

# Five striking charts from 2025

## Flash Fixed Income | December 2025

- These five charts depict some of the key trends we had our eye on in 2025, all of which we believe will have implications for investors heading into 2026.
- The GBP HY market has been shrinking, the yen has decoupled from government bonds, and immigration has collapsed in developed economies.
- Elevated yields have driven record fixed income fund flows, particularly for short duration mandates, and there is growing evidence of a “K-shaped” economy.

It is the nature of financial markets that the trends and risks investors have their eye on at the start of the year are seldom the trends and risks they have their eye on by the end. Below is a selection of charts depicting some key trends we have seen develop in 2025, all of which we believe will have implications for investors heading into 2026.

### The disappearing GBP high yield market

The GBP high yield (HY) bond market is often one of our favourite areas to go credit picking, given its reasonably large spread pick-up versus its EUR and USD counterparts (currently around 130bp). Most of this is due to the size of the GBP market relative to the EUR and USD HY markets, with the market rightly attaching a liquidity premium to GBP sub-investment grade (IG) credit, but the result is that we often see better currency-adjusted relative value in an issuer's GBP debt versus the same issuer's non-GBP debt.

One trend we have kept an eye on in HY over the last few years however is the decline in face value of the various developed markets we look at. For example, the EUR HY market peaked at roughly €470bn at the beginning of 2022 but had shrunk to around €360bn by the beginning of 2025. We expected this to increase as net supply increased across the year, as it has done, but the total size of the EUR HY market is still around 17% lower today than it was at its peak. The fall in the GBP HY market has been even more severe – once almost £50bn in size, it has declined by a whopping 35% over the last four years (see Exhibit 1).

This is driven partly by bond issuers switching to loans, partly by “rising stars” transitioning from HY to IG ratings outpacing “fallen angels” going the other way, and partly due to a number of restructurings at sizeable GBP HY issuers such as GFK, Ardagh and Thames Water. Interestingly, the Nordic HY market has been growing strongly and has now overtaken GBP HY in terms of size, so perhaps it is “dags att fiska” (Swedish for time to go fishing).

### Credit market performance

	Total return YTD (%)	Total return last 30 days (%)	Yield (%)	Duration (yrs)
EUR IG	2.83	-0.38	3.2	4.4
GBP IG	6.59	0.05	5.1	5.9
US IG	7.76	0.45	4.8	6.5
EUR HY	4.77	0.14	5.1	2.9
GBP HY	8.08	0.38	8.1	2.9
US HY	7.95	0.66	6.7	3.0
EM HY	9.02	0.24	7.2	4.0
Euro Senior Banks	3.21	-0.42	3.1	3.6
COCO	9.36	0.60	5.7	3.5



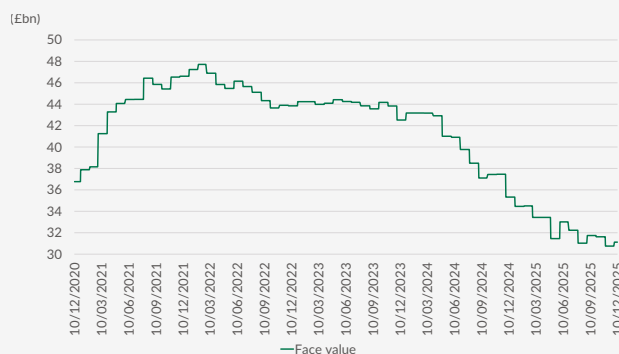
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**Exhibit 1: GBP HY has lost 35% of market value since 2022**



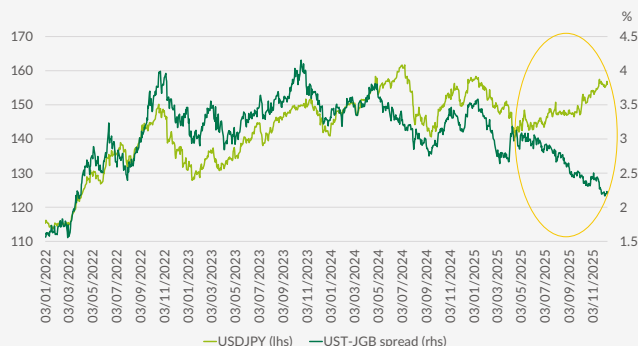
Source: Bloomberg, ICE Indices, 10 December 2025

## Japan's fiscal irrationality meets market reality

Japan has been back in focus since Prime Minister Sanae Takaichi's cabinet approved a \$135bn stimulus package in late November to revive a slowing economy. With inflation already elevated and Japan carrying the highest debt-to-GDP ratio in the G7, markets pushed back: Japanese government bonds (JGBs) sold off, and the 10-year yield (up more than 80bp year-to-date) is now edging toward 2%. The yen, traditionally a safe haven currency, has historically moved in line with the spread between JGBs and US Treasuries (USTs).

But when fiscal expansion becomes increasingly aggressive, policy itself takes centre stage, and that relationship finally broke in 2025 (see Exhibit 2). Japan now faces surging bond yields that will likely keep rising unless the Bank of Japan restarts yield curve control or ramps up quantitative easing, both of which risk further yen weakness. The alternative is FX intervention via selling reserves (mainly USTs), a move that could jolt the UST market given Japan's sizeable holdings.

**Exhibit 2: Yen has decoupled from the UST-JGB spread**



Source: Bloomberg, 10 December 2025

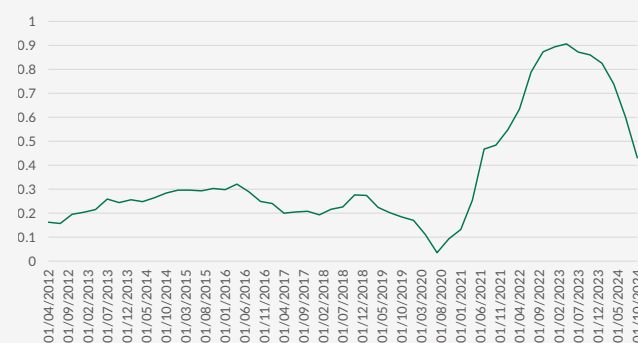
## Immigration implications

Immigration levels have plummeted in many developed market economies over the past couple of years, with the effect on net migration in the UK a stark example (see Exhibit 3). After the post-Covid surge, partly driven by a record number of people displaced from their country of origin due to geopolitical conflict, the topic has become increasingly political, and governments have responded by tightening rules around who can and cannot settle in the countries they represent.

Leaving aside the social consequences, this is a meaningful shift from an economic perspective, particularly given the current environment of sticky and (generally) above target inflation. With excess labour supply shrinking, there is considerable uncertainty around what the decline in immigration could mean for potential GDP growth and wage growth in developed markets in the coming years.

**Exhibit 3: UK net migration has collapsed from its 2023 peak**

UK net migration, millions (last 12 months)



Source: ONS, 27 November 2025

## Flows steal the show

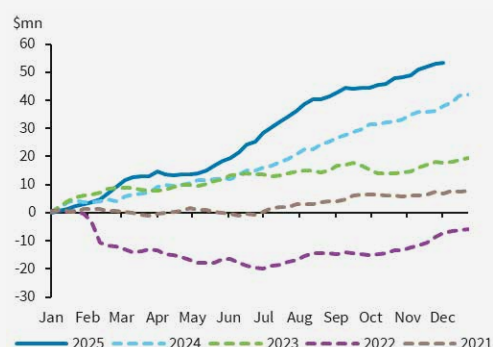
European IG credit has seen record inflows of €53.4bn year-to-date (YTD), equivalent to nearly 12% of the sample group of managers' assets under management at the start of the year, according to Barclays Research (see Exhibit 4). This makes 2025 the strongest year for European IG fund flows since 2008.

The surge has been driven largely by short-duration fixed-maturity mandates offering historically attractive all-in yields, as well as investor rotations out of cash and equities. Strong corporate balance sheets and expectations of a benign credit cycle have further supported demand.

These inflows, combined with coupon reinvestment and generally high investor cash balances, have helped absorb the net supply issued so far in 2025. As a result, the ICE BofA Euro Corporate Index has tightened by 26bp YTD.

**Exhibit 4: Elevated yields have driven record fund flows**

All euro IG funds (€bn)



Source: EPFR, Barclays, 3 December 2025

## The K-shaped economy

One dynamic that has gained plenty of traction in recent months is the “K-shaped economy”, a growing divergence between the economic experience of higher and lower income groups.

US Federal Reserve (Fed) chair Jerome Powell touched on the topic at his press conference following the Fed's October meeting: “If you listen to the earnings calls or the reports of big, public, consumer-facing companies, many of them are saying that there's a bifurcated economy there and that consumers at the lower end are struggling and buying less and shifting to lower cost products. But at the top, people are spending, at the higher income and wealth.”

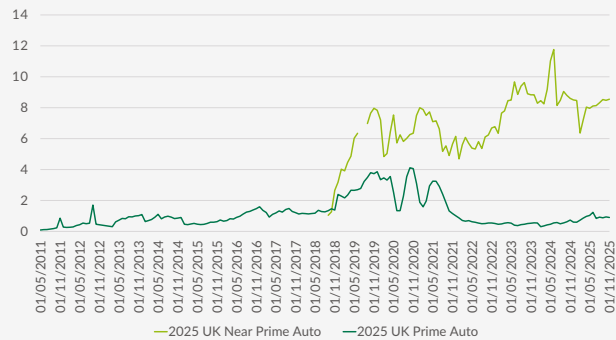
Certainly, this divergence can be seen in loan performance for prime and sub- or near-prime borrowers, such as in UK auto loans (see Exhibit 5).

While near-prime accounts for only around 3% of the UK auto loan market (3%), this is a point we could make multiple ways given the trend is reflected in delinquency and default rates across multiple loan types and multiple developed markets.

The weaker end of the income cohort is struggling. Higher interest rates and inflation, coupled with not being on the property ladder or owning stocks, makes for a tough environment for lower income households. While we don't see this weakness reflected in the aggregate numbers, the evidence of a growing K-shaped economy is clear.

### Exhibit 5: Loan performance shows lower income households struggling

3-month default rate UK auto loans (%)



Source: Intex, November 2025

## Rates dashboard

		Change (bp)			
		Current %	1w	1m	YTD
US Treasury	2yr	3.54	2	-5	-70
	10yr	4.16	6	4	-38
	30yr	4.80	5	9	5
UK Gilt	2yr	3.77	3	5	-68
	10yr	4.48	5	10	-13
	30yr	5.21	5	4	3
German Bund	2yr	2.16	9	16	8
	10yr	2.84	7	19	48
	30yr	3.45	5	20	86

		Change (bp)			
	Market projection	Current %	1w	1m	YTD
Base rate 3.75%	end-2025	3.71	-2	-9	-23
	end-2026	3.15	0	3	-80
Base rate 4.00%	end-2025	3.74	0	1	-39
	end-2026	3.41	3	6	-58
Base rate 2.00%	end-2025	2.08	2	3	17
	end-2026	2.16	9	14	9

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