

Fixed Income

US Bonds

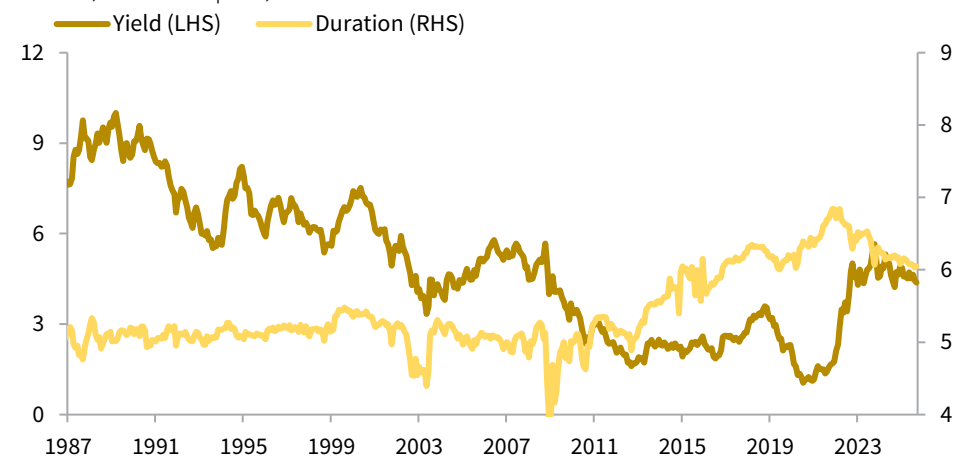
Facts & Figures Third Quarter 2025

Core US bonds returned 2.0% in 3Q and 2.9% over the past year, aided by falling yields and tighter credit spreads. The resumption of Fed easing supported returns, while healthy credit fundamentals and high government exposure cushioned risk. Duration has come down but remains a vulnerability if persistent inflation causes the Fed to rethink expected easing.

- The Bloomberg US Aggregate Bond Index returned 2.0% in 3Q, taking its YTD return to 6.1%. The five-year return remains slightly negative given lagged impacts from Fed rate hikes in 2022–23.
- Valuation for the Bloomberg US Aggregate Index is looking stretched, with the index yield declining to 4.37%, the lowest since 3Q 2024. Corporate credit—around 25% of the index—has spreads which are bottom quintile.
- The Fed resumed easing with a 25-bp cut in September and is expected to cut rates further over the next year. The Fed's path is not guaranteed as labor data is deteriorating, growth and inflation have been resilient, and tariff impacts remain uncertain.
- Credit fundamentals look sound. Over 70% of the Bloomberg Aggregate Index is rated AA or higher, much of this is direct or indirect obligations of the US government. This will protect investors if US economic growth weakens but also presents a vulnerability if large deficits continue to mean elevated US Treasury supply.
- Around 25% of the index is corporate bonds. Credit spreads are expensive—in their bottom quintile—and offer little cushion if growth weakens. However, US IG corporate fundamentals have been healthy and borrower leverage has remained low for several years.
- The six-year duration of the Bloomberg US Aggregate Index leaves it vulnerable to unexpected spikes in long-term yields.

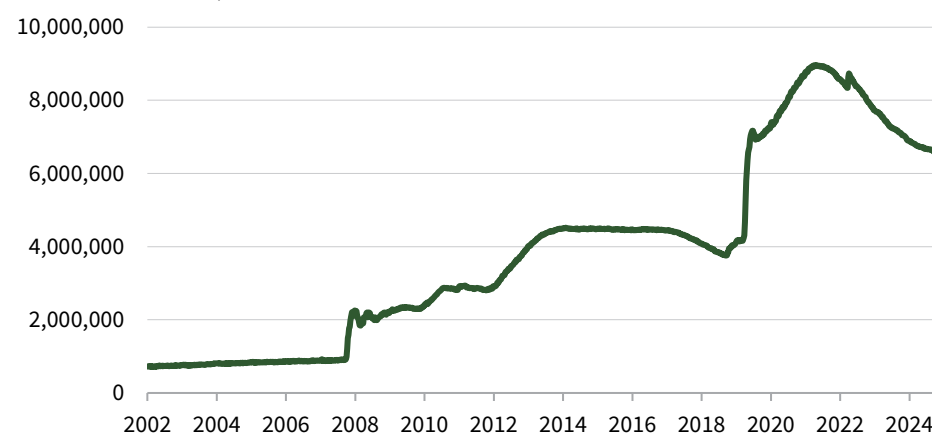
Yield vs duration: BBG US aggregate bond index

Jan 31, 1987 – Sep 30, 2025



Fed balance sheet total assets

Dec 18, 2002 – Sep 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

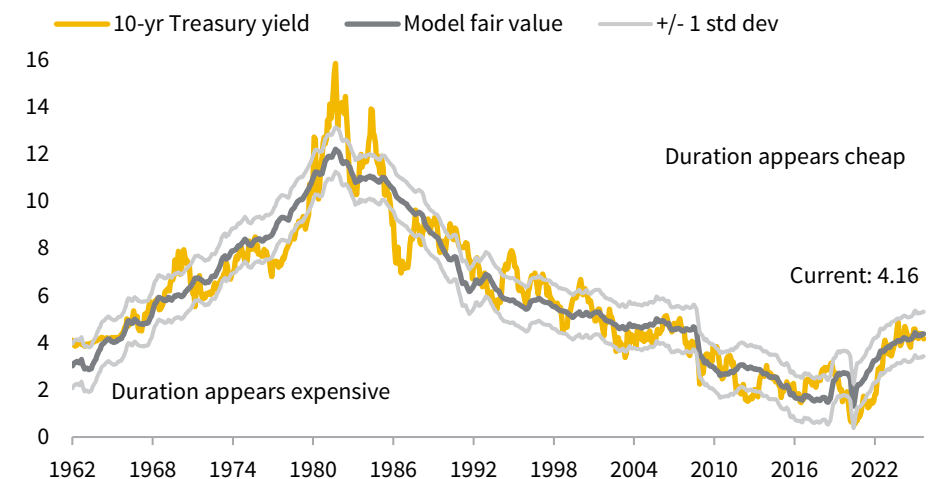
Facts & Figures Third Quarter 2025

US Treasuries returned 1.5% in 3Q and 2.1% over the trailing 12 months. Yields declined in 3Q amid growth concerns and shifting Fed policy expectations, despite inflation and fiscal risks.

- US Treasury valuations appear fair, with ten-year yields at 4.2% as of September 30 (down from 4.6% at the start of the year), slightly below the implied fair value of 4.4% based on nominal GDP growth.
- US economic activity has moderated this year amid tariff uncertainty and a notable softening in the labor market during 3Q. Inflation pressures have edged higher—core CPI rose from 2.8% in May to 3.1% in August—and higher tariffs are expected to keep inflation elevated.
- Consensus forecasts see US real GDP growth at 1.8% and headline CPI at 2.8% for 2025, compared to 2.1% and 2.5% in December 2024.
- The Fed cut rates by 25 bps in September, the first move since last December, lowering the target range to 4.00%–4.25% in response to labor market concerns. Both the Fed and markets expect another 75 bps–100 bps of cuts by the end of 2026, though this may be optimistic if inflation remains sticky.
- Price momentum has improved from 2022 lows but stalled this year as yields have traded in a tight range amid macro uncertainty.
- The yield curve has steepened with Fed cuts—the ten-year/two-year spread widened from 15 bps to 56 bps over the past year—and the term premium for holding ten-year bonds over cash remains elevated at 0.6% compared to recent years.
- This higher-term premium reflects several factors, including Fed easing, increased uncertainty, and fiscal concerns. The recently passed One Big Beautiful Bill will keep the US deficit at 6%–7% of GDP, well above the historical average (4%), creating supply-demand challenges as more Treasury issuance must be absorbed by the private sector.

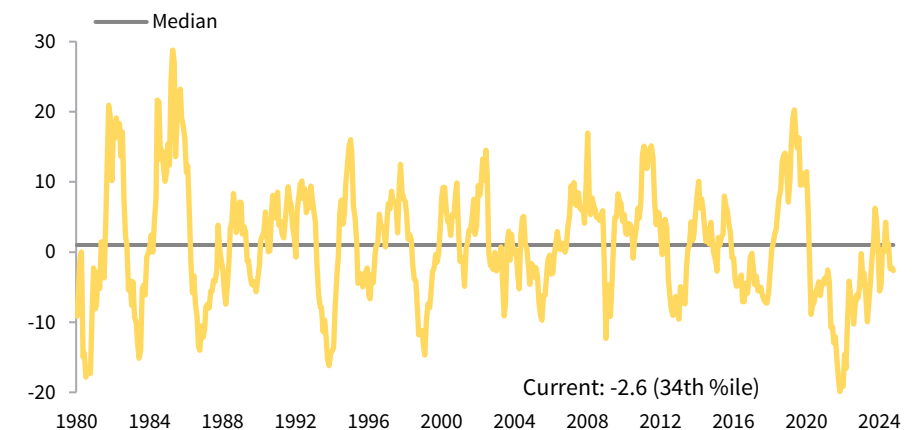
Valuations: 10-yr Treasury

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



12-month price momentum: 10-yr Treasury

Dec 31, 1980 – Sep 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 August 31, 2025.

US Cash

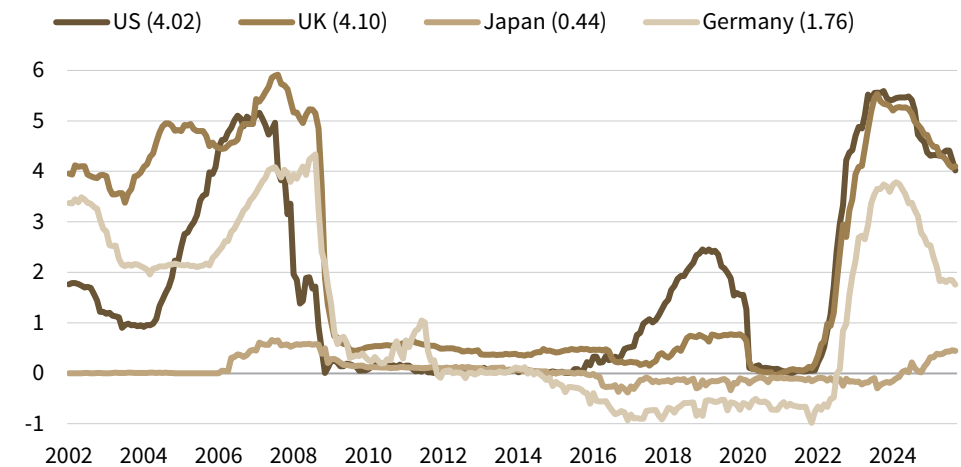
Facts & Figures Third Quarter 2025

Cash remained a stable source of returns in 3Q (1.1%) and over the trailing 12 months (4.5%). Elevated short-term yields and flat curves have been supportive, but the outlook is less favorable as central banks cut rates and yield curves steepen.

- Short-term yields remain elevated compared to the previous decade but are under downward pressure as the Fed, ECB, and BOE have cut policy rates. There is likely room for yields to fall further with markets anticipating 1 to 4 additional cuts over the next year in most regions.
- Cash yields, which outpaced sovereign yields in recent years, have begun to lag as yield curves steepened since mid-2024. Continued rate cuts by DM central banks should push cash yields further below sovereign yields, raising the opportunity cost of holding cash.
- Cash remains essential for liquidity and stability—key priorities in today's environment, especially for investors with high spending needs, unfunded commitments, or hedging overlays.
- US investors should focus on secure instruments like T-bills, while Eurozone investors should keep cash in core country banks within prudent limits. Treasury and government money market funds are preferred over prime funds, which carry greater credit risk and gating potential.
- Holding cash long-term carries risks: inflation erodes real value, opportunity costs rise as other assets offer higher expected returns, and reinvestment risk increases as rates fall and the curve steepens.

T-Bill rates

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



Market expectations for future central bank rates

As of Sep 30, 2025 • Percent (%)

	Current	3M	6M	1Y	2Y
UK	4.00	3.96	3.81	3.63	3.65
Japan	0.50	0.69	0.78	0.98	1.22
EMU	2.00	1.99	1.94	1.92	2.11
US	4.13	3.61	3.39	3.03	2.99

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

Notes: ECB data represented by the ECB overnight deposit rate. Feds funds target range is 4.00%–4.25%. The mid-point of 4.13% is used for future market expectations.

US Corporate Bonds

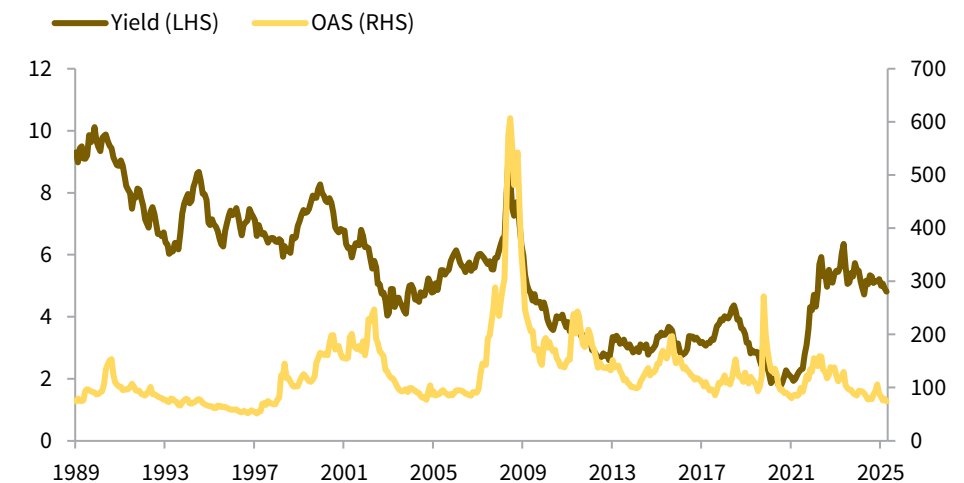
Facts & Figures Third Quarter 2025

US investment-grade (IG) corporate bonds returned 2.6% in 3Q and are now up 3.6% over the past 12 months, driven by declining spreads and lower benchmark yields. Credit fundamentals remain solid, with stable leverage and strong coverage, and stand to benefit from further Fed easing.

- The Bloomberg Corporate Investment-Grade Index returned 2.6% in 3Q and is now up 6.9% YTD, as declining spreads and lower benchmark yields boosted returns.
- Valuations for IG corporate bonds look stretched, with the current 74-bp OAS in the bottom quintile and the index yield at 4.81%, its lowest since 3Q 2024 and about 50 bps lower than where it began 2025. Despite this, IG yields remain above ten-year averages, which might continue to attract some investors.
- Economic conditions have been supportive, as underlying Treasury yields have moved lower in 2025 and both inflation and growth moderated, allowing the Fed to resume easing. Additional rate cuts are expected over the next year, though the impact on intermediate-term benchmark yields is uncertain given larger deficits and wavering foreign demand amid a weakening US dollar.
- IG corporate fundamentals remain healthy, providing a cushion if growth deteriorates. Gross leverage for IG issuers has been stable at around 2.4x Ebitda for several years, and the median interest coverage ratio is around 10x. Ebitda growth decelerated to around 5% YOY in 2Q, but expected Fed rate cuts could offer some upside for credit metrics.

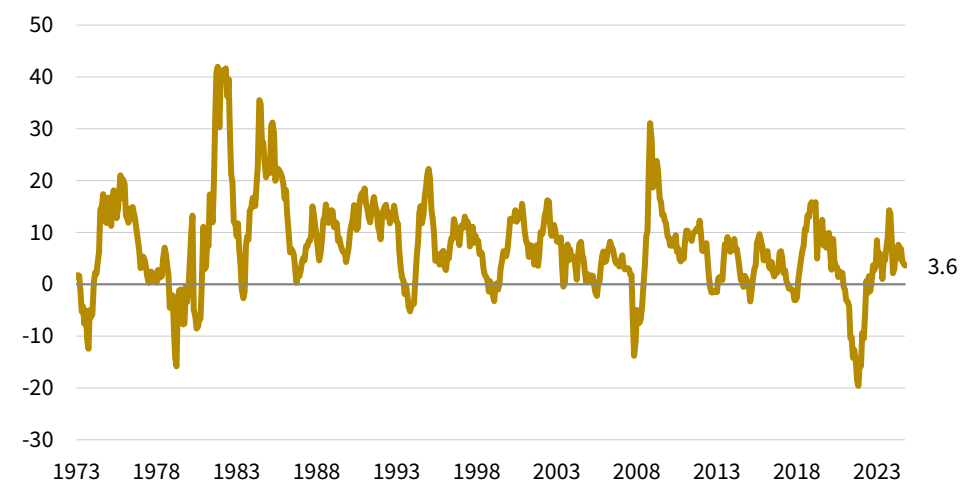
Yield and option-adjusted spread: US investment-grade corporates

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



Trailing 12-month return: US investment-grade corporates

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



Sources: Bloomberg Index Services Limited and Thomson Reuters Datastream.

US Tax-Exempt Bonds

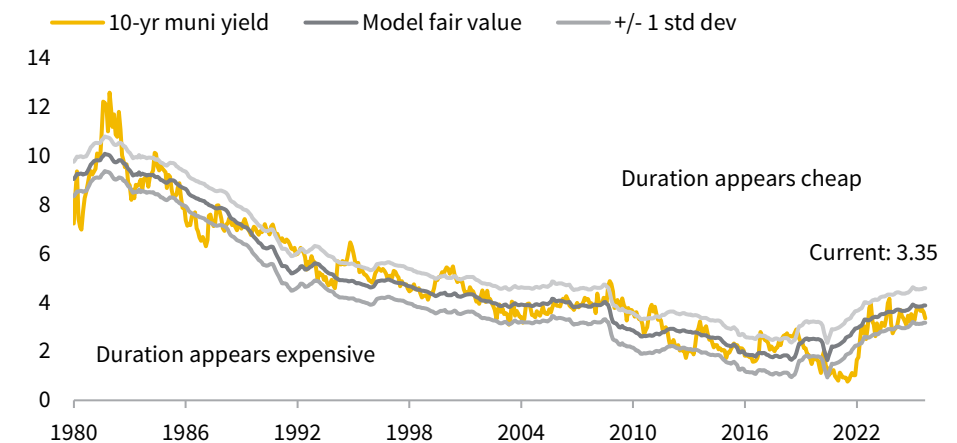
Facts & Figures Third Quarter 2025

US muni bonds returned 3.0% in 3Q and 1.4% over the trailing 12 months. Performance was buoyed by a strong September due to the resumption of Fed easing and strong fund inflows.

- Muni valuations appear fair in absolute terms, with ten-year muni yields at 3.4% (down from 3.5% at the start of the year). Yields remain slightly above their 20-year median of 2.8% but are slightly below their implied fair value of 3.9% based on their relationship with the trailing ten-year nominal GDP growth adjusted for the average muni/Tsy yield ratio.
- Munis spreads tightened in 3Q and the muni-to-Treasury yield ratio fell to 0.81 (24th percentile). For high tax bracket individuals, ten-year munis still offer a significant yield advantage over taxable-equivalents after taxes (+187 bps vs Treasuries and +100 bps vs corporates).
- US growth has slowed this year, with labor market softness and tariff uncertainty weighing on activity. Inflation remains elevated, and higher tariffs are expected to keep price pressures up.
- The Fed cut rates by 25 bps in September, bringing the target range to 4.00%–4.25%. Looking ahead, both the Fed and markets anticipate another 75 bps–100 bps of cuts by end-2026, though persistent inflation could limit the pace and extent of easing.
- US policy changes have introduced uncertainty to the muni market. The One Big Beautiful Bill raised the SALT cap deduction, potentially reducing muni demand, while deregulation may encourage some buyers to increase muni holdings. Cuts to Medicaid, Medicare, and federal funding could pressure state finances and issuance.
- Supply/demand dynamics have improved recently: issuance has slowed, while demand picked up in 3Q, with \$36B flowing into muni ETFs and funds this year—over half in the last quarter.
- Default risk among high-quality muni issuers remains low, supported by strong credit fundamentals and ample state rainy day funds, leaving the sector well positioned for a potential economic slowdown.

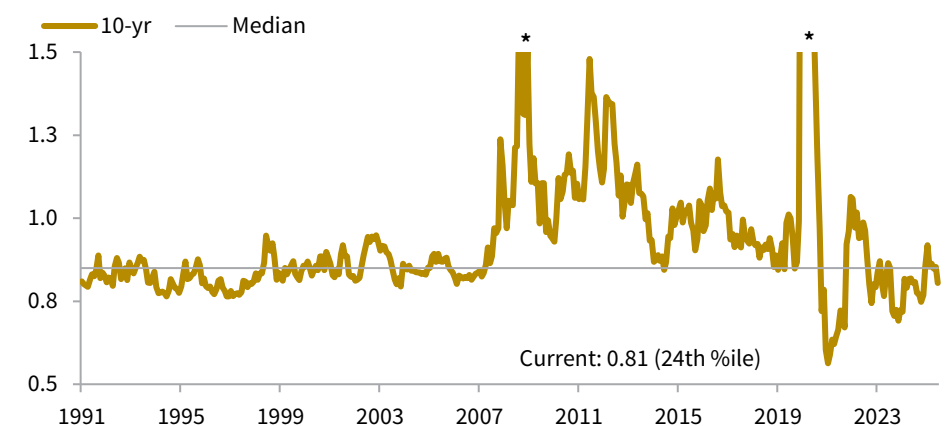
Valuations: 10-yr muni

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



Ratio of 10-yr muni yields to Treasury yields

Apr 30, 1991 – Sep 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 August 31, 2025.

US Inflation-Linked Bonds

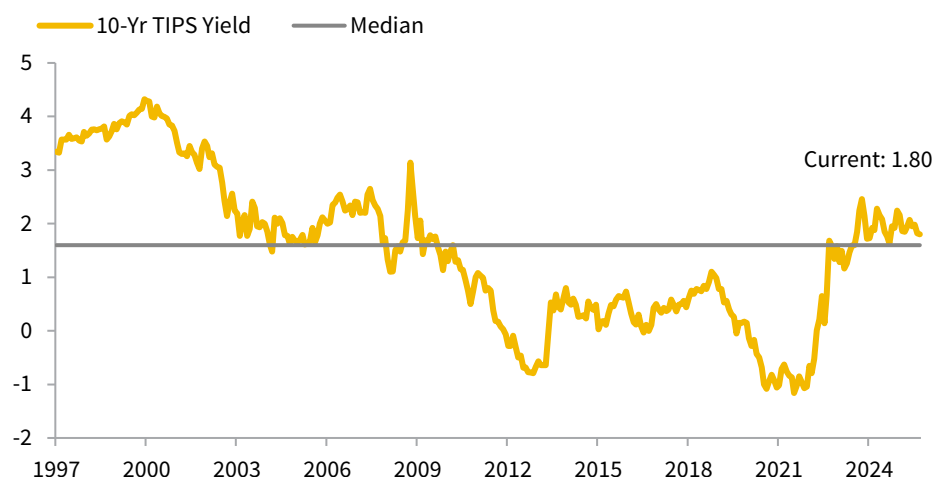
Facts & Figures Third Quarter 2025

US TIPS returned 2.1% in 3Q and 3.8% over the trailing 12 months, outperforming nominals as growth concerns have lowered real yields and tariffs have raised inflation expectations.

- US TIPS remain somewhat attractive, with ten-year real yields at 1.8% as of September 30 (down from 2.2% at the start of the year), above both the 1.6% median and the implied fair value of 1.3% based on trailing real GDP growth.
- US economic activity has moderated this year amid tariff uncertainty and a softer labor market in 3Q. Inflation pressures have increased—core CPI rose from 2.8% in May to 3.1% in August—and higher tariffs are expected to keep inflation elevated.
- Consensus forecasts project US real GDP growth at 1.8% and headline CPI at 2.8% for 2025, versus 2.1% and 2.5% in December 2024.
- The Fed cut rates by 25 bps in September, the first move since last December, lowering the target range to 4.00%–4.25% in response to labor market concerns. Both the Fed and markets expect another 75 bps–100 bps of cuts by the end of 2026, though this may be optimistic if inflation remains sticky.
- Persistent inflation has pushed inflation expectations higher. The ten-year breakeven inflation rate has risen from 2.1% to 2.4% over the past year, above the median and near the top of its three-year range.
- There is a risk that tariffs have less of an impact on inflation if businesses absorb costs rather than pass them to consumers, which could weigh on inflation expectations and TIPS performance versus nominals.
- TIPS, which are CPI-linked and less liquid than Treasuries, tend to underperform when inflation falls or during market stress. However, they offer protection against unexpectedly high inflation and may provide more value if inflation proves stickier than expected, given elevated real yields.

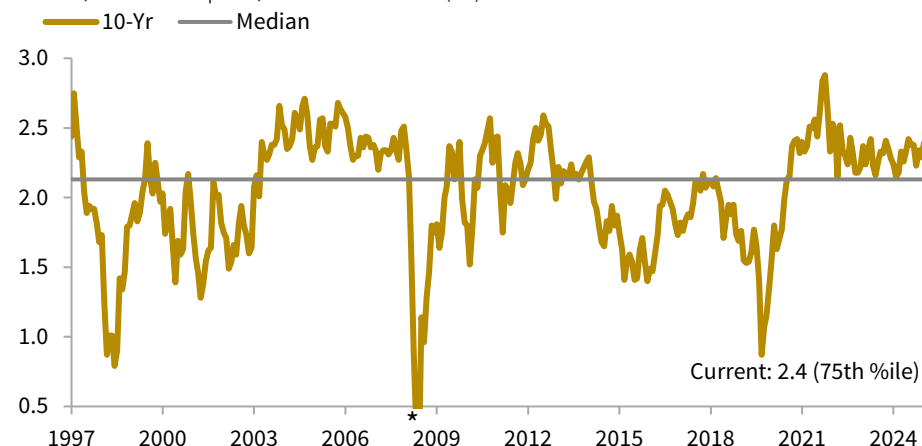
Historical yield: 10-yr TIPS

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



10-yr breakeven inflation

Jul 31, 1997 – Sep 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

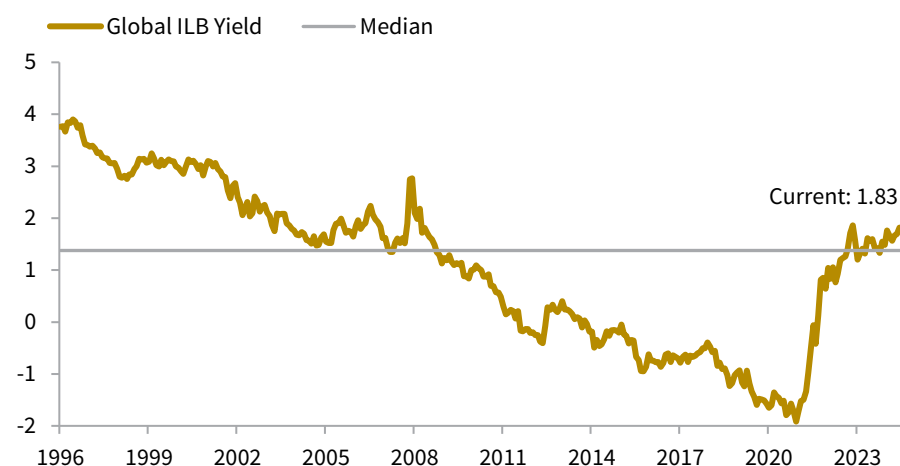
Facts & Figures Third Quarter 2025

Global linkers returned 0.3% in 3Q and 1.3% over the trailing 12 months, outperforming nominals as real yields have been flat, and persistent inflation has raised inflation expectations.

- Global linkers remain somewhat attractive, with ten-year real yields at 1.8% as of September 30 (unchanged from the start of the year). Yields are slightly below the post-COVID high of 1.9%, but about 40 bps above the median and more than one standard deviation above implied fair value based on trailing real GDP.
- Global economic activity is relatively stable, while inflation pressures have eased in most countries but remain persistent in the US and UK. Tariffs complicate the outlook, likely weighing on global growth and lifting US inflation, with varying effects by country.
- Consensus forecasts project DM real GDP growth at 1.5% and headline CPI at 3.3% for 2025, versus 1.7% and 3.0% in December 2024.
- Major central banks (BOE, ECB, Fed) have lowered policy rates over the previous years and most continue to guide toward further rate cuts, with futures markets forecasting 0 bps–100 bps in the next 12 months.
- Rate cuts, fiscal concerns, policy uncertainty, and persistent inflation in some countries have contributed to steeper yield curves and higher term premiums, which have kept real yields elevated despite lower policy rates and growth concerns.
- While inflation expectations have fallen in most markets, persistent inflation and tariff risks have pushed inflation expectations higher in the US, which account for a little less than half of the global linkers' universe.
- Linkers, which are inflation-linked and less liquid than nominals, tend to underperform when inflation falls or during market stress. However, they offer protection against unexpectedly high inflation and may provide more value if inflation remains stickier than expected, given elevated real yields.

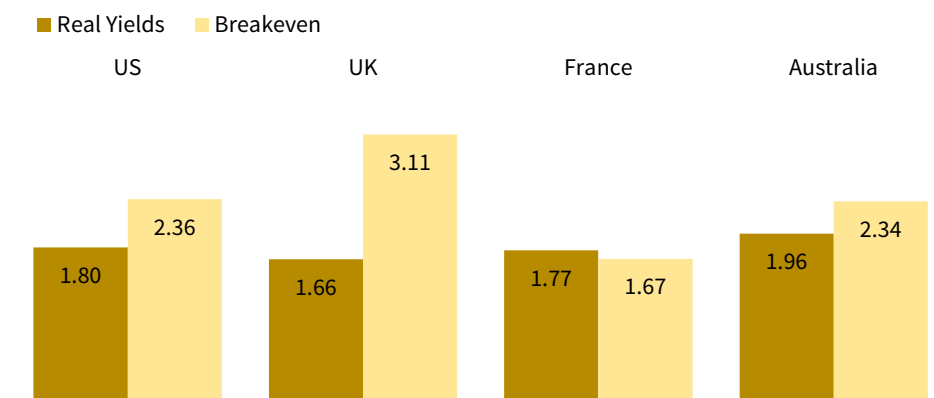
Historical index yield: BBG global linkers

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



10-yr real yields and breakeven inflation

As of Sep 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

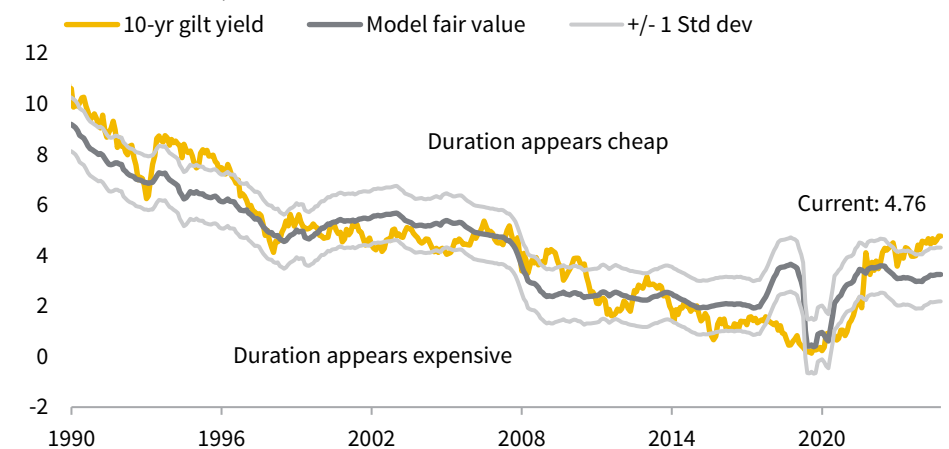
Facts & Figures Third Quarter 2025

UK gilts returned -2.4% in 3Q and -1.3% over the trailing 12 months. UK gilts have lagged other majors due to ongoing fiscal and inflation concerns.

- UK gilt valuations stand out as cheap among major markets, with ten-year yields at 4.8% as of September 30 (up from 4.6% at the start of the year). Yields are near their highest since 2008, well above the 20-year median of 2.7%, and more than 1 standard deviation above the implied fair value of 3.2% based on nominal GDP growth.
- UK economic activity has improved modestly this year, but inflation remains elevated—core CPI was 3.6% in August. US tariffs are a headwind given the UK's trade exposure, though the UK secured a favorable deal, locking in a 10% tariff rate and greater market access.
- Consensus forecasts project UK real GDP growth at 1.3% and headline CPI at 3.4% for 2025, versus 1.4% and 2.5% in December 2024.
- The Bank of England began cutting rates in 2024, lowering its policy rate by 125 bps to 4.0%, with another 25 bps–50 bps of cuts expected over the next year.
- The yield curve has steepened with BOE cuts—the ten-year/two-year gilt spread widened from 15 bps to 92 bps over the past year. Supply/demand fundamentals have also contributed to curve steepening and weighed on price momentum further out the yield curve.
- Gilt issuance is likely to remain elevated due to large public debt and deficits. The OBR projects the UK's net debt-to-GDP ratio could exceed 270% by the mid-2070s under current policy assumptions. Quantitative tightening and reduced demand from major holders, such as pensions, have further exacerbated the supply/demand imbalance.
- The upcoming budget negotiation in November will test whether the UK can make hard choices to avoid a debt spiral and may contribute to volatility in gilt markets.

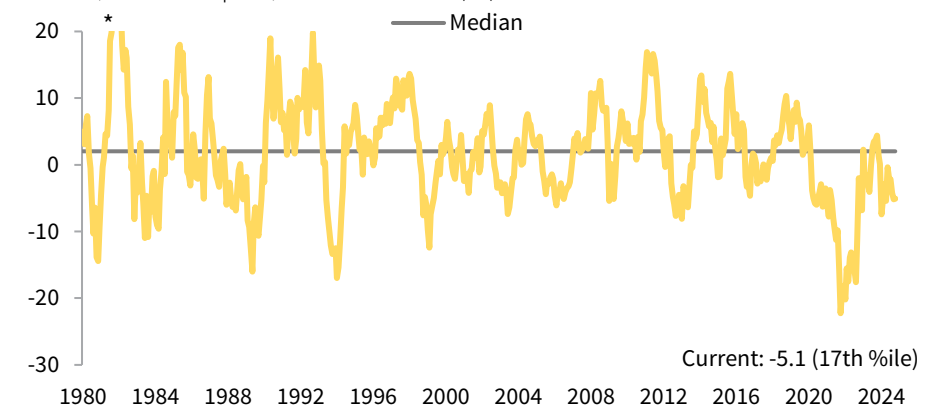
Valuations: 10-yr gilts

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



12-month price momentum: 10-yr gilts

Dec 31, 1980 – Sep 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 August 31, 2025.

UK Corporate Bonds

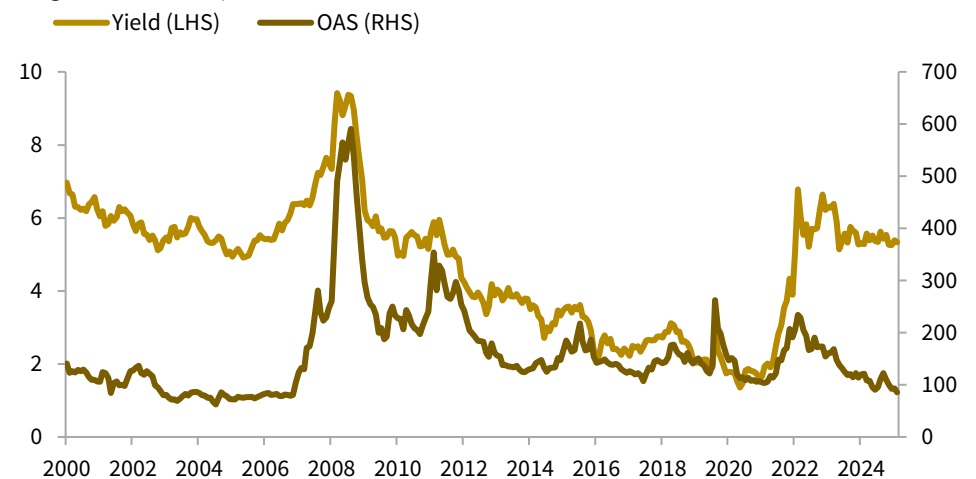
Facts & Figures Third Quarter 2025

Sterling IG corporate bonds returned 0.8% in 3Q and 3.9% over the past year, driven by carry and falling yields. Valuations are expensive and growth is lackluster, but positive technicals and Bank of England rate cuts are underpinning returns.

- Sterling investment-grade corporate bonds returned 0.8% in 3Q, bringing their YTD return to 4.2%.
- Valuations for Sterling IG corporate bonds are expensive, with the option-adjusted index spread declining in 3Q to 86 bps, placing it in the bottom quintile of observed values. Spreads are rich but like those in other markets.
- Carry has driven most of the YTD return, though yields have fallen around 20 bps YTD to 5.33%. Despite the decline, current yields remain nearly 200 bps above their ten-year average and may continue to underpin returns.
- The macro backdrop is mixed for Sterling credit. Economic growth has been lackluster, with the consensus expecting real GDP growth of just 1.3% in 2025. The flipside is that the BOE is cutting rates to stimulate growth, which in turn lowers refinancing costs for borrowers. However, core CPI of 3.6% in August remains above the BOE's target, which may limit its ability to cut further.
- Technicals are supportive, with 2025 YTD seeing just £3.4B of net issuance, including less than £1B in 3Q, underpinning valuations.

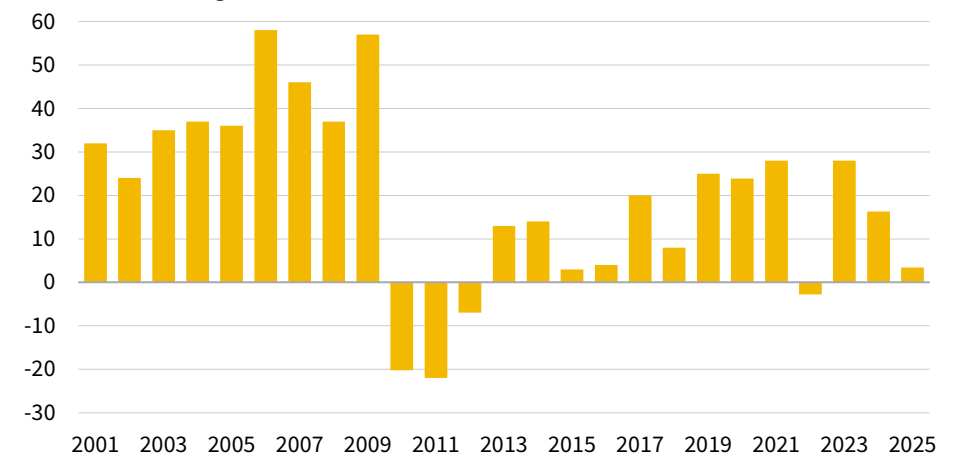
Yield and option-adjusted spread: Sterling corporates

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



Net annual issuance: Sterling corporates

2001–25 • Sterling (Billions)



Source: Bloomberg Index Services Limited.

Note: Issuance data for 2025 are through September 30.

Euro Area Sovereign Bonds

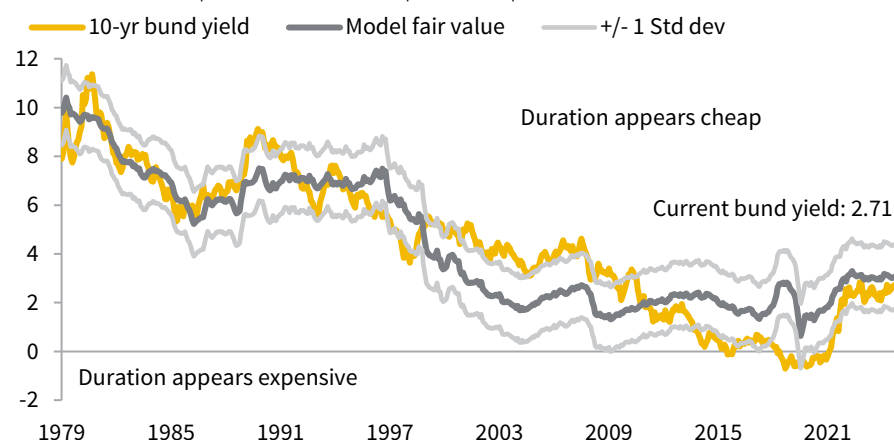
Facts & Figures Third Quarter 2025

Core EA sovereigns (German bunds) returned -0.2% in 3Q and 3.8% over the trailing 12 months. EA bonds lagged US bonds in 3Q due to new fiscal stimulus and improved growth sentiment.

- EA sovereign valuations appear fair, with ten-year bunds yielding 2.7% as of September 30 (up from 2.4% at the start of this year). Yields are above the 20-year median of 1.7%, but slightly below the implied fair value of 3.1% based on nominal GDP growth.
- EA economic activity has picked up this year, while inflation has largely normalized—core HICP was 2.4% in September. US tariffs present a headwind given the EA's trade exposure, but monetary easing and planned fiscal stimulus have supported the growth outlook.
- Consensus forecasts project EA real GDP growth at 1.3% and headline CPI at 2.1% for 2025, versus 1.0% and 2.0% in December 2024.
- The ECB led major central banks by cutting rates 200 bps since 2024, but further easing appears unlikely. Markets remain uncertain whether the ECB will cut rates again in the coming year.
- The yield curve has steepened with ECB cuts—the ten-year/two-year bund spread widened from 6 bps to 69 bps over the past year.
- Planned fiscal stimulus in Germany and across the EA—targeting infrastructure, defense, and relaxed fiscal constraints—has bolstered growth prospects and contributed to curve steepening due to fiscal concerns.
- Germany retains ample fiscal space, and recent reforms and increased coordination have reduced debt crisis risks and tightened peripheral spreads. However, France's debt dynamics are more challenging, and recent political turmoil over budget negotiations has increased volatility in local bond markets.
- OATs-bunds yield spreads have widened to 82 bps, well above the 20-year median of 36 bps and one of the highest since the 2011–12 debt crisis.

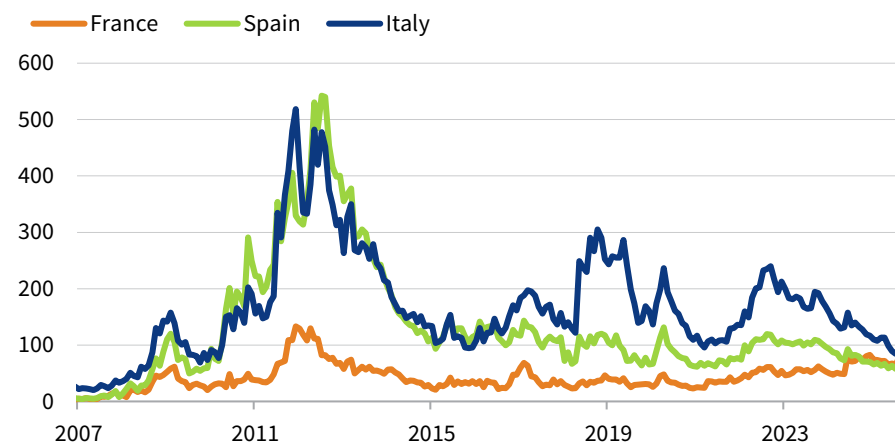
Valuations: 10-yr bunds

Dec 31, 1979 – Sep 30, 2025 • Basis points (bps)



Historical 10-yr spreads over bund yields

Jan 31, 2007 – Sep 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

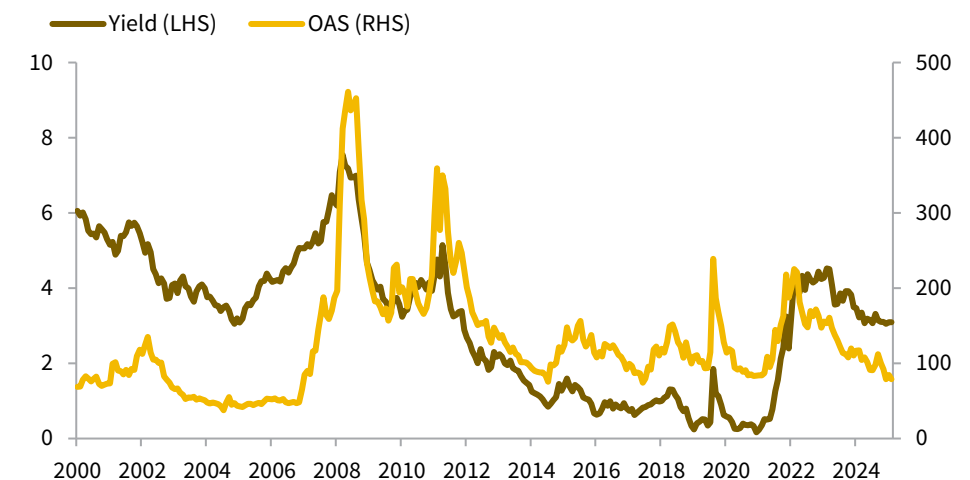
Facts & Figures Third Quarter 2025

The Bloomberg Euro-Aggregate Corporate Index returned 0.9% in 3Q and 3.6% over the past year, driven by carry and spread compression. Valuations are full, but stable fundamentals and supportive ECB policy have aided returns.

- The Bloomberg Euro-Aggregate Corporate Index returned 0.9% in 3Q and 2.8% YTD. Returns were driven by carry and some spread compression.
- Valuations for euro corporate bonds remain full, with Bloomberg Euro-Aggregate Corporate Index OAS falling 13 bps in 3Q to 79 bps, near the bottom quintile historically. The current 3.09% yield has declined slightly since the start of 2025 but remains attractive versus recent averages.
- The macro backdrop is supportive, as Eurozone economic growth has accelerated and expected 2025 GDP growth of 1.3% should be in line with developed peers. Inflation has dropped to around 2%, enabling the ECB to steadily lower its benchmark rate to 2.15% since mid-2023, which has allowed companies to refinance at lower rates. Ebbing inflationary pressures may provide further flexibility.
- Corporate fundamentals are stable, with net leverage for euro investment-grade issuers at 2.4x at 2Q-end, slightly below US levels.
- However, economic growth has not yet translated into stronger earnings growth, partly due to currency appreciation and rising trade tensions. Government spending on defense and infrastructure may provide offsetting tailwinds for growth in the years ahead.
- Technicals are strong, as Eurozone corporate bonds issuance has increased in 2025 to €183B through 3Q, ahead of last year's pace, and declining spreads suggest increased supply has been easily absorbed.

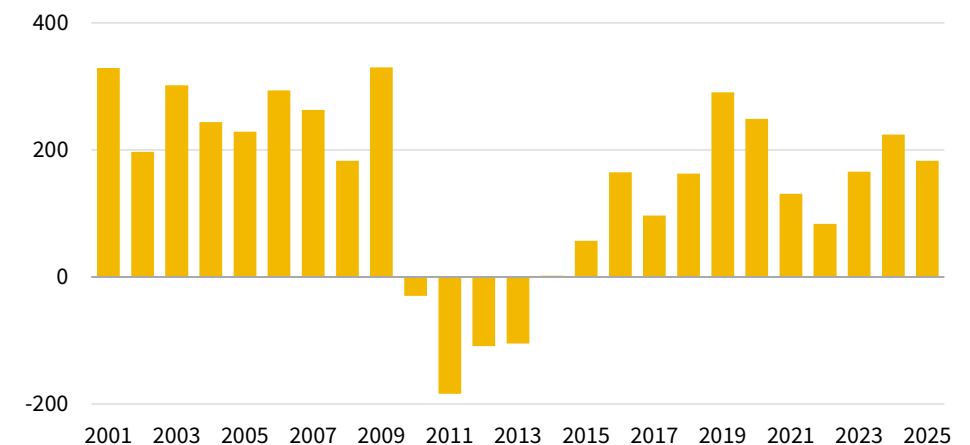
Yield and option-adjusted spread: European corporates

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



Net annual issuance: European corporates

2001–25 • Billions (EUR)



Source: Bloomberg Index Services Limited.

Note: Issuance data for 2025 are through September 30.

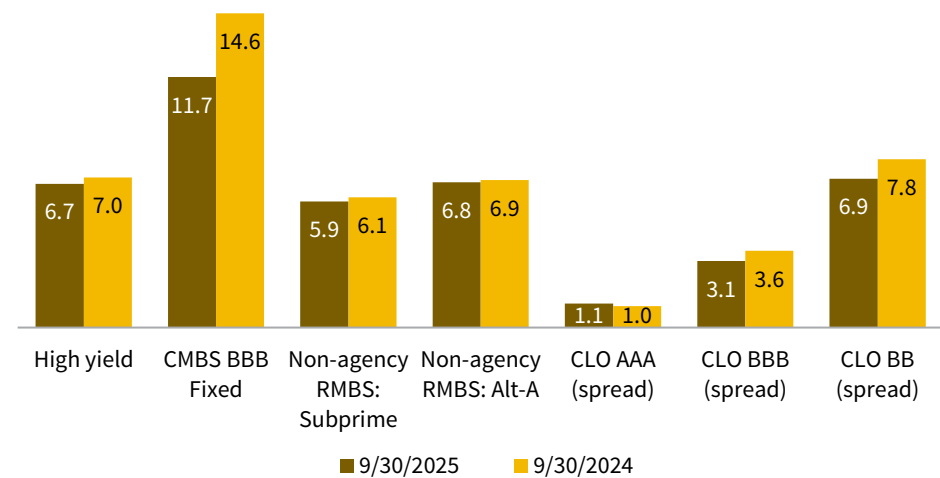
Structured Finance

Facts & Figures Third Quarter 2025

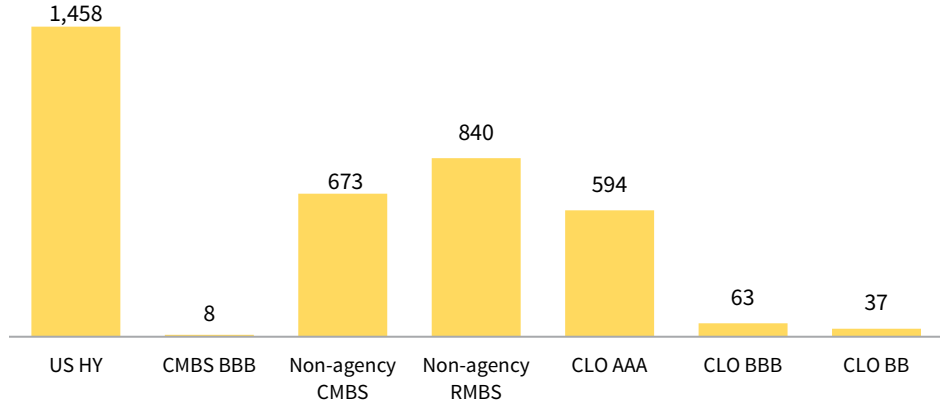
Structured credit markets posted positive returns in 3Q, led by US CMBS BBBs (1.7%) and US CLO BBs (3.4%). Performance was driven by spread compression, supportive fundamentals, and central bank easing, though liquidity and refinancing risk persist in some sectors.

- Structured credit indexes posted positive returns in 3Q, led by assets like US CMBS BBB-rated bonds (1.7%) and BB-rated CLO debt (3.4%). YTD returns have been positive across sub-asset classes.
- Valuations for structured credit remain reasonable relative to other credit markets, though spreads and yields have compressed for many assets. For example, subprime RMBS yields have fallen around 100 bps in 2025, and BB-rated CLO spreads have compressed almost 40 bps.
- The economic backdrop has been supportive, with recent GDP growth beating expectations and tariff-related uncertainty fading. Central banks have lowered rates in response to weaker labor markets and lower inflation, improving corporate metrics like interest coverage. The flipside is that rate cuts lower the coupons on floating-rate assets like CLO bonds.
- Corporate fundamentals are generally supportive, with CMBS bonds benefiting from healthy cash flows in sectors like industrial, multi-family, and retail, though some underlying collateral may be hard to refinance as valuations have dropped. CLO bonds have been supported by low default rates on underlying loans.
- 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.

Yield: Select structured credits
Percent (%)



Market cap: Select structured credits
As of September 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

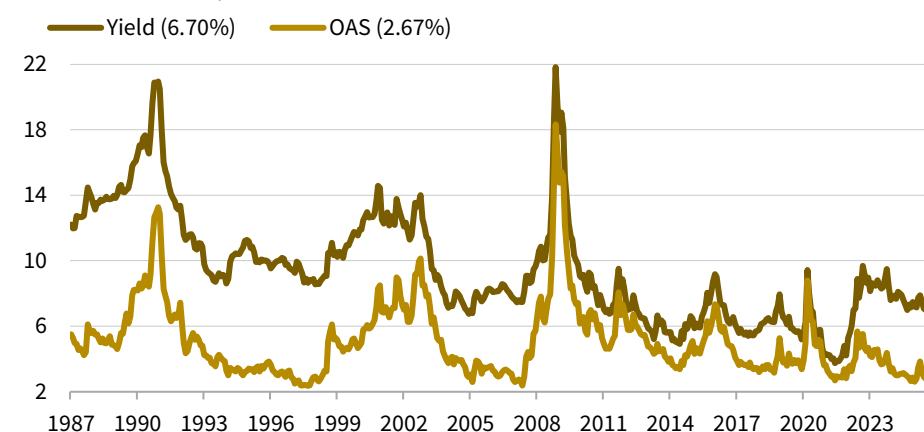
Facts & Figures Third Quarter 2025

US high-yield (HY) bonds returned 2.5% in 3Q and 7.4% over the past 12 months, outperforming loans and shorter-duration assets. Performance was driven by carry and spread compression, as the index yield fell to 6.7%. Fed easing and stable economic growth supported demand, as did resilient fundamentals.

- The Bloomberg High-Yield Index returned 2.5% in 3Q, bringing its YTD return to 7.2%. HY bonds have outperformed leveraged loans in 2025 as their higher duration benefits from falling yields.
- Valuations look expensive for HY bonds. Performance during the quarter was driven by carry and the index OAS falling another 23 bps to 267 bps, a level in the bottom 5% of observed values. Lower spreads mean the index yield fell around 35 bps to 6.7%, its lowest level since early 2022.
- Economic growth forecasts have stabilized and inflation has moderated, supporting risk assets. The Fed cut its target rate by 25 bps in September and is expected to ease further over upcoming meetings, which could continue to underpin demand for HY bonds.
- Corporate fundamentals are solid. HY borrowers have slowly grown earnings and kept leverage contained, with net leverage at 3.9x EBITDA at the end of 3Q, only a slight increase from last year. Expected rate cuts may further boost metrics like interest coverage ratios, though an unexpected slowdown in growth could see earnings deteriorate.
- Decent earnings growth and healthy interest coverage mean default rates are below historical averages; Moody's reported a speculative-grade default rate of 1.9% at the end of August, below its long-term median of 2.2%. The current distressed ratio (4.4%) is well below its historical median and indicates the market is not expecting a further rise in defaults.

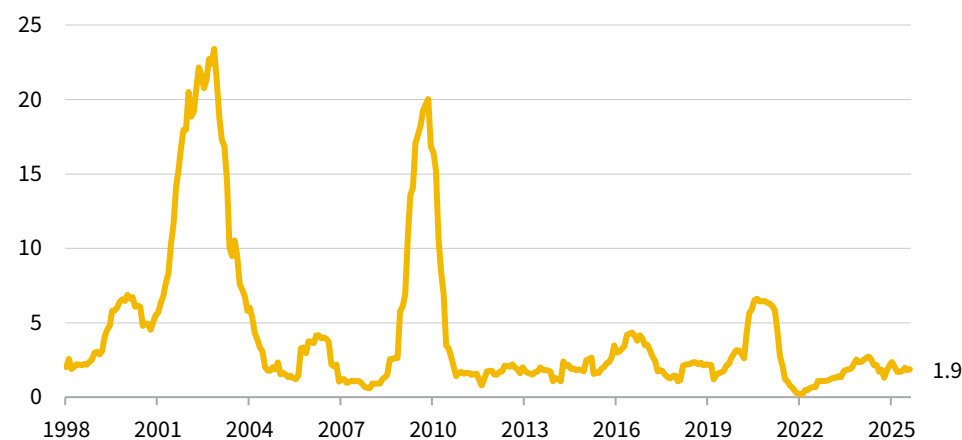
Yield and option-adjusted spread: US high-yield index

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



Par default rates: US high-yield

Jan 31, 1998 – Aug 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

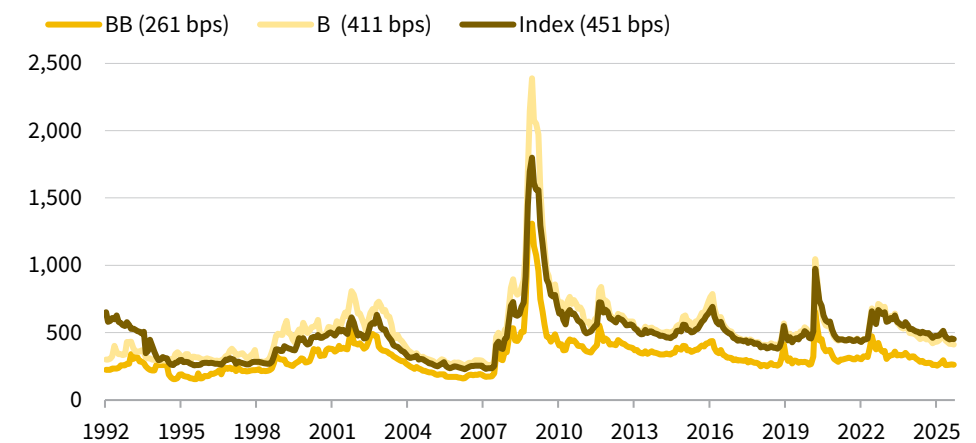
Facts & Figures Third Quarter 2025

US leveraged loans returned 1.7% in 3Q and 7.1% over the past 12 months, with carry driving returns as prices were stable. Loans lagged HY bonds due to lower coupons from Fed rate cuts. Credit fundamentals remain stable and should receive a boost from the resumption of Fed easing.

- Leveraged loans returned 1.7% in 3Q and have now returned 4.7% YTD. Loans have underperformed US high-yield (HY) bonds in recent quarters as rate cuts have lowered their coupons and bonds have benefited from a decline in underlying Treasury yields.
- Valuations for leveraged loans remain reasonable, with the current discount margin of 451 bps below its historical median but well above the OAS on HY bonds. The lower quality of the loan index partially explains its higher spreads as less than 40% of the index carries a BB rating.
- Following tariff-related uncertainty earlier in 2025, economic growth forecasts are being marked up and inflation is moderating. Reduced price pressures and weaker labor markets prompted the Fed to resume easing in September, lowering base rates and causing the yield on leveraged loans to drop below 8%.
- Credit fundamentals are stable, with Morgan Stanley reporting that the median interest coverage ratio for loan issuers stood at 4.1x at the end of 2Q, up 0.2x from a year ago.
- J.P. Morgan reports the trailing default rate for leveraged loans was 3.5% at the end of 3Q when liability management exercises are included, above its 25-year average but down 100 bps from January. Ongoing rate cuts should further support credit fundamentals, but lower coupons could impact demand for loans relative to other credit assets.

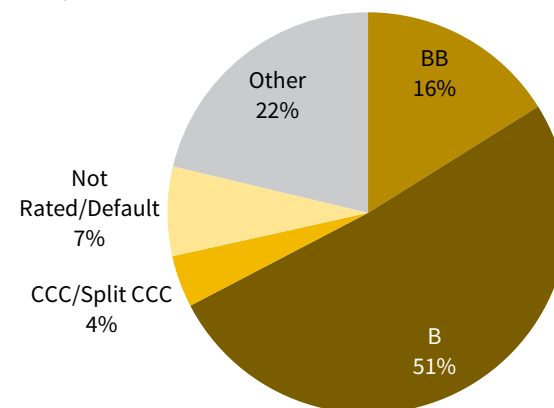
Discount margin: CS leveraged loan index

Jan 31, 1992 – Sep 30, 2025 • Basis points (bps)



Ratings breakdown: CS leveraged loan index

As of September 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

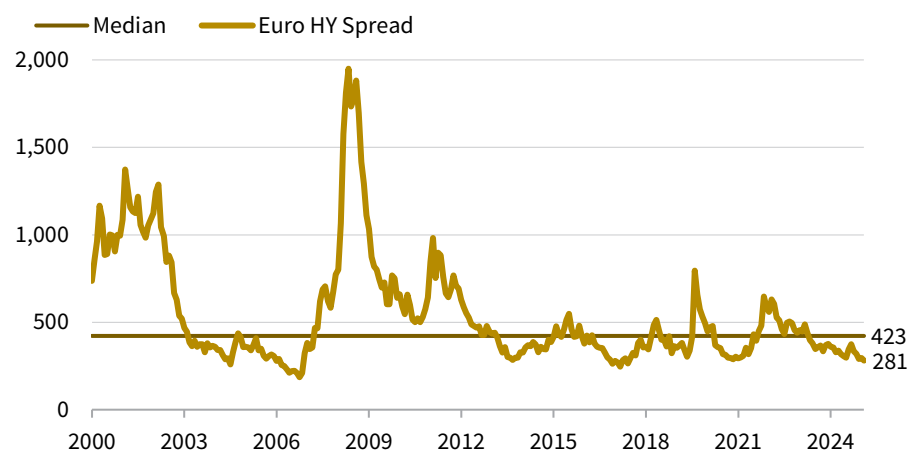
Facts & Figures Third Quarter 2025

The Bloomberg Pan-European HY Index returned 1.8% in 3Q and 6.3% over the past 12 months, boosted by carry and spread compression. Valuations are expensive, but stable fundamentals, supportive technicals, and improving macro conditions have underpinned returns.

- The Bloomberg Pan-European High-Yield Index returned 1.8% in 3Q and 4.2% YTD 2025. Returns have been driven by a combination of carry and spread compression.
- Valuations are expensive, with the average OAS at 281 bps, placing it in the bottom quartile of historical values and presenting a headwind for returns.
- The macro backdrop for European HY issuers has been mixed but is improving, as European growth forecasts have held up better than in some other regions, supported by expected stimulus in countries like Germany. Declining inflation has allowed central banks in Europe to ease rates, underpinning demand for higher-yielding fixed income assets.
- Fundamentals have remained stable in recent quarters. European HY borrowers had a median interest coverage ratio of 4.3x at the end of 3Q, close to their ten-year average, and leverage ratios have fallen and stand at under 4x Ebitda.
- Defaults have risen in recent years, mainly due to well-telegraphed struggles at some large issuers, but the trailing 12-month European HY default rate was 3.3% at the end of 3Q, unchanged from one year ago. The current distressed ratio—around 5%—does not suggest an imminent increase in defaults.
- Technicals have been supportive. Recent supply—which included a record-setting 2Q for new HY issuance—has been easily absorbed by the market.

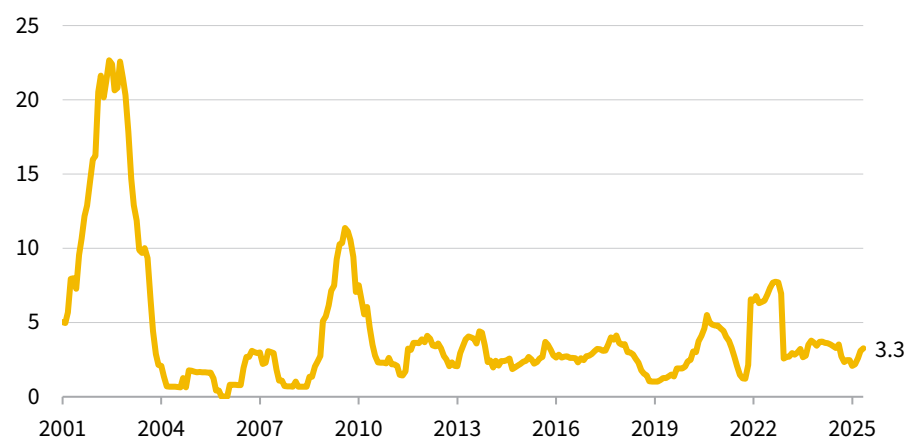
Option-adjusted spread: European high yield

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



Par default rates: European high yield

Apr 30, 2001 – Aug 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

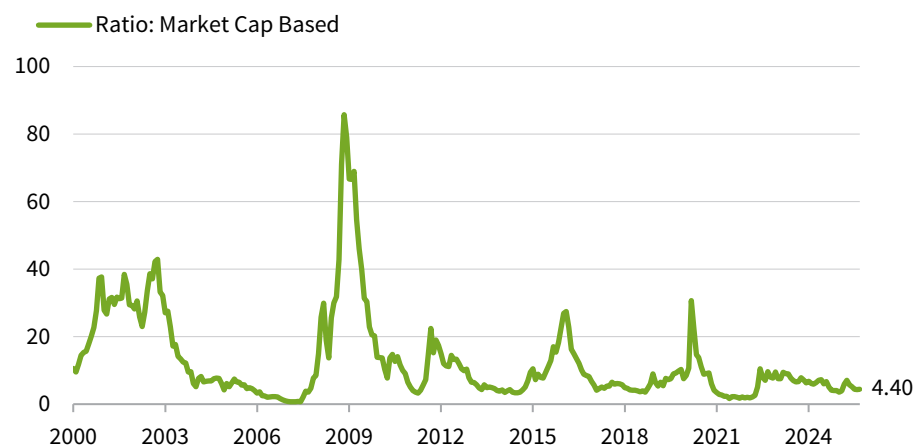
Facts & Figures Third Quarter 2025

Distressed hedge funds posted high returns in 3Q and have outperformed most other hedge fund categories. Managers face headwinds including low distressed ratios and rate cuts that ease pressure on borrowers, but credit markets are expanding and skilled funds have an expanded opportunity set to provide rescue finance to struggling companies.

- The HFRI Event Driven: Distressed/Restructuring Index returned 4.2% in 3Q and 10.4% over the past 12 months. Distressed hedge funds have outperformed fund-of-funds and many other hedge fund categories over the past 12 months.
- Valuations are a headwind for distressed funds, as spreads on CCC-rated bonds have risen to 604 bps at the end of 3Q but remain in the bottom quintile historically.
- Technicals are a headwind for distressed funds. Only 4% 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, and private credit markets have soared in size, so the overall opportunity set is larger.
- Corporate fundamentals are weak, with lackluster earnings growth and previous rate hikes pushing the proportion of loan borrowers with weak interest coverage ratios (i.e., under 1.5x) to around 13%, above historical averages. However, the resumption of a rate cuts by the Fed will ease pressure on these borrowers, as would a pick-up in economic growth.
- Distressed investing can be accessed via a variety of vehicles including hedge funds but also lock-up vehicles with longer fund lives. The opportunity set for the latter, given their ability to provide new debt or equity investments to struggling companies, is currently greater.

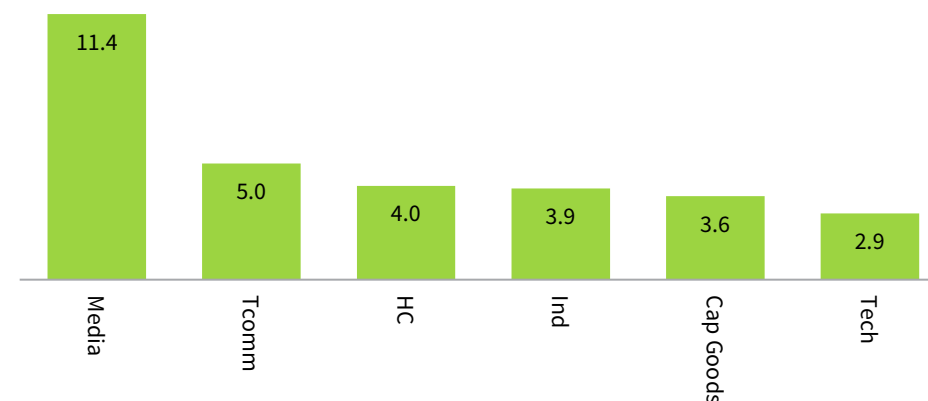
Distressed ratio: BofA ML high yield master II index

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



Market value of distressed paper for select industries

As of September 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.

Insurance-Linked Securities

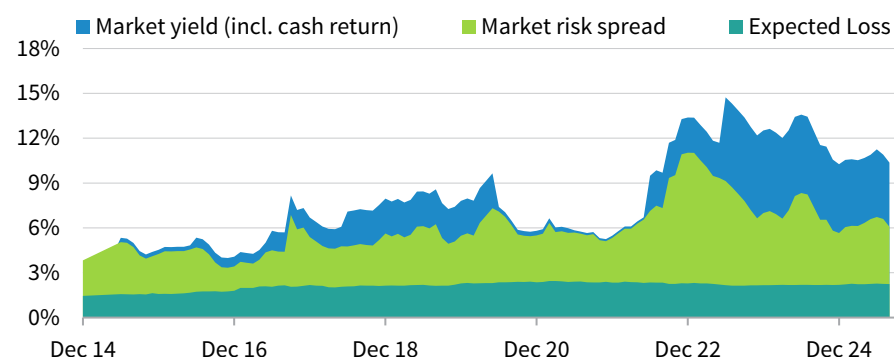
Facts & Figures Third Quarter 2025

Prior to Hurricane Melissa making landfall in the Caribbean on October 28, it has been a calmer Atlantic hurricane and Japanese typhoon season, which contributed to a low-loss 3Q, resulting in strong performance across all market segments. Therefore, the insurance-linked securities (ILS) asset class is on track to deliver double-digit positive returns in 2025 for the third consecutive year, reflecting the sustained elevated premium environment during this period.

- The third quarter in the reinsurance and ILS industry is marked by the onset of conference season, when investors/protection sellers, brokers, and protection buyers come together to discuss premium expectations. These discussions focus on assessing supply/demand dynamics ahead of the upcoming renewal season at year-end.
- The primary focus will be on the pricing cycle in the natural catastrophe reinsurance business and the importance of maintaining a disciplined underwriting approach going forward, especially in light of the excess capital that has accumulated over the past three years of strong performance.
- Despite Hurricane Melissa, the Atlantic hurricane season has been exceptionally calm—both relative to long-term expectations and the initial forecast for 2025. As a result, in 3Q 2025, strategies earned gross returns ranging from 5% to 6.1%, depending on their risk profile.
- Looking ahead to 2026, the outlook remains cautiously optimistic. While the industry anticipates that the attractive premium environment will begin to soften—likely more quickly in the tradable ILS market segment (such as catastrophe bonds), and to a lesser extent in the private ILS segment—premiums across the asset class are still expected to remain above the long-term average.

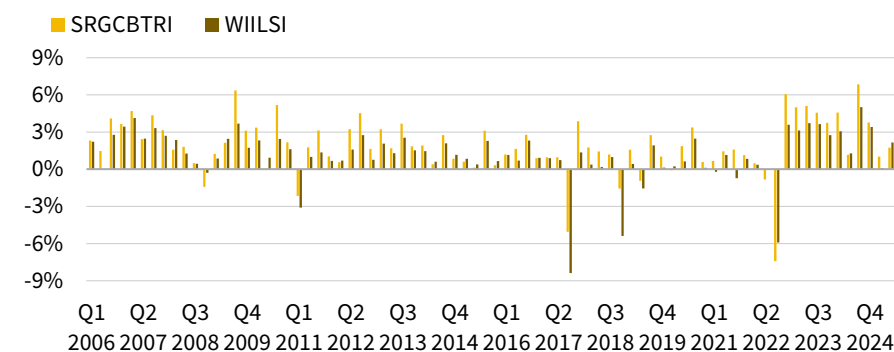
Development of the risk premium and expected loss from Cat bonds

December 31, 2014 – August 31, 2025



Swiss Re Global Cat Bond Total Return Index (SRGCBTRI) & With Intelligence ILS Index (WIILSI) realized returns

First quarter 2016 – Third quarter 2025 • US dollars



Sources: Artemis, Bloomberg L.P., and With Intelligence.

Notes: The SRGCBTRI is a synthetic benchmark designed to represent the performance of the outstanding catastrophe bond market. Its values do not incorporate bid-ask spreads, trading costs, management fees, or the cash drag typically present in actual funds. Additionally, the index assumes optimal allocation to new issuances, which is not achievable in practice due to the realities of book-building and subscription processes. The WIILSI is an equally weighted performance index designed to provide a broad measure of the performance of underlying funds who explicitly allocate to ILS and have at least 70% of their portfolio invested in natural catastrophe risks.

USD-Denominated Emerging Markets Debt

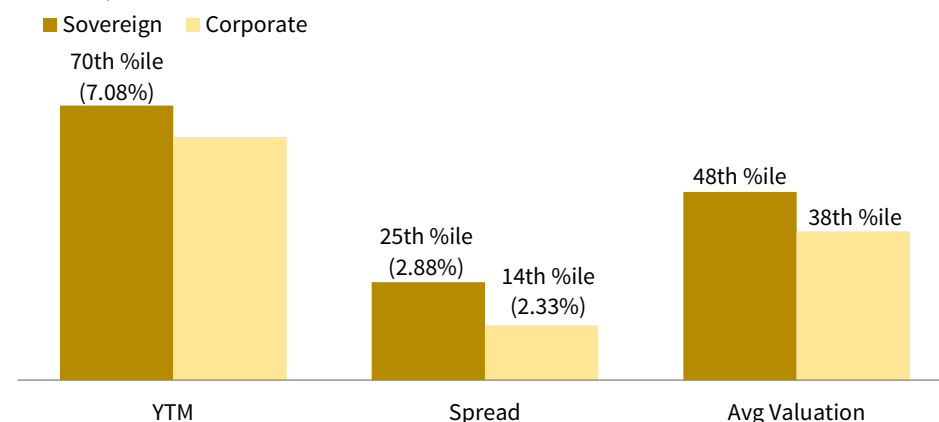
Facts & Figures Third Quarter 2025

EM debt gained in 3Q, bringing TTM performance for the (sovereign) JPM EMBI Global Diversified and (corporate) CEMBI Broad Diversified indexes to 8.5% and 6.5%, respectively. Performance in 3Q was supported by a decline in both yields and spreads, owing to cooling inflation, central bank rate cuts, an easing of trade policy uncertainty, and capital inflows. Recent gains have built on strong returns in 2023 and 2024 for both the sovereign and corporate segments, which returned 12% and 10% annualized over the past three years.

- EM debt yields and spreads have generally compressed over the TTM period. Sovereign yields are down more than 40 bps, while spreads have tightened 77 bps. Third quarter saw several sovereign credit rating upgrades, including India's upgrade by S&P. Corporate yields held relatively flat in 3Q, with spreads down around 25 bps. While yields look mildly elevated from a historical perspective, spreads have compressed to bottom-quartile levels, matching trends seen across credit markets.
- 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.

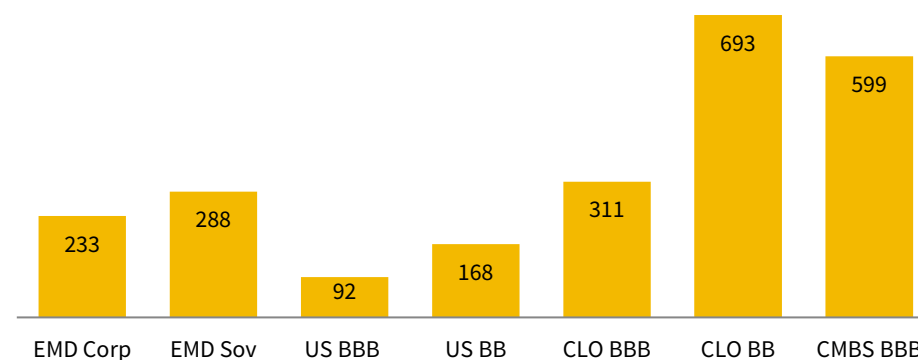
Percentile rank: USD EM debt

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



Percentile rank: option-adjusted spread

As of Sep 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

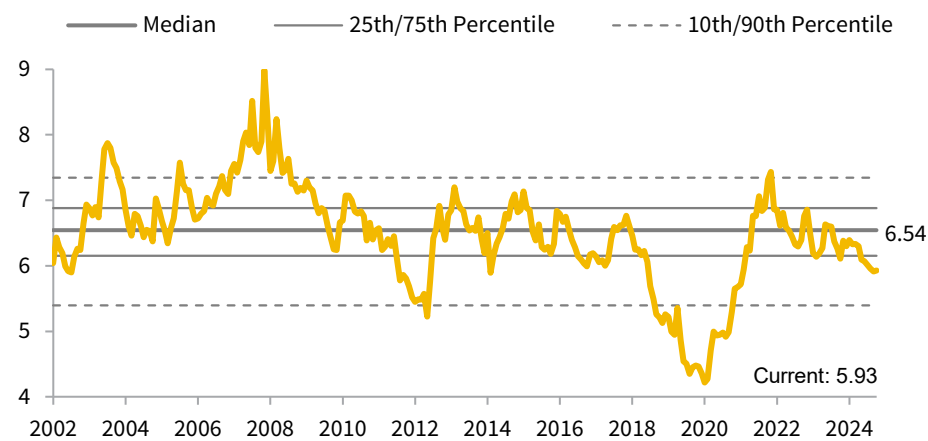
Facts & Figures Third Quarter 2025

EM local currency debt returned 2.8% in USD terms in 3Q 2025, majority driven by fixed income performance, with a 0.4-ppt uplift from currency. For the trailing one-year period that brings performance to 7.4%. Declining yields and carry were the primary drivers of performance, with a limited impact from currency.

- The yield on the GBI-EM Global Diversified index declined by gbps in 3Q, to 5.93%. Fixed-income valuations for EM local currency bonds have risen, with this yield level standing at the 17th percentile of historical observations. Furthermore, the spread to the Global Agg narrowed once more. At 2.45%, this now stands at the very low end of the historical range once again. Therefore, going forward we would expect EM currencies to be the larger driver of returns for unhedged investors. While EM FX valuations have risen this year, they remain relatively depressed overall.
- The economic backdrop has favored EM over DM this year from a fixed income perspective, as tariffs have had a disinflationary impact on EM markets, allowing some easing to be priced in. On the currency side, fears of a US-centered growth slowdown have also weighed on the dollar. EM currencies remain highly sensitive to global growth prospects, however. Still, more recently, the relatively greater impact of US tariff policy on US sentiment has offset worries about a global slowdown for EM FX.
- On a medium-term outlook, EM currencies should be well placed to appreciate. Global growth should eventually improve further relative to the US, helped by greater policy room to support it. Narrowing growth and interest rate differentials and improved global economic sentiment should all contribute to a decline in the dollar. Headwinds could appear from further unexpected fiscal easing in the US or a materials re-escalation of tariff disputes. The level of dispersion between the underlying countries suggests there are opportunities for active managers with broad mandates to add value.

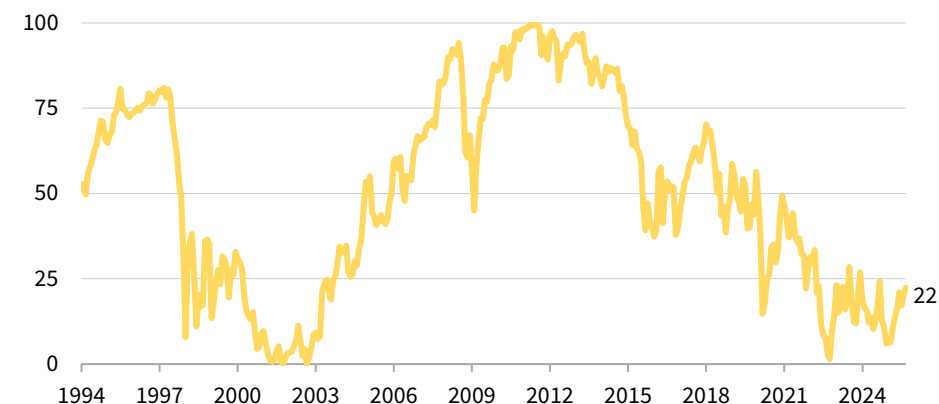
Nominal yield: JPM GBI-EM Global Diversified Index

Dec 31, 2002 – Sep 30, 2025



FI-weighted EM real exchange rate vs US: Percentile

Jan 31, 1994 – Sep 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.