2025: Quarter 3

Credit Chronicle

Market review from Ninety One's Developed Market Credit team

Market review

In a continuation of the broader trend seen year-to-date, most credit markets delivered positive returns but there was significant variation across the asset class. A combination of resilient US economic data and strong demand from investors helped US investment-grade and high-yield markets outperform their European counterparts. Credit spreads in these mainstream US markets ended the quarter near their tightest (most expensive) levels of the last 10 years, at one point reaching their tightest level since 1997 in the investment-grade market. In Europe, rising interest rates dampened returns in both areas of the market.

In more specialist areas of the asset class, the bank capital market (AT1s) continued its strong run year-to-date. Agency mortgage-backed securities (MBS) benefited from falling US Treasury yields and tighter spreads, with the dovish shift from the US Federal Reserve and a September rate cut providing support to this market. Among floating-rate assets, the loan market performed well, with US loans outperforming European; spreads were tighter in the former and broadly unchanged in the latter. Among collateralised loan obligations (CLOs), lower-rated (riskier) tranches outperformed higher-rated ones, reflecting a stronger risk appetite.

Current snapshot

We believe that credit markets are driven by three Compelling Forces and that a careful assessment of each of these is essential for exploiting evolving market inefficiencies and building a robust credit portfolio. Here's our current view:

Compelling force	**Fundamentals** Fundamental strength	**Valuations** Attractiveness of valuations	**Technicals** Supply/demand dynamics
US high yield	Orange	Red	Grey
European high yield	Orange	Orange	Grey
US investment grade	Grey	Red	Light teal
European investment grade	Grey	Orange	Light teal
US loans	Orange	Orange	Grey
European loans	Orange	Orange	Grey
Bank capital	Grey	Red	Light teal
Corporate hybrids	Grey	Red	Light teal
EM corporate credit	Grey	Red	Grey
Short-duration high yield	Orange	Red	Grey

Key: Worst ← Red, Orange, Grey, Light teal, Dark teal → Best

For illustrative purposes only. For further information on the investment process, please see the important information section.

Where to focus and what to avoid

- Higher-carry (higher-income) holdings – such as structured credit (including agency mortgage-backed securities), loans, and selective parts of the short-duration high-yield and bank capital markets – offer an attractive income profile and favourable downside characteristics.
- In more traditional markets – such as US high-yield debt and US investment grade – credit spreads remain near the tightest (most expensive) levels seen over previous cycles.
- Our sector positioning favours areas such as utilities and financials, which are domestically oriented and therefore less likely to be impacted by trade tariffs.
- Despite tight headline valuations, dispersion remains relatively elevated, creating opportunities for active, bottom-up investors.

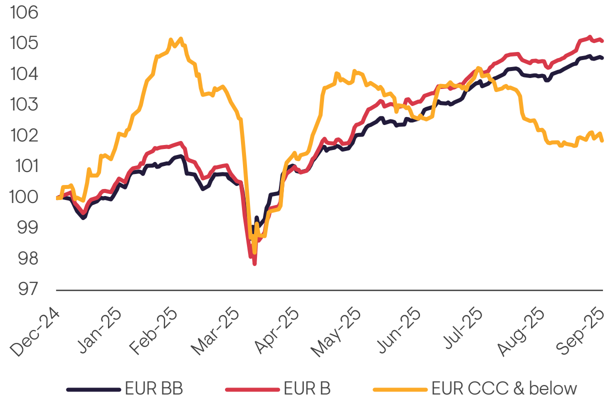
Sector by sector

High yield

US	- -	-	0	+	+ +
Fundamentals		●			
Valuations	●				
Technicals			●		
EUR	**- -**	**-**	**0**	**+**	**+ +**
Fundamentals		●			
Valuations		●			
Technicals			●		

An empty circle denotes our view in the previous quarter, if it differs.

European CCC-rated bonds have underperformed



Source: ICE BofA, 30 September 2025. Rebased to 100.

High-yield markets continued to perform well, delivering a 2.4% return for the quarter, with performance broadly similar across the US and Europe (once currency effects were hedged in the latter). Issuers capitalised on the favourable market conditions, leading to a surge in new bond supply. With approximately US$60 billion of issuance in the US high-yield market, September marked the third-highest month on record. Most of the issuance activity was focused on refinancing existing debt, with limited net new issuance stemming from fresh leveraged buyouts or merger & acquisition transactions. Despite the heavy supply calendar, spreads remained near their tightest levels seen over 2025, reflecting persistent investor demand.

Behind the strong overall performance, there was continued dispersion in the lower-rated part of the market. This was most evident in Europe, where meaningful decompression between rating categories occurred, and CCC-rated bonds posted negative returns over the quarter driven by a number of company specific stories. The contrast between tight overall spreads and elevated underlying dispersion highlights the importance of discipline and careful credit selection. In our view, the current market environment — one of expensive overall valuations but heightened company-specific differentiation — is particularly conducive for active, bottom-up investors.

Global loans

US	- -	-	0	+	+ +
Fundamentals		●			
Valuations		●			
Technicals			●		
EUR	**- -**	**-**	**0**	**+**	**+ +**
Fundamentals		●			
Valuations		●			
Technicals			●		

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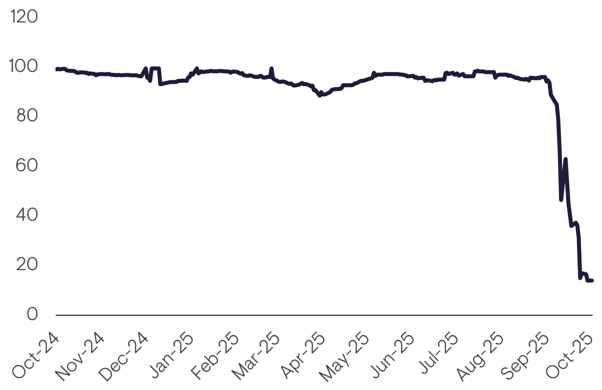
First Brands' loan suffered a significant fall over Q3



Source: Bloomberg, October 2025.

Loans delivered a solid performance over the quarter, although they were once again overshadowed by the strong performance of both US and European high-yield markets. Over the quarter, US loans returned 1.7%, compared to 2.4% for US high yield, while European loans returned 1.1%, compared to 2.4% for European high yield (US$ hedged).

From a rating perspective, performance was mixed. CCC rated loans underperformed in both the US (-0.6%) and Europe (-1.5%) despite Bs and BB rated segments both delivering returns in excess of 1.2%. The underperformance of lower-rated credit was likely driven in part by growing concerns about pockets of weakness in the automotive, consumer credit, and chemical sectors, with the defaults of subprime auto lender Tricolor (albeit not directly in the US loan market) and auto parts supplier First Brands being of particular note. Remarkably, the First Brands US dollar loan, which had traded at 96 cents as recently as 8 September, was trading at 14 cents on 10 October. While there are signs of softness in certain areas of lower-rated credit, loan supply-and-demand dynamics (technicals) remain solid, albeit less so than seen in prior quarters – reflecting robust new issue supply and somewhat moderated inflows. September was the most active month for US loan supply since March 2021, and the third busiest month on record, while demand was more subdued, with actively managed US loan funds experiencing outflows for the first three weeks of September. The current technical picture, coupled with the potential early warning signs in lower-rated credit, will be key to monitor in the coming weeks and months.

Developed market credit indicator: Credit Chronicle

Investment grade

US	- -	-	0	+	+ +
Fundamentals			●		
Valuations	●				
Technicals				●	

EUR	- -	-	0	+	+ +
Fundamentals			●		
Valuations		●			
Technicals				●	

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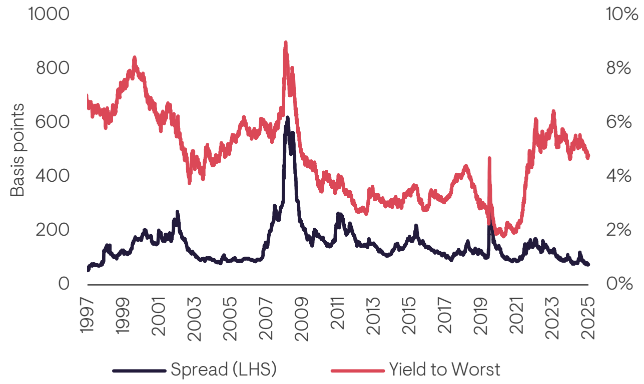
Overall yields have masked a declining credit spread



Source: ICE BofA, US Corporate Index. 30 Sept 2025. Spread is option-adjusted spread. Yields are yield to worst.

Investment-grade markets delivered another strong quarter in both the US and Europe, with the US outperforming on both a spread and total-return basis. Strong returns came despite a heavy supply calendar, with US investment-grade issuance reaching US$1.3 trillion year-to-date, following a particularly active September (US$214 billion).

In Europe, Reverse Yankee supply (bonds issued in Europe by US companies) remained active over the quarter, though the pace slowed relative to the previous quarter. The demand picture continues to underpin high-grade credit, with inflows staying positive across both regions. However, investors should be mindful of how long this robust demand can persist, as spreads are near their cycle lows and yields continue to drift lower.

Structured credit

Senior CLOs (AAA/AA)	- -	-	0	+	+ +
Fundamentals			●		
Valuations			●		
Technicals				●	

Mezzanine CLOs (A-BB)	- -	-	0	+	+ +
Fundamentals		●			
Valuations			●		
Technicals			●		

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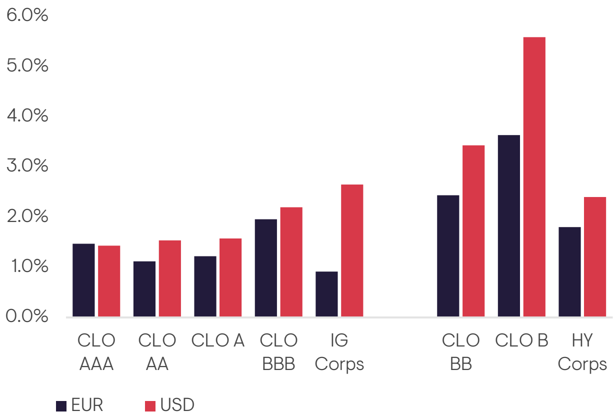
Lower-rated CLOs continued to perform well



Source: JP Morgan, BofA, 30 September 2025. JP Morgan for CLOs and ICE BofA Indices for corporate bonds.

Returns were strong for CLOs in Q3 2025 as spreads continued to tighten back towards the year-to-date lows seen in Q1. The AAA to BB rating subcategories of JPMorgan's CLO indices returned 1.4-3.4% for US dollar deals and 1.5-2.4% for euro deals, with lower-rated tranches outperforming. Falling US Treasury yields over the period helped support assets with fixed coupons, such as US investment-grade corporates, which outperformed their floating rate investment-grade CLO counterparts.

The end of the quarter was marked by the bankruptcy of First Brands, an auto parts supplier held widely across CLO portfolios. According to Morgan Stanley, First Brands loans account for around 20bps of each of the euro and US dollar CLO markets, and while this is small in the context of the structural protection enjoyed by CLO debt tranches (i.e., credit losses impact equity tranches first), there is some variation across managers and deals. However, developments here, along with a handful of other smaller credit events, have intensified the market's focus on the riskiest end of the leveraged loan and high-yield markets, leading to a weaker market tone going into the fourth quarter.

Specialist credit

Bank capital	- -	-	0	+	+ +
Fundamentals			●		
Valuations	●				
Technicals			○	●	

EM corporate debt	- -	-	0	+	+ +
Fundamentals			●		
Valuations	●				
Technicals			●		

Corporate hybrids	- -	-	0	+	+ +
Fundamentals			●		
Valuations	●				
Technicals			○	●	

Short-duration high yield	- -	-	0	+	+ +
Fundamentals		●			
Valuations	●				
Technicals			●		

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It was another solid quarter for **corporate hybrids** (perps), which posted a 2.4% total return. The spread difference between perps and senior debt has returned to its historical low of 100bps, which arguably leaves little room for further spread compression. Despite this, the asset class still offers an attractive yield relative to other high-quality alternatives (i.e., it provides 'defensive carry'). The supply outlook remains constructive, with €23 billion having been issued year-to-date, and an expectation of only €2 billion in net supply in 2025. The first call dates for 2026 are manageable at €29 billion, owing to issuers' proactivity in recent years through liability management exercises. With corporate hybrid valuations trading back to historical tights, positioning favours a selective and defensive approach. Front-end carry trades and higher-yielding instruments in solid investment-grade companies generally appear most attractive in the current environment.

The **bank capital** market, or AT1s, posted a strong third quarter with a US dollar-hedged return of 3.7% (versus 3.2% in Q2), bringing the year-to-date total return to 8.9%. Both price appreciation and carry (income) drove returns. The overall market tone remained constructive through most of the quarter, although performance was more muted in August amid increased French political risk, which weighed temporarily on sentiment. The primary market remained active yet measured compared to prior quarters, with 11 new issues (6 in US dollars, 4 in euros, and 1 in British pounds) totalling approximately €8.4 billion, equivalent. Demand for new deals continued to be strong. Issuers have continued to call their bonds, and we expect this trend to persist given the favourable technical backdrop. Q2 2025 bank results underscored the sector's robust fundamentals, reinforcing a supportive environment for AT1 investors. Given the strong performance year-to-date and current spread levels, we expect carry/income – rather than significant spread tightening – to be the main driver of returns over the remainder of the year.

The **emerging market (EM) corporate debt** asset class (JPMorgan CEMBI BD) gained 3.2% over the quarter, with both the high-yield (3.4%) and investment-grade parts of the market (3.0%) delivering positive returns. A fall in US Treasury yields underpinned a broad rally in bond prices, with credit-spread tightening also providing a boost. Spread tightening was most pronounced in the high-yield segment, helped by dovish Fed commentary and a continued stabilisation of inflows into the asset class. From a country perspective, Argentina's corporate debt market lagged amid negative sovereign headlines, but Colombian debt benefitted from improved sentiment relating to the government's ongoing sovereign bond buyback programme. Elsewhere, high-yield markets such as Egypt, Nigeria and Turkey also delivered strong gains.

Developed market credit indicator: Credit Chronicle

Credit market performance	Q3 2025 return (US$ hedged) %	Yield-to-worst %	Spread*	Duration
US high yield	2.4	6.7	280	3.1
European high yield	2.4	5.0	272	2.9
US investment grade	2.6	4.8	76	6.6
European investment grade	1.5	3.1	78	4.4
US loans	1.7	7.5	419	0.1
European loans	1.1	7.1	475	0.2
Short duration high yield	2.1	6.2	279	1.7
CoCo's	3.7	5.7	236	3.5
Emerging market corporate debt	3.2	5.9	187	4.2

Past performance is not a reliable indicator of future results, losses may be made. Please see important information section for information on indices.

*OAS spread. Sources: US high yield = BofA US High Yield (HUC0); European high yield = BofA EUR High Yield (HE00); US investment grade = BofA US Investment Grade (C0A0); European investment grade = BofA EUR Investment Grade (ER00); US Loans = JP Morgan US Loans Index; European Loans = JP Morgan European Loans Index; Short Duration High Yield = BofA 1-3yr Global High Yield (H1WN); CoCo's = BofA Contingent Capital Index (COCO); EMCD = JPM CEMBI BD. All as of 30 September 2025.

General risks

The value of investments, and any income generated from them, can fall as well as rise. Where charges are taken from capital, this may constrain future growth.

Past performance is not a reliable indicator of future results. If any currency differs from the investor's home currency, returns may increase or decrease as a result of currency fluctuations.

Specific Risk(s)

Default: There is a risk that the issuers of fixed income investments (e.g. bonds) may not be able to meet interest payments nor repay the money they have borrowed. The worse the credit quality of the issuer, the greater the risk of default and therefore investment loss. **Derivatives:** The use of derivatives may increase overall risk by magnifying the effect of both gains and losses leading to large changes in value and potentially large financial loss. A counterparty to a derivative transaction may fail to meet its obligations which may also lead to a financial loss. **Interest rate:** The value of fixed income investments (e.g. bonds) tends to decrease when interest rates rise. **Liquidity:** There may be insufficient buyers or sellers of particular investments giving rise to delays in trading and being able to make settlements, and/or large fluctuations in value. This may lead to larger financial losses than might be anticipated.

Glossary

Alpha: outperformance of a reference index or market through an investment manager's active investment decisions.

Bank capital: additional capital held by banks to absorb losses under duress. Cheaper and quicker for banks to issue than equity. Helps banks to improve their capital ratios.

Bank preference securities: issued by banks to meet their required capital ratios. These have characteristics of both equities and bonds. The securities are perpetual (with call features), pay dividends, and are subordinated relative to other forms of debt.

Callable bonds: bonds that can be redeemed by the issuer prior to the maturity date of the bonds. The issuer may look to issue new bonds at a lower coupon.

Carry: the net-of-cost return earned by owning a security – a 'carry trade' might involve borrowing at a low interest rate to invest in a security offering a higher interest rate to earn the additional 'carry'.

CLO: collateralised loan obligations are bonds that are backed by pools of (typically sub-investment grade) corporate loans. Several bonds of varying risk and return characteristics are usually issued against each pool of loans. Lower-risk, 'senior' tranches have higher priority claims on the cash flows from the loans but offer a lower yield than the lower-rated 'junior' tranches, which are the first to suffer losses if the underlying loans underperform.

Corporate hybrids: subordinated debt of Investment-grade issuers. They combine characteristics of bonds (payment of coupon) and of equities (no maturity date or very long maturities) and are typically rated a few notches lower than the same issuers' senior debt. Usually callable by the issuer five or 10 years after issue

Coupon: the regular interest payments a bondholder receives from the issuer of the bond.

Credit rating: a score awarded by an independent rating agency to indicate the financial strength of the issuer of a bond, and the potential for it to default on interest and principal payments. The top credit rating is 'AAA'. The lowest rating to be considered 'investment grade' is 'BBB'. Below 'BBB', bonds are termed 'sub-investment grade' or 'high yield'. The higher the credit rating of the issuer of the bond, the higher the 'quality' of the bond.

Credit spread: the difference between the yield offered by a corporate bond and the yield offered by a sovereign (government) bond of an equivalent maturity. This is the reward the investor gets in return for taking on a greater level risk than they would if they just invested in the sovereign bond.

Credit risk: see *Default risk*.

Currency swap: a swap is an agreement between investors to exchange future cashflows, such as interest payments. In a currency swap, the parties to the agreement exchange future cash flows of different currencies

Default risk: the risk that the issuer of a bond may not be able to meet interest payments or repay the money it has borrowed. The lower the credit rating of the issuer, the greater the risk of it defaulting on its debt and the greater the risk of the investor suffering an investment loss.

Duration: a measure of how much a change in interest rate will impact a security's market value. There is an inverse relationship between interest rates and bond prices.

Emerging market credit: bonds issued by companies from emerging markets (e.g. China, Brazil). Can be rated high yield or investment grade. Largely US dollar-denominated, although a small local currency corporate bond market exists.

Excess return: the total return of the bond minus the return attributable to changes in underlying treasury yields of an equivalent maturity.

Extension risk: the risk that the bond issuer will seek to delay when it pays back the amount it has borrowed from bondholders.

Fallen angel: an investment-grade bond issuer that has subsequently had its debt downgraded to a high-yield credit rating.

Floating-rate notes: the floating nature of coupon provides protection in a rising interest rate environment. Issued by both investment-grade and high-yield borrowers. These are typically shorter duration (up to five 5 years).

Interest rate risk: see *Duration* above.

Leveraged loans: loans that are structured, arranged and administered by at least one commercial or investment bank. Typically issued to support a merger or acquisition or to finance company growth. Sub-investment-grade rated. Typically, the coupon is a floating rate rather than fixed.

Maturity: The date the issuer will repay the bondholder.

Subordinated debt: debt that is repaid only after other debt has been repaid (i.e. comes further down in the order of priority for repayments) in the event of the issuer of the debt falling into financial difficulties.

Synthetics: highly liquid financial instruments that artificially simulate other credit market investments. Instruments can be related to a single corporate, or to a whole credit index. Allows for efficient implementation and hedging.

Total return: the investment return on a bond which takes into account a change in credit spread and a change in the yield of the underlying treasury of an equivalent maturity.

Yield: the return investors earn for owning a bond to maturity. This is a function of the price paid for the bond, the coupon, and the time to maturity.

Important information

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