

MULTI-SECTOR CREDIT ASSET ALLOCATION **PERSPECTIVES**

Q1 2025

The Multi-Sector Credit Team share perspectives on the fixed income market and their quarterly asset allocation ranking. They highlight a timely chart to watch, explore relative value opportunities, and provide insight on their latest asset allocation scores by fixed income sub-sector.

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The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

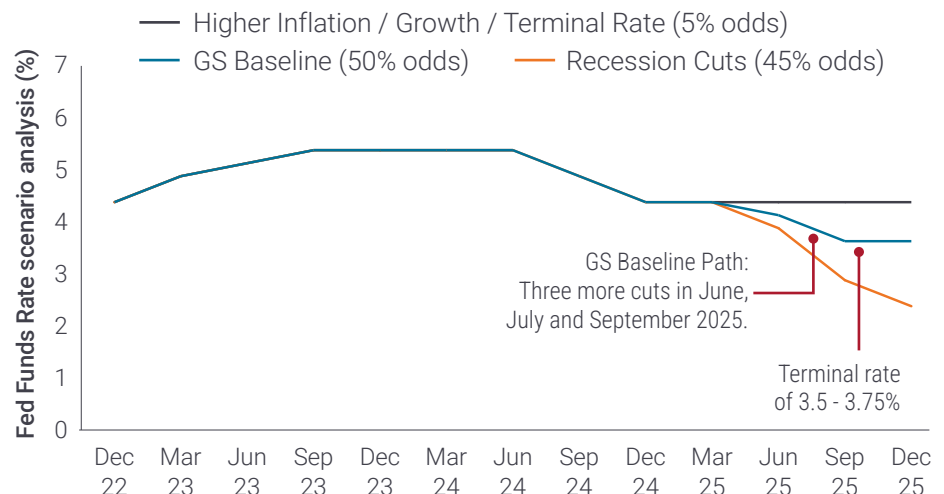
KEY TAKEAWAYS

- ▶ Tariffs are likely to ultimately settle well below initial numbers in our view. If employment substantially weakens, the US Federal Reserve (Fed) is well-equipped to step in given current monetary policy.
- ▶ High yield (HY) corporate debt valuations are more compelling with spreads near the median of the last 10 years; lower bond prices offer better convexity and total return potential.
- ▶ Many fixed income sectors are offering attractive yields in the mid-to-high single digits with lower historical volatility than equities. Fixed income assets are exhibiting low or negative correlation to equities, making them an essential diversifier of investment portfolios.

Chart to watch

Despite an initial tariff announcement that featured higher levies than the market anticipated, we believe the numbers are an “opening bid” for further negotiations. The administration has already announced some delays or reductions, and we see a high likelihood that tariffs ultimately settle meaningfully below the numbers that were presented on April 2. Due to uncertainty regarding the path and eventual outcome of global trade negotiations, markets for risk assets are likely to remain choppy in the near term. We caution against market timing and suggest investors remain invested and stay diversified. With the Federal Funds Rate still around 4.25%-4.50%, the Fed remains well positioned to provide relief to the US economy by way of easier monetary policy if labour markets weaken.

The Fed has plenty of room to cut if the economy weakens



Source: Bloomberg, Goldman Sachs Global Investment Research, as at 17 April 2025. There is no guarantee that past trends will continue, or forecasts will be realised.

“ If tariffs do detract from growth or inflation does percolate, having spread to offset volatility will be important for investors over a 12-month horizon. Investors should continue to focus on maximising yield per unit of duration/risk..”

John Lloyd

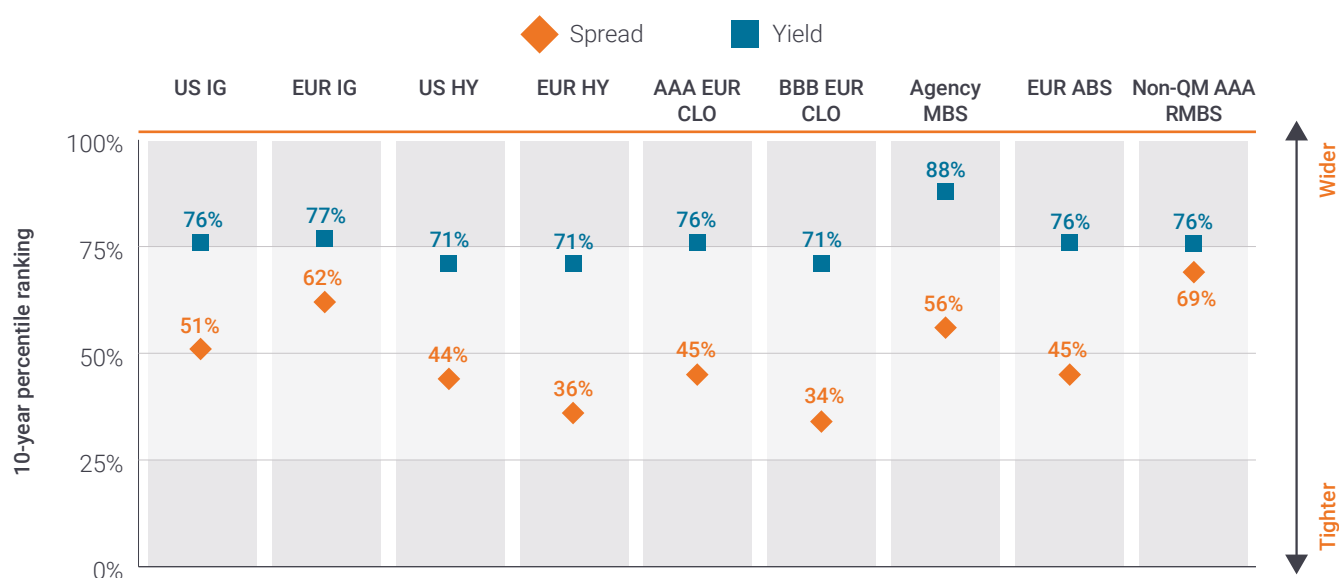
Portfolio Manager.

ASSET ALLOCATION VIEWS

Recent sell-off in risk assets has improved valuations, most of all in HY corporate credit

While the table below does not reflect the spread widening in April, HY corporate credit (and US HY corporate credit in particular) cheapened the most of any fixed income sector during the recent bout of volatility. Spread and yield remain superior in some securitised assets, though now to a lesser extent. Amid lower bond prices and better convexity, we've increased our focus on HY at the margin. These bonds should have more upside when spreads tighten although diversification remains key, especially in times of elevated uncertainty.

If tariffs do detract from growth or inflation does percolate, having spread to offset volatility will be important for investors over a 12-month horizon. Investors should continue to focus on maximising yield per unit of duration/risk. The best leading indicator of five-year forward return is yield-to-worst at time of purchase



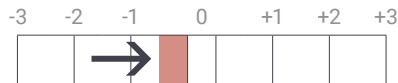
Metrics	US IG	EUR IG	US HY	EUR HY	AAA EUR CLO	BBB EUR CLO	Agency MBS	Pan Euro ABS	Non-QM AAA RMBS
Spread	136	86	381	316	124	357	36	62	148
10yr Tights	87	35	293	186	67	245	7	31	55
10yr Wides	303	198	862	713	329	866	75	138	262
10yr Average	139	79	436	358	138	407	36	69	131
Yield	6.0	5.5	7.4	7.4	4.9	7.2	4.9	4.9	5.1

Source: Janus Henderson Investors, Bloomberg as at 31 March 2025. US Investment Grade: ICE BofA US Corporate Index; EUR Investment Grade: ICE BofA Euro Corporate Index; US HY: ICE BofA US High Yield Index; EUR HY: ICE BofA Euro High Yield Index. Yield-to-worst shown on the ICE corporate credit indices. AAA EUR CLO: JPM Euro CLOIE AAA index, prev CitiVelocity EUR CLO AAA 2.0 and 1.0 indices; BBB EUR CLO: JPM Euro CLOIE BBB index, prev CitiVelocity EUR CLO BBB 2.0 and 1.0 indices; Yield on CLO JP Morgan is calculated based on the 4-year swap plus spread. Agency MBS: the Bloomberg MBS Index. Yield-to-worst shown on this index. Pan Euro ABS: Bloomberg Pan European Floating ABS Bond Index. Yield on this index is based on 3m USD swap rate plus spread. Non qualifying mortgage AAA RMBS is a custom index and yield is calculated by the 3-year swap rate plus spread. **There is no guarantee that past trends will continue, or forecasts will be realised.** Actual results may vary, and the information should not be considered or relied upon as a performance guarantee.

Dynamic allocation

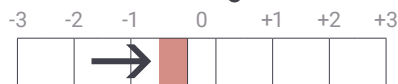
We use an internal qualitative and quantitative asset allocation model to evaluate the sectors within our multi-sector credit universe. Sectors are rated from +3 to -3 across fundamentals, technicals (or market dynamics), and valuations. During our asset allocation meeting, the summary of these scores is used to rate sectors relative to each other. The result is reflected in portfolio sector allocation.

Global high yield



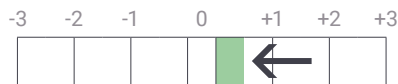
Views
High Yield has widened the most of any sector recently, with spreads on the Global HY Index moving from the 1st percentile in February out to the 50th percentile currently¹. The average price on HY bonds is now in the low 90s with yields in the mid 8s¹, providing much more convexity and so upside potential. Bonds with higher convexity will exhibit greater price increases as interest rates fall than bonds with lower convexity.

Global investment grade



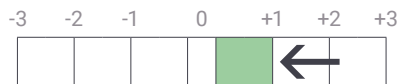
Views
Spreads have widened more in IG corporates than in areas of securitised which were more resilient. Nevertheless IG bonds have enjoyed the benefit of being a longer duration asset class, as we saw correlations between rates and spreads normalise, particularly during the earlier part of the recent risk-off period. The US IG and EU IG indices are now over the 50th percentile on a 10-year lookback, offering some value and bonds will benefit from higher convexity.

CLOs



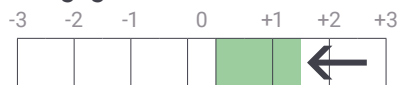
Views
CLOs have tightened meaningfully versus corporates as spreads have held in better. Investment grade (IG) tranches remain somewhat attractive (AAA we score at 0.5 and BBB at 0), offering higher carry and less credit risk than corporate bonds, though less upside convexity. Like in loans, technicals in CLOs have weakened somewhat since the start of this year as macro uncertainty persists and duration comes back into vogue. New issue spreads have held in comparably well, while secondary spreads have widened out more.

CMBS



Views
There was a lot of supply in US CMBS to start the year, but the new issue pipeline has slowed materially since then. Relative value depends on the sub-sector with different demand and structural trends affecting return potential. We prefer industrial, lodging, data centres and seasoned Multi-Family sectors. Following the DeepSeek news, concerns about AI demand for data centres caused this CMBS sub-sector to cheapen substantially. While there may be some merit to these growth concerns, longer-term data centre demand remains intact and senior tranches are backed by substantial collateral in high-quality assets.

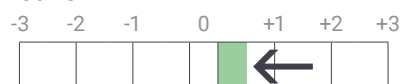
Mortgage-related debt



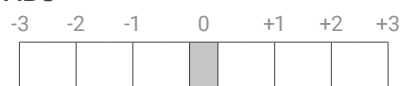
Views
We remain bullish on Agency MBS, which are trading wide relative to IG corporates and could outperform as interest rate volatility subsides. Supply is set to pick up in the short term, but we expect net supply in 2025 to remain relatively low. Limited supply plus solid carry and improved convexity in mortgages should support returns. Credit Risk Transfer (CRT) is expected to have the least amount of supply this year, providing a very strong technical. We like seasoned vintages for CRT given significant built-in home price appreciation and anaemic new issuance.

Key Negative Neutral Positive

¹ Source: ICE BofA Global High Yield Index, as at 21 April 2025. There is no guarantee that past trends will continue, or forecasts will be realised.

Loans**Views**

Loans have outperformed HY corporates on an excess return basis, though remain somewhat cheap versus HY. As a result of significant repricing activity preceding the weakness in credit spread markets, loan indices now trade around the mid-90s. According to our analysis, this leaves only 1-2% of loans trading above par compared to about two-thirds late last year and over half in early 2025². Further repricing thus appears to be largely off the table for now. Global default rates remain relatively muted at around 4%³. Technicals have started to deteriorate, albeit off a very strong starting point, with outflows dominating.

ABS**Views**

ABS hasn't seen as much widening as other sectors, in part due to continued demand from insurance buyers. New deals are being priced closer to initial price talk but remain well subscribed, even as supply is the highest among securitised credit sectors. Despite the recent outperformance, auto and credit card deals are still wide relative to corporate credit, creating opportunities. ABS tranches also have the benefit of de-levering over time and are short-term 2-2.5 year deals. We score US ABS 0.5 and EU ABS 0.

Emerging markets**Views**

We've seen HY EM debt outperform HY corporates, and particularly US HY corporates. While lower global growth may present a challenging environment for EM economies, most of these countries are not as directly impacted by trade tensions (the largest US trading partners are Mexico, Canada, the EU, and China) and we are optimistic on the prospects of smaller EM countries negotiating bilateral trade deals with the US. Many developing economies are ahead of the US rate easing cycle. Issuance remains low, providing a positive technical.

Sector in focus: Global High Yield

While the investment flow picture remains uncertain, we believe real money buyers have already started stepping in to global HY bond markets, as prices have become more attractive amid the volatility. Supply remains constrained with previously anticipated M&A failing to materialise. While the amount of distressed bonds has grown recently, it remains relatively low with the portion of bonds trading at distressed levels now at 7.6%⁴. Opportunities have emerged as bond prices have become dislocated – White Cap, a leading building products distributor in the US, is one example. A clear number one within its industry, White Cap has a resilient revenue model given its market position and ability to generate substantial free cash flow, even during a slowdown.

² Source: Janus Henderson Investors, as at 11 April 2025. S&P UBS Leveraged Loan Index & S&P UBS Institutional Western European Leveraged Loan Index.

³ Source: JP Morgan, leveraged loan default rate, as at 14 April 2025.

⁴ Source: JP Morgan, as at 11 April 2025. Distressed is defined as the % of HY market above 1000bp spread-to-worst (STW).

The role of duration

Duration can act as insurance in times of economic turbulence. We are neutral duration as its role in providing a hedge against spread risk should help dampen volatility within portfolios. We seek to source the best opportunities across fixed income sectors while achieving an effective balance between spread and duration. A multi-sector credit approach can maximise the diversification benefits that fixed income has to offer.

Fixed income indices returns (%)

2020	2021	2022	2023	2024	Q1 2025
Euro Aggregate 13.41%	Global High Yield 2.53%	AAA CLOs 1.05%	Global High Yield 13.66%	Global High Yield 10.71%	Euro Aggregate 3.38%
Global Aggregate 9.20%	AAA CLOs 1.40%	EUR ABS 0.66%	Emerging Markets Debt 11.09%	AAA CLOs 7.06%	US MBS 3.06%
Global Investment Grade 8.26%	EUR ABS 1.09%	US CMBS -10.20%	Euro Aggregate 10.95%	Emerging Markets Debt 6.54%	US Treasury 2.92%
US Treasury 8.00%	US CMBS -0.33%	Global High Yield -11.05%	Global Investment Grade 9.10%	EUR ABS 6.13%	US Aggregate 2.78%
US Aggregate 7.51%	Global Investment Grade -0.79%	US MBS -11.81%	AAA CLOs 8.68%	US CMBS 5.89%	Global Aggregate 2.64%
US CMBS 6.76%	US MBS -1.04%	US Treasury -12.46%	EUR ABS 6.54%	Global Investment Grade 3.69%	US CMBS 2.57%
Global High Yield 6.73%	US Aggregate -1.54%	US Aggregate -13.01%	Global Aggregate 5.72%	US Aggregate 1.25%	Emerging Markets Debt 2.24%
Emerging Markets Debt 5.26%	Emerging Markets Debt -1.80%	Global Investment Grade -14.11%	US Aggregate 5.53%	US MBS 1.20%	Global Investment Grade 1.76%
US MBS 3.87%	US Treasury -2.32%	Global Aggregate -16.25%	US MBS 5.05%	US Treasury 0.58%	EUR ABS 1.41%
AAA CLOs 2.54%	Global Aggregate -4.71%	Emerging Markets Debt -17.78%	US CMBS 4.71%	Global Aggregate -1.69%	Global High Yield 1.17%
EUR ABS 1.31%	Euro Aggregate -9.71%	Euro Aggregate -22.27%	US Treasury 4.05%	Euro Aggregate -3.79%	AAA CLOs 1.08%

Source: Bloomberg, as at 31 March 2025. Global Investment Grade: Bloomberg Global Aggregate - Corp Index Hedged (USD); Global High Yield: Bloomberg Global High Yield Index (USD); Global Aggregate: Bloomberg Global Aggregate.; Euro Aggregate: Bloomberg Euro Aggregate; US Aggregate: Bloomberg US Aggregate; AAA CLOs: J.P. Morgan CLOIE AAA Total Return Index; US CMBS: ICE BofA US Fixed Rate CMBS (Local return); US MBS: Bloomberg US Aggregate Securitized - MBS; EUR ABS: Barclays Pan European ABS Index (USD); EMD Hard Currency: JP Morgan EMBI Global Diversified (Local return); US Treasury: Bloomberg Global US Treasury.

Note: Past performance does not predict future returns.

Portfolio management



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| Portfolio Manager

Industry since 1990. Joined Firm in 2010.



Colin Fleury
Head of Secured Credit
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Industry since 1986. Joined Firm in 2007.



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Lead, Multi-Sector Credit
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Industry since 1998. Joined Firm in 2005.



Seth Meyer, CFA
Global Head of Client Portfolio
Management | Portfolio Manager

Industry since 1998. Joined Firm in 2004.

We would be pleased to talk in more detail about any views within this document and our thinking more broadly.

Glossary

Above par: When a bond trades above par, it means that the bond's current market price is higher than its face value (also known as its par value). This typically occurs when the interest rate environment has changed since the bond was issued, specifically when market interest rates have declined below the bond's coupon rate.

Agency Mortgage-backed Securities (Agency MBS): A type of asset-backed security that is specifically secured by a collection of mortgages. These securities are issued by one of the three government-sponsored enterprises (GSEs): Fannie Mae (Federal National Mortgage Association), Freddie Mac (Federal Home Loan Mortgage Corporation), or Ginnie Mae (Government National Mortgage Association).

Asset-backed Securities (ABS): These are financial instruments that are backed by a pool of assets—typically those that generate a cash flow from debt, such as loans, leases, credit card balances, or receivables.

Convexity: In the context of bonds, convexity measures how a bond's price sensitivity to interest rate changes (duration) changes as interest rates fluctuate. Convexity quantifies how much more the bond's price will increase when interest rates fall, or how much more the price will decrease when interest rates rise, compared to what duration alone would predict.

Collateral: In a securitisation, collateral refers to the pool of financial assets that are bundled together to form the basis of a security.

Commercial Mortgage-backed Securities: A type of mortgage-backed security that is secured by the loan on commercial real estate properties rather than residential real estate.

Credit Risk Transfer: CRT in mortgages is an investment opportunity where investors take on some or all of the credit risk associated with a portfolio of mortgages, typically from a bank or government-sponsored enterprise (GSE)

Credit spread markets: Credit spread markets refer to a segment of the financial markets where investors trade securities primarily based on the credit spreads of different debt instruments.

Duration: Duration can measure how long it takes, in years, for an investor to be repaid a bond's price by the bond's total cash flows. Duration can also measure the sensitivity of a bond's or fixed income portfolio's price to changes in interest rates. The longer a bond's duration, the higher its sensitivity to changes in interest rates and vice versa. 'Going short duration' refers to reducing the average duration of a portfolio, while 'going long duration' refers to extending a portfolio's average duration.

Fundamentals: In the context of corporate debt, "fundamentals" refer to the essential financial health indicators and characteristics of a company that suggest its ability to meet debt obligations.

Initial price talk (IPT): IPT on a bond deal refers to the preliminary yield or price range indicated by the underwriters of a bond issuance before the actual pricing is set. This initial discussion or indication serves as a starting point for gauging investor interest and market demand for the new bond issue.

Loans: Also called "Leveraged loans". Loans to companies that tend to be rated below investment grade.

Real money buyers: This generally refers to institutional investors who manage long-term investment funds. These investors include entities such as pension funds, insurance companies, endowments, and mutual funds.

Residential Mortgage-backed Securities (RMBS): A type of mortgage-backed security that is secured by the interest in residential real estate loans.

Seasoned vintages: In the context of credit risk transfer, particularly in the mortgage industry, “seasoned” vintages refer to mortgage loans that have been outstanding for a significant period, typically at least several years. These loans have a track record that provides data on payment history, default rates, and other performance indicators.

Spread risk: This refers to the potential for financial loss that arises from the widening of the credit spread between two debt securities.

Yield-to-worst: The lowest yield a bond with a special feature (such as a call option) can achieve provided the issuer does not default.

Fixed income securities are subject to interest rate, inflation, credit and default risk. As interest rates rise, bond prices usually fall, and vice versa. High-yield bonds, or “junk” bonds, involve a greater risk of default and price volatility. Foreign securities, including sovereign debt, are subject to currency fluctuations, political and economic uncertainty and increased volatility and lower liquidity, all of which are magnified in emerging markets.

Securitized products, such as mortgage- and asset-backed securities, are more sensitive to interest rate changes, have extension and prepayment risk, and are subject to more credit, valuation and liquidity risk than other fixed-income securities.

Collateralized Loan Obligations (CLOs) are debt securities issued in different tranches, with varying degrees of risk, and backed by an underlying portfolio consisting primarily of below investment grade corporate loans. The return of principal is not guaranteed, and prices may decline if payments are not made timely or credit strength weakens. CLOs are subject to liquidity risk, interest rate risk, credit risk, call risk and the risk of default of the underlying assets.

Bank loans often involve borrowers with low credit ratings whose financial conditions are troubled or uncertain, including companies that are highly leveraged or in bankruptcy proceedings.

Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

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