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Annual Fixed Income Conference

9 September 2025

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Annual Fixed
Income Conference

Beyond the noise, conditions favour fixed income

Felipe Villarroel
Partner, Portfolio Management

Global economy slowing amid tariff uncertainty

Trump's policies have caused damage, and we believe US and global growth will be weaker than previously expected.

The US labour market is deteriorating from a strong base, but immigration curbs may keep unemployment down.

Eurozone and UK growth remains subdued but positive – increased government spending in the former may boost growth.

The Fed and BoE are in a difficult position on inflation, while we believe the ECB is probably at its terminal rate.

Uncertainty is abnormally high, but recession is not our base case.

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Strong yields and fundamentals put focus on carry

Fiscal concerns are unlikely to go away, which weighs on government bond curves.

US and UK curves could be volatile, with Fed independence and UK finances adding pressure on the long end.

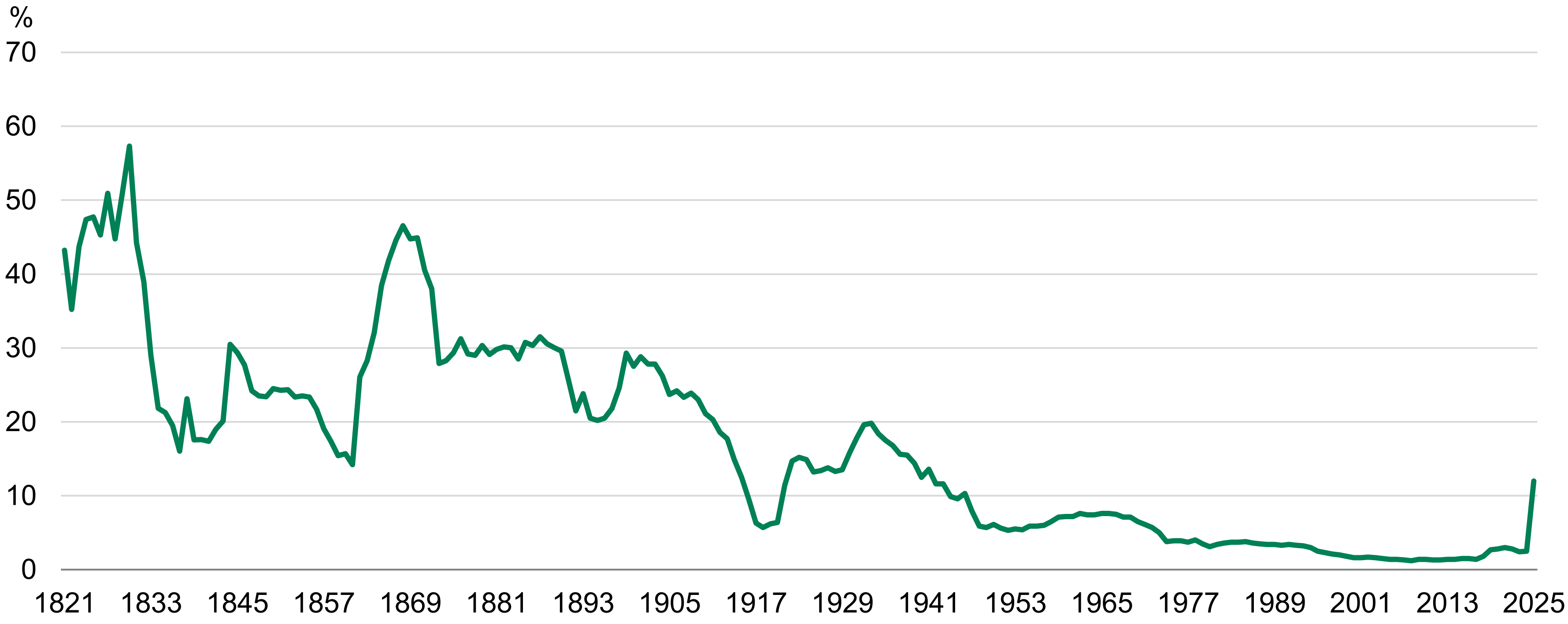
Companies, consumers and banks are in good shape, with defaults under control and balance sheets healthy. Earnings have been resilient.

Spreads are tight but yields are high. The technical remains strong and attractive levels of income can be achieved with limited risk.

Not the time to hunt for capital gains – we believe carry will drive returns and liquidity is key.

Tariffs at the highest in decades

United States - Average tariff rate on all imports



Source: The Tax Foundation, latest data September 2025

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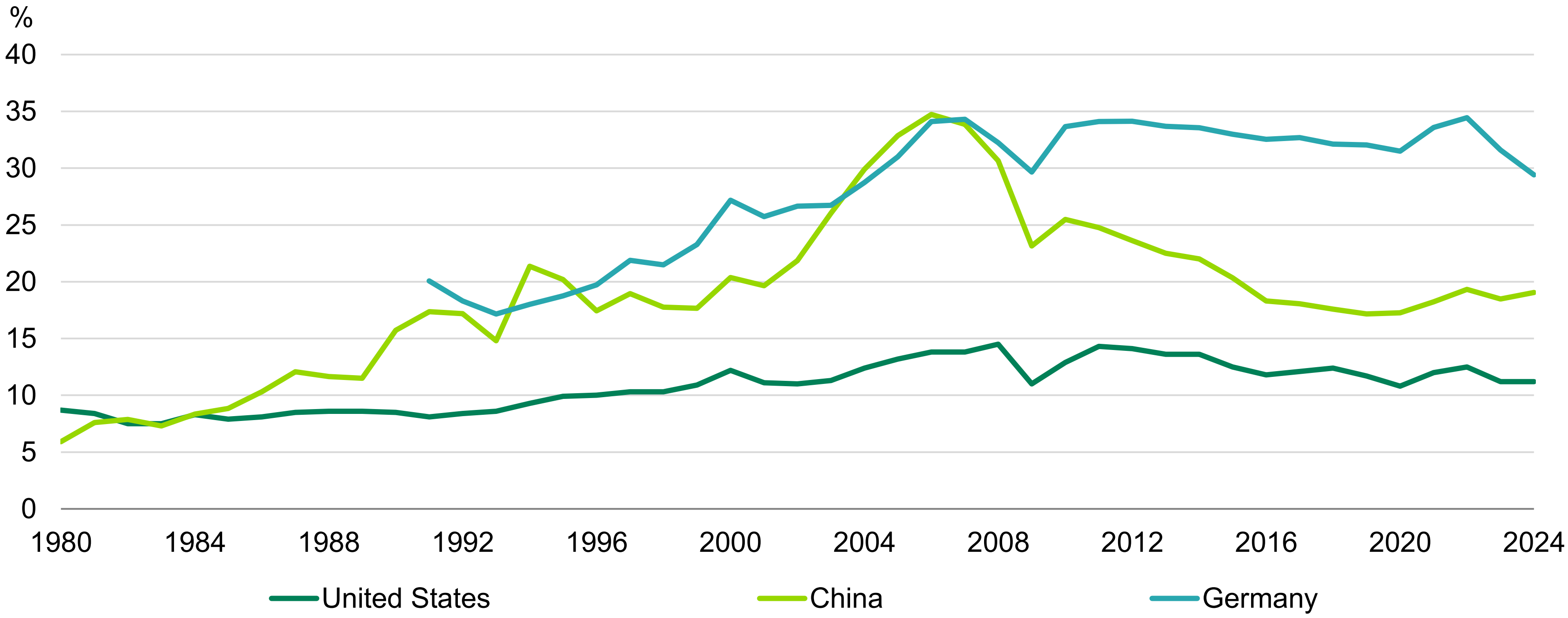
Who absorbs the tariff depends on sensitivity to moves in price

S&P copper spot

Source: Bloomberg as at 29 August 2025

What percentage of GDP is at risk of disruption?

Goods Imports/Exports as % of GDP



Source: National Statistics Offices, latest data September 2025

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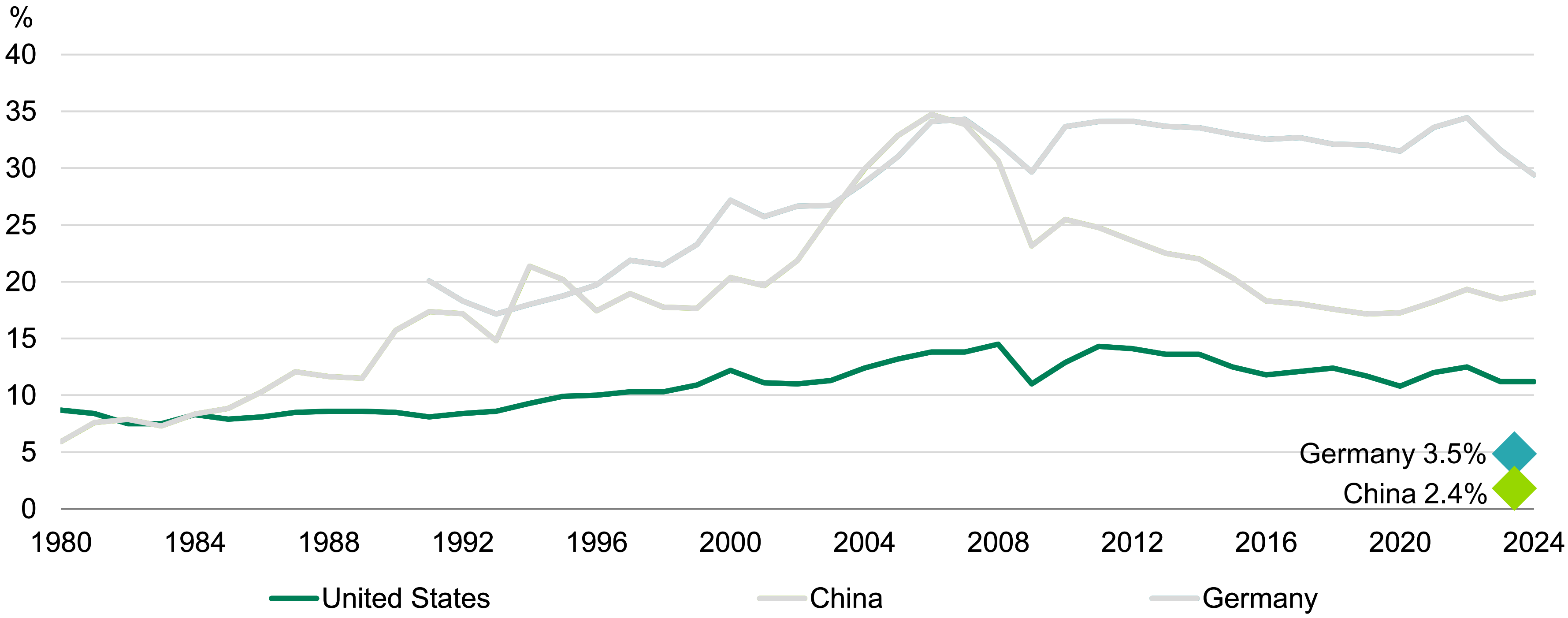
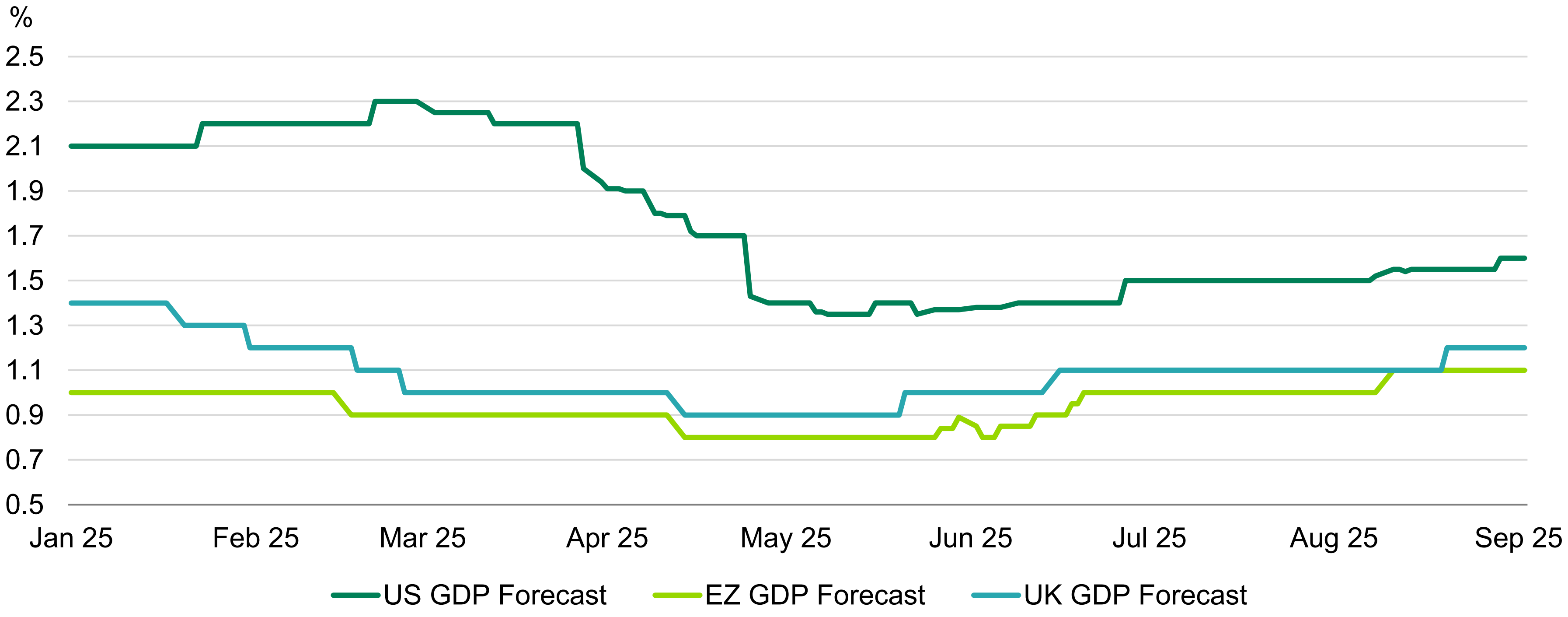


Source: National Statistics Offices, latest data September 2025

Growth projections moving higher post-April 2

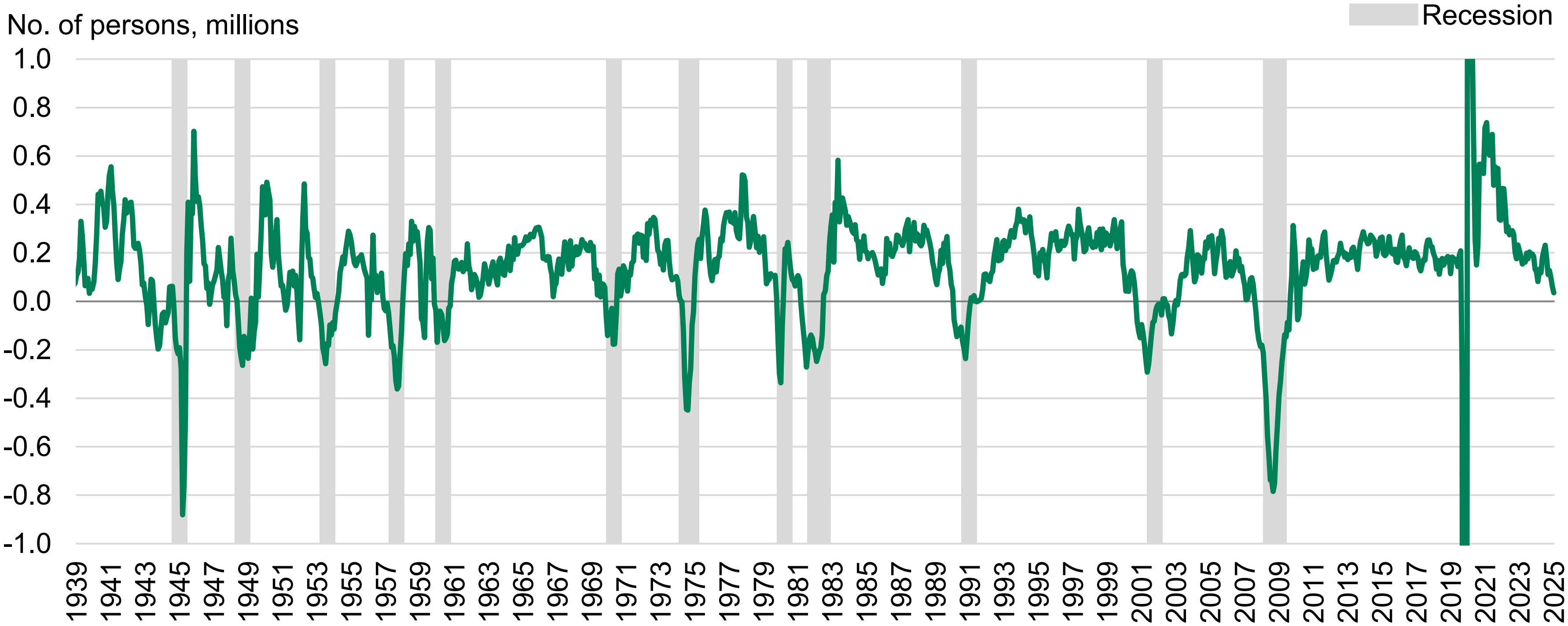
Bloomberg consensus GDP growth 2025



Source Bloomberg as at 2 September 2025

Labour markets in the US have taken a turn for the worse …

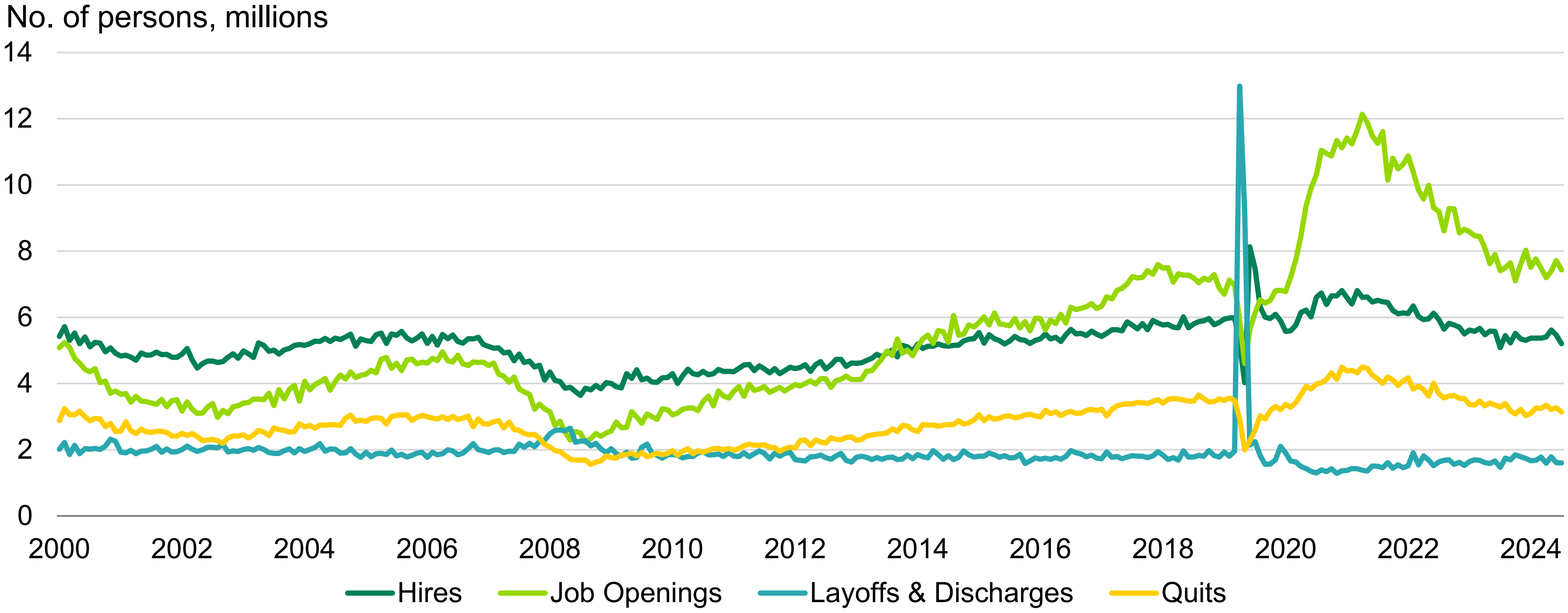
Change in nonfarm payroll - 3m average



Source: Bureau of Labor Statistics, as at 31 July 2025

… but not every indicator is falling off a cliff

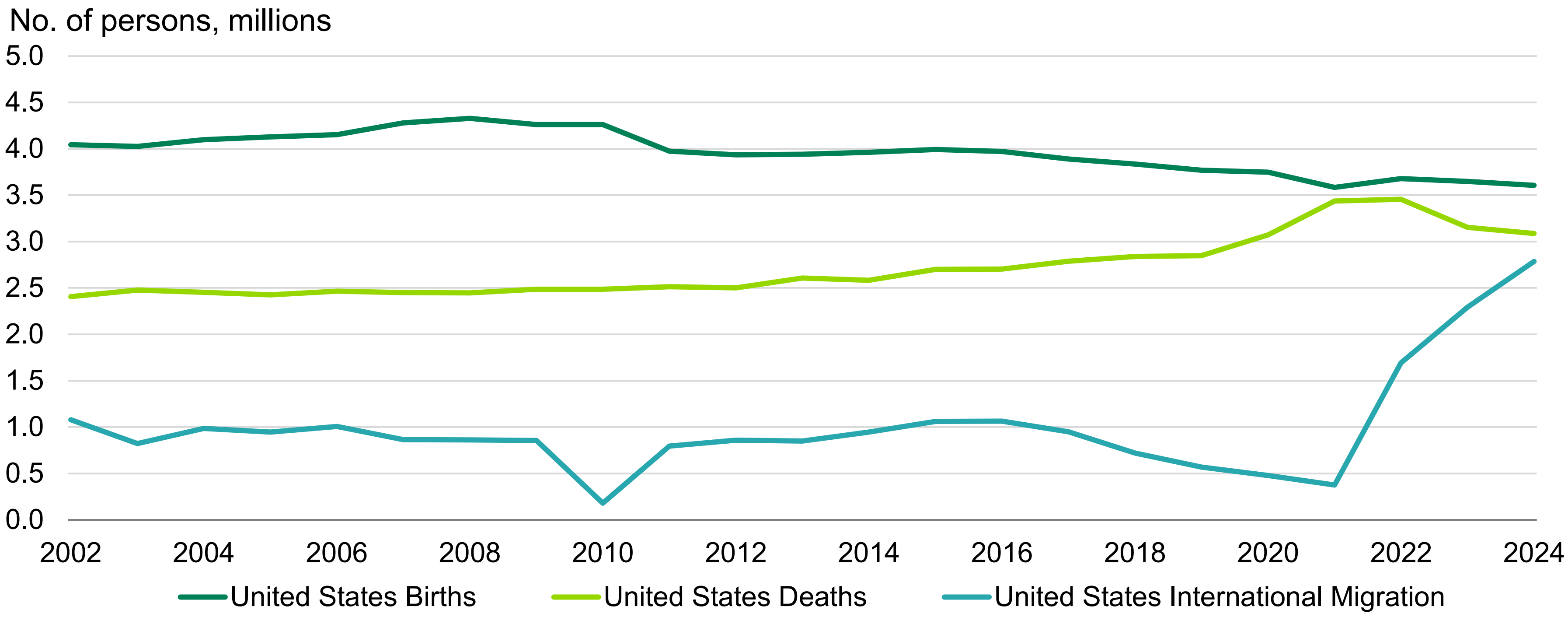
Job openings and labour turnover survey – JOLTS



Source: Bureau of Labor Statistics as at 30 June 2025

Net migration expected to fall significantly from all-time highs

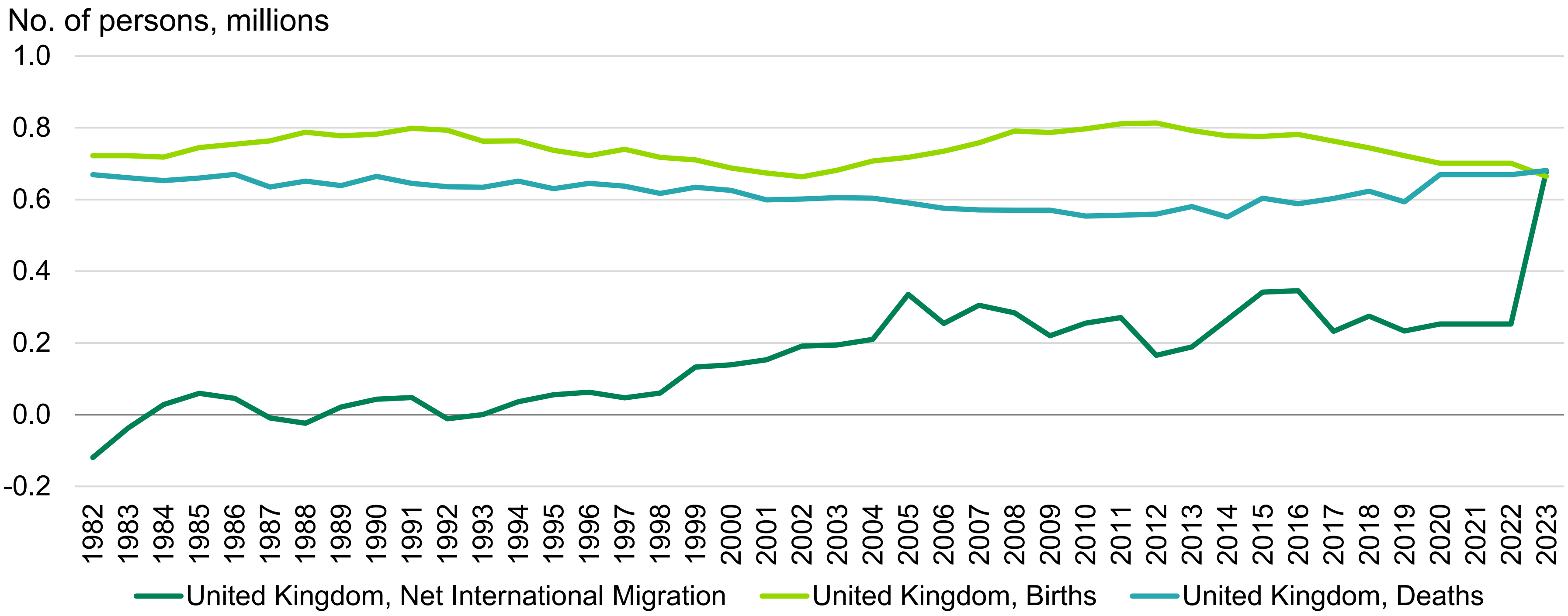
United States population change



Source: US Census Bureau, latest data September 2025

Not only a US phenomenon

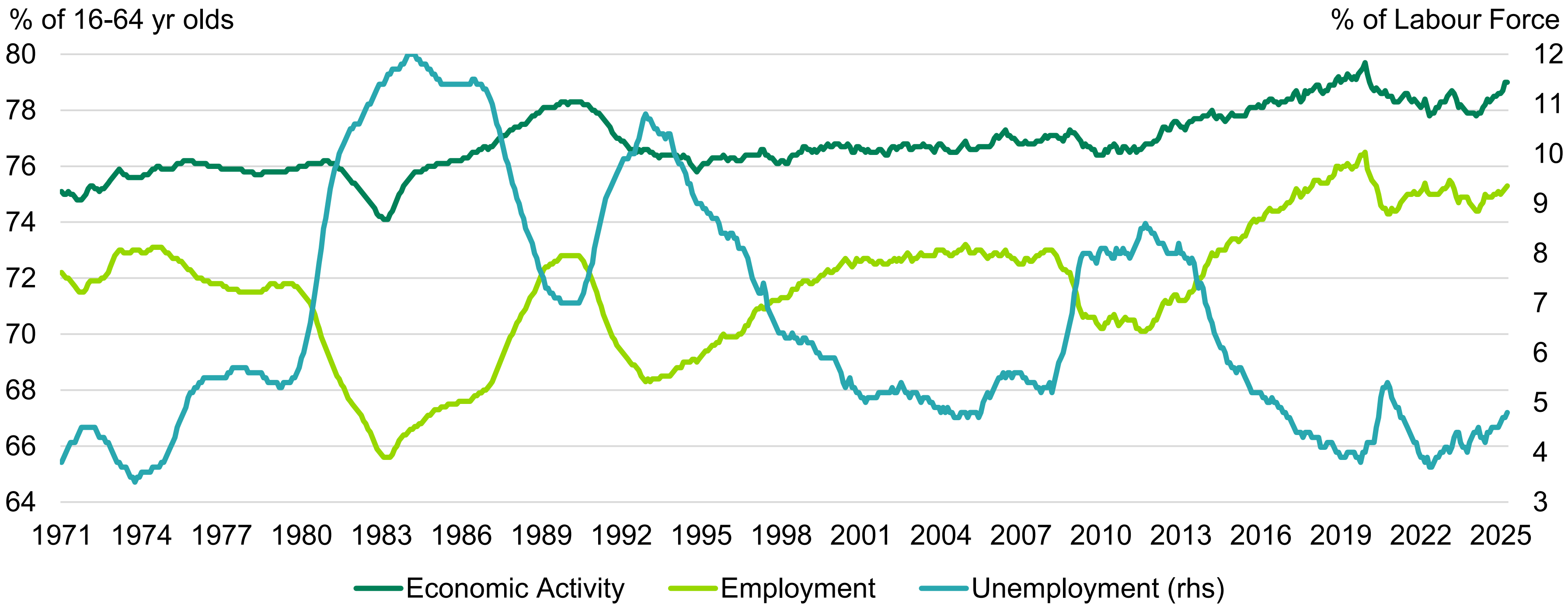
United Kingdom population change



Source: UK ONS, latest data September 2025

UK labour market is not all bad news

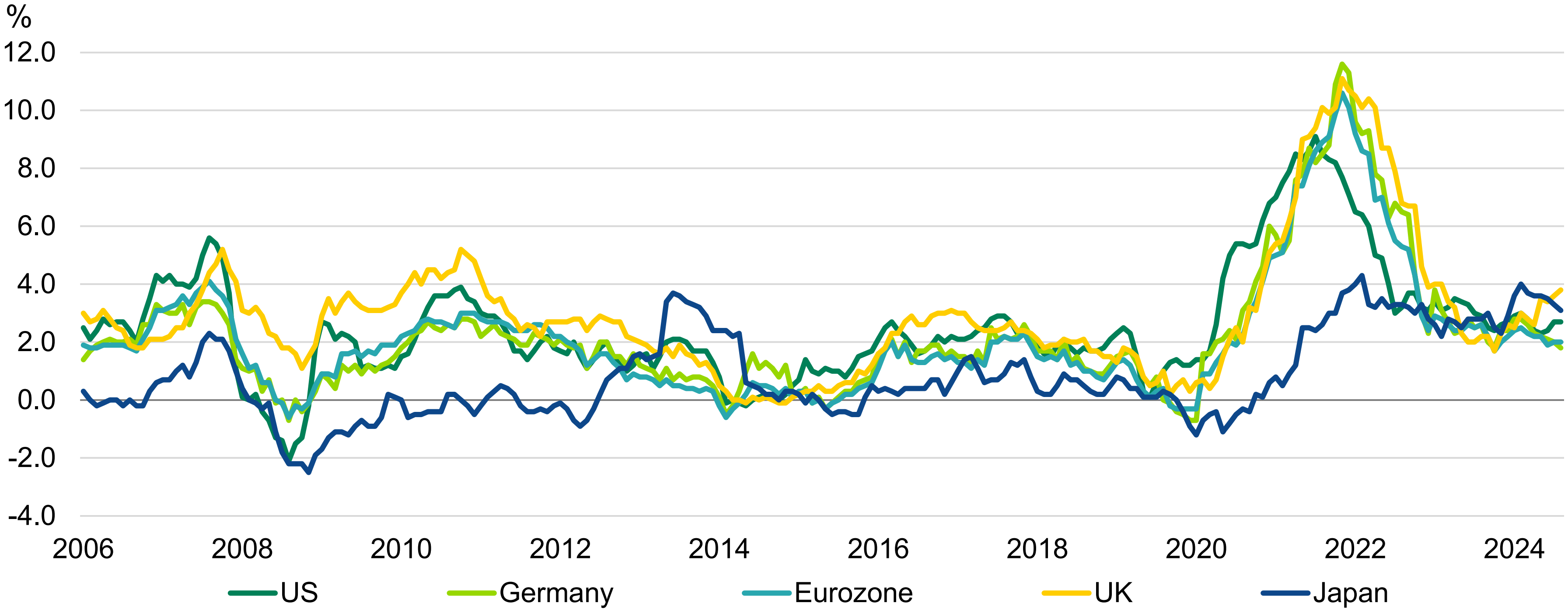
UK labour market indicators



Source: UK ONS, latest data September 2025

Inflation showing divergence

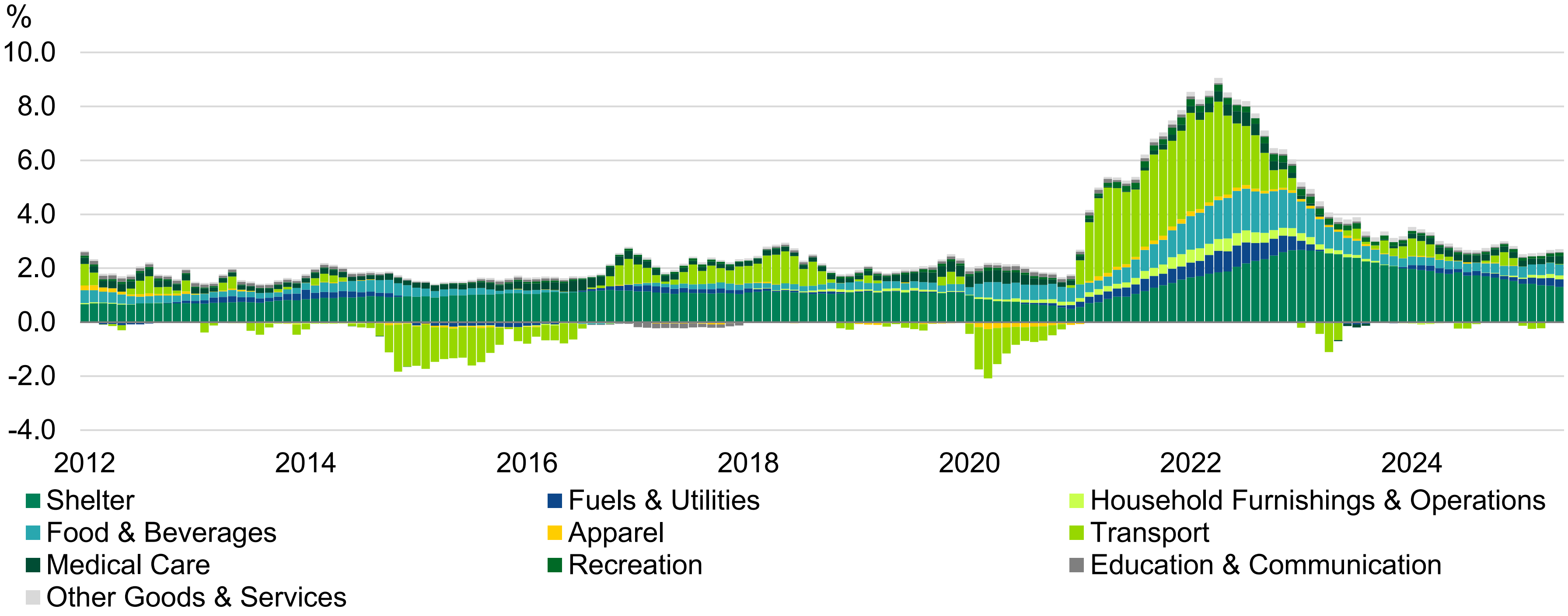
CPI Inflation YoY%



Source: Bloomberg as at 31 July 2025

Trends in the US are not terrible, but tariff impact yet to come

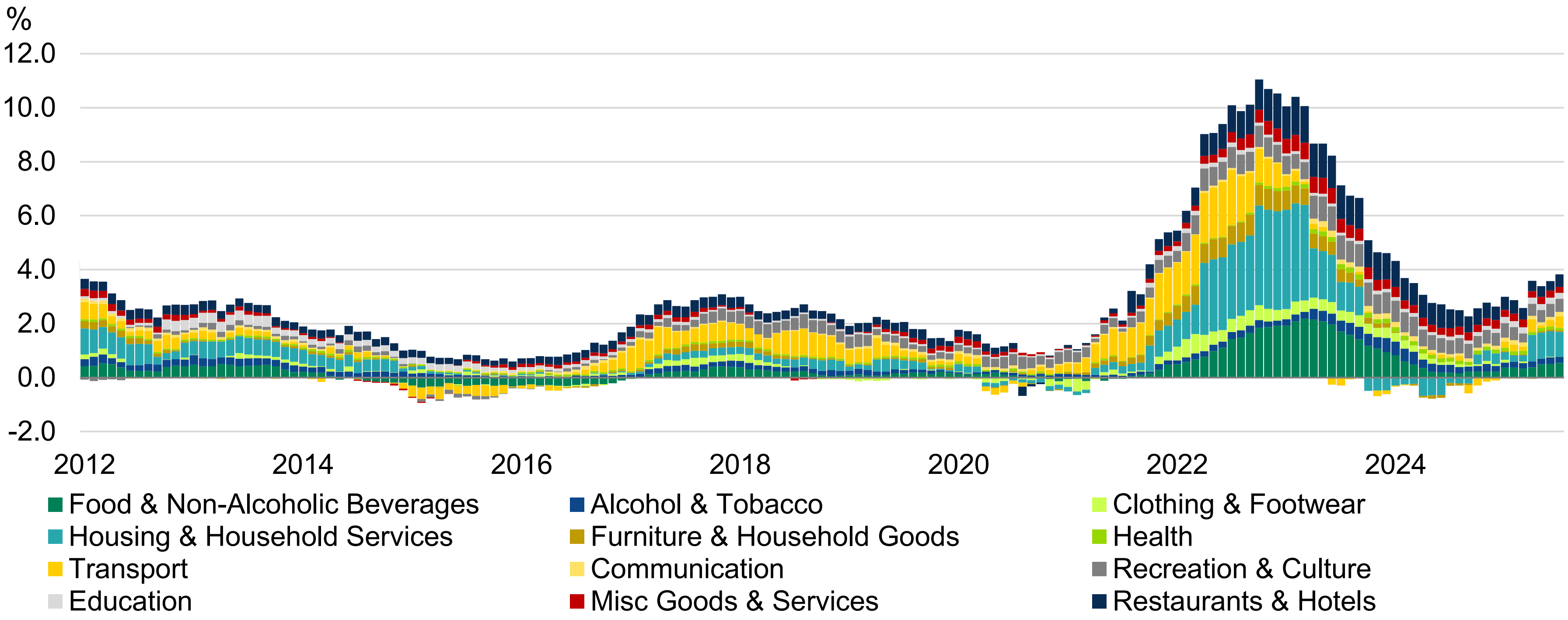
Contribution to US CPI YoY%



Source: BLS as at 31 July 2025

UK inflation at 12-month highs…

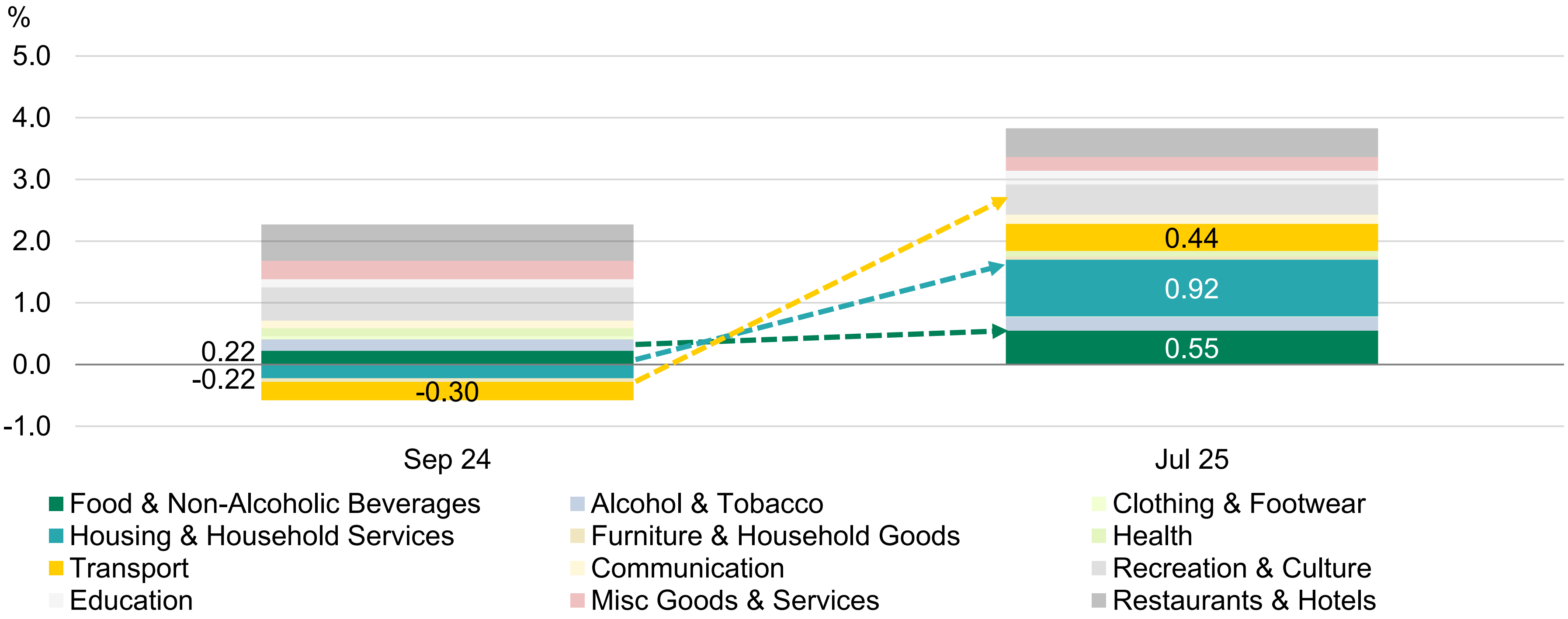
Contribution to UK CPI YoY%



Source: BLS as at 31 July 2025

… but not a widespread inflationary shock

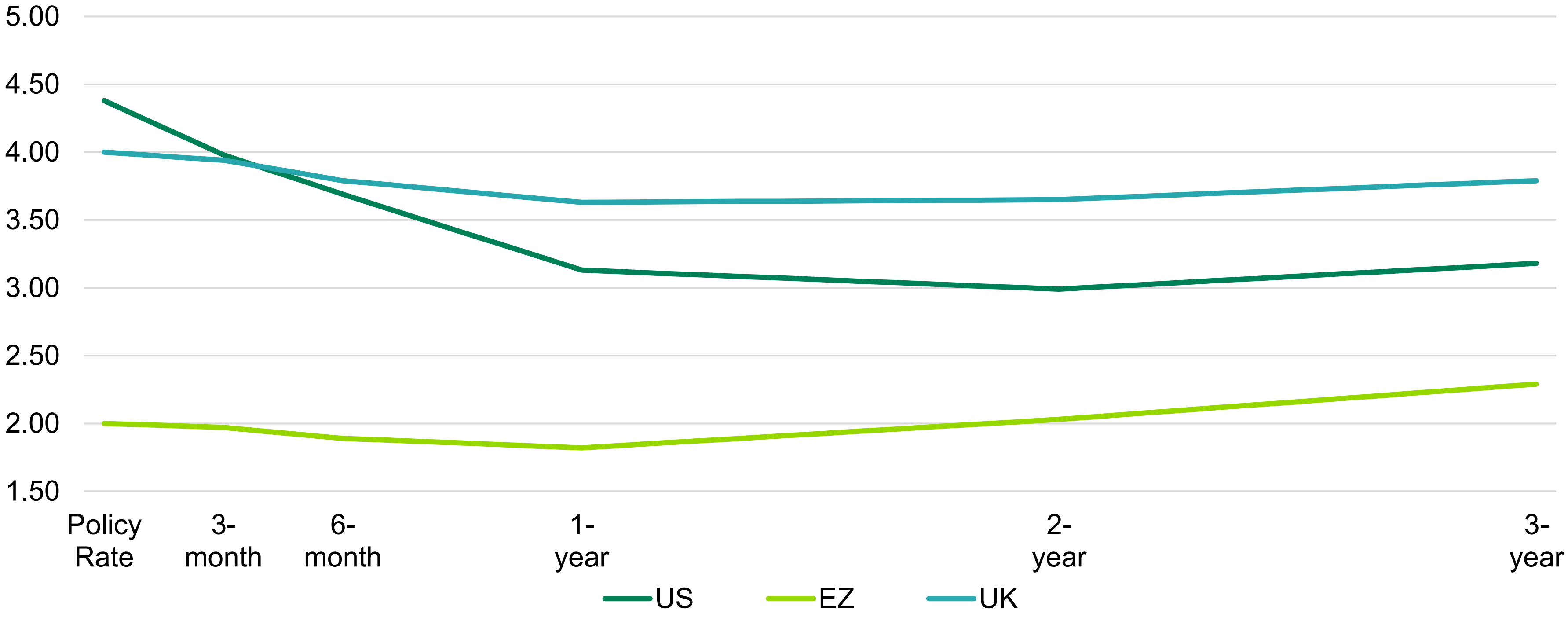
Contribution to UK CPI YoY%



Source: BLS as at 31 July 2025

Central banks expected to ease

Market expectations for monetary policy rates



Source: Bloomberg, latest data September 2025

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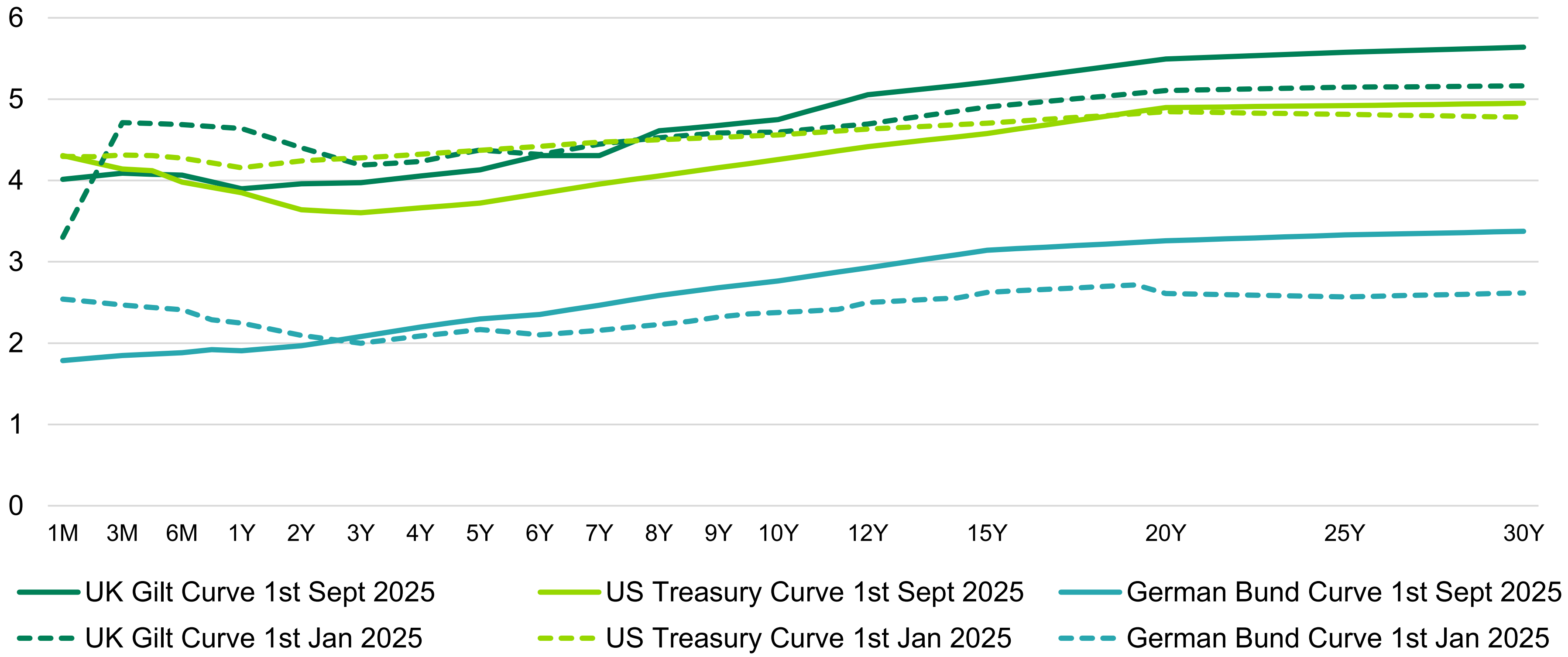
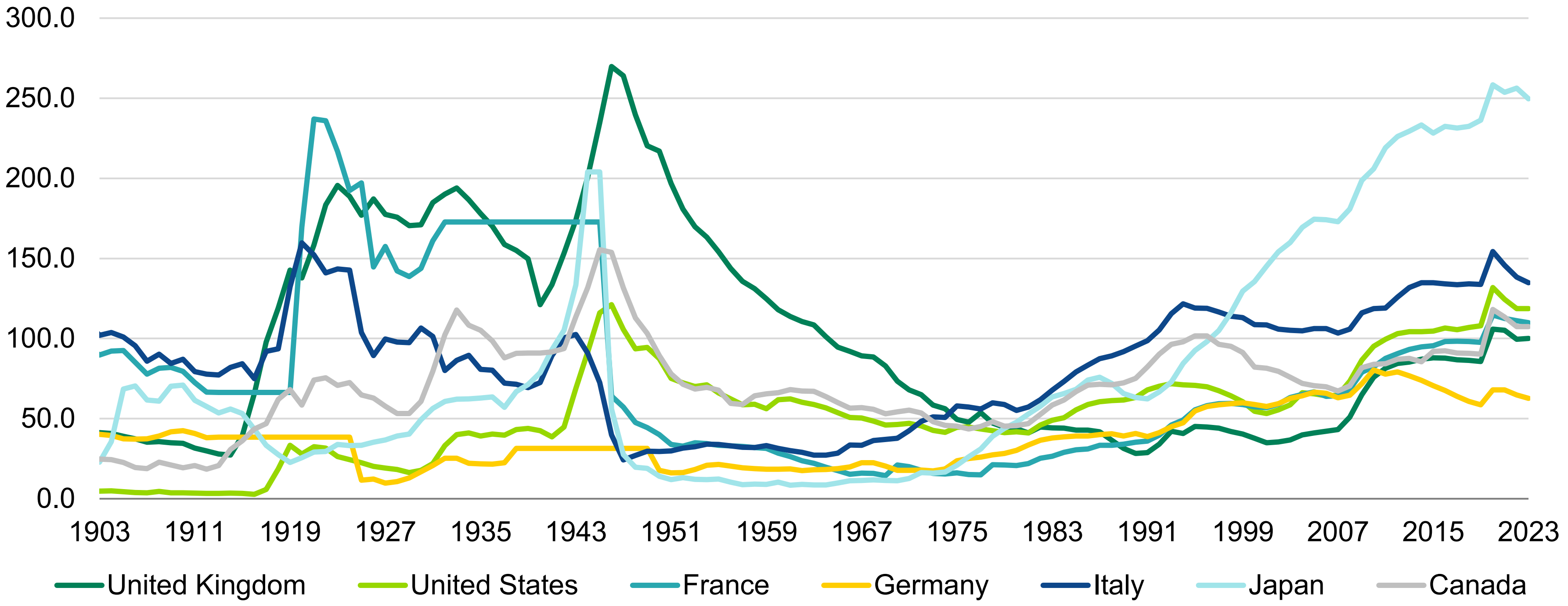
Yield curves have steepened



Source: Bloomberg, latest data September 2025

Government debt at elevated levels

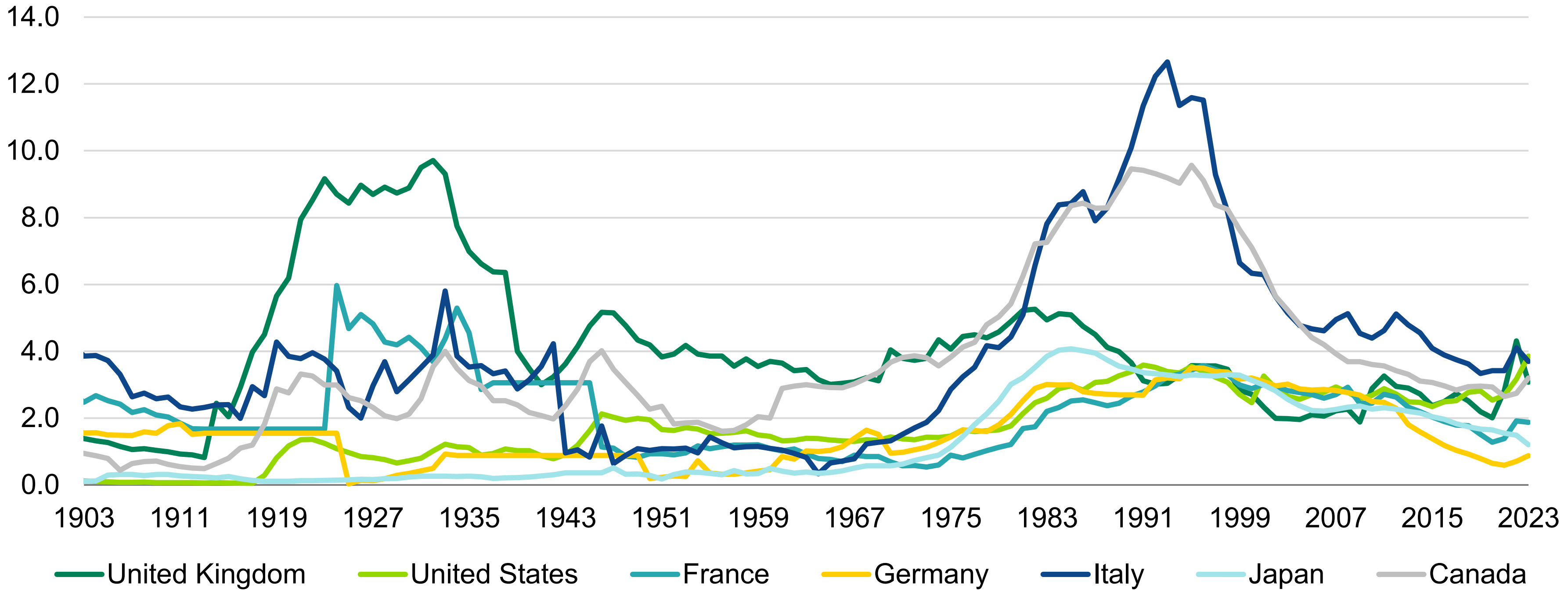
Gross government debt as % of GDP



Source: IMF, latest data September 2025

Interest expense slightly less worrisome

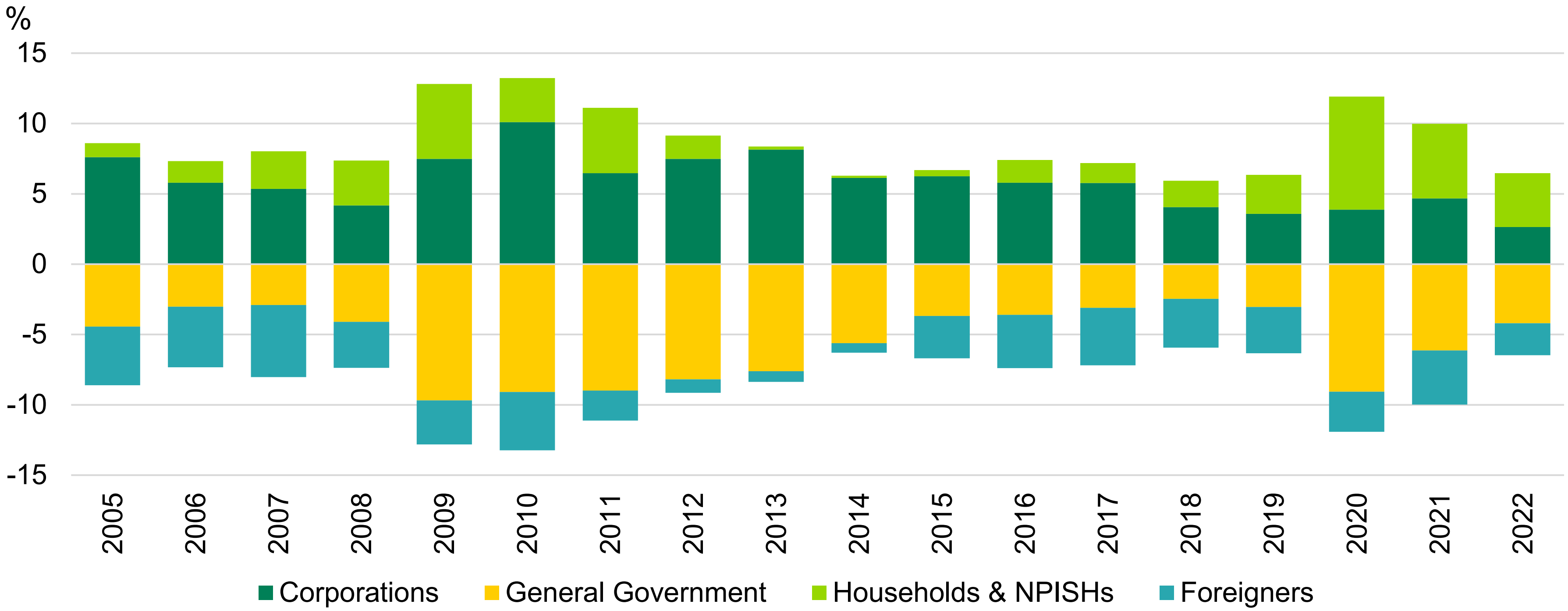
Government interest expense as % of GDP



Source: IMF, latest data September 2025

Japan has been a net creditor for years

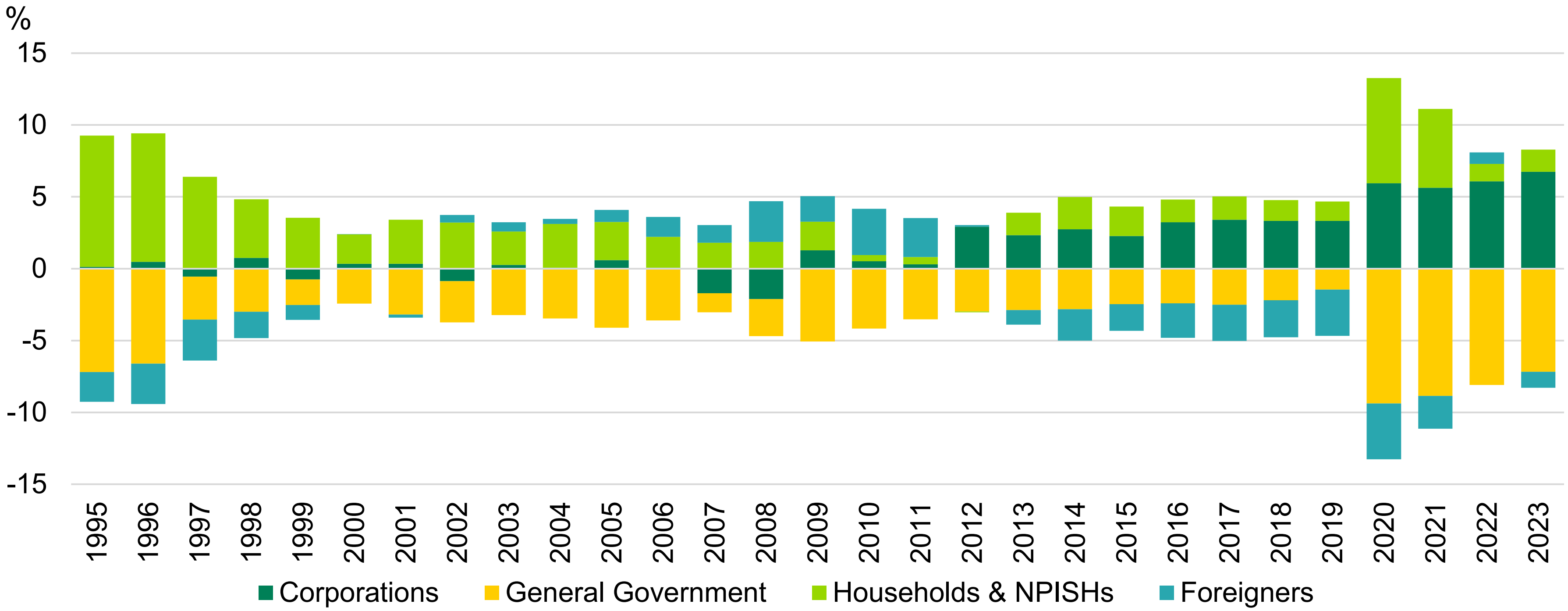
Japan net borrowing/lending per sector as % of GDP



Source: OECD, latest data September 2025

Italy has improved dramatically post-sovereign crisis

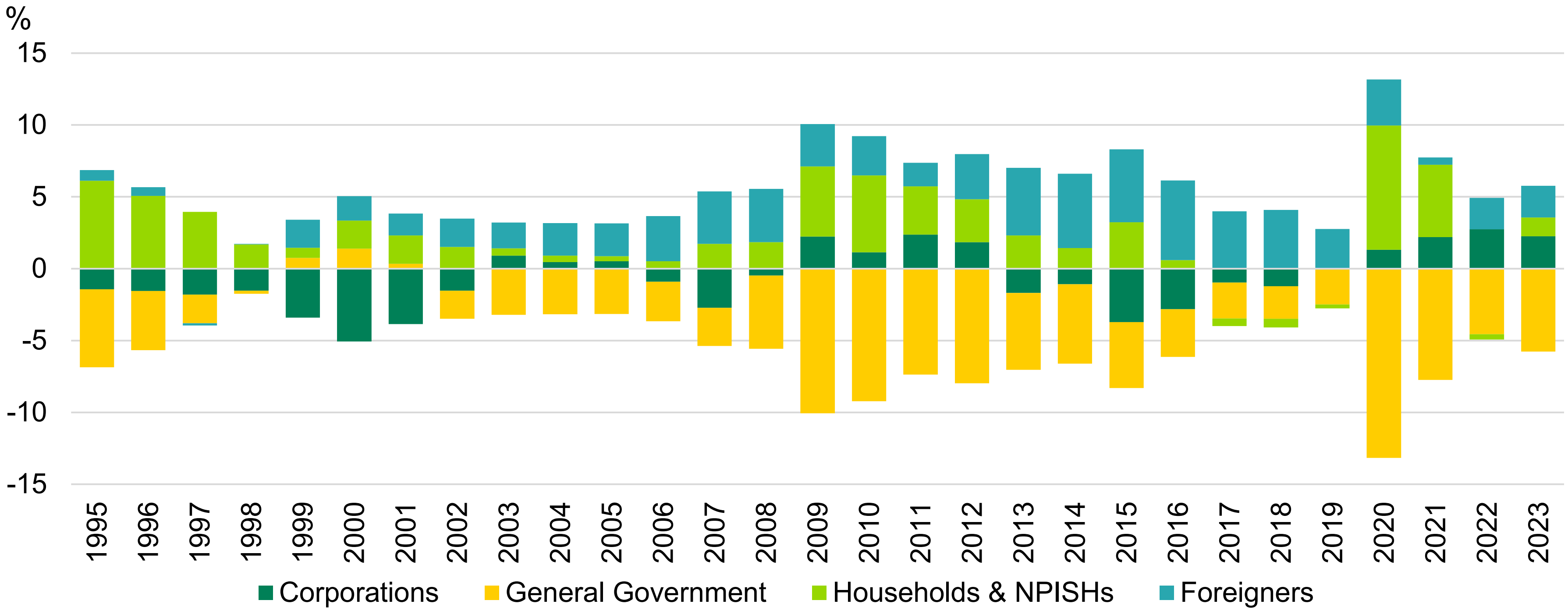
Italy net borrowing/lending per sector as % of GDP



Source: OECD, latest data September 2025

The UK needs substantial external funding

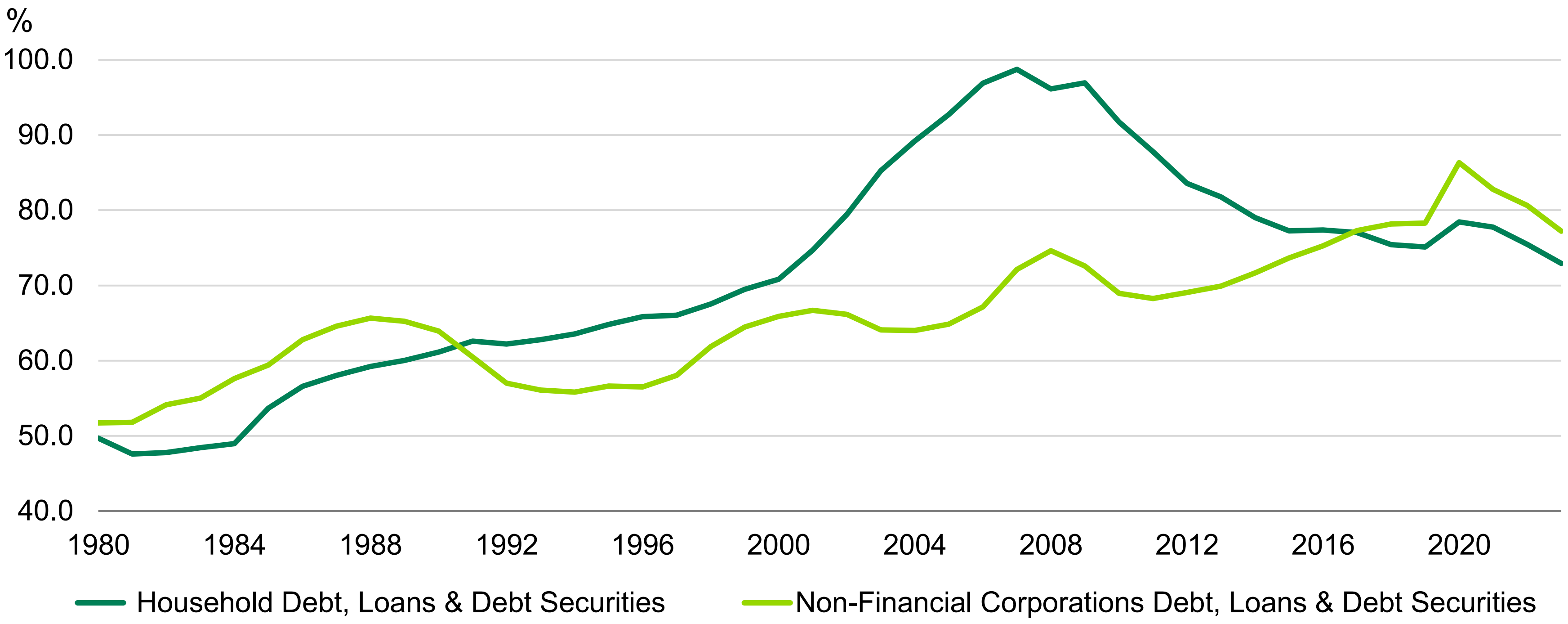
UK net borrowing/lending per sector as % of GDP



Source: OECD, latest data September 2025

Corporate and household fundamentals look solid

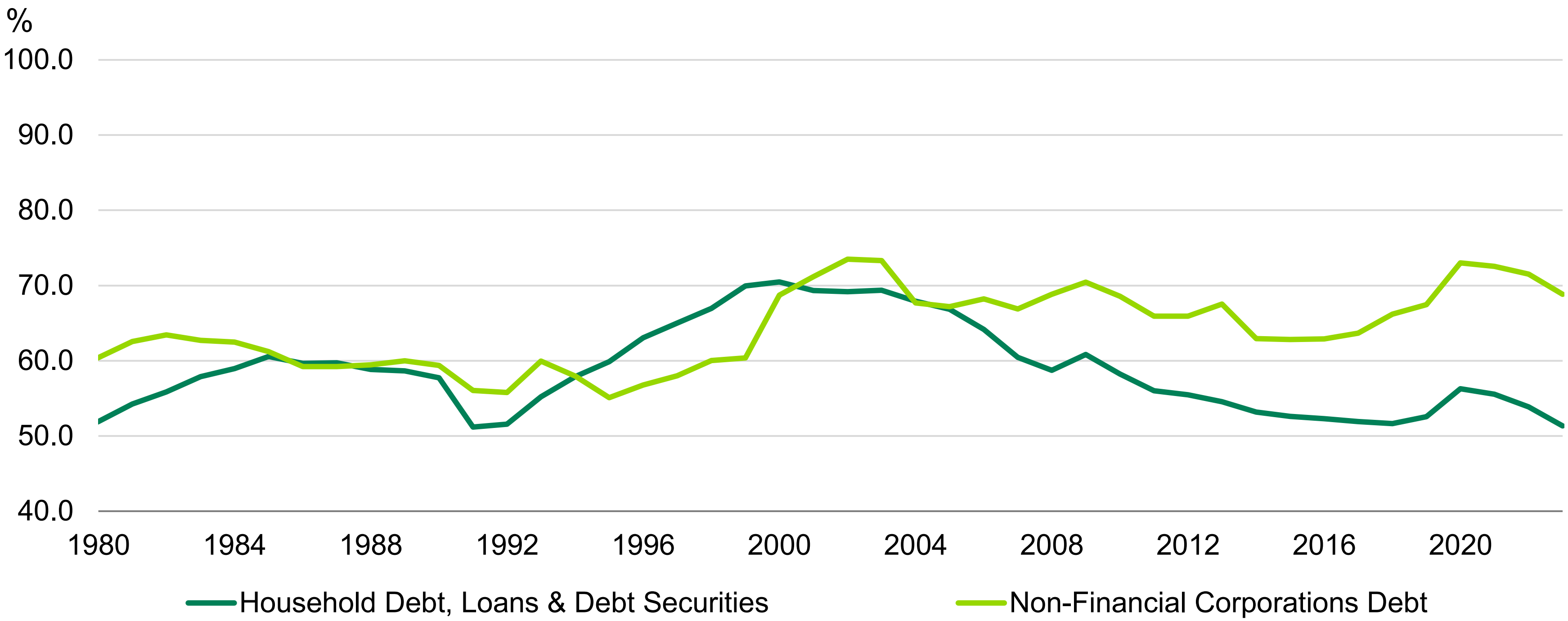
US debt by sector as % of GDP



Source: IMF, latest data September 2025

Same picture in Germany

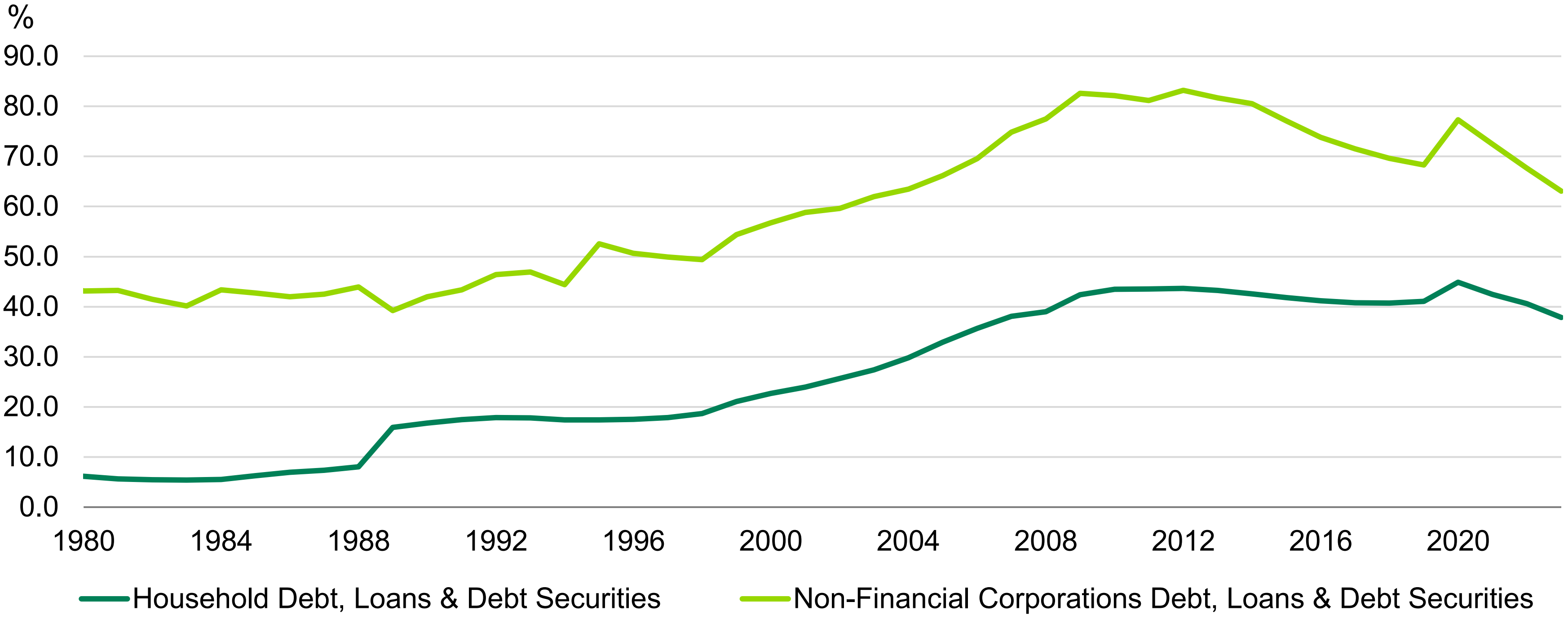
Germany debt by sector as % of GDP



Source: IMF, latest data September 2025

And in Italy

Italy debt by sector as % of GDP



Source: IMF, latest data September 2025

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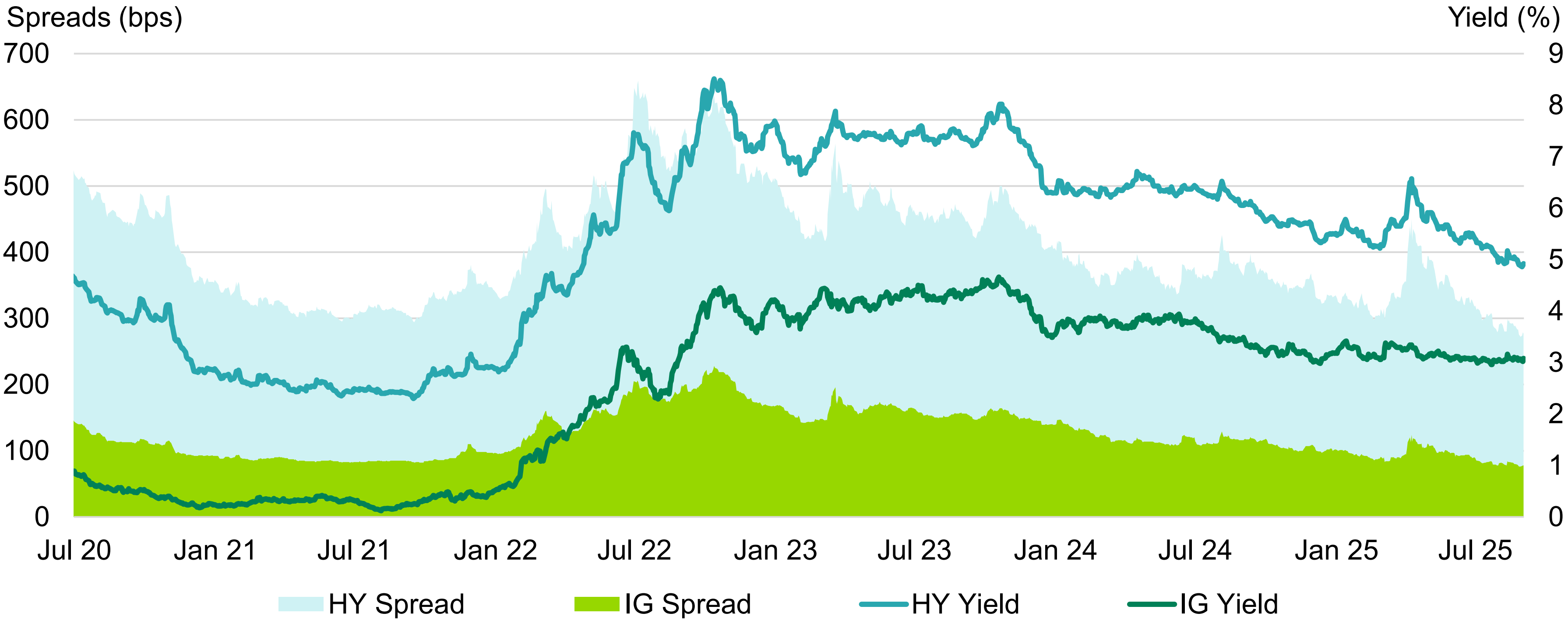
European spreads have rallied, but yields remain attractive

Euro yields and spreads



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Conditions favour fixed income

01 **Macro trends, fundamentals and the technical picture look favourable.** Real yields are attractive.

02 **We believe global growth will be slower than in 2024, led by an adjustment in the US.** A recession remains unlikely.

03 **US labour market deterioration needs to be closely monitored.** Payroll numbers could be low, but with no significant spike in unemployment due to reduced migration.

04 **We believe inflation will increase in the US** but seems unlikely to deter the Fed from cutting rates. The BoE is also likely to cut rates further.

05 **Rate cuts are already priced in.** Sustained rallies in government bonds would require a significant worsening of the macro environment.

06 **The long end of the curve is heavily dependent on the fiscal situation around the world.** 30yr slopes are steeper than medium term averages, but with no clear catalyst for a reversal.

But keep it close to home

07 **Credit is likely to continue outperforming government bonds,** supported by subsiding recession fears.

08 **However, compressed spreads** mean that relative value is more encouraging in higher rated credit.

09 **Flat credit curves make longer dated bonds look less appealing,** though curves have steepened and there are opportunities.

10 **Within credit, financials and CLOs stand out** as offering good relative value, with strong fundamentals and attractive valuations.

11 **Government bonds have a place,** but fiscal concerns and questions around the Fed's independence make us wary of longer maturities.

12 **Liquidity is paramount** as the last third of the year might bring about some volatility with the US economy slowing down.

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