



Vontobel

Staying the course

Global Corporate Bond Summer Outlook

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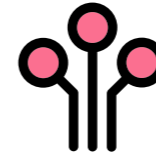
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May 2025

Global Credit - 10 hot topics for the summer:



Macroeconomics

1. Is a recession likely?
2. Are economic indicators deteriorating?
3. What are central banks likely to do?

Microeconomics

4. What is the direction for credit metrics?
5. Are more rating downgrades expected?
6. How are banks prepared for the current environment?

Technical Factors

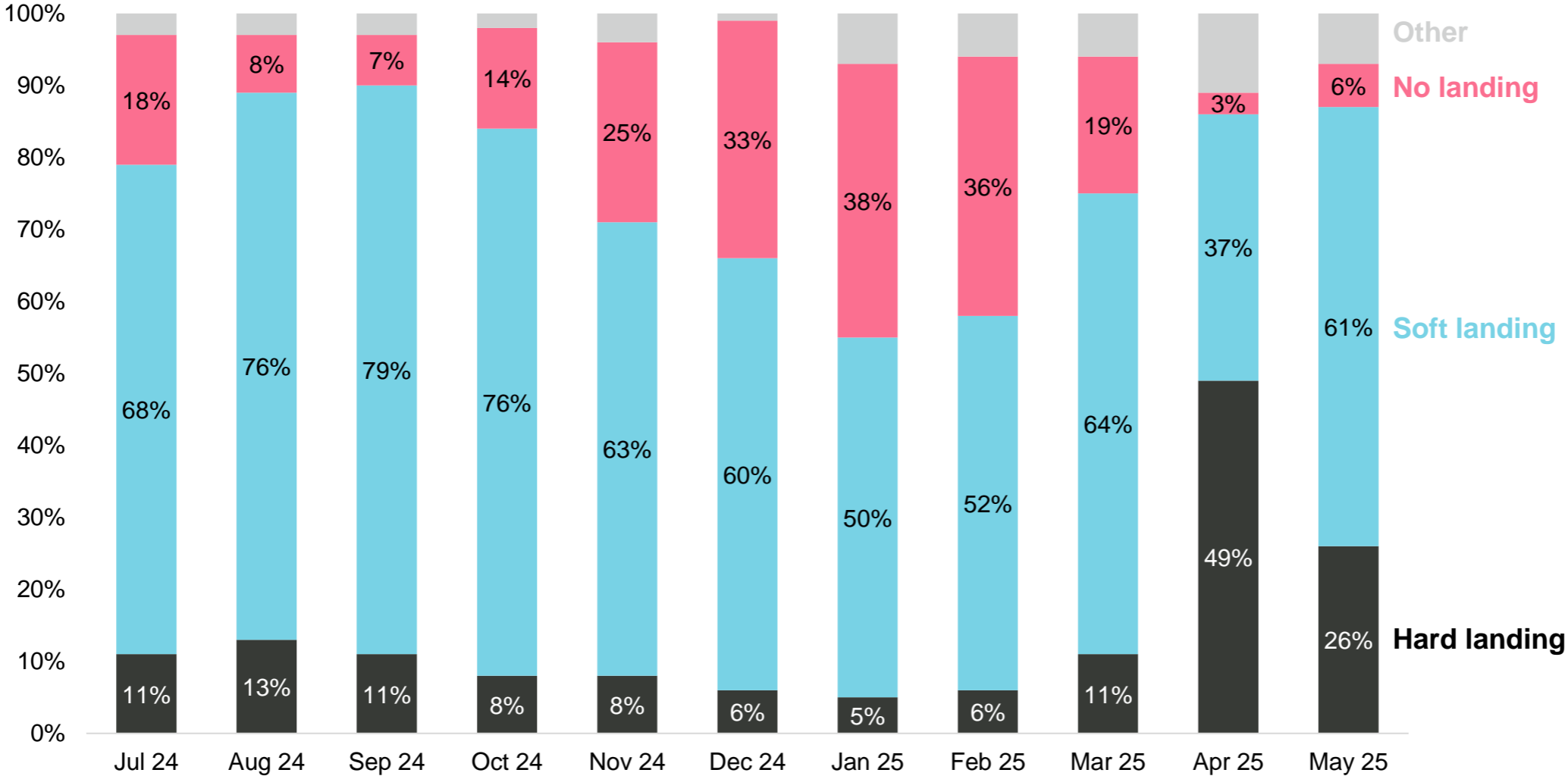
7. What to expect from bond issuance?
8. How about investors' risk appetite?

Valuation

9. Are spreads attractive now?
10. Where can I find value in global credit?

#1. For investors, recession risks for the global economy have increased, as...

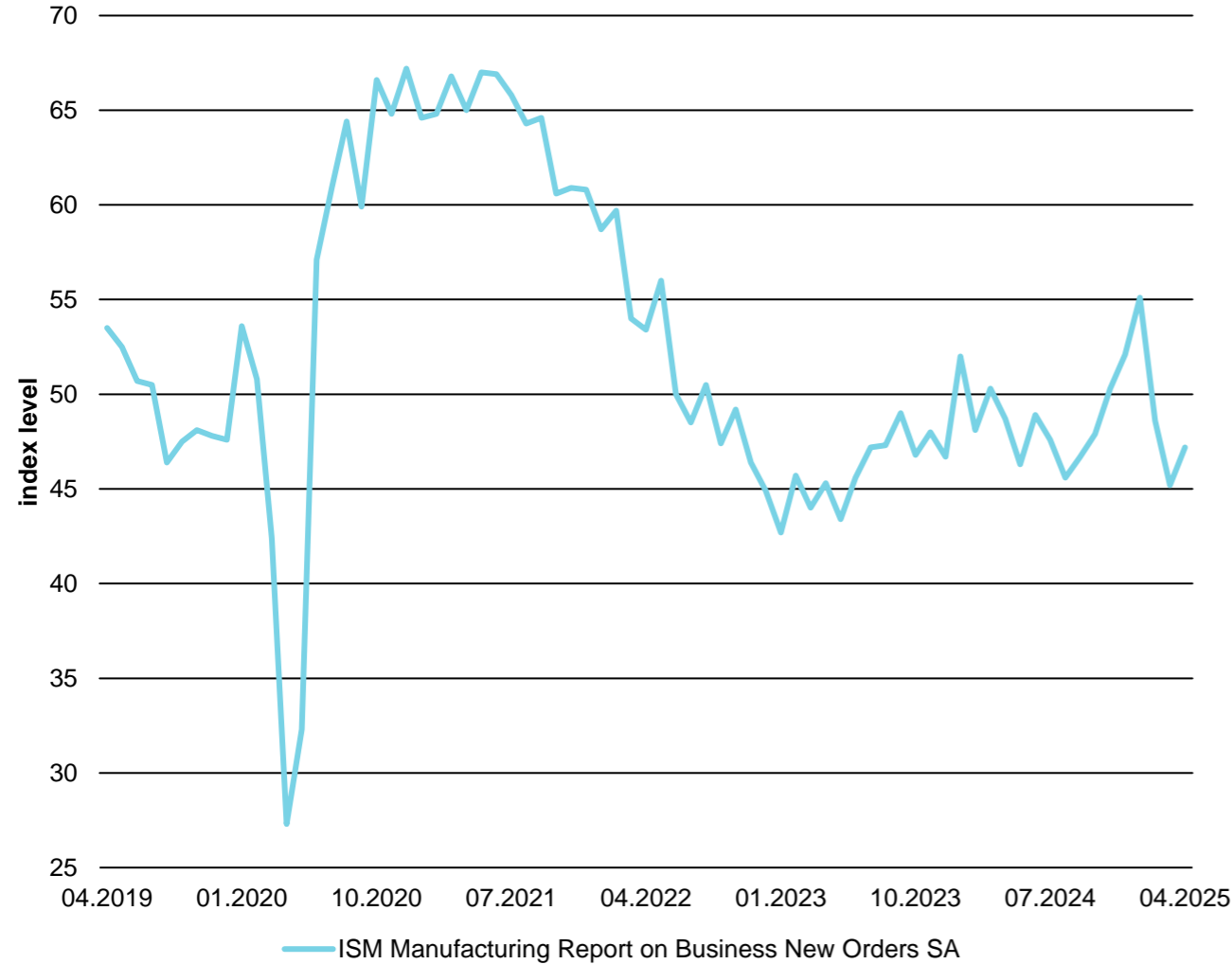
Global fund manager survey (May 2025): What is the most likely outcome for the global economy in the next 12 months?



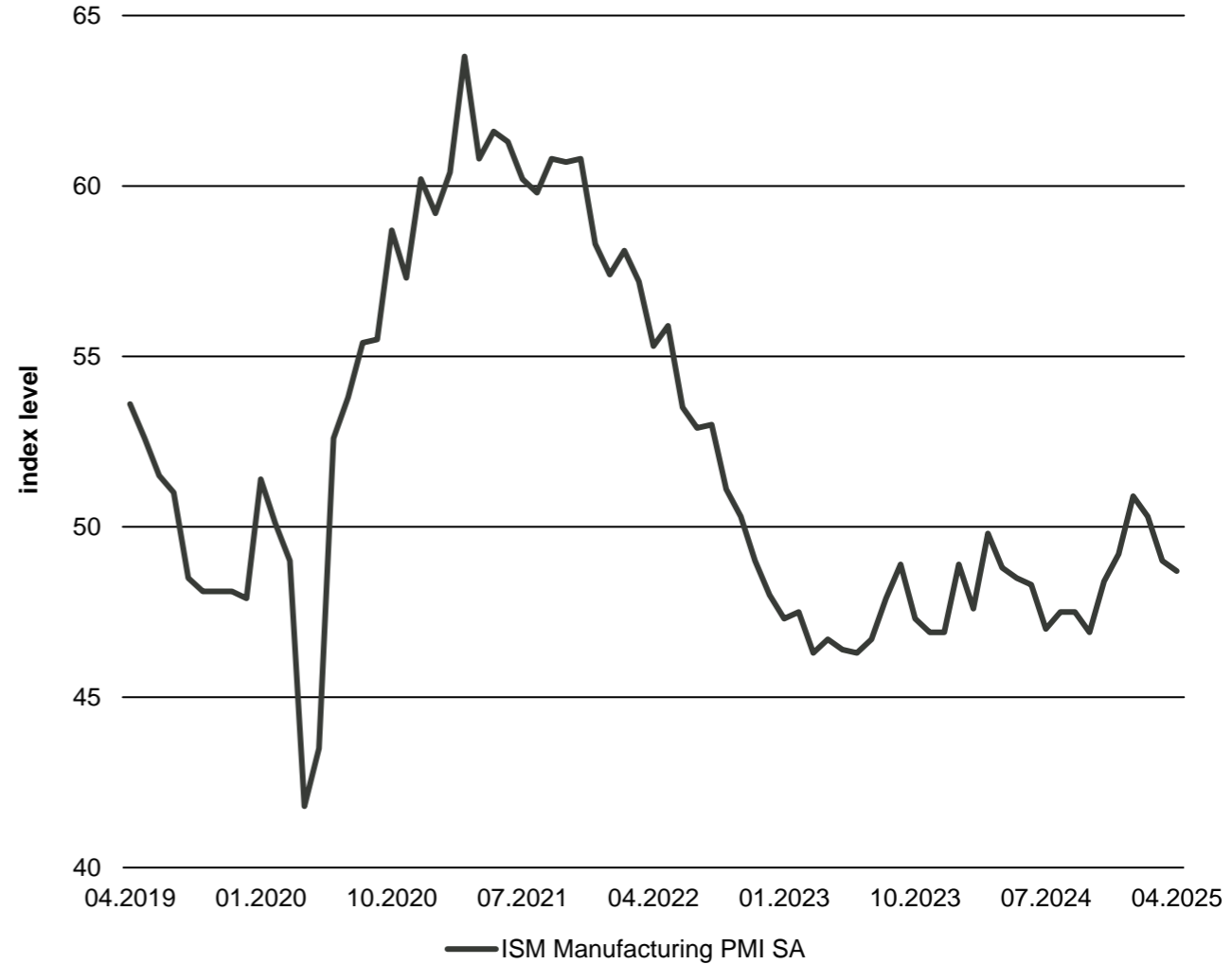
Source: BofA Global Fund Manager Survey, Vontobel, 05.2025.

#2. ...leading economic data is weakening...

New orders took a hit recently



ISM Manufacturing below 50



Source: Bloomberg, Vontobel, 05.2025.

...and the US labor market started to show signs of weakness.

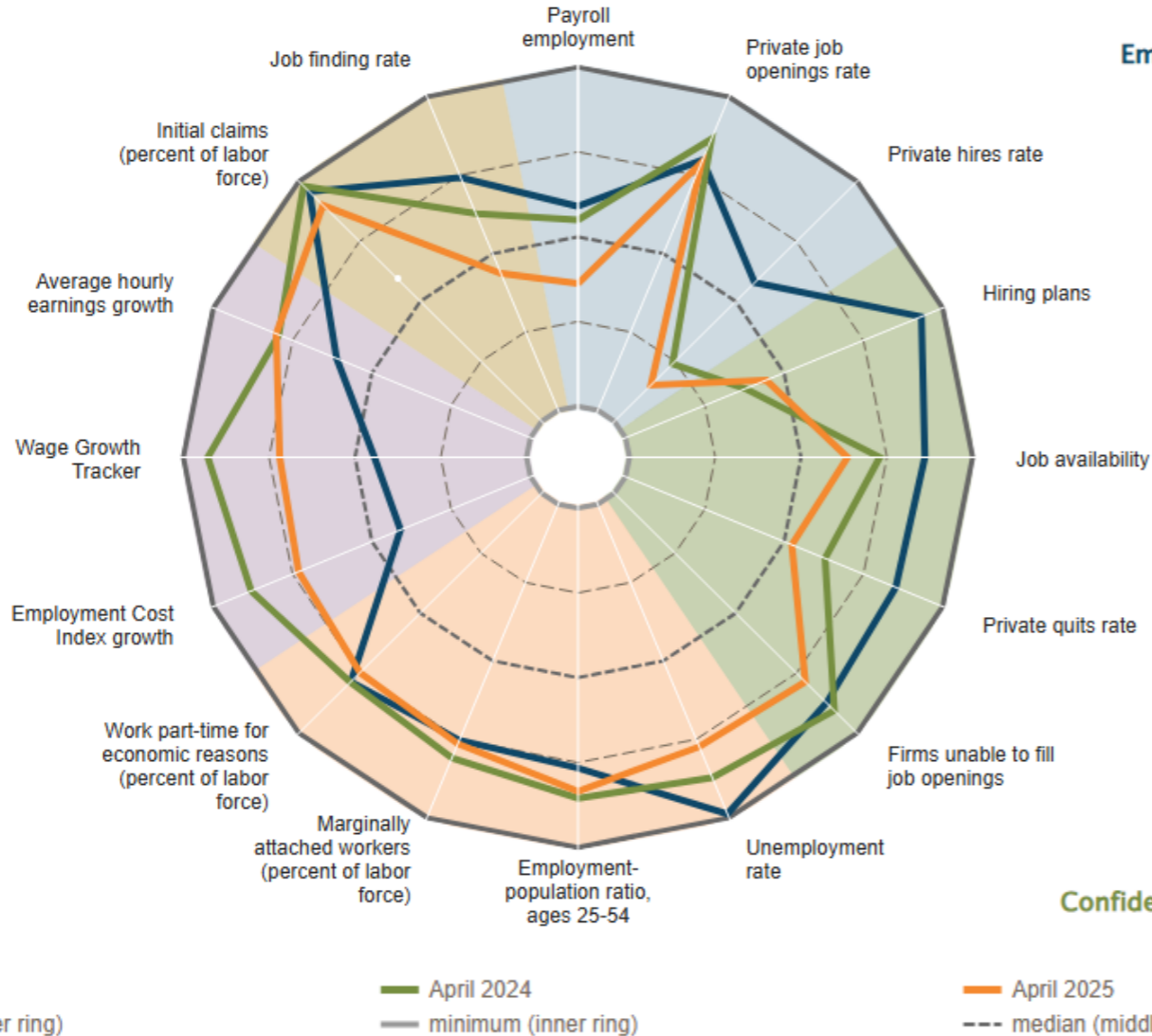
Flows

Wages

Utilization

Employer Behavior

Confidence/Perceptions



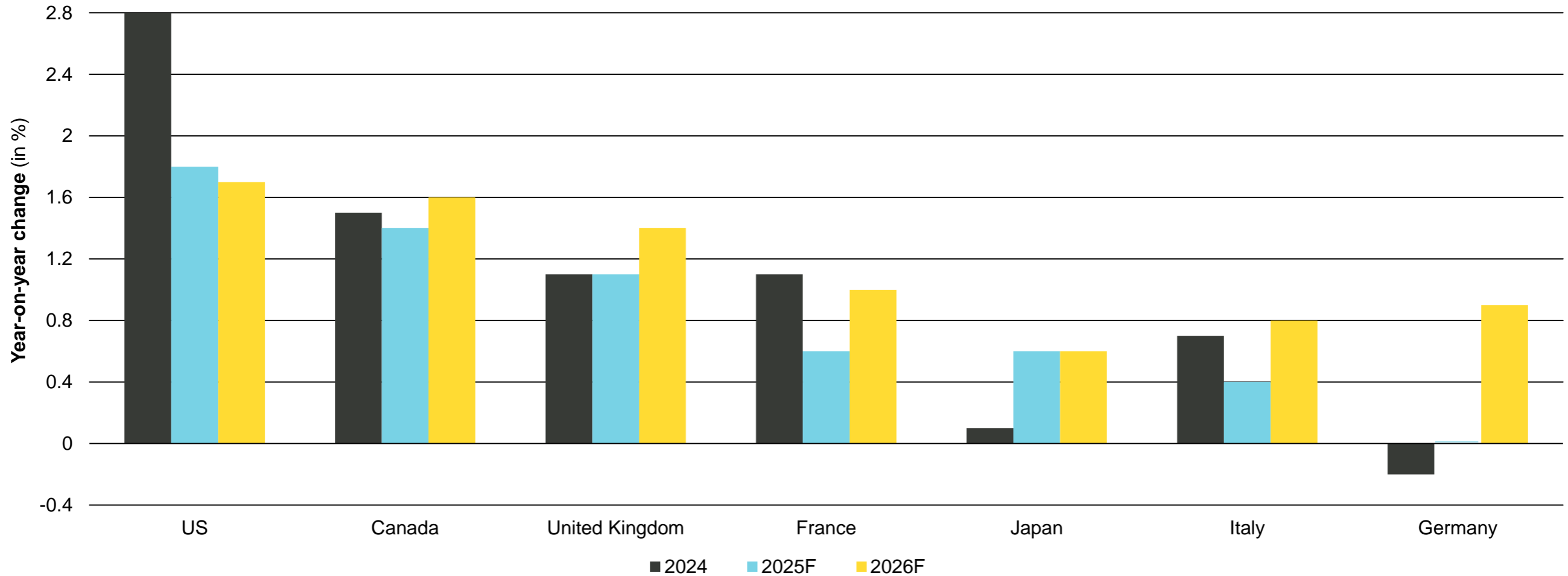
How to read this chart?

- The more the circle is towards the outer ring, the stronger the labor market data is, and vice versa.
- While the US unemployment rate remains at low levels of about 4.1%, the hiring rate for example dropped significantly (see orange line).

Source: Atlanta Fed, Vontobel, 05.2025.

However, growth is expected to improve for the rest of the world.

IMF Real GDP growth forecasts for G7 countries

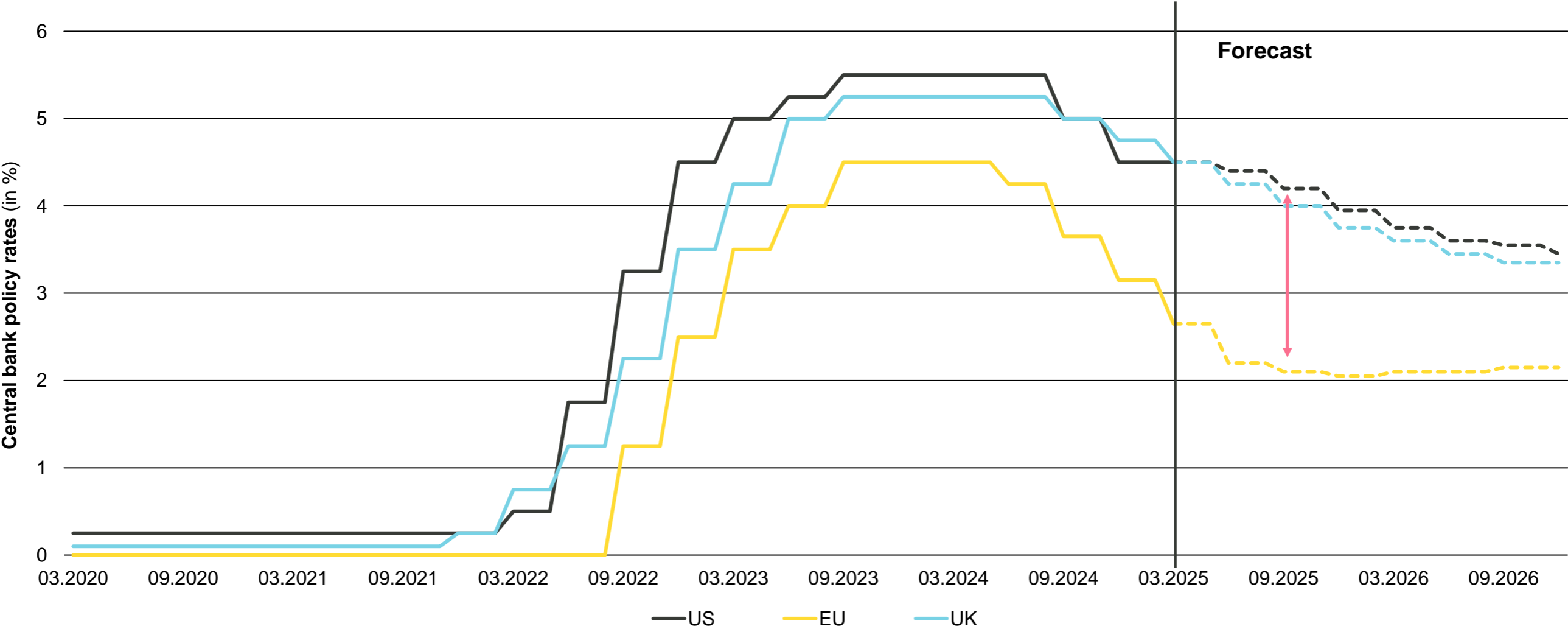


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Source: IWF, Vontobel, 5.2025.

#3. Dispersion is increasing among global central banks...

The ECB is expected to cut more than the Fed and the BoE

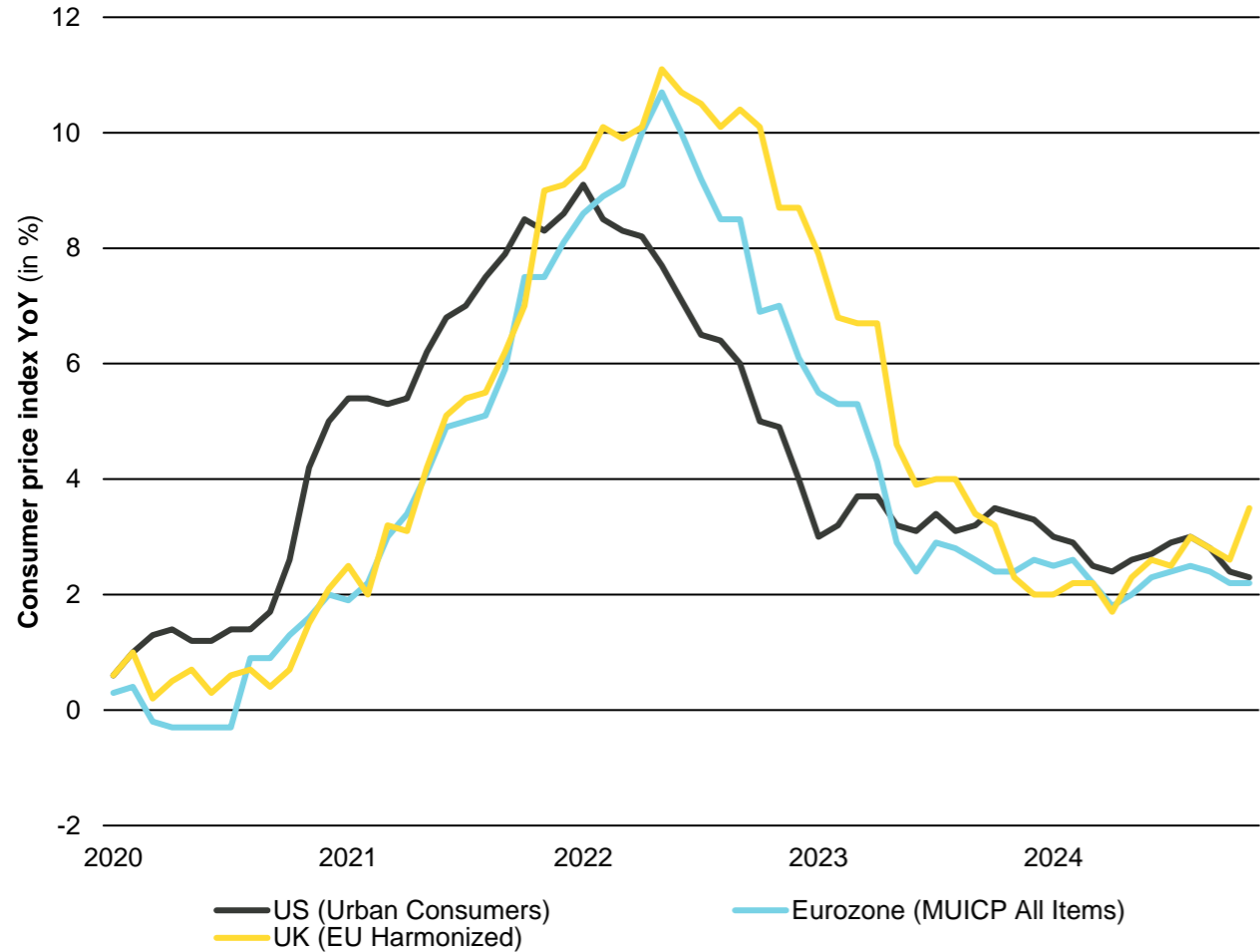


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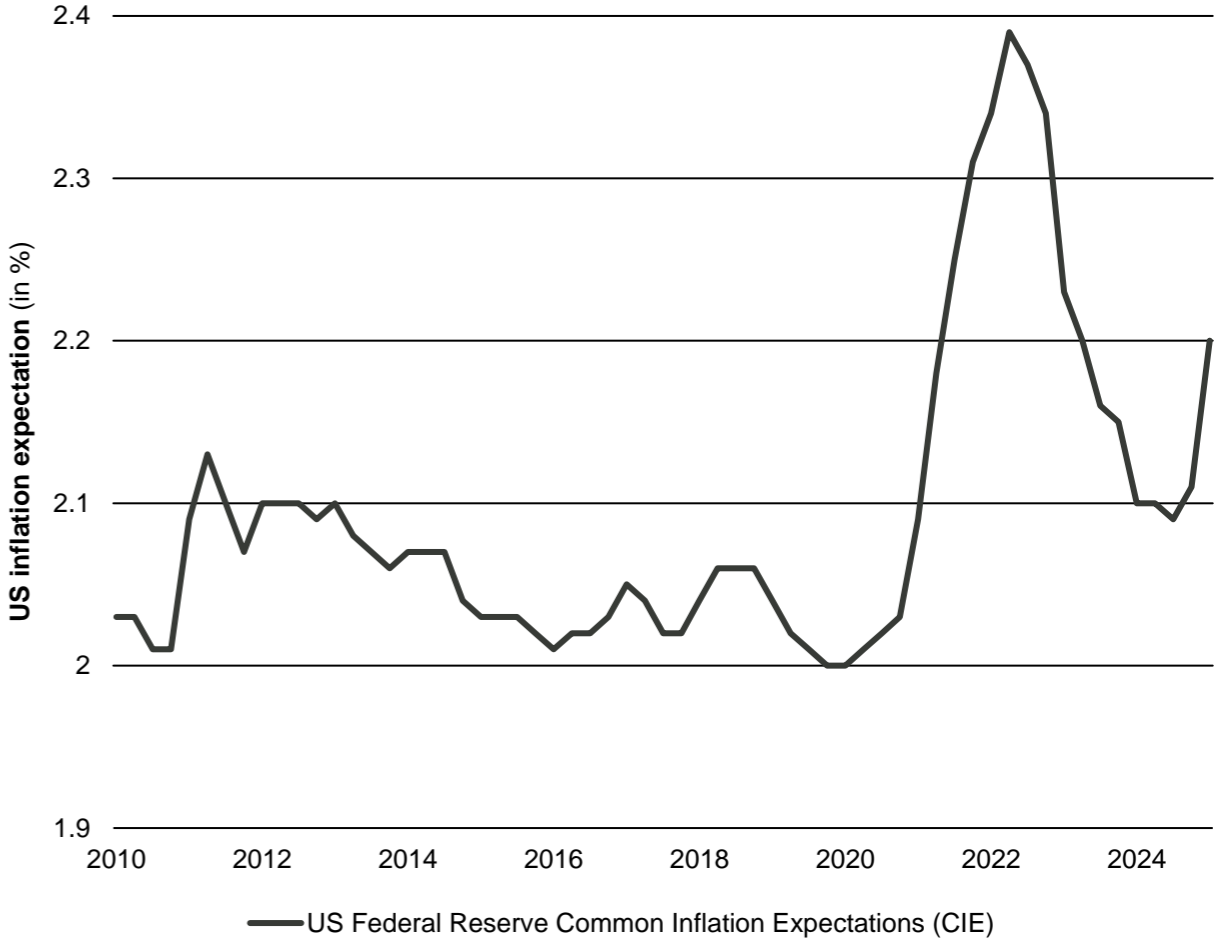
Source: Bloomberg, Vontobel, 05.2024.

...as the current inflation trend has some upside risks.

Inflation trend for the US, UK and EU



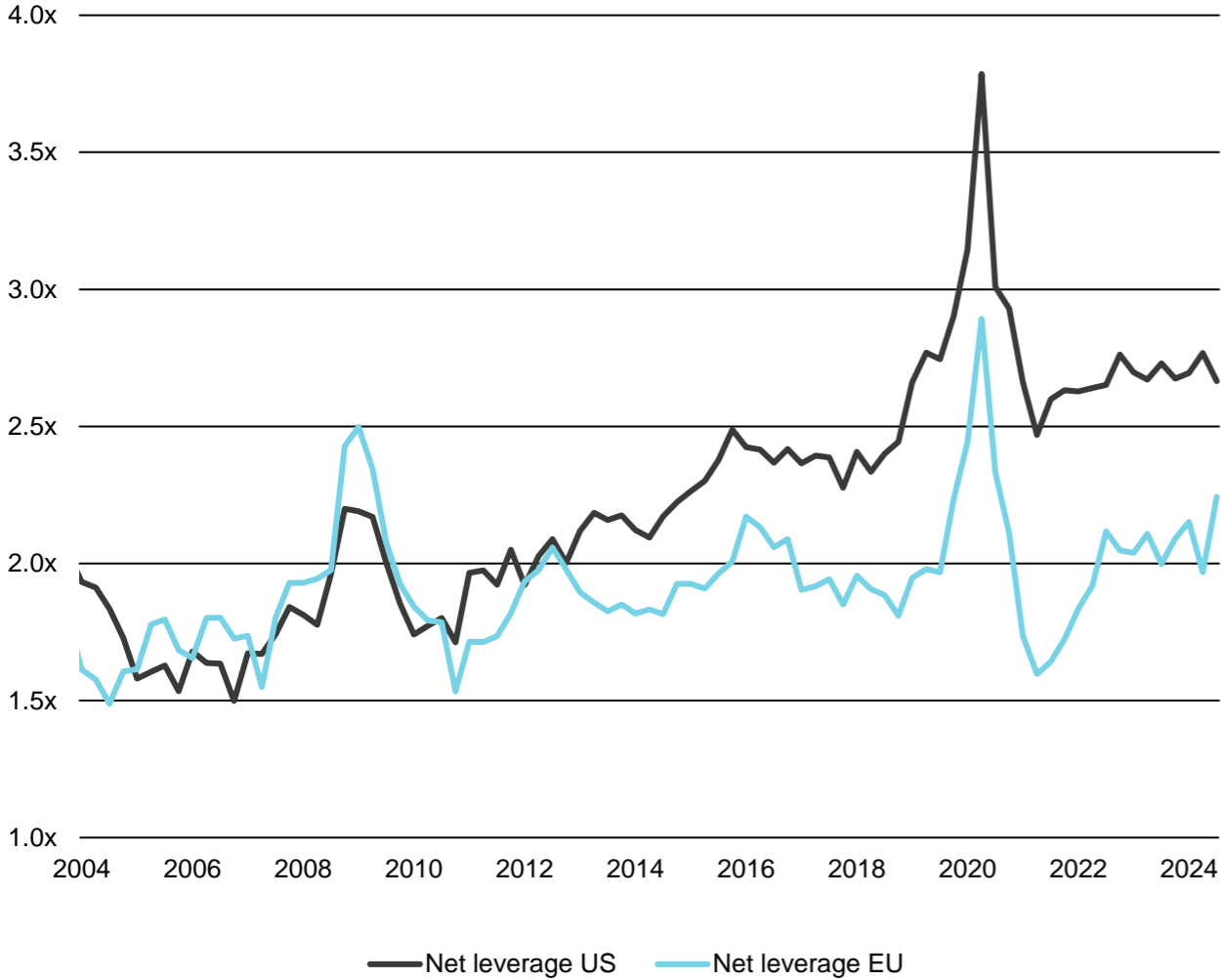
US inflation expectation rising



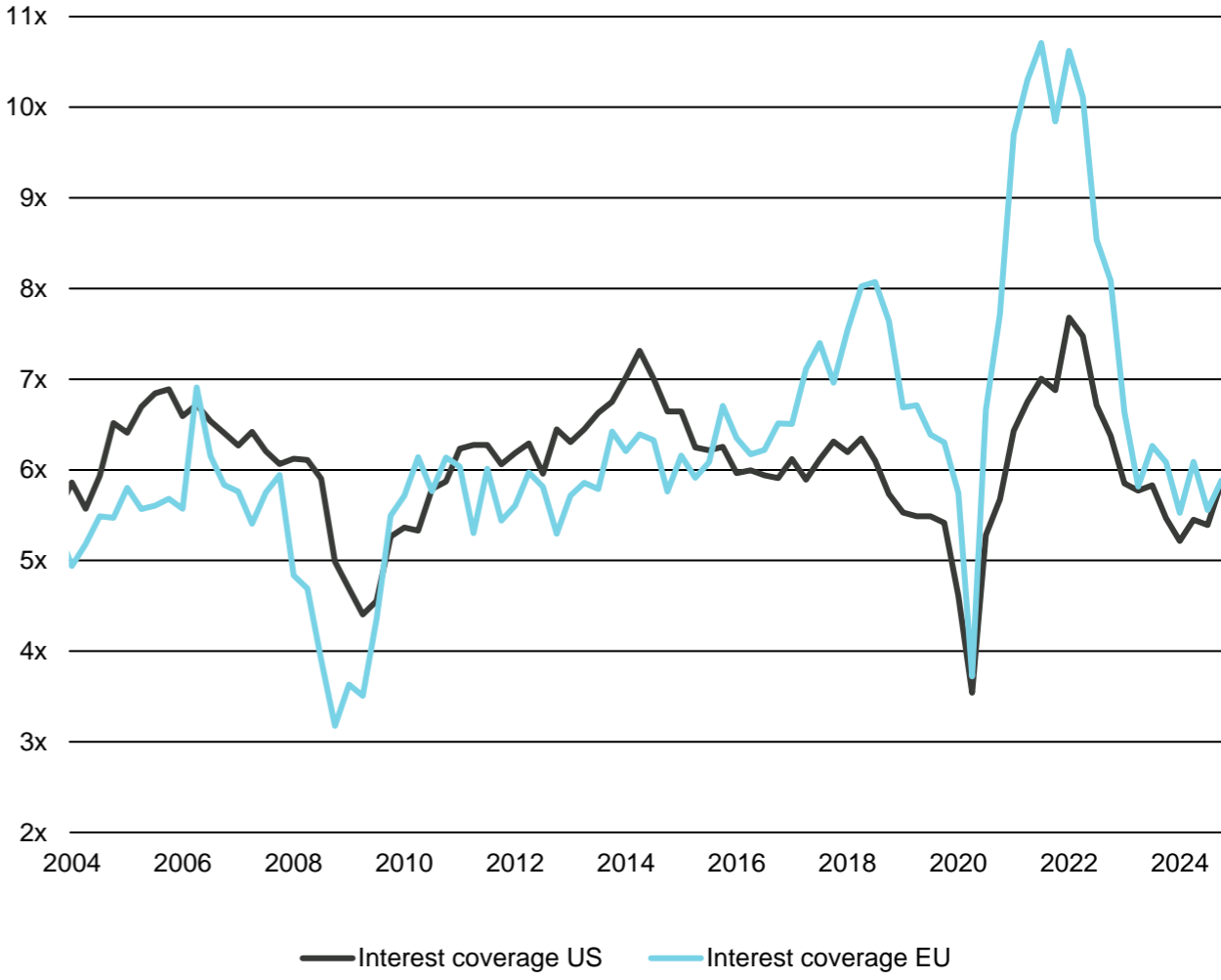
Source: Bloomberg, Vontobel, 05.2025.

#4. Corporates are well positioned as credit metrics improved...

Leverage trend



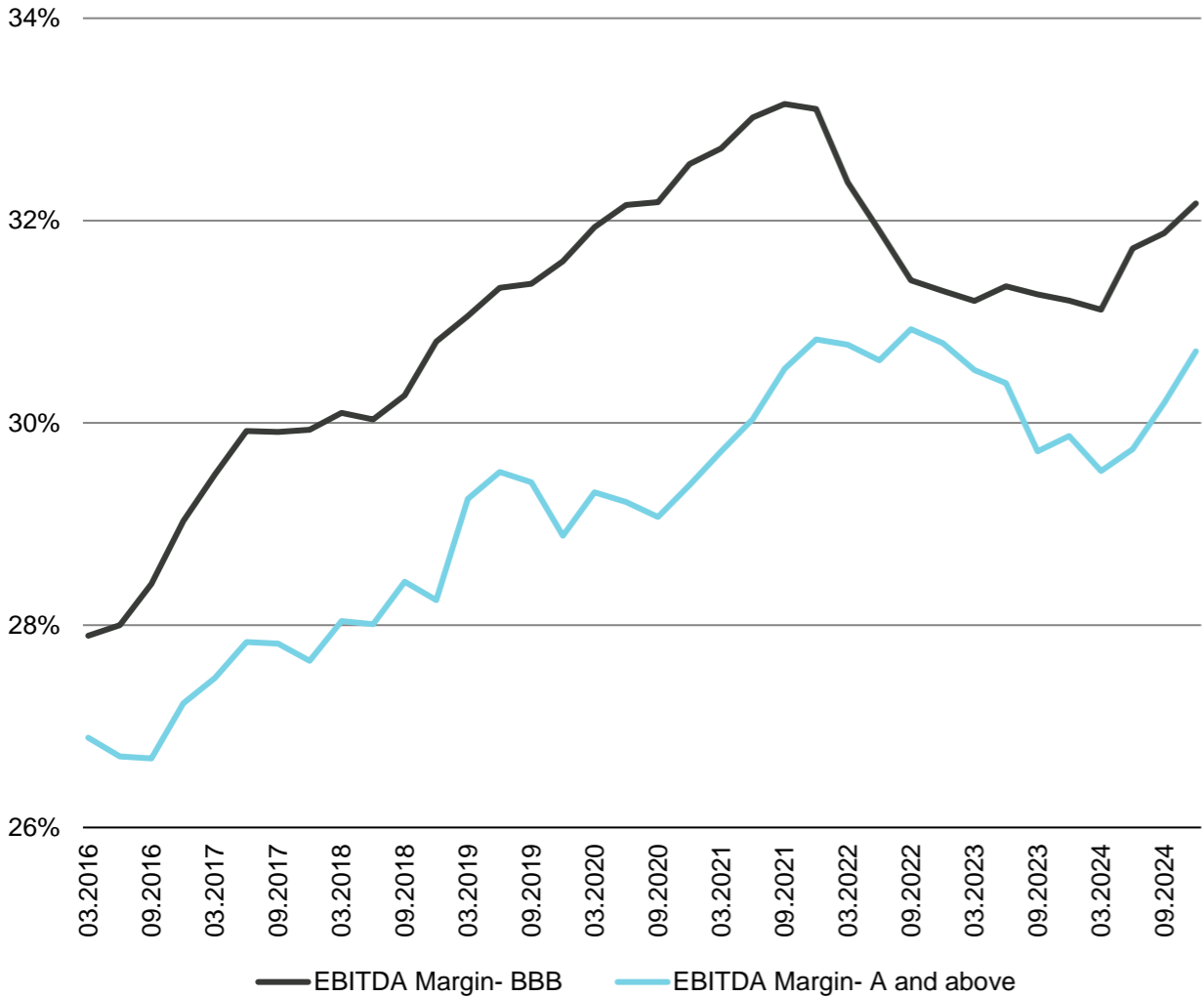
Interest coverage



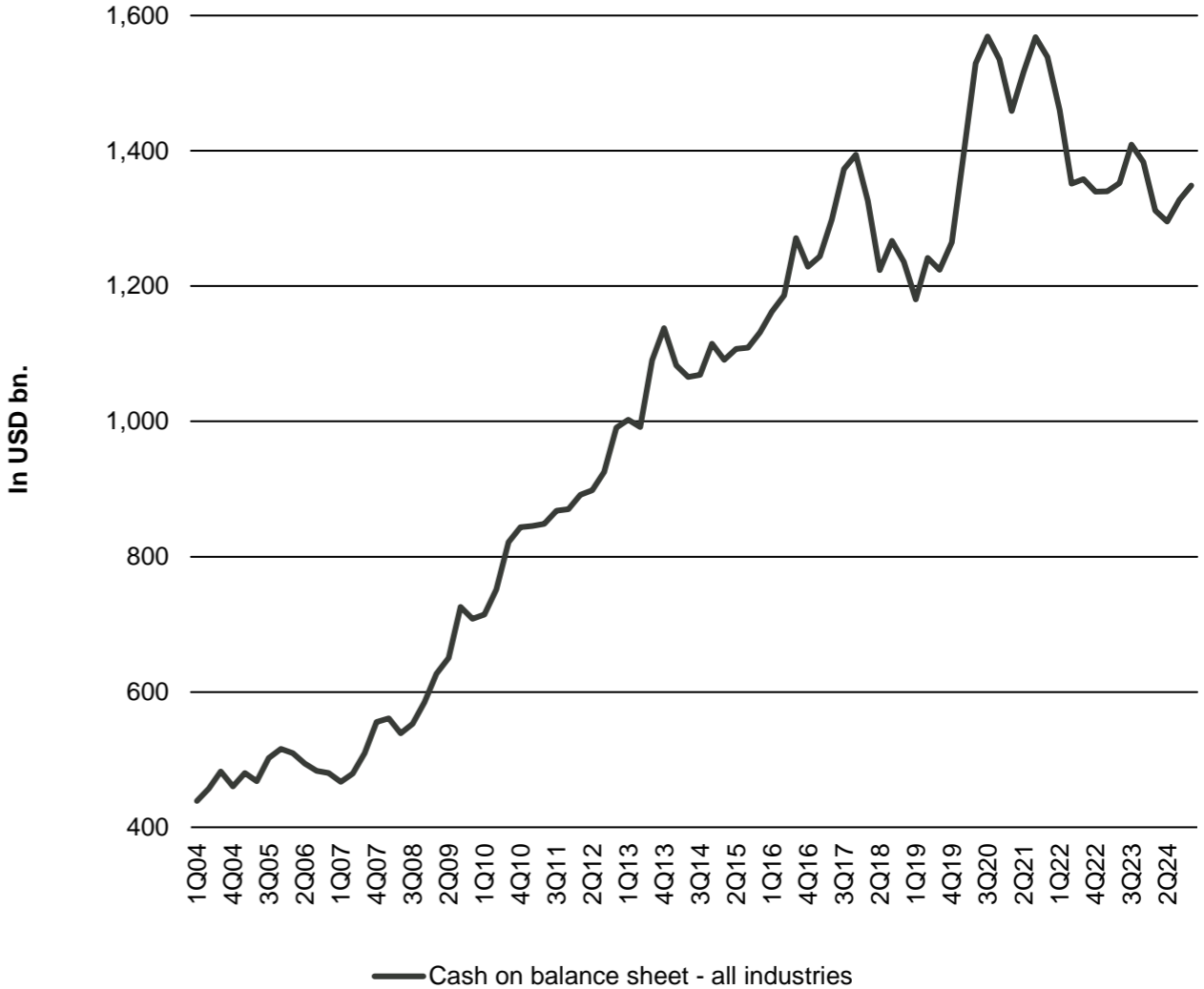
Source: Goldman Sachs, Vontobel, 05.2025. Note: Data includes Q4 2024 results of US Investment Grade Non-Financial issuers. Net leverage = Total debt minus cash divided by EBITDA

... driven by higher margins, prudent balance sheet management...

Strong margin improvement



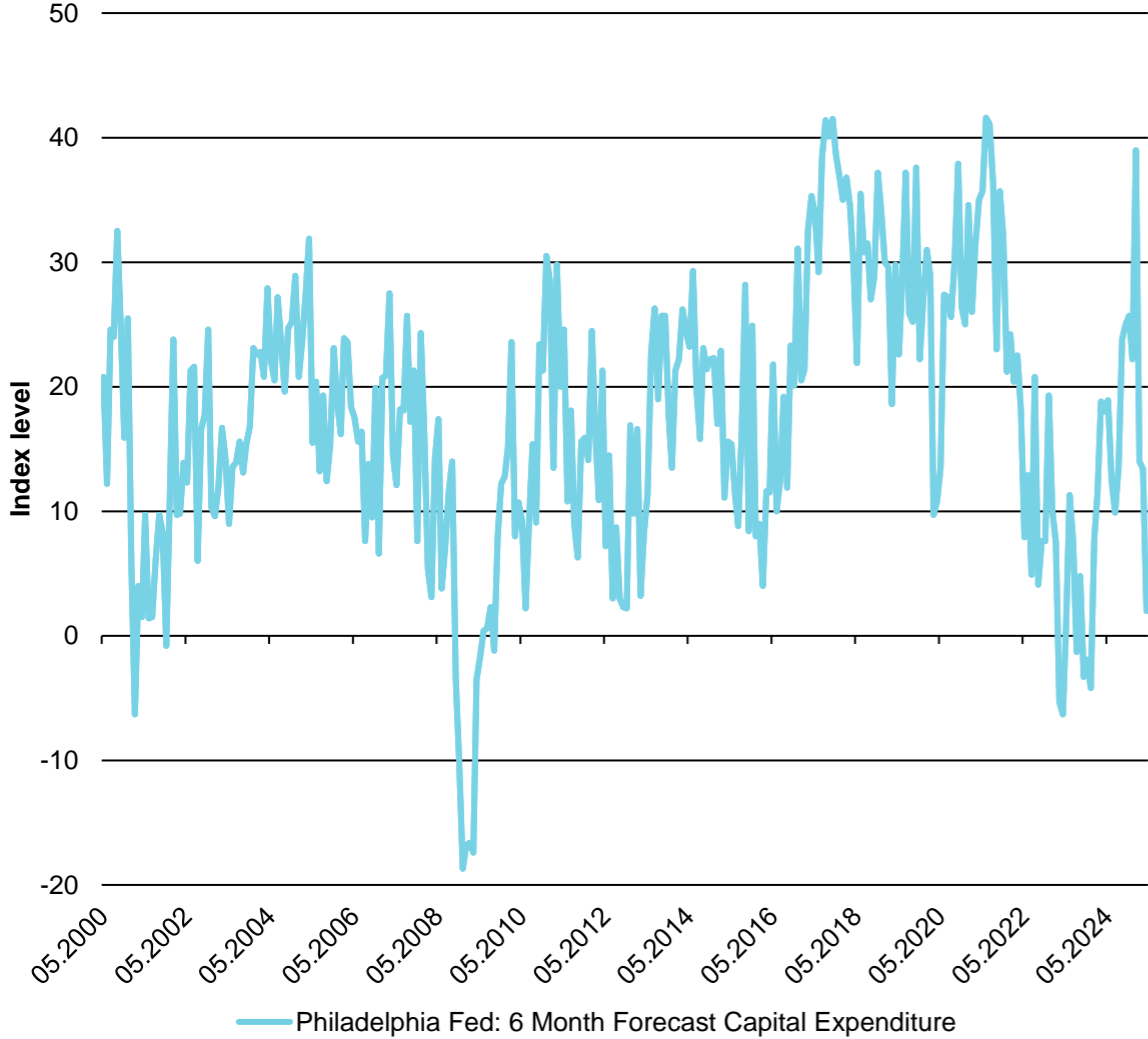
Cash levels remain elevated



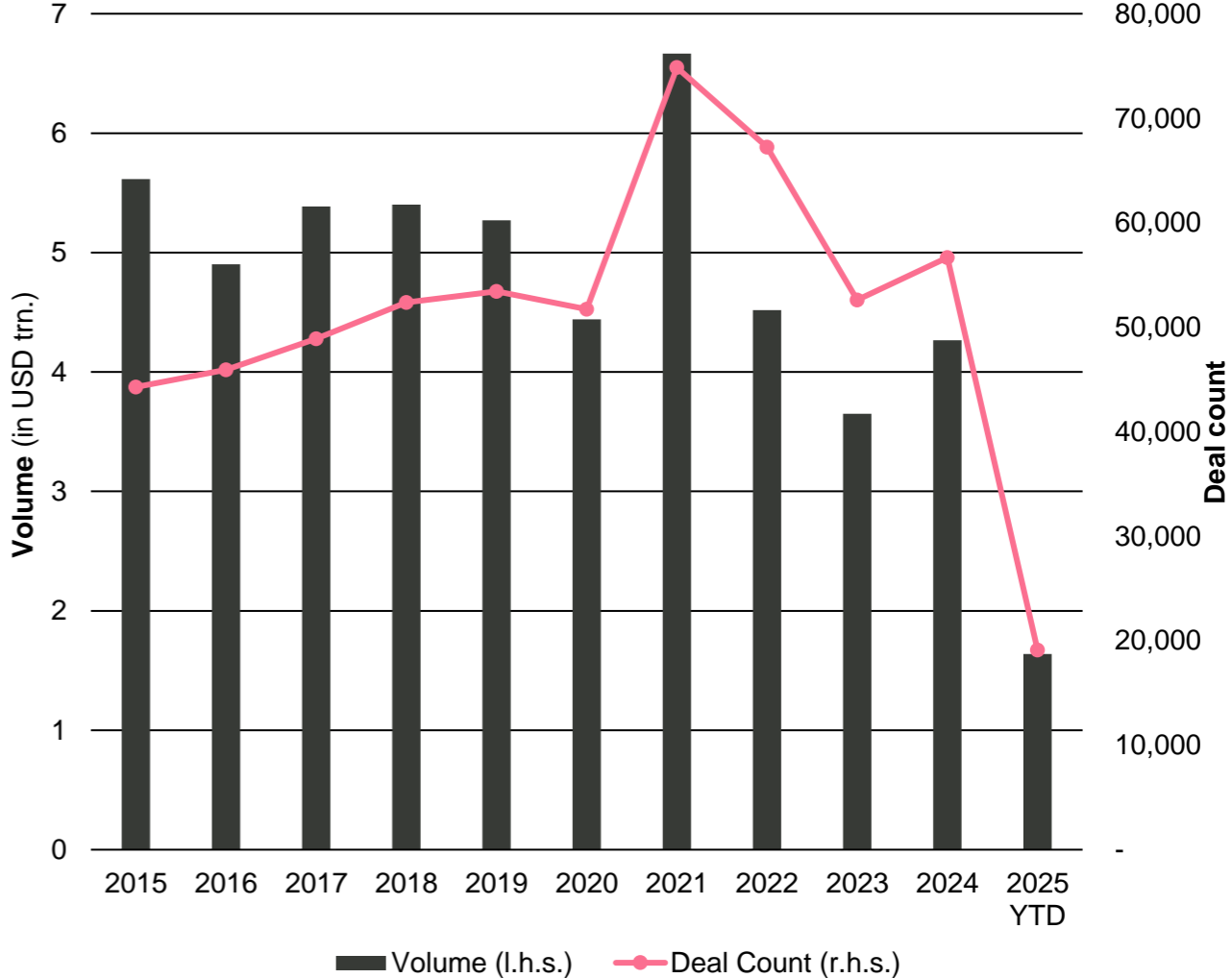
Source: JP Morgan, Vontobel, 31.12.2024.

...and some investment decisions being delayed, for now.

Forecast capital expenditure



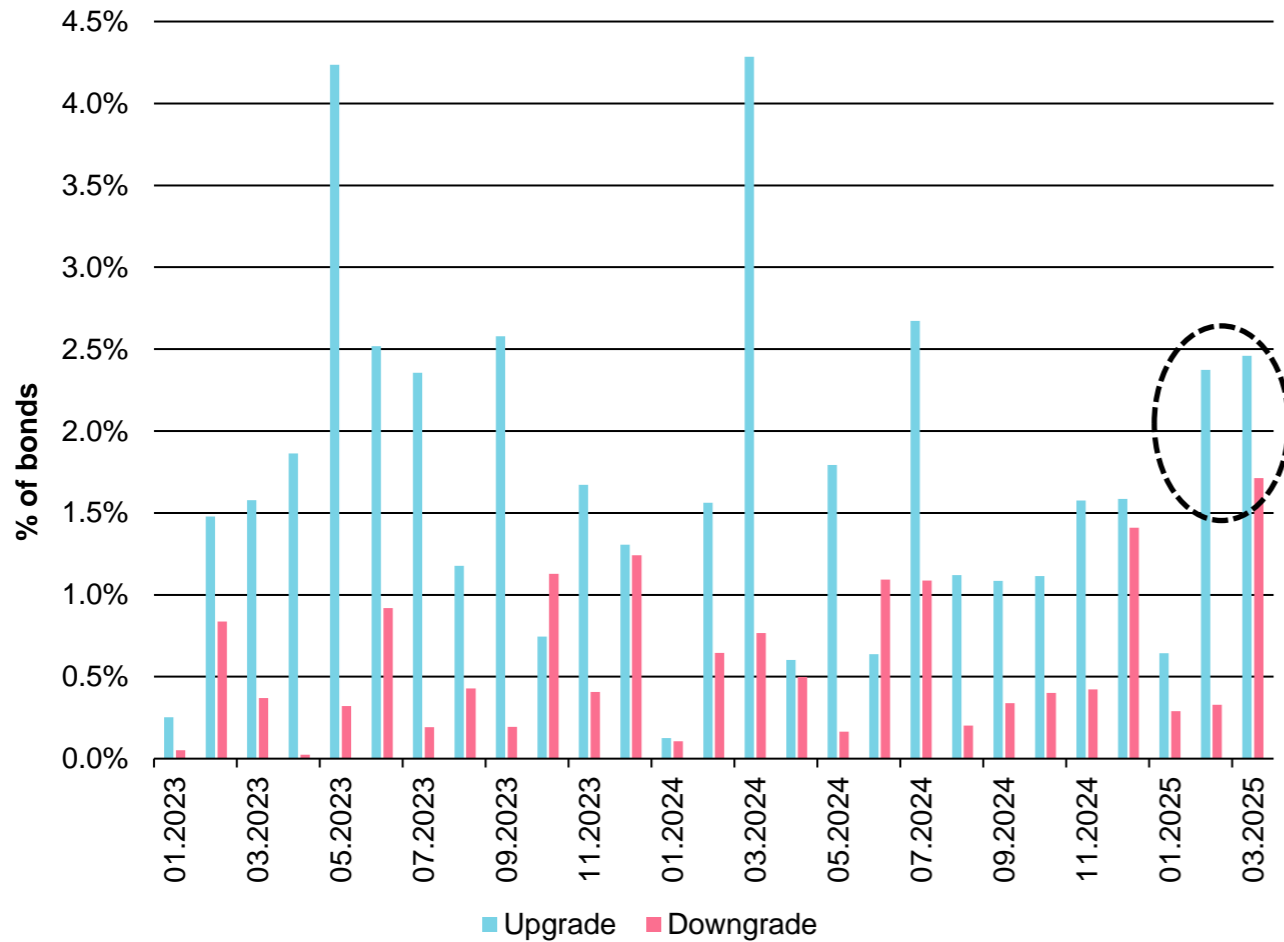
Global M&A activity muted



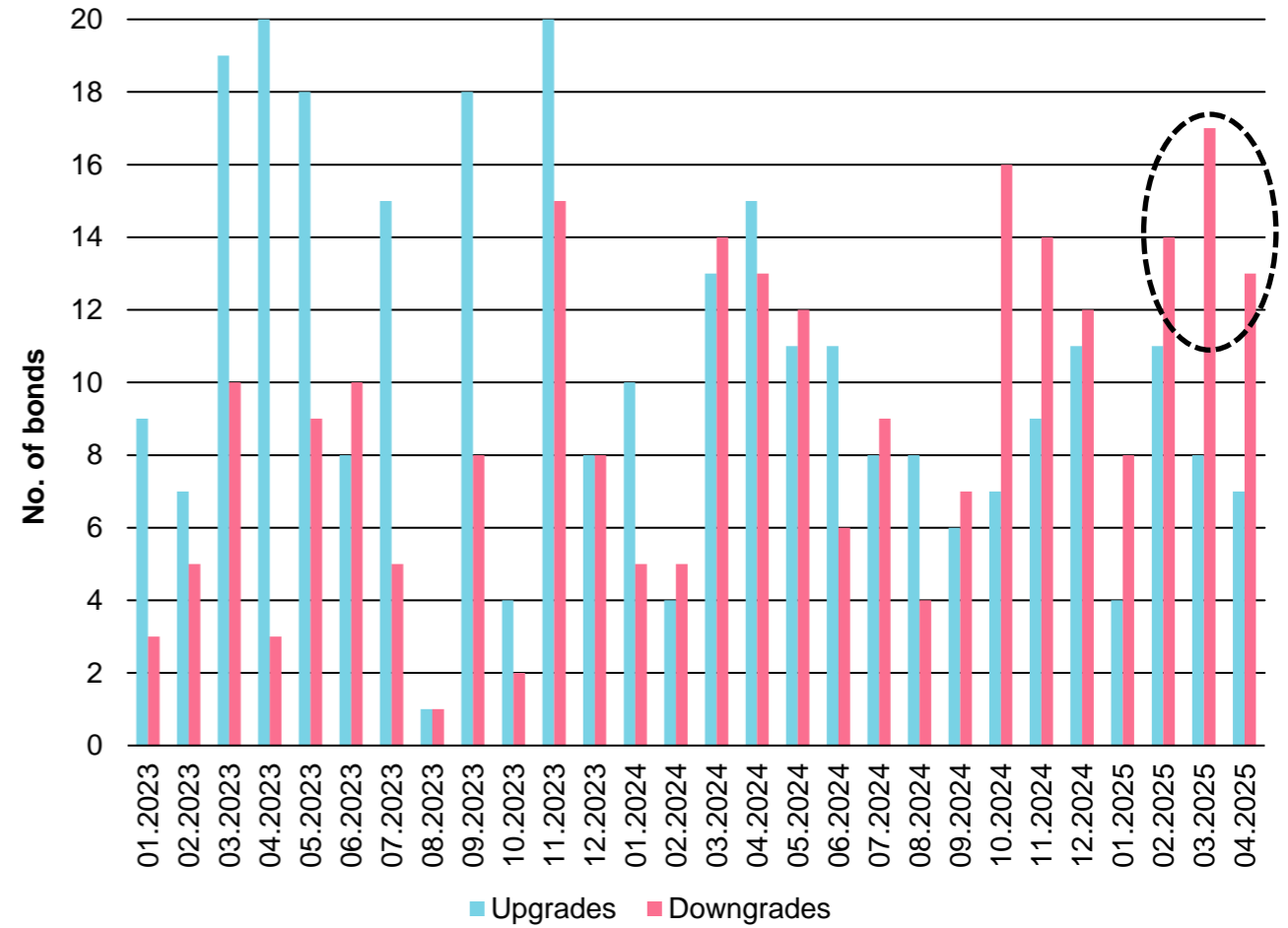
Source: Bloomberg, Vontobel, 05.2025.

#5. Rating upgrades remain favorable for EU IG but turned negative for HY.

EU IG: Upgrade momentum remains positive

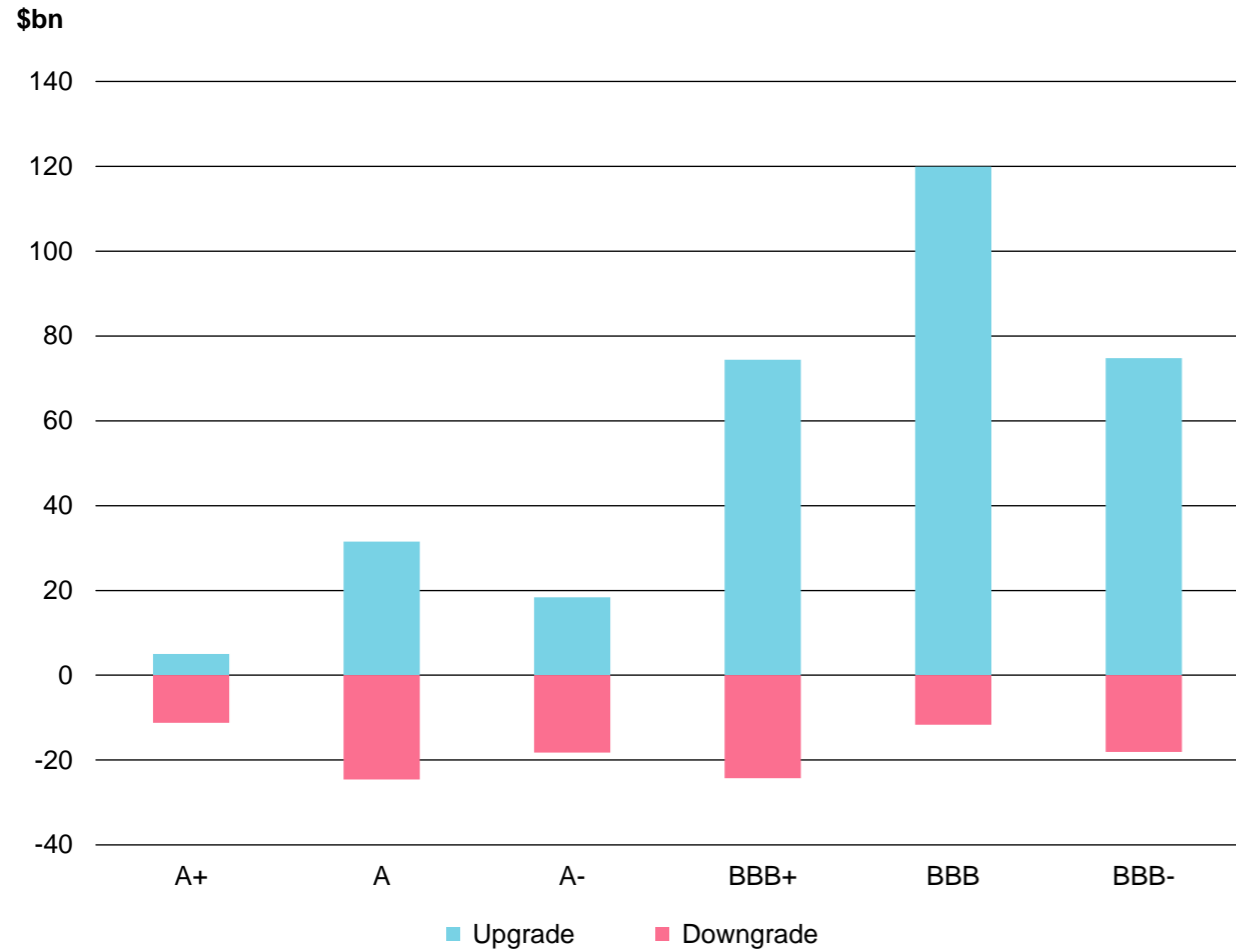


EU HY: More downgrades since 2025

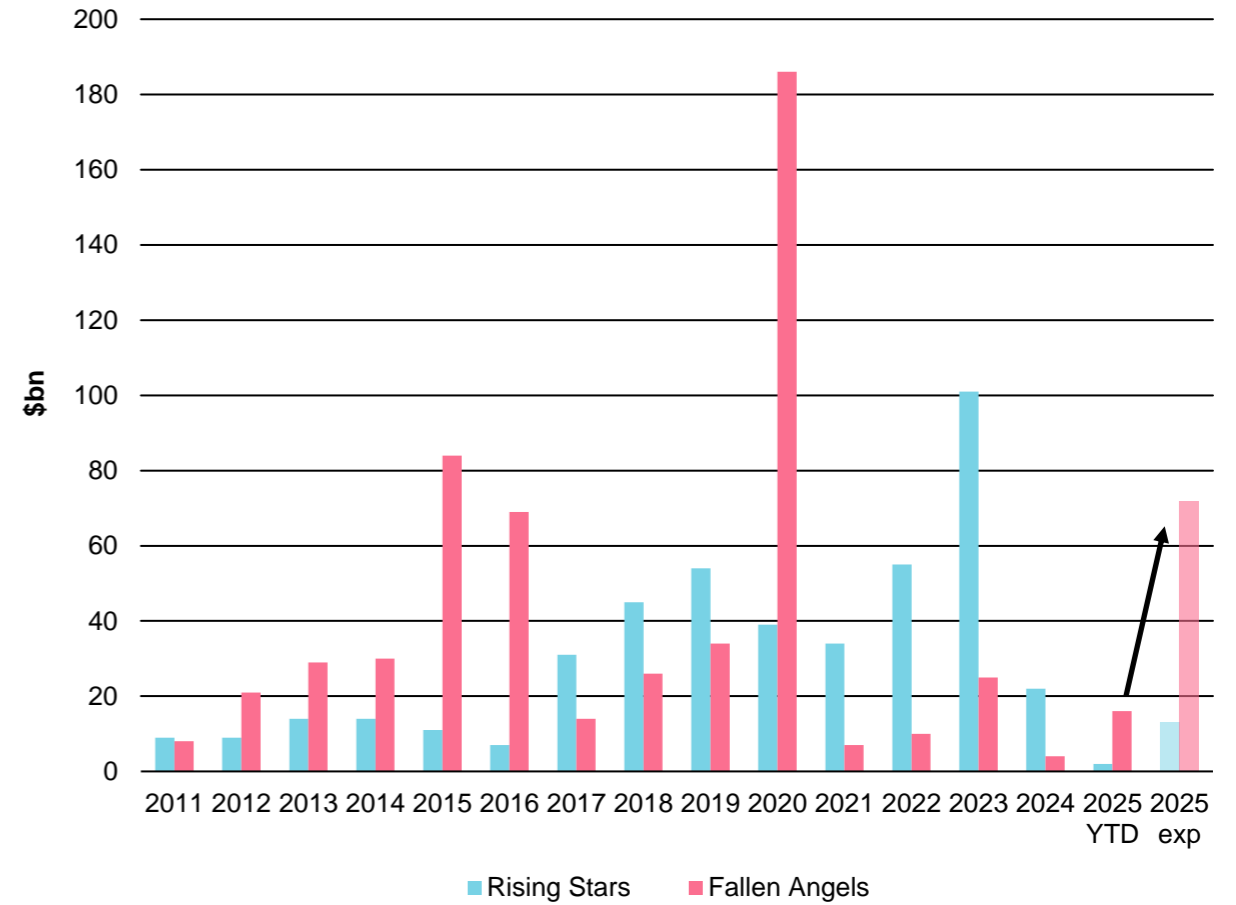


Positive rating momentum for US BBBs, while fallen angel volumes are increasing.

US IG: YTD upgrades concentrated in BBBs



US IG: US Fallen Angels on the rise

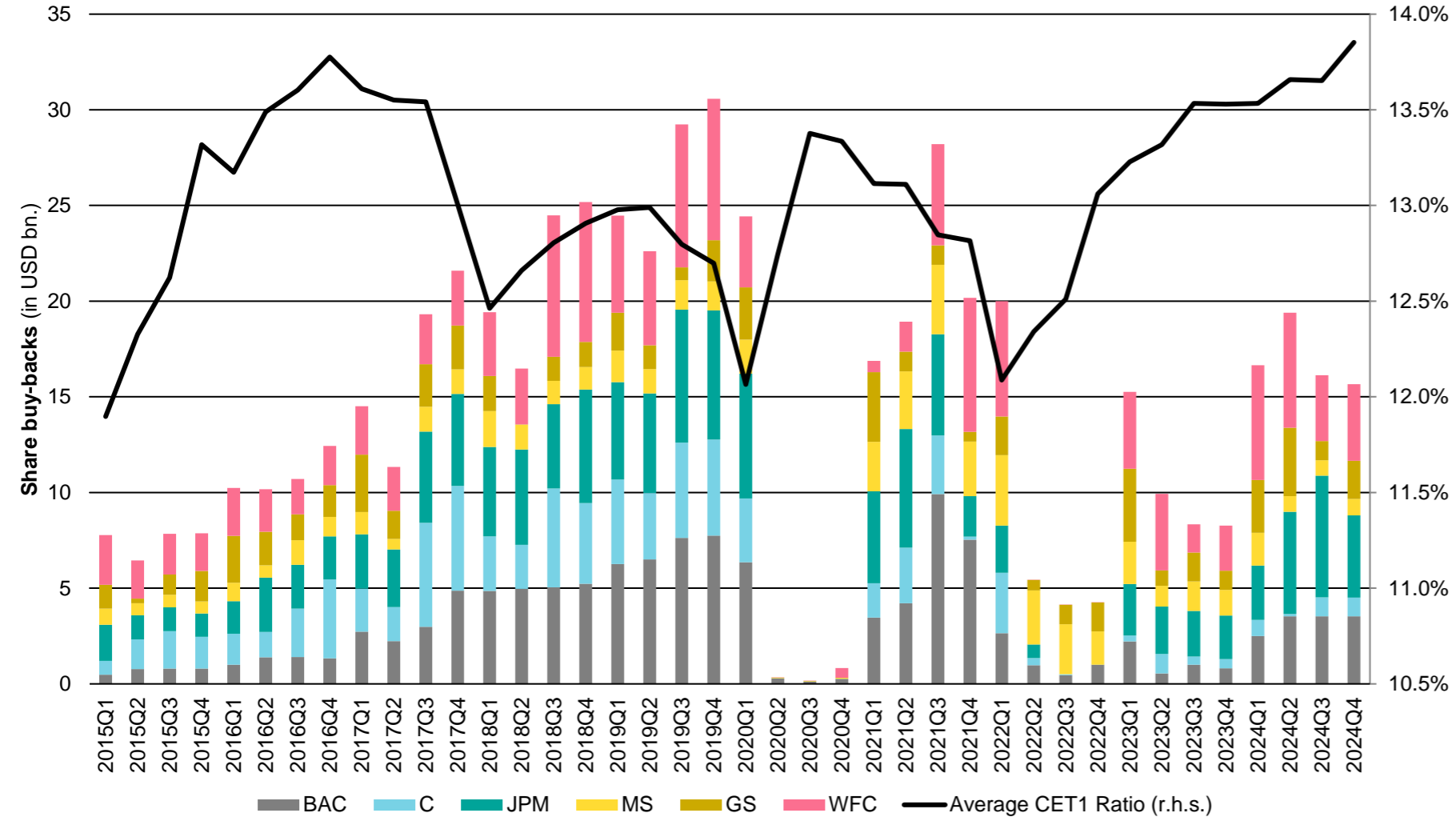


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Source: Morgan Stanley, Vontobel, 05.2025.

#6. Banks reported record capital levels, while share buy-backs remain modest.

Large US Banks: CET1 ratio and share buy-backs since 2015



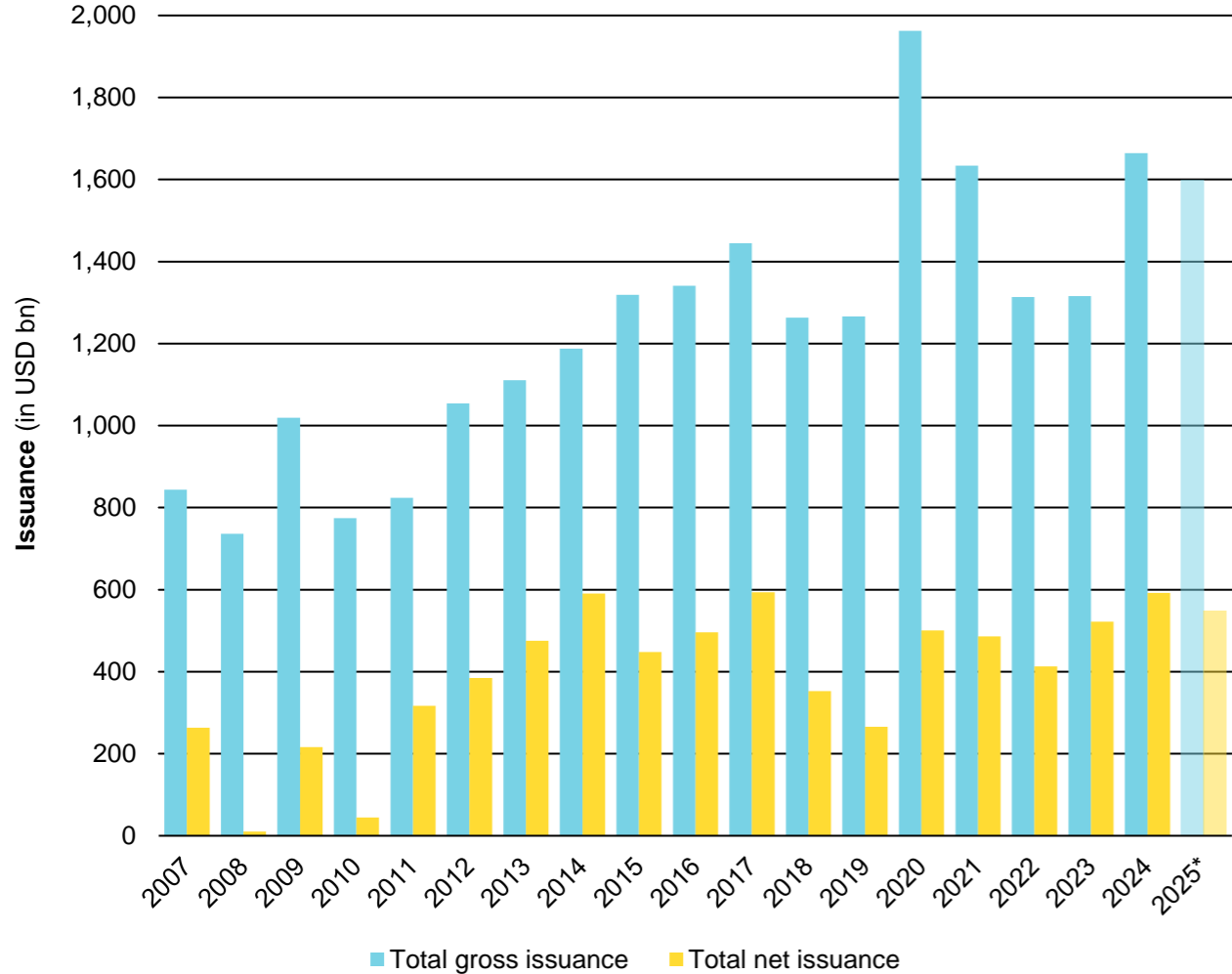
What's next:

- **Fed Stress Test:** results to be expected during June 2025, including a potential amendment of the stress capital buffer (SCB).
- **Deregulation:** Reduction of the supplementary leverage ratio (SLR) would relax capital requirements, allowing banks to add to low risk weighted assets such as Treasuries.

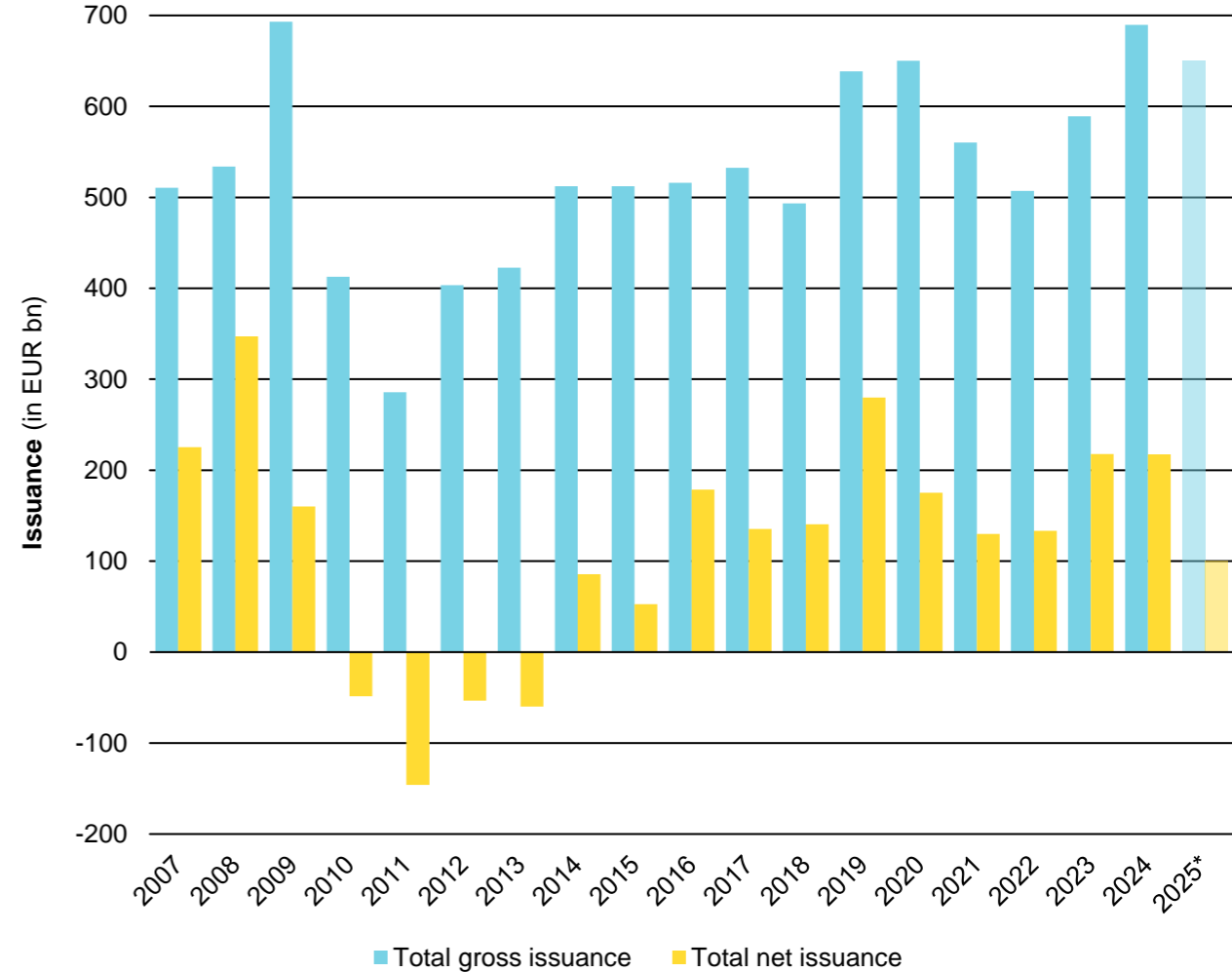
Note: CET1 ratio = Core Equity Tier 1 Ratio as a measure of the strength of bank's capital base.
 Source: Barclays, Vontobel, 05.2025.

#7. Bond issuance is likely to cool down...

USD IG bond supply



EUR IG bond supply

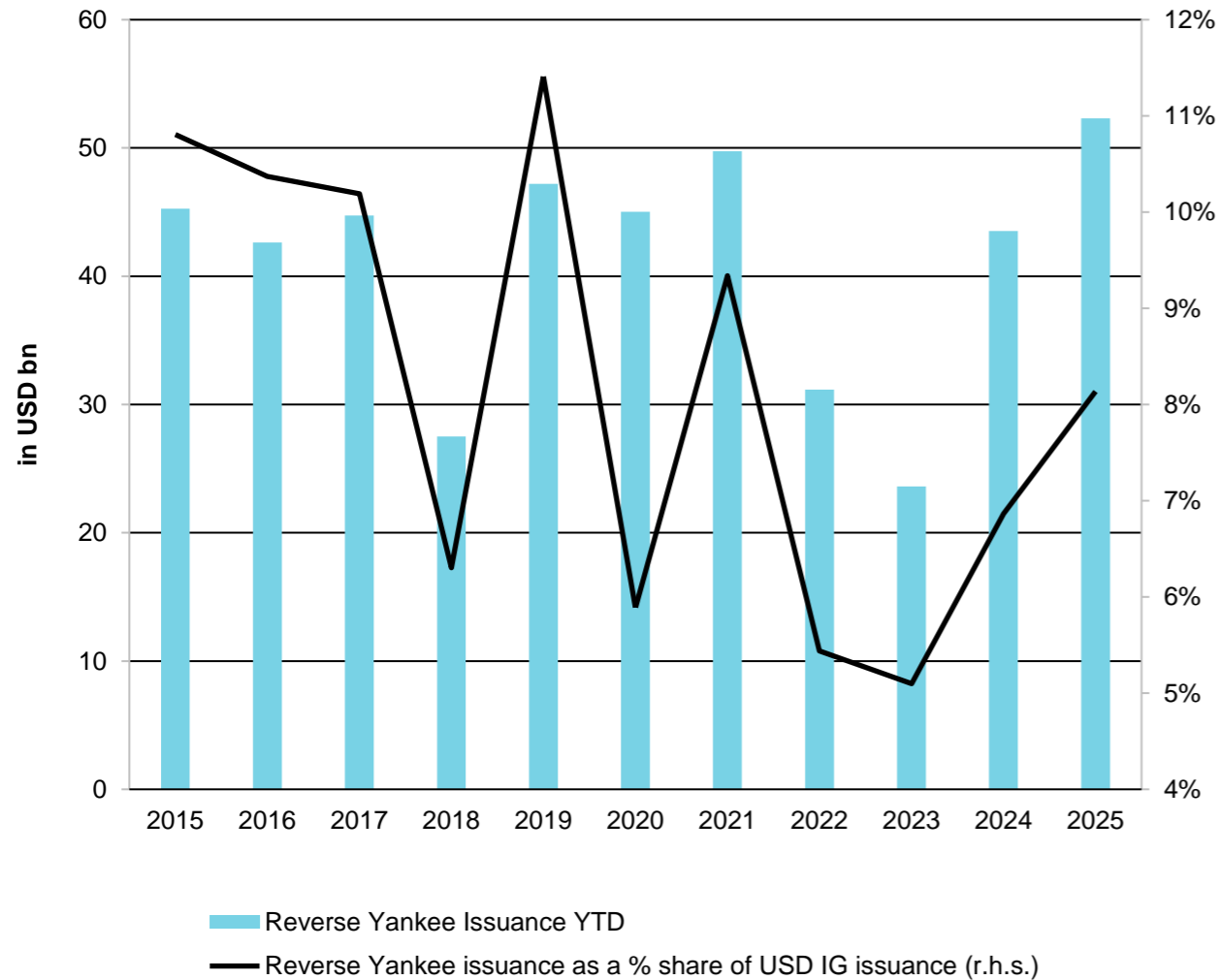


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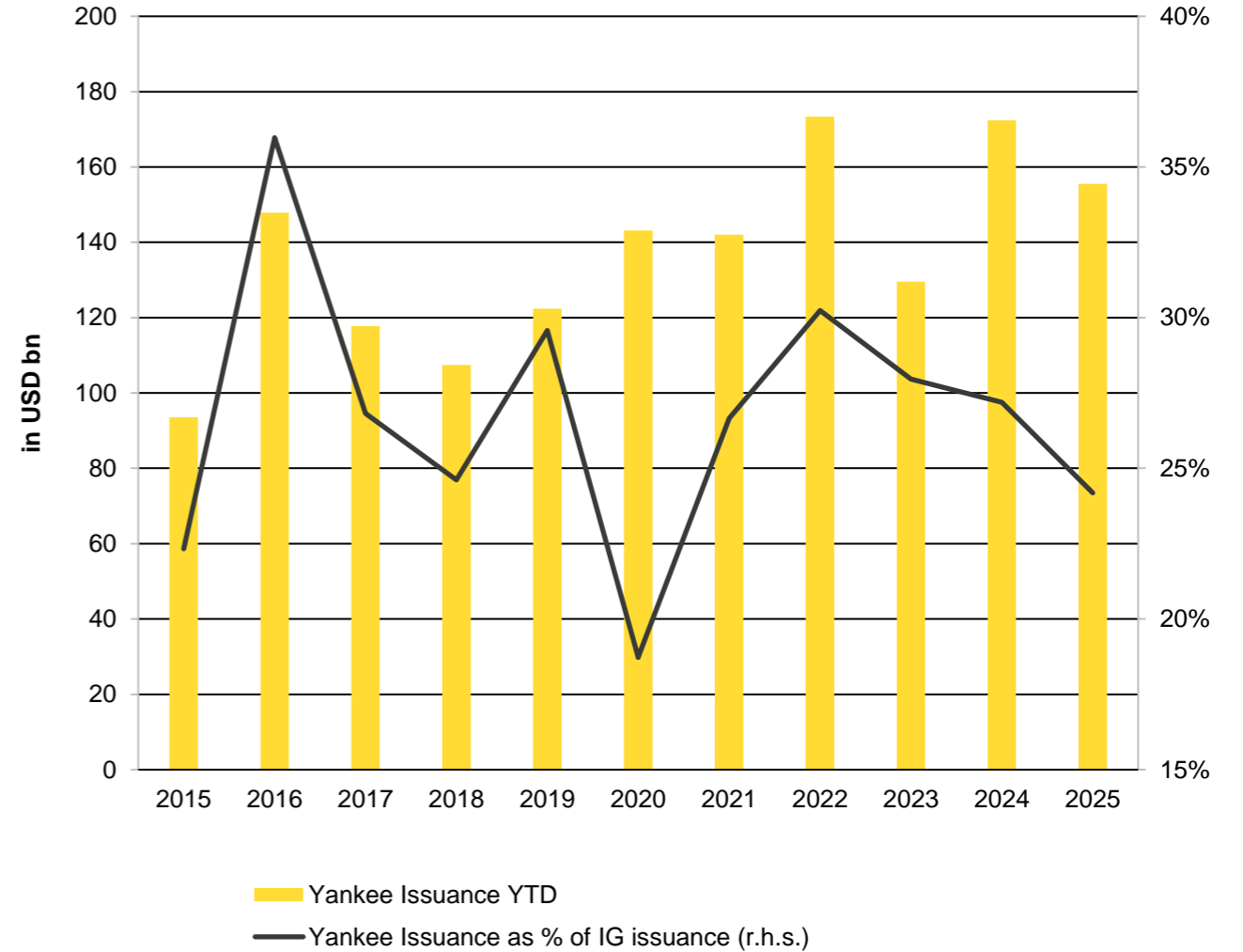
*2025: Expected gross/net issuance. Source: Goldman Sachs, Vontobel, 05.2025.

...while US issuers prefer to issue in EUR and Europeans are less active in USD.

Reverse Yankees rose to highest share since 2021

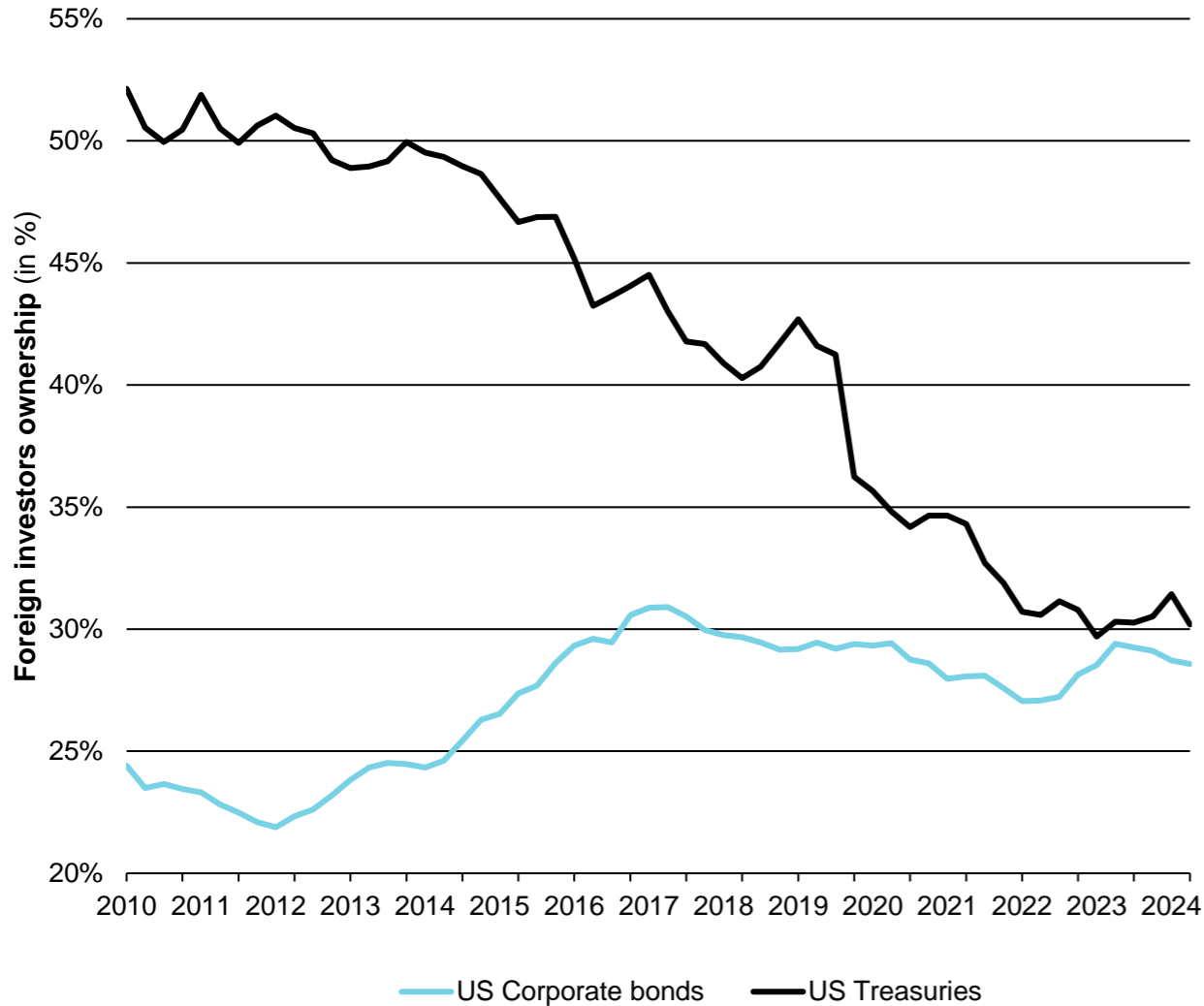


Yankee issuance declined to lowest share since 2020

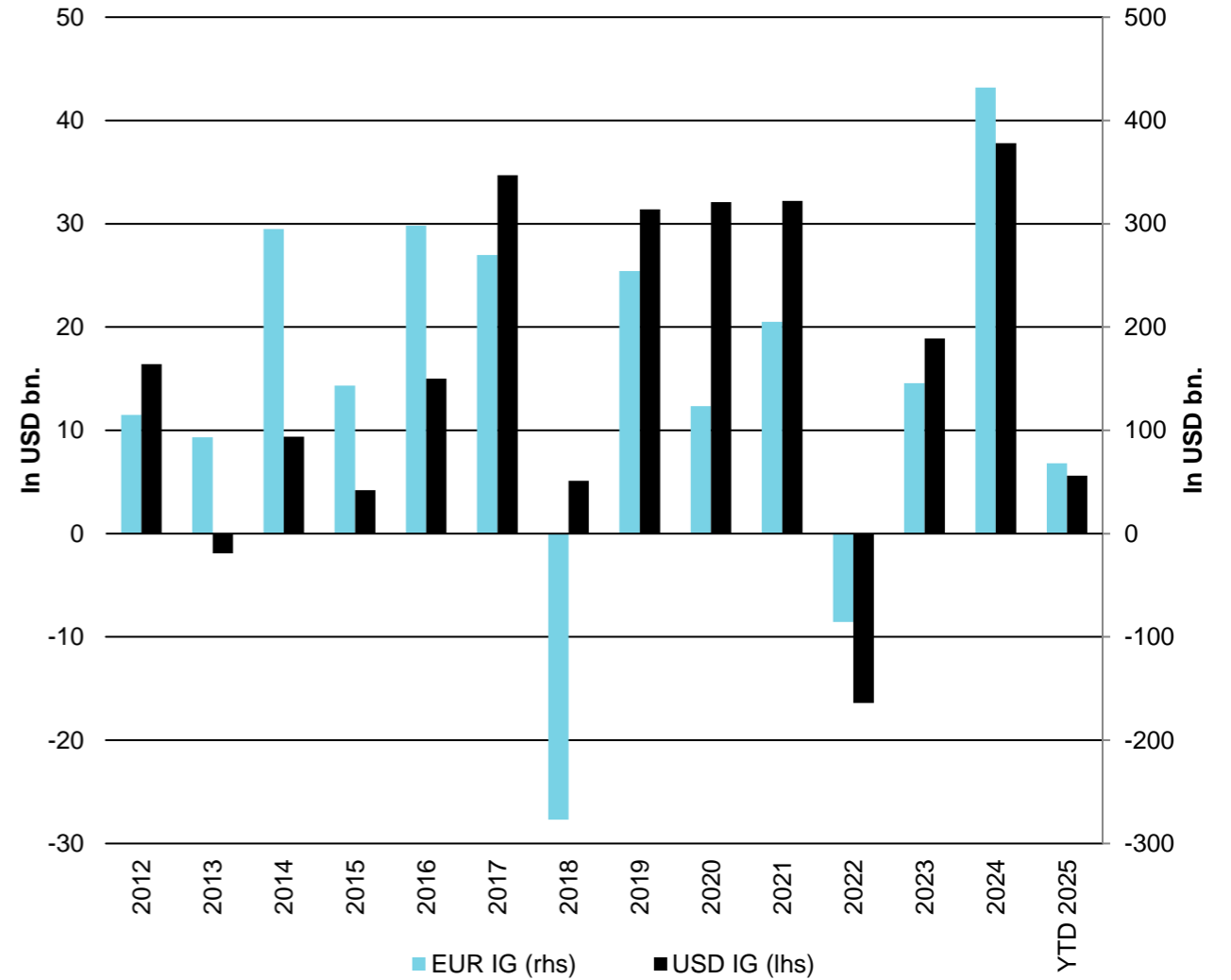


#8. Ongoing demand for IG credit with a dip during April, but now recovering...

Corporate bonds preferred over Treasuries



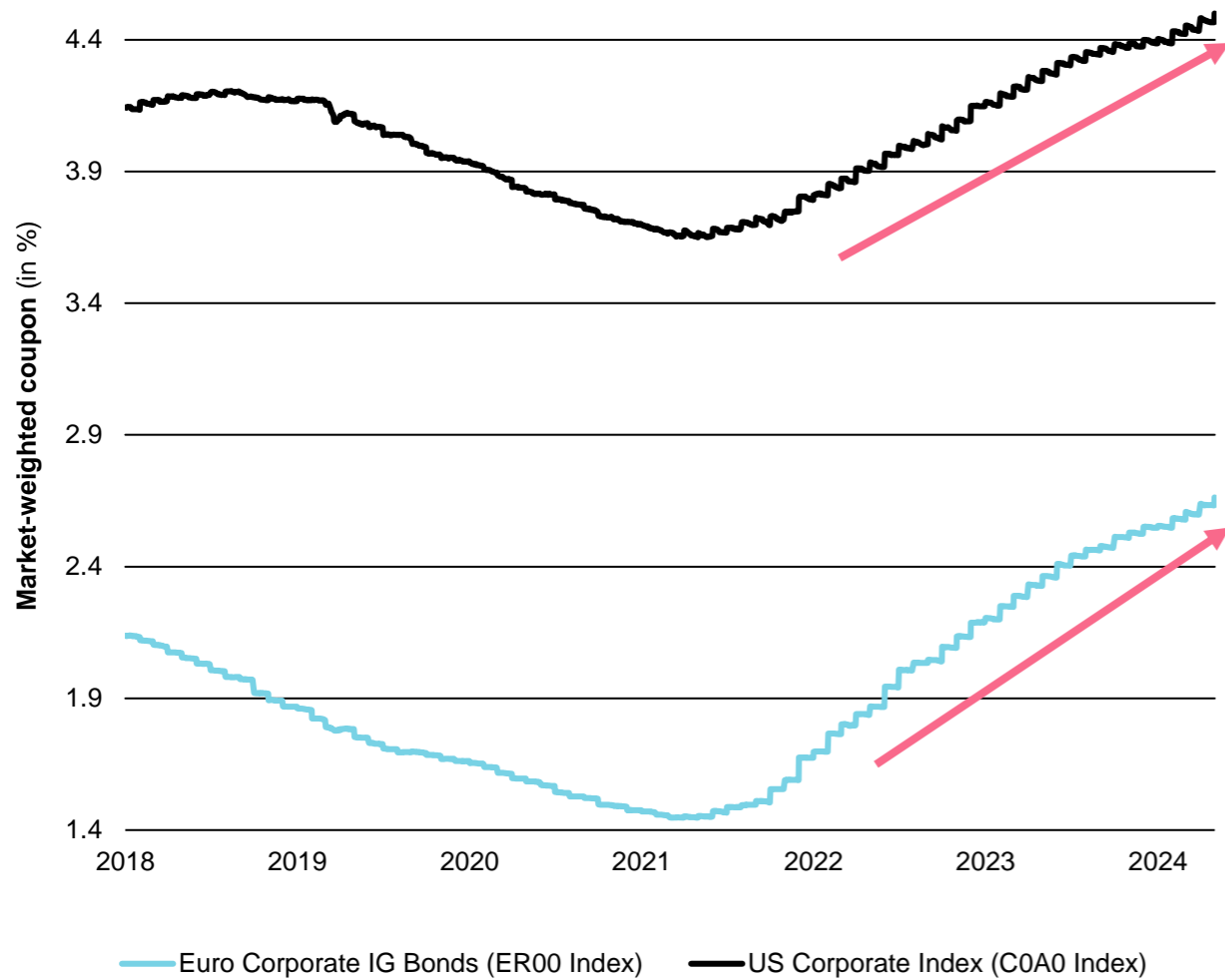
Fund Flows Investment Grade



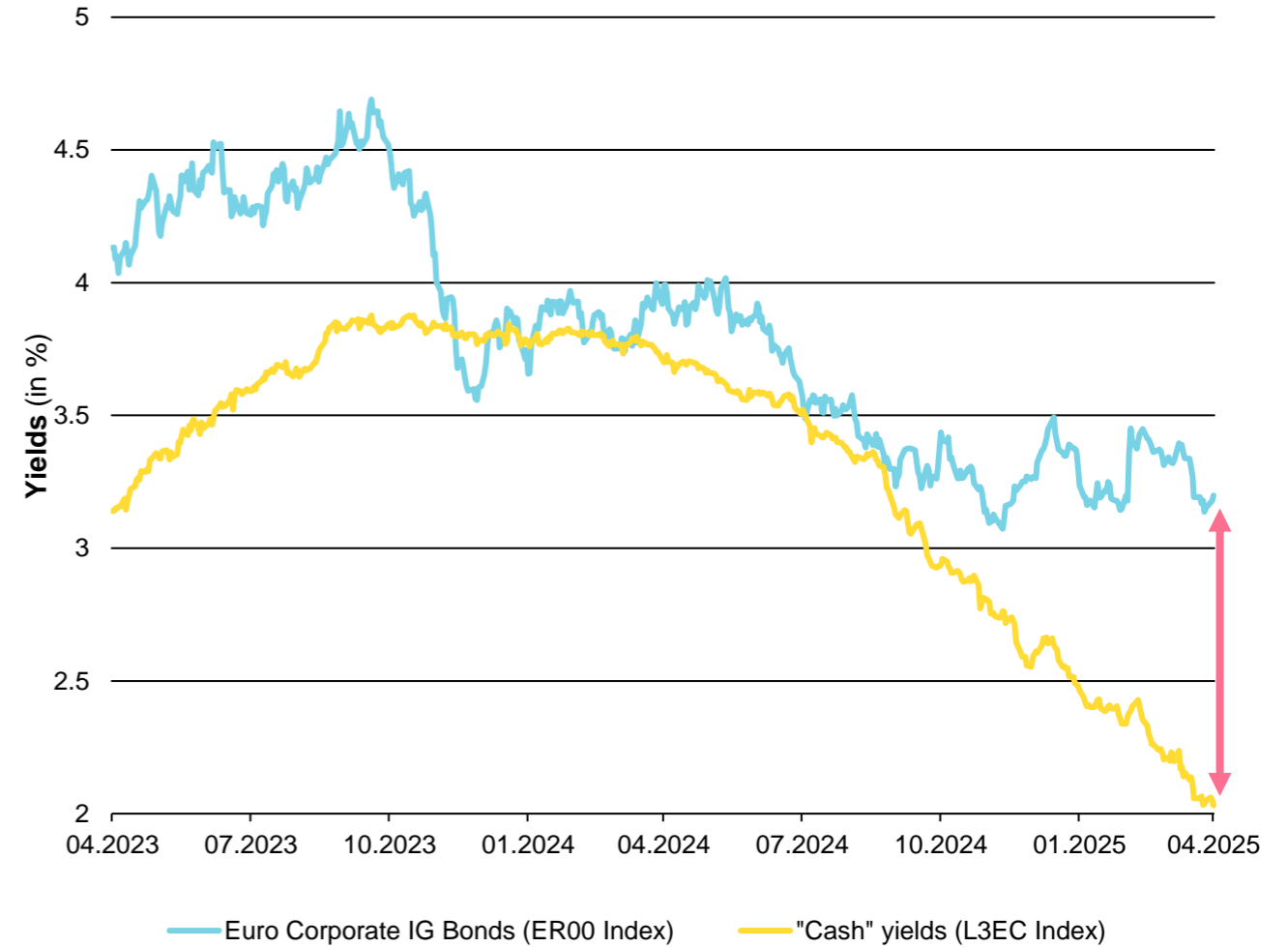
Source: JP Morgan, EPFR data based on US and EU IG fund flows, Vontobel, 05.2025.

...driven by elevated coupons/yields, it has become more costly to hold cash.

Coupons remain elevated to the benefit of investors

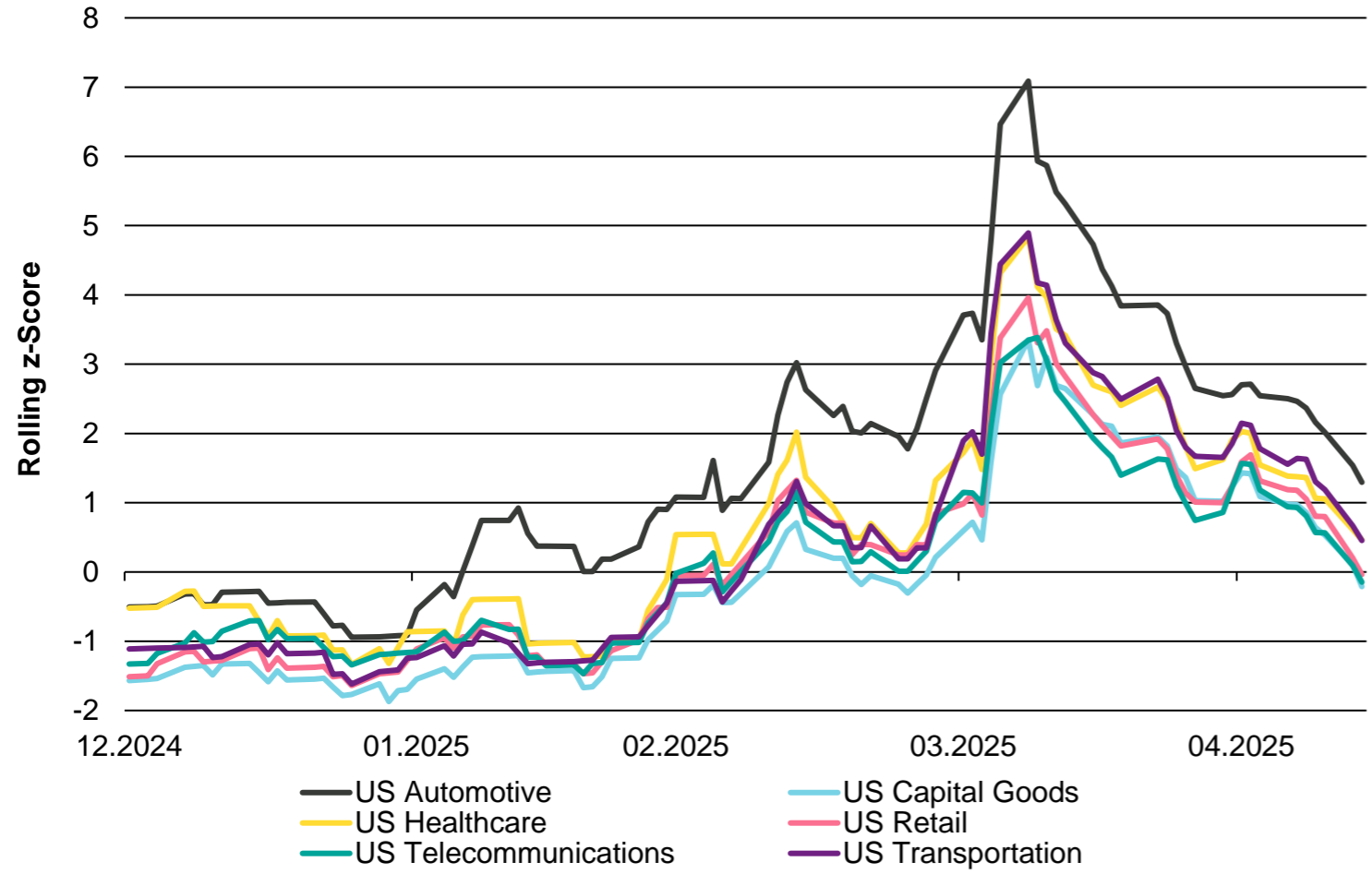


“Reach for yield” likely to be back



#9. Dispersion has increased among sectors...

Selected sectors with the widest z-Score evolution YTD 2025

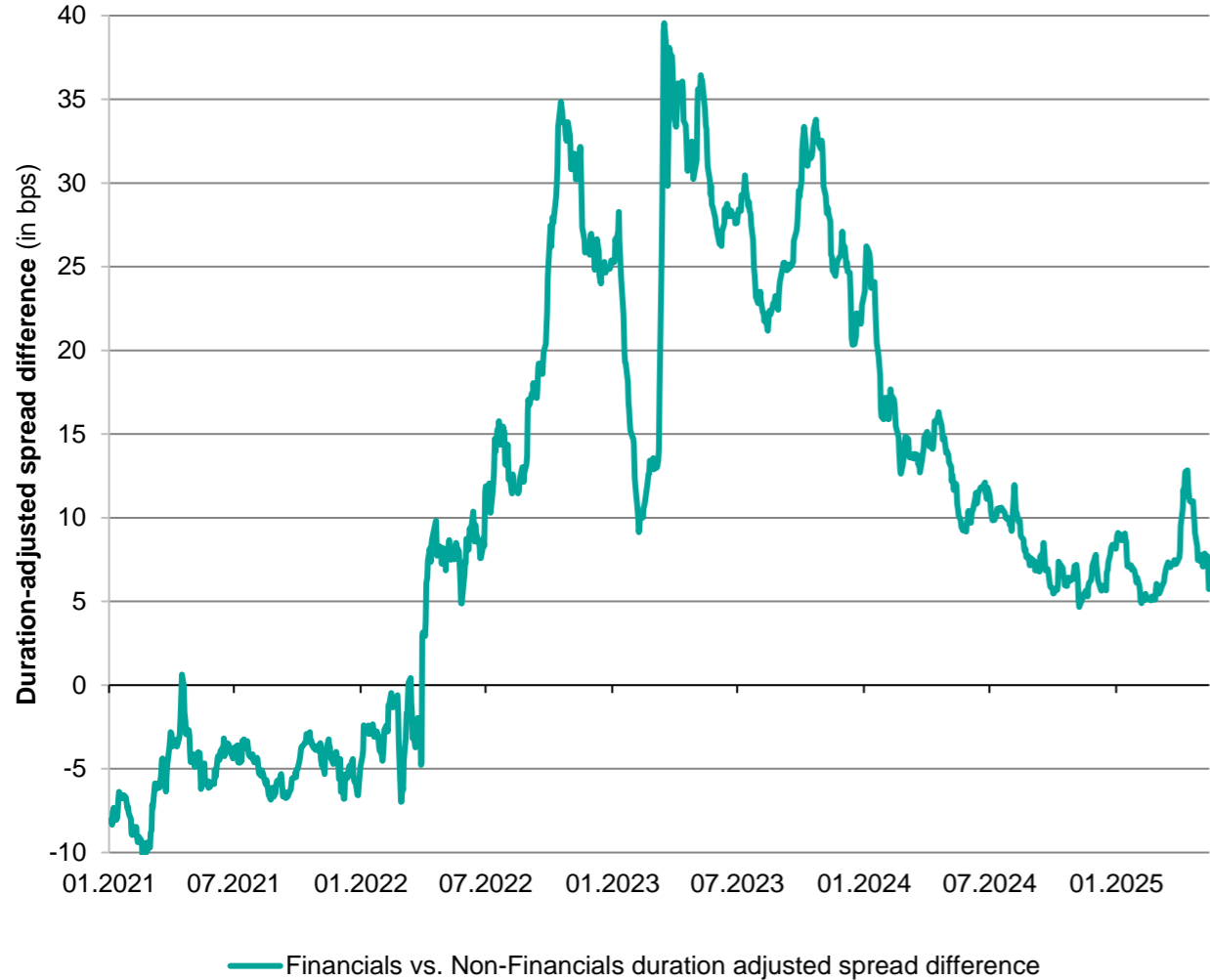


Sector	Current z-Score	Index
US Automotive	1.17	CIAU Index
US Healthcare	0.46	CHCR Index
US Transportation	0.45	COW0 Index
US Telecommunications	-0.15	COR0 Index
US Retail	-0.16	CIRL Index
US Capital Goods	-0.21	CICP Index

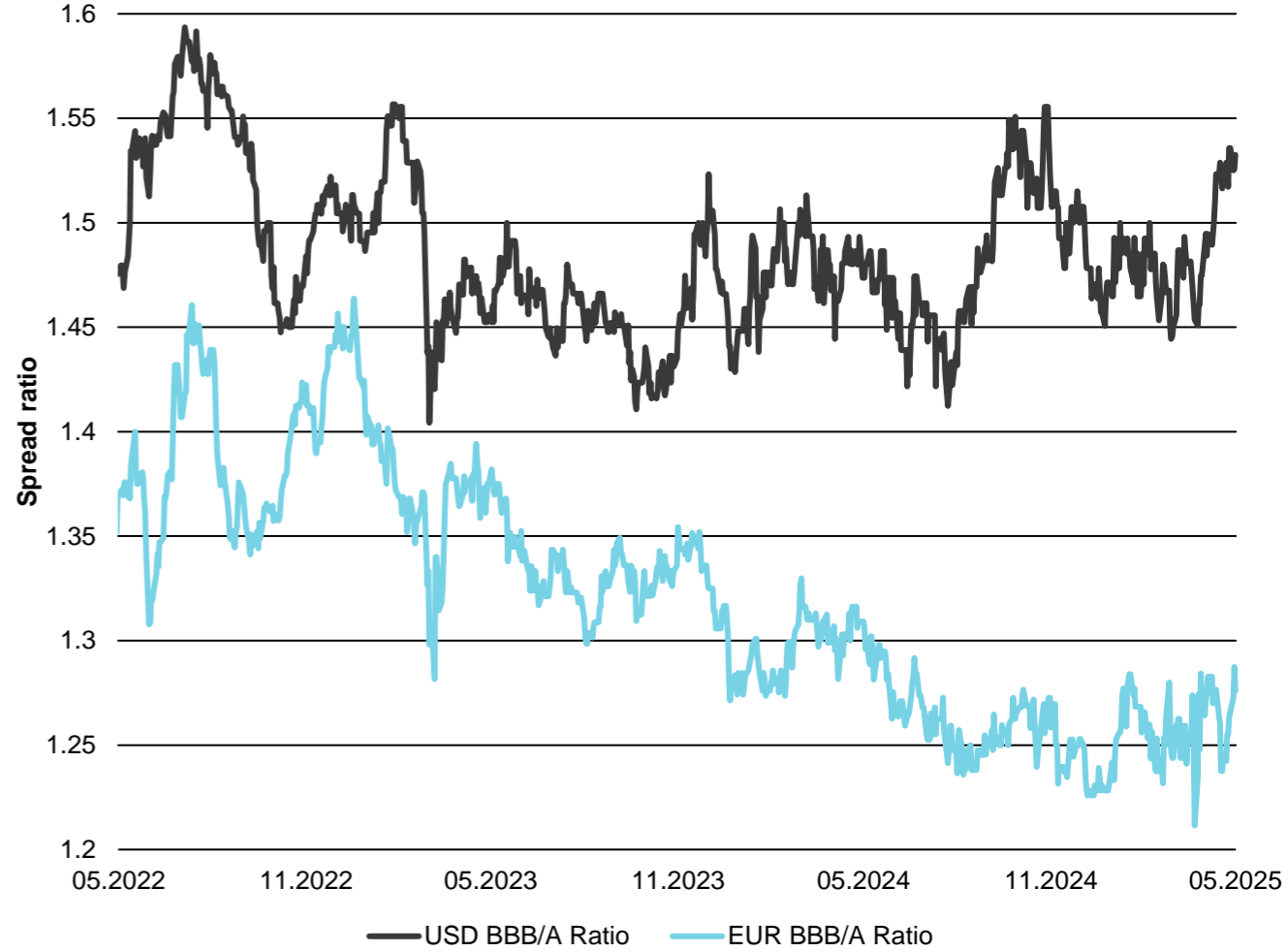
Note: the rolling z-Scores for each selected credit spread index are computed to assess how far current values deviate from their recent historical average. For each ticker/index, based on data availability, an appropriate lookback window of 252 days was chosen. Then moving averages and respective standard deviations over that period were calculated. The z-Scores were then calculated as the number of standard deviations the current value is from the moving average. This allows for dynamic, time-adjusted normalization of spread behavior, making it easier to identify statistically extreme levels that could signal outliers.
 Source: Vontobel, Bloomberg, ICE BofA Global Corporate Index, 05.2025.

...while spread decomposition varies across market segments.

Financials catching up to Non-Financials



USD BBBs trading wide to EUR BBBs

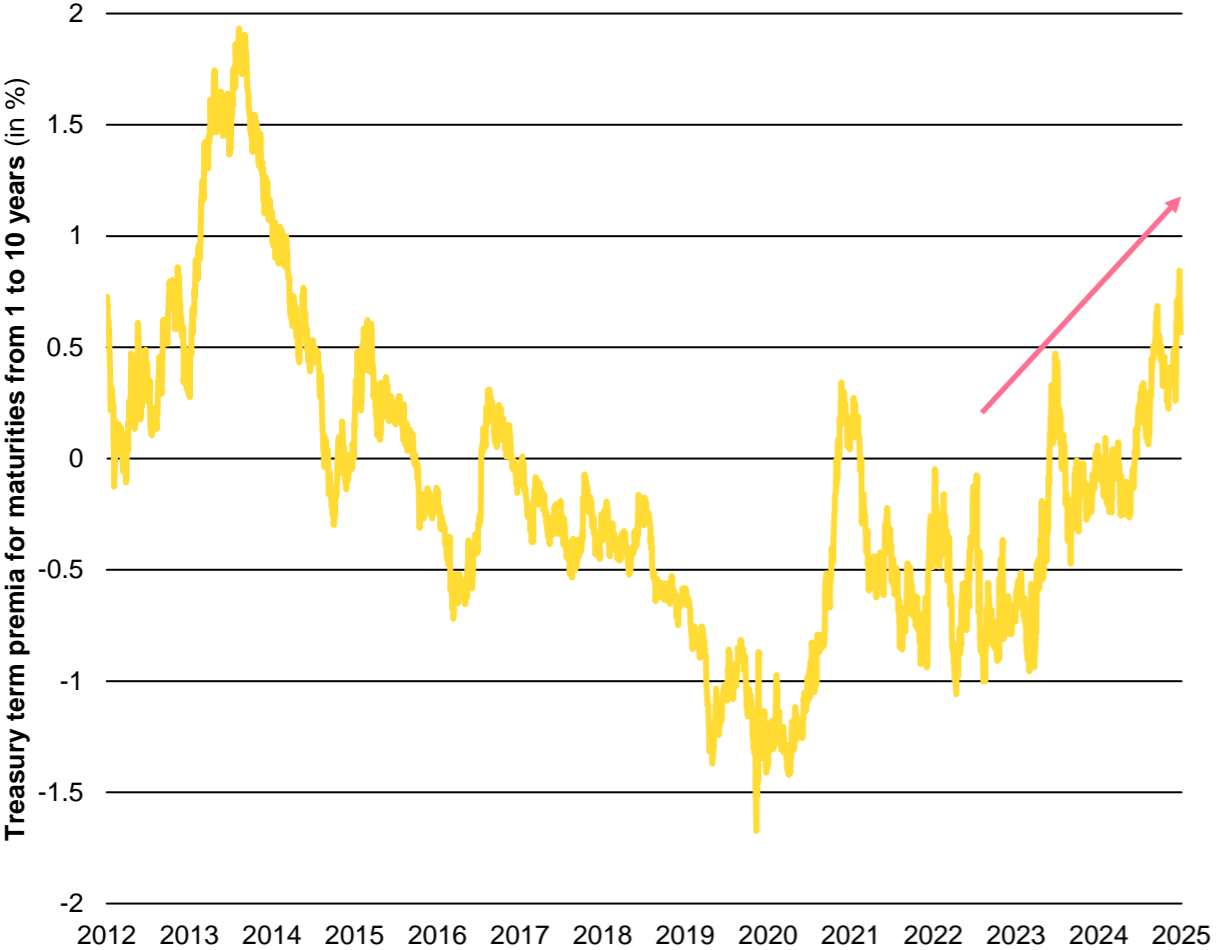


Past performance is not an indication of future results.

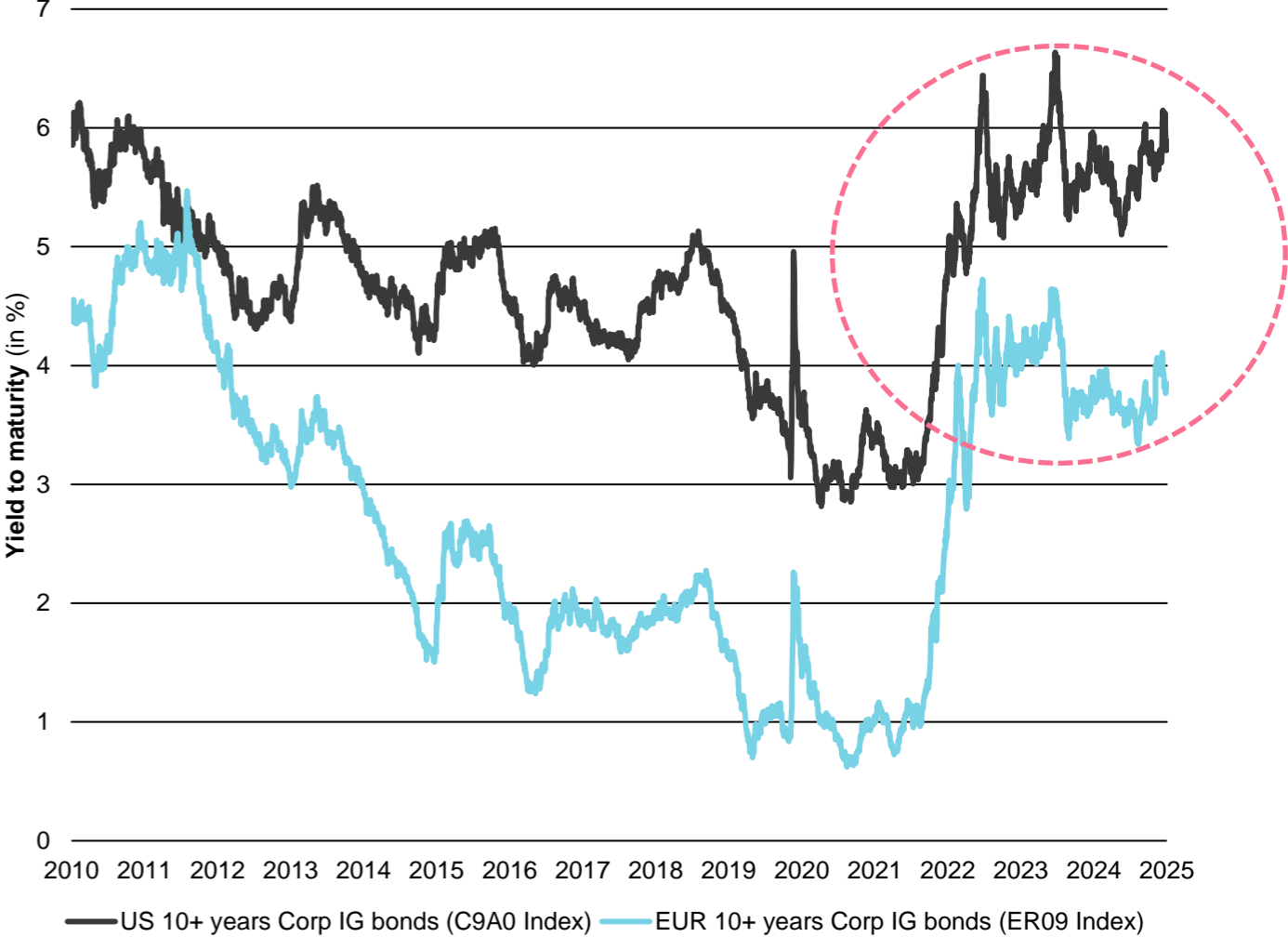
Source: BAML, Bloomberg, Vontobel, 05.2025.

#10. Term premium is up, helping longer dated corporate bonds to shine.

Treasury term premia rising



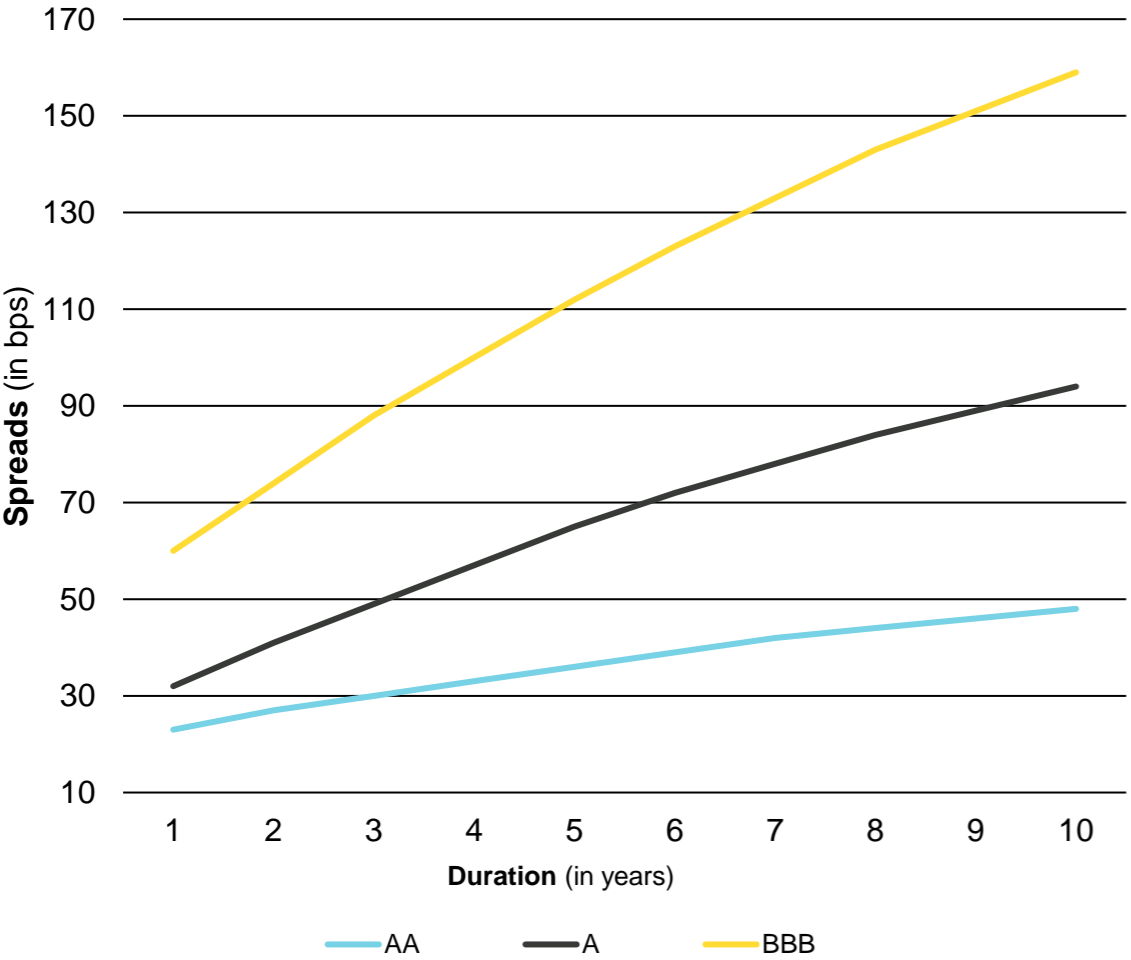
Long-end of corporate bonds getting more attractive



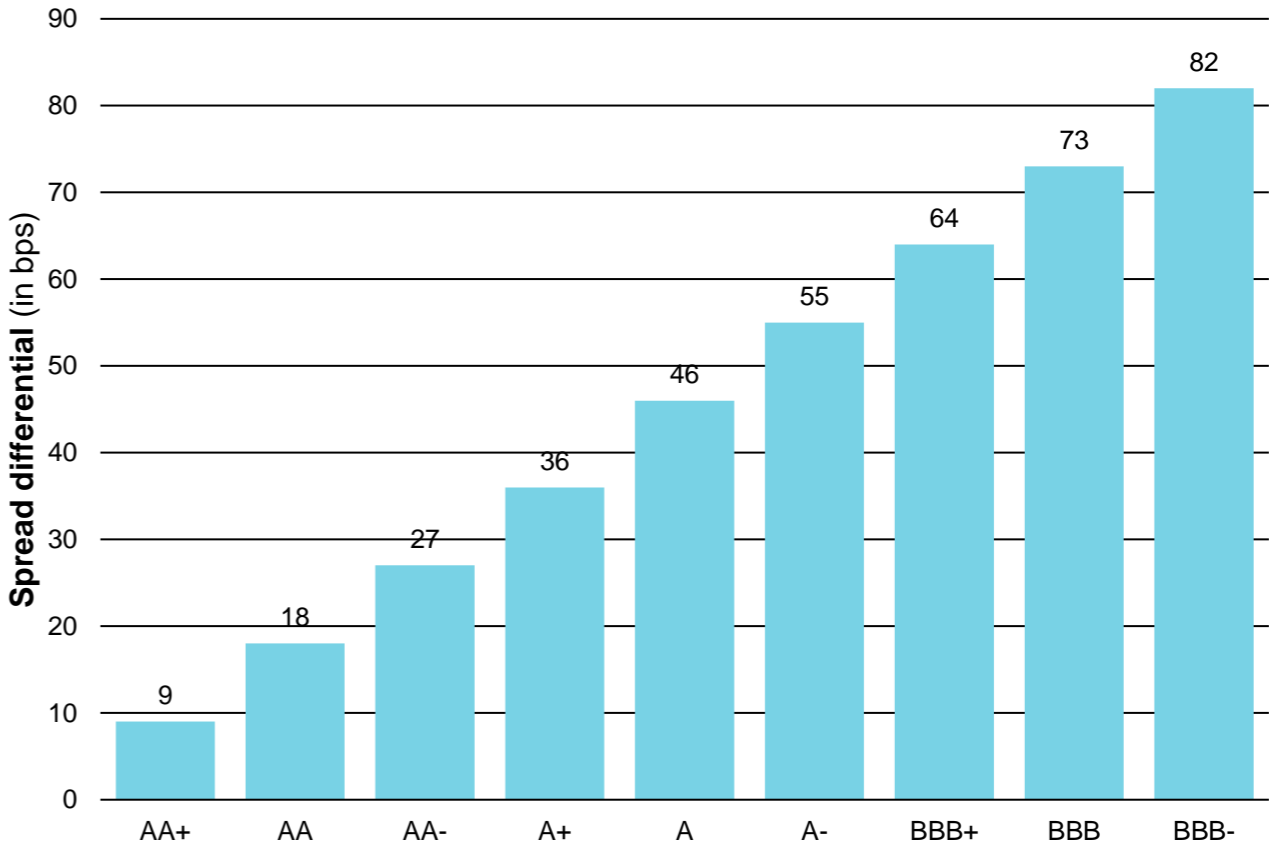
Past performance is not an indication of future results.
Source: Bloomberg, Federal Reserve Bank New York (l.h.s.), Bank of America (r.h.s.), Vontobel, 05.2025.

In addition, the steepness of the IG credit spread curve has become more attractive.

Current spreads by rating (bps)



Spread differential between 1-3Y and >7Y bonds, by rating (bps)



Past performance is not an indication of future results.
 Source: Markit, Bloomberg, Santander, 5.2025.

Summary: Major topics for the summer in global credit



How does the world look?

Macroeconomics:
Divergence on economic growth and central bank action in the US and EU persists. Uncertainty remains high, also due partly to ongoing tariff negotiations.

Microeconomics:
Credit metrics remain solid and improving. Within IG, the rating momentum remains favorable, but fallen angel risk is increasing. Banks look in good shape.

Technicals:
Issuance likely to remain high with US firms issuing a lot in EUR. "Reach for yield" seems back, as cash yields are declining.

Valuation:
Dispersion has increased and some areas are lagging the spread retracement. Credit curves have steepened.



How may investors extract value?

Take an active approach to benefit from a potential economic divergence. Swiftly **switch across regions and sectors.**

Be more selective and identify issuers with a **stable to improving** credit trend. Keep an eye on fallen angels to **avoid spread widening.**

Screen for new bonds with **attractive premiums** but also for lagging bonds in the secondary market.

Screen for **relative value** opportunities among sectors and ratings and take advantage of the higher **term premium.**

This is not the end...

...as there are obviously more interesting topics on our agenda, and we are more than happy to share our thoughts with you.



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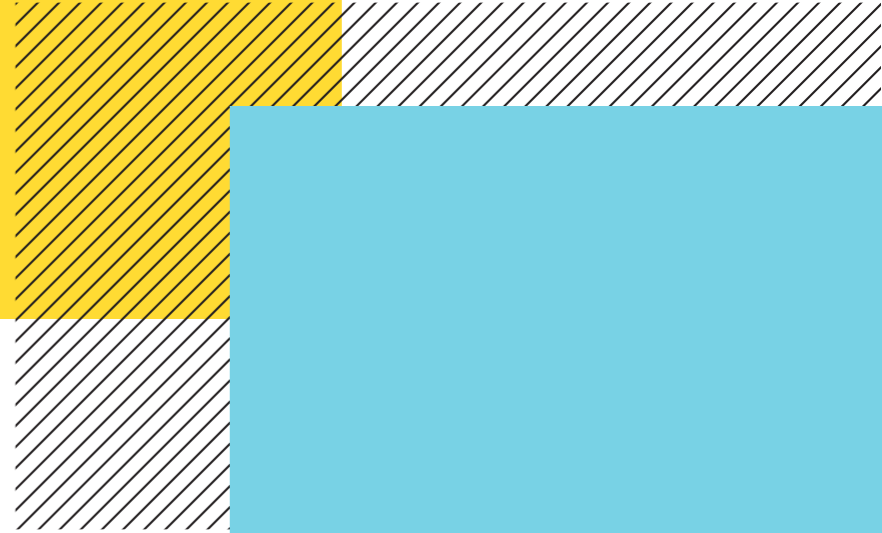


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Thank you.



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