower yields. The ECB has cut its benchmark deposit rate three times thus far in 2025 including by another 25 bps in June. Ebbing inflationary pressures may provide further flexibility.
- The flipside is that lackluster economic growth may not support significant earnings growth, though the new German government's fiscal stance may give growth in that region a boost.
- Issuance of Eurozone corporate bonds totaled €224B in 2024, the highest level since 2020. Year-to-date, it has kept pace with that figure, with around €125B issued during the first half.

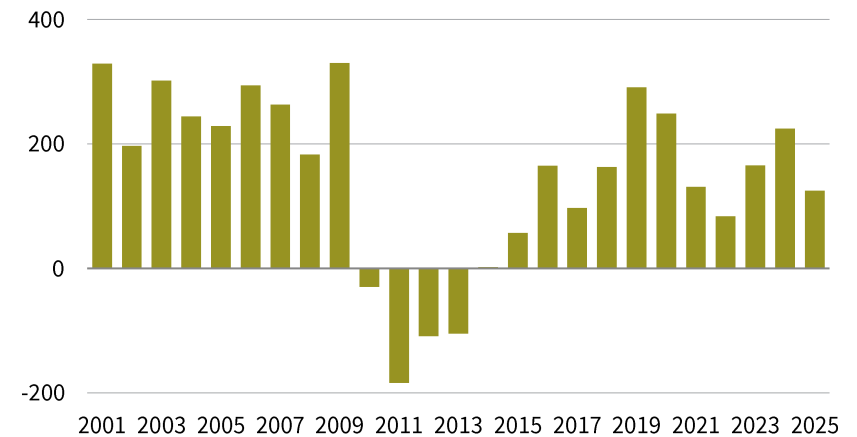
YIELD AND OPTION-ADJUSTED SPREAD: EUROPEAN CORPORATES

Aug 31, 2000 – Jun 30, 2025 • Percent (%)



NET ANNUAL ISSUANCE: EUROPEAN CORPORATES

2001-25 • Billions (EUR)



Source: Bloomberg Index Services Limited.

Note: Issuance data for 2025 are through June 30.

Structured Finance

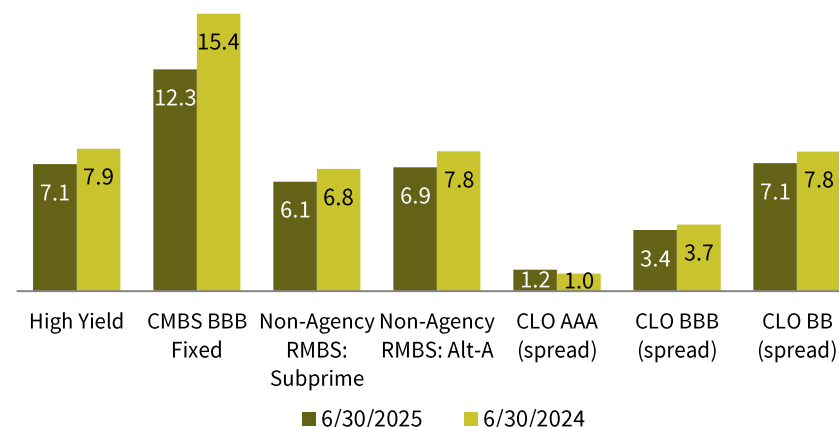
Facts & Figures Second Quarter 2025

Structured credit markets have held up well in 2025 despite concerns over tariffs and slowing economic growth. Underlying corporate and real estate fundamentals have shown some impacts from softer growth but structural protections for investors within the bonds have helped protect against losses.

- Most structured credit indexes posted positive returns in 2Q. Examples included US CMBS BBB-rated bonds (2.1%) and BB-rated CLO debt (3.6%).
- CMBS bonds have bounced back as fundamentals in sectors such as industrial, multi-family, and retail have been resilient. The flipside is that some loans in CMBS may prove difficult to refinance in a risk-off environment, and valuations for some of the underlying collateral types like office remain in flux.
- Economic uncertainty is rising as the US attempts to negotiate new tariff and trade packages with rivals. Economists have trimmed growth forecasts, and some companies will likely see margins and earnings deteriorate. Corporate bond and loan default rates are already on the rise when liability management exercises are included, though this has yet to impact assets like lower-rated CLO debt.
- Spreads on some types of CLO liabilities have moved slightly wider in 2025, while others have tightened. Still, CLO liability spreads remain above those on comparably rated corporate debt. As example, the discount margin on CLO BBB bonds ended June at 339 bps, while the OAS on BBB-rated corporate bonds was 103 bps. The overcollateralization in the CLO structure has historically led to lower default rates on CLO bonds than similarly rated corporate securities.
- Some structured credit assets are less liquid than corporate equivalents and often require specialized systems to analyze. Many also have indefinite maturities given amortizing loan pools. The result is a spread premium to similarly rated corporate debt.
- Investors can access structured credit through several vehicles and mandates, including mutual funds, hedge funds, and closed-end funds.

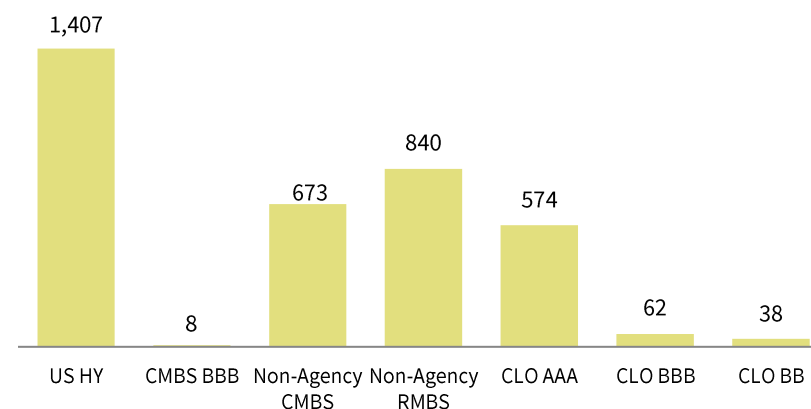
YIELD: SELECT STRUCTURED CREDITS

Percent (%)



MARKET CAP: SELECT STRUCTURED CREDITS

As of June 30, 2025 • US\$B



Sources: Bloomberg Index Services Limited, ICE BofA Merrill Lynch, J.P. Morgan Securities, Inc., Securities Industry and Financial Markets Association(SIFMA), and Thomson Reuters Datastream.

Notes: CLOs yield data are represented by discount margins. Non-Agency CMBS and Non-Agency RMBS market-cap data are as of December 31, 2021.

US High-Yield Bonds

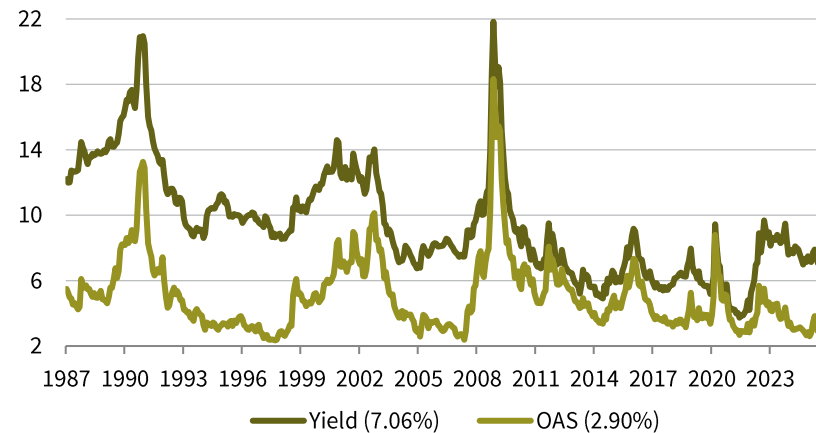
Facts & Figures Second Quarter 2025

US high-yield bonds withstood elevated tariff and geopolitical uncertainty in 2Q and posted healthy returns. Spreads are close to being overvalued and could go higher if economic growth softens or tariffs disproportionately impact weaker borrowers.

- The Bloomberg High-Yield Index returned 3.5% in 2Q, outperforming benchmarks like US leveraged loans (2.3%). As for many risk assets, the quarterly return for HY bonds masks significant volatility, as an early April sell-off driven by fears around US tariffs was followed by gains in May and June as countries indicated a willingness to strike new trade deals.
- The yield on the high-yield index fell over 60 bps during the quarter to 7.06% driven by both a decline in underlying benchmark yields, as well as spread compression.
- The index OAS fell 57 bps in 2Q to 290 bps, which falls in the bottom decile of observed values. Investors have limited cushion if tariff wars reignite or if policy uncertainty causes fundamentals to weaken.
- Economists have downgraded 2025 US growth forecasts in recent months as tariff tensions escalated but still expect a moderate expansion. Current spreads are well below those seen during recent recessions or periods of increased volatility, such as COVID-19 (when spreads reached around 1100 bps) or the GFC (when spreads reached around 2000 bps).
- High-yield borrowers have grown earnings and handled the strain from higher rates in recent years. Moody's reported a speculative-grade default rate of 1.8% at the end of May, below its long-term median of 2.3%. Through the end of June, the distressed ratio had only risen slightly YTD and suggests the market is not expecting a further rise in defaults.
- Credit fundamentals have remained steady in recent quarters as most borrowers have been able to offset rising interest costs with stronger earnings. Bank of America reports interest coverage for HY borrowers was roughly stable at 4.2x at the end of 2Q, above its long-term median. Should US growth slow sharply or a recession ensue, these fundamentals are likely to soften.

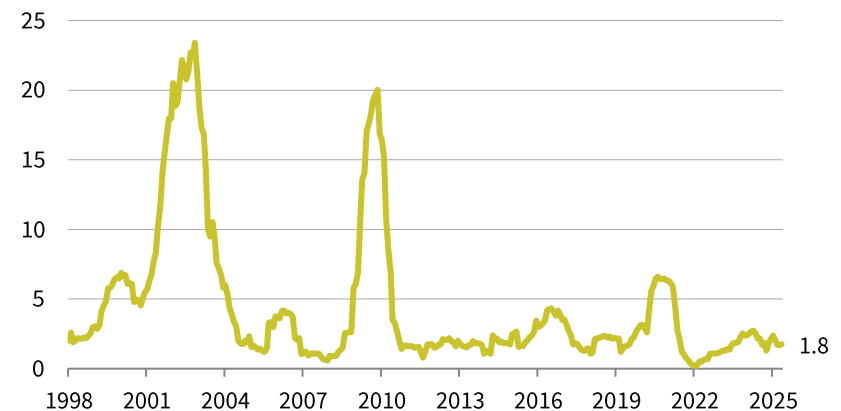
YIELD AND OPTION-ADJUSTED SPREAD: US HIGH-YIELD INDEX

Jan 31, 1987 – Jun 30, 2025 • Percent (%)



PAR DEFAULT RATES: US HIGH-YIELD

Jan 31, 1998 – May 31, 2025 • Percent (%)



Sources: Bloomberg Index Services Limited, Deutsche Bank Credit Strategy, and Moody's Investors Service.

Notes: Data prior to June 30, 2017, are represented by Moody's default rates as provided by the Deutsche Bank US Credit Strategy Chartbook. All default rate data on and after June 30, 2017, are sourced from the Moody's Investor Services Default Report.

Leveraged Loans

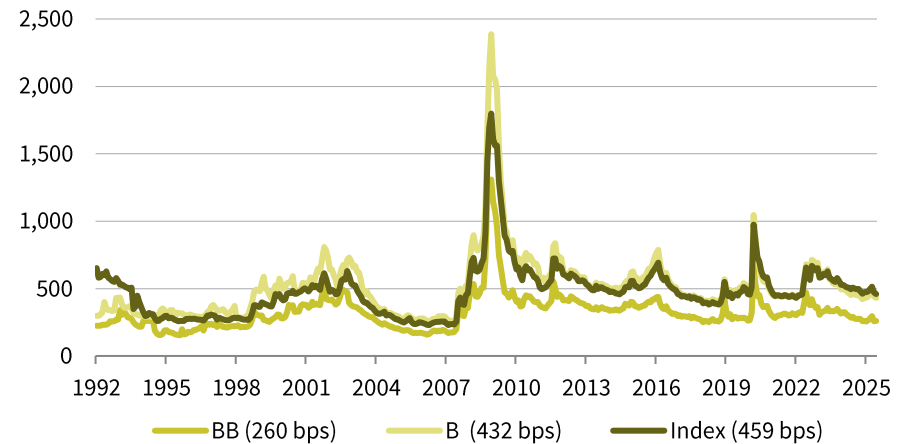
Facts & Figures Second Quarter 2025

US leveraged loans posted coupon-like returns in 2Q, weathering significant tariff-related volatility early in the quarter. Credit fundamentals are stable for most borrowers though underlying earnings growth has been weak, and elevated defaults reflect that not all firms have been able to handle the stress of higher rates.

- Overcoming a rocky April, leveraged loans returned 2.3% in 2Q and have now returned 3.0% YTD. Loans underperformed US high-yield (HY) bonds for the quarter as bonds again benefited from a decline in underlying Treasury yields.
- Discount margins for leveraged loans fell around 40 bps in 2Q to 459 bps and are now below their historical median. Margins initially moved higher on the back of tariff and policy-related uncertainty but then reversed course as scope for deals with various US trading partners appeared to arise. For now, economists are expecting moderate US economic growth in 2025, but current tariff schemes have generated concern around headwinds to corporate revenues and margins.
- A key wildcard for leveraged loans is what the Fed will do with benchmark rates given the expected stagflationary effects of tariffs. The Fed has been on hold in 2025, waiting for clarity around tariffs and inflationary pressures. One-month SOFR stands around 4.3% and the current yield on leveraged loans is over 8%. Expected Fed rate cuts could further lower this yield and thus potential returns.
- Fundamentals for loan issuers are stable but are weaker than recent averages. According to Morgan Stanley, the median interest coverage ratio for loan issuers stood at 4.0x at the end of 2Q, roughly stable QOQ but down from 2023-2024 levels.
- J.P. Morgan reports the trailing default rate for leveraged loans was 3.8% at the end of 2Q when liability management exercises are included, above its 25-year average but down roughly 70 bps from January.
- The loan index has lower average credit quality than the HY index, explaining the higher default rate and leaving it more vulnerable to future downturns. According to LCD, just 30% of the S&P loan index has at least one BB rating.

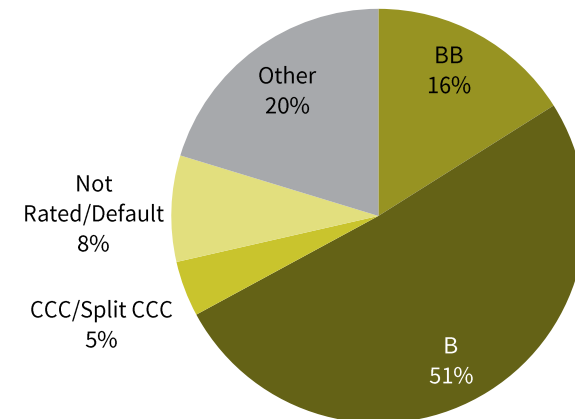
DISCOUNT MARGIN: CS LEVERAGED LOAN INDEX

Jan 31, 1992 – Jun 30, 2025 • Basis Points



RATINGS BREAKDOWN: CS LEVERAGED LOAN INDEX

As of June 30, 2025



Source: Credit Suisse.

Notes: Discount margin assumes a three-year life, assuming all loans are paid off at par with no defaults. Other category includes Split BBB, Split BB, and Split B. Not Rated/Default includes CC, C, and Not Rated/Default loans.

Pan-European High-Yield Bonds

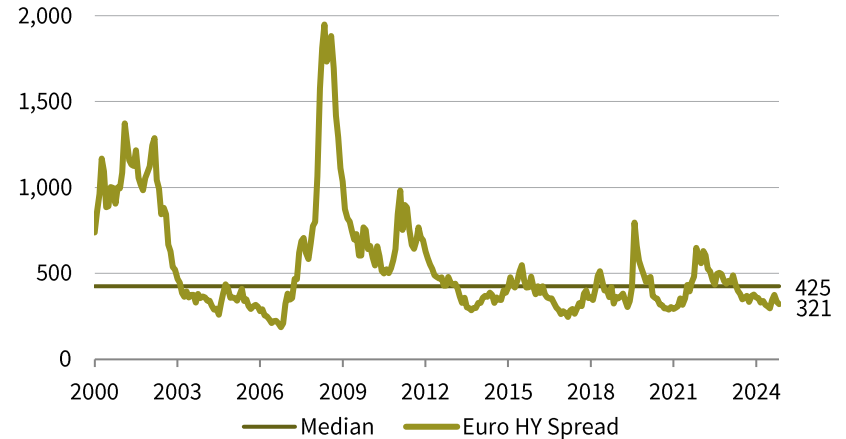
Facts & Figures Second Quarter 2025

European high-yield bonds delivered coupon-like returns in 2Q. Yields and spreads are similar to where they started 2025 despite elevated global trade tensions. Yields are above recent averages but do not offer sufficient cushion to investors if a slowdown or recession means defaults rise.

- The Bloomberg Pan-European High-Yield Index returned 1.7% in 2Q and has returned 2.3% YTD.
- Recent returns have been driven mainly by carry; the current index yield of 5.92% is only around 10 bps lower than where it started 2025.
- The index OAS of 321 bps is also close to where it began the year (318 bps). This metric falls in the bottom quartile of observed values and suggests European HY bonds are slightly expensive. The flipside is that European growth forecasts have held up better than in some other regions, boosted by expected stimulus in some countries like Germany.
- Declining inflation has allowed central banks in Europe to ease rates, which has helped underpin demand for higher-yielding fixed income assets. The ECB cut its key base rate by 25 bps in June to 2.0%, its eight consecutive rate cut since the middle of 2024.
- European HY credit metrics have deteriorated given the delayed impact of higher rates in recent years on interest burdens. Schroders reports that interest coverage for European HY borrowers stood at around 4x at the end of 1Q, like pre-Covid levels but well below levels seen in 2022–23.
- Defaults have risen modestly in recent quarters, mostly reflecting well-telegraphed struggles at some large issuers. According to Moody's, the trailing 12-month European HY default rate was 2.1% at the end of May, similar to levels seen three months ago.
- The European HY distress ratio has declined in recent quarters and stands below 5%, but an escalation of trade tensions which impacts corporate fundamentals could reverse this trend.
- Overall, European HY issuance has declined since elevated levels of 2020–21, which were driven by M & A, supporting prices. A resurgence of animal spirits and thus bond supply could test recent appetite.

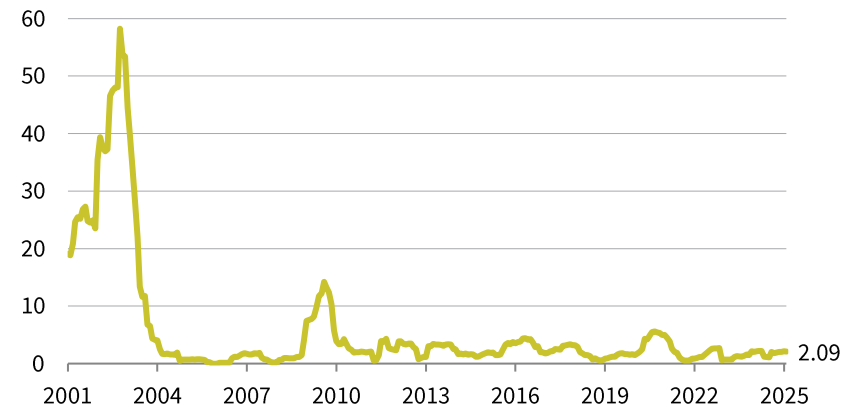
OPTION-ADJUSTED SPREAD: EUROPEAN HIGH YIELD

Aug 31, 2000 – Jun 30, 2025 • Basis points (bps)



PAR DEFAULT RATES: EUROPEAN HIGH YIELD

Apr 30, 2001 – May 31, 2025 • Percent (%)



Sources: Bloomberg Index Services Limited and Moody's Investor Services.

Notes: The European high-yield option-adjusted spread peaked in December 31, 2008, at 1,949 bps. The European high-yield default rate peaked on January 31, 2003, at 58.2%.

Distressed Investing: Non-Control

Facts & Figures Second Quarter 2025

Distressed hedge funds have generated consistent returns in recent quarters and outperformed most other hedge fund categories. Distressed ratios remain low, but credit markets have grown, and funds are finding opportunity amid discounted bond and loan prices as some companies struggle with elevated borrowing costs.

- The HFRI Event Driven: Distressed/Restructuring Index returned 2.5% in 2Q and 10.2% over the past 12 months. Distressed hedge funds have outperformed fund-of-funds and many other hedge fund categories over the past 12 months.
- Distressed funds have seen their opportunity set fluctuate over the past couple of years. Only 5% of the \$1.4 trillion face value HY index trades with a spread above 1,000 bps. The flipside is that the combined US HY and leveraged loan market has more than doubled in size since the GFC, so the overall opportunity set is large. Higher base rates also mean the overall yields on distressed securities are higher, generating higher income for the funds unless/until a default occurs.
- Rising bond prices had been a headwind for buyers of discounted securities but the recent bout of tariff-related uncertainty has caused rising default risk to weigh on spreads and yields for weaker rated credits. The average OAS of CCC-rated bonds has risen from 558 bps last December to 677 bps at the end of 2Q.
- Stagnant earnings growth means the proportion of loan borrowers with weak interest coverage ratios (i.e., under 1.5x) has steadily risen over the past 12 months to around 13%, creating more opportunities.
- Some highly leveraged borrowers may have been expecting a reprieve as the Fed was expected to resume cutting interest rates over the course of 2025. However, and while the futures markets are still pricing in two cuts in 2025, the stagflationary implications of tariffs may challenge its dual mandate of stable employment and low inflation.
- There are a variety of ways to invest in distressed debt, including hedge funds and lock-up vehicles, which will do everything from trade existing securities to provide rescue finance for troubled companies. Skilled managers may find opportunities beyond traditional focus areas, including structured credit and property-backed credit.

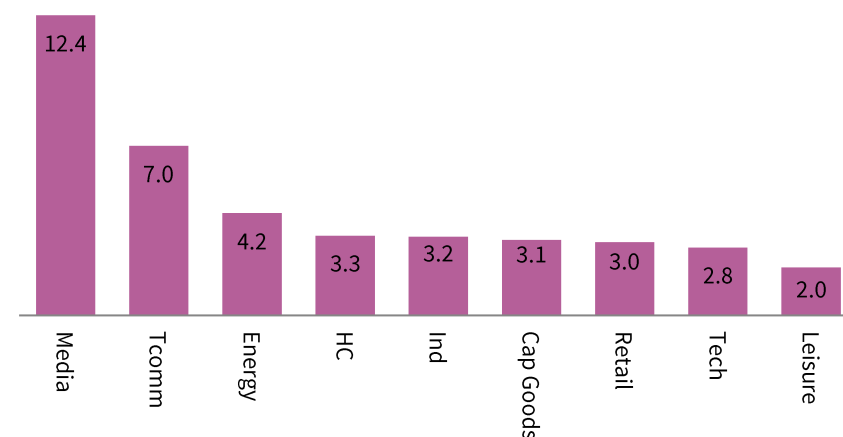
DISTRESSED RATIO: BOFA ML HIGH YIELD MASTER II INDEX

Jan 31, 2000 – Jun 30, 2025 • Percent (%)



MARKET VALUE OF DISTRESSED PAPER FOR SELECT INDUSTRIES

As of June 30, 2025 • US\$B



Source: ICE BofA Merrill Lynch.

Notes: Bottom chart represents the ICE BofA Merrill Lynch US High Yield Index universe. Distressed bonds are defined as bonds with option-adjusted spreads greater than 1,000 basis points. Only industries with a market value equal or greater than \$2 billion are shown.

USD-Denominated Emerging Markets Debt

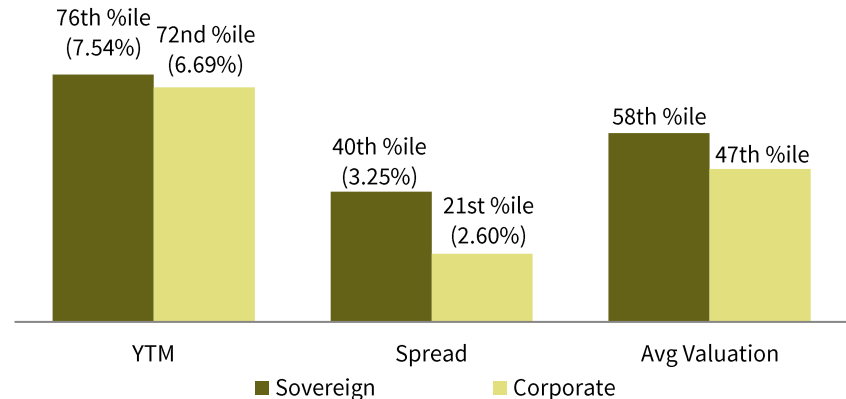
Facts & Figures Second Quarter 2025

EM debt gained in 2Q, bringing TTM performance for the (sovereign) JPM EMBI Global Diversified and (corporate) CEMBI Broad Diversified indexes to 7.8% and 10.0%, respectively. Performance in 2Q was supported by a decline in yields and spreads owing to growth concerns from US trade policy. US Treasury yields were largely unchanged on the quarter overall, contributing to the spread compression.

- Recent gains have built on strong returns in 2023 and 2024 for both the sovereign and corporate segments. Still, the sovereign and corporate indexes returned a lower 3.0% and 1.8% annualized, respectively, over the latest five-year period, after seeing heavy drawdowns in 2022 as inflation and interest rates spiked.
- EM debt yields have risen around 250 bps since 2021, pushed higher by the backup in Treasury yields, which rose as growth and inflation forced the Fed to hike its target rate by 500 bps. Sovereign and corporate yields declined 90 bps and 30 bps, respectively, in the TTM period.
- However, spread compression has been a key driver of return. Sovereign and corporate debt spreads tightened roughly 70 bps in 2024, with a meaningful portion of that occurring in 4Q. Sovereign spreads are flat YTD, whereas corporates widened roughly 20 bps.
- Sovereign yields look elevated from a historical perspective, but investors should be aware that the asset class faces unique risk factors. For example, following Russia's invasion of Ukraine, EM index providers responded to the uninvestable nature of Russian assets by eliminating them from many indexes (from their prior 3% weight). In addition, debt from Ukraine and surrounding countries also plunged.
- Broader EM debt index stats disguise wide variation in underlying fiscal health across borrowers. For example, the main EM sovereign index includes several CCC/CC-rated borrowers (Argentina, Ukraine, Sri Lanka, etc.) whose optically cheap debt will only prove attractive if coupons and principal payments are repaid.
- About 50% of the sovereign index has an investment-grade rating, which is similar for corporates. The wide dispersion of fundamentals and possible political outcomes suggests an active management approach to these assets may generate more successful outcomes.

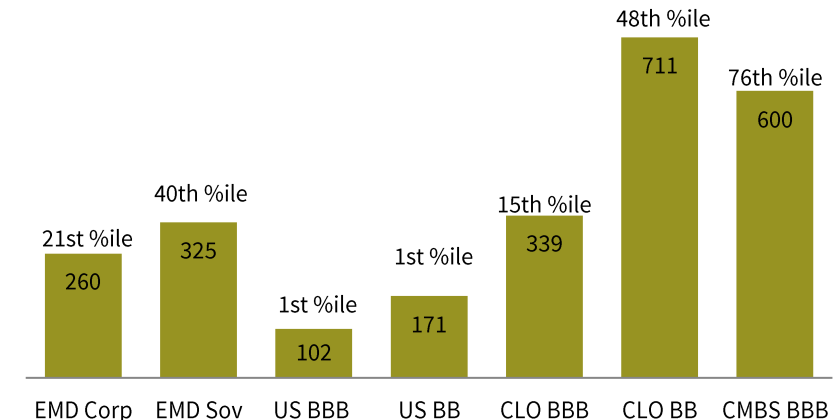
PERCENTILE RANK: USD EM DEBT

As of Jun 30, 2025 (Based on Post-2003 Data)



PERCENTILE RANK: OPTION-ADJUSTED SPREAD

As of Jun 30, 2025



Sources: Bloomberg Index Services Limited, J.P. Morgan Securities, Inc. and Thomson Reuters Datastream.

Notes: Composite Valuation Indicator is the average of YTM percentile and spread percentile. Asset classes represented by J.P. Morgan Emerging Market Bond Index (EMD Sov), J.P. Morgan Corporate Emerging Markets Bond Index (EMD Corp), Bloomberg US Corporate Investment Grade BBB Index (US BBB), Bloomberg US High Yield BB Index (US BB), J.P. Morgan CLOIE BBB Index (CLO BBB), J.P. Morgan CLOIE BB Index (CLO BB), and Bloomberg US CMBS Baa Index (CMBS BBB).

Local Currency Emerging Markets Debt

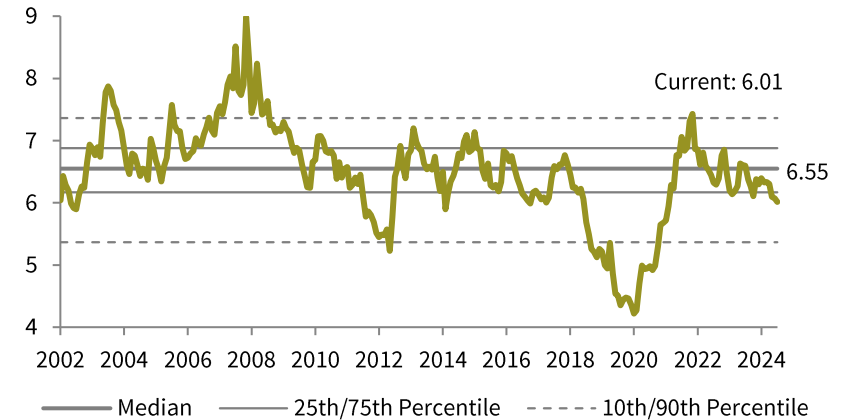
Facts & Figures Second Quarter 2025

Local currency EM debt returned 3.2% in LC terms in 2Q 2025. However, a continued sell-off in the US dollar saw USD returns delivering a more substantive 7.6% return in USD terms, bringing YTD returns to 12.3% in USD. Yields fell during the quarter, outpacing the yield declines in DM bond markets.

- EM local currency bonds have generally outperformed their DM equivalents this year as the impact of tariffs on these markets was expected to be disinflationary, in contrast to the expected short-run impact on the United States. At the same time, fears of a growth slowdown centered in the United States have grown in recent months, weighing on the dollar.
- EM currencies are highly sensitive to global growth prospects. In the post-COVID era, factors including impaired global supply chains, geopolitical risks, and fears of a policy-induced slowdown have variously impacted EM currencies. More recently, while US tariff policy could potentially eventuate a global slowdown, the relatively greater impact on US growth sentiment has more than offset these worries.
- EM-LC bond yields fell by 29 bps during the quarter. The yield now sits back at the 18th percentile of historical observations. The spread to the Global Agg narrowed further and stands back toward the low end of the historical range at 2.54 ppts. As a result, EM currencies are likely to remain the larger driver of returns for unhedged investors. The recent strengthening of EM currencies has seen their valuation slightly increase, with the REER of EM fixed income-weighted currencies sitting at the 21st percentile.
- On a medium-term outlook, EM currencies should be well placed to appreciate. Global growth will eventually improve more materially relative to the United States, helped by greater policy room to support it. Narrowing growth and interest rate differentials between the United States and its peers, and improved global economic sentiment, should all contribute to a decline in the dollar. Shorter-term headwinds could appear if broader trade wars result from the imposition of retaliatory tariff measures, causing a more global slowdown in growth. The level of dispersion between the underlying countries suggests there are opportunities for active managers with broad mandates to add value.

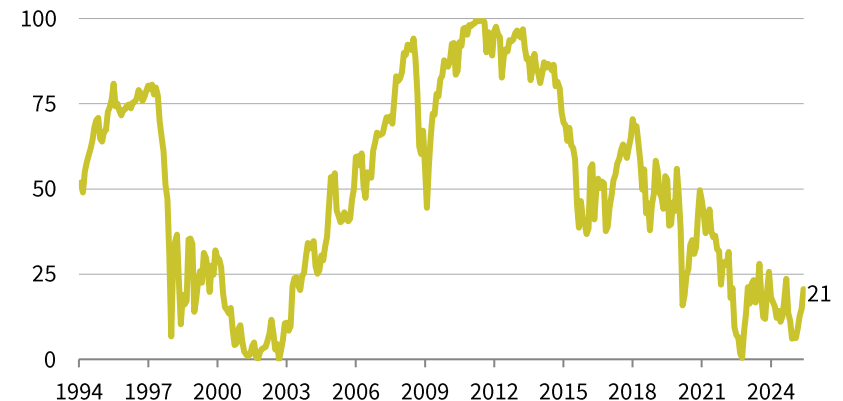
NOMINAL YIELD: JPM GBI-EM GLOBAL DIVERSIFIED INDEX

Dec 31, 2002 – Jun 30, 2025



FI-WEIGHTED EM REAL EXCHANGE RATE VS US: PERCENTILE

Jan 31, 1994 – Jun 30, 2025



Sources: Directorate-General of Budget, Accounting and Statistics, Executive Yuan, Taiwan; INE - National Institute of Statistics, Chile; International Monetary Fund; J.P. Morgan Securities, Inc.; MSCI Inc.; National Bureau of Statistics of China; Thomson Reuters Datastream; and US Department of Labor - Bureau of Labor Statistics. MSCI data provided "as is" without any express or implied warranties.