

# Are there more “cockroaches” in credit?

## Flash Fixed Income | November 2025

- October brought the first serious bout of volatility in corporate bond markets for some time, with two high-profile US bankruptcies raising fears of a more systemic issue in credit.
- We anticipate more such defaults in the coming months, though we expect they will remain isolated cases given fundamentals across the market still look healthy.
- For us, the playbook is to target carry in good quality credit and maintain liquidity to take advantage of likely further periods of volatility.

Thus far, credit markets have generated relatively solid excess returns across 2025 thanks to a combination of high all-in yields, lower government bond yields, and modest spread tightening (particularly in investment grade corporate bonds). Supported by robust fundamentals and an ongoing technical tailwind, as demand for corporate bonds has far outweighed supply, credit's healthy year-to-date (YTD) returns have been achieved with relatively little volatility.

However, October brought the first serious bout of “credit-driven” volatility in the markets for some time, with riskier bonds selling off in response to concerns triggered by the defaults of subprime auto lender Tricolor and auto parts manufacturer First Brands in the US. Unsurprisingly, the most frequent question we have received from investors over the past few weeks is whether, to borrow JP Morgan CEO Jamie Dimon's phrase, more “cockroaches” may be lurking in the credit markets. We agree with Dimon's assessment that the answer is probably yes, but in our view the critical question for fixed income investors is whether these problem credits are a sign of anything systemic.

### Can credit keep delivering?

Given the current mix of macro risks and regular headlines around a potential bubble in AI-driven tech stocks, many might think the strong performance of credit markets year-to-date is overdue a correction.

Given spread tightening across IG markets this year (-25bp in EUR IG, -11bp in GBP IG and -2bp in USD IG) total and excess returns have been solid, with total returns of 7.5%, 6.5% and 3.5% in US, UK and European IG markets respectively (equating to 1.1%, 1.6% and 2.2% of excess return over government bonds).

High yield (HY) bond markets have been less affected by the volatility in government bonds this year given they have approximately half the duration of IG, and while they have generally seen less credit spread tightening (aside from in the euro markets), total and excess returns have again been strong.

Broadly speaking, spreads have tightened, but yields remain high (see Exhibits 1 and 2). The average yield in developed market IG is around 5% in GBP terms, while the average yield in developed market HY is around 7%. To put that into context, the same currency-adjusted yield on the European HY index four years ago was just 4.75%.

### Credit market performance

	Total return YTD (%)	Total return last 30 days (%)	Yield (%)	Duration (yrs)
EUR IG	3.27	0.18	3.1	4.4
GBP IG	6.43	1.83	5.0	5.8
US IG	7.53	0.14	4.8	6.5
EUR HY	4.67	0.66	5.1	2.9
GBP HY	7.68	0.83	8.2	2.9
US HY	7.32	0.92	6.9	3.0
EM HY	9.01	-1.19	7.1	4.0
Euro Senior Banks	3.70	0.29	2.9	3.6
COCO	8.83	1.45	5.7	3.5



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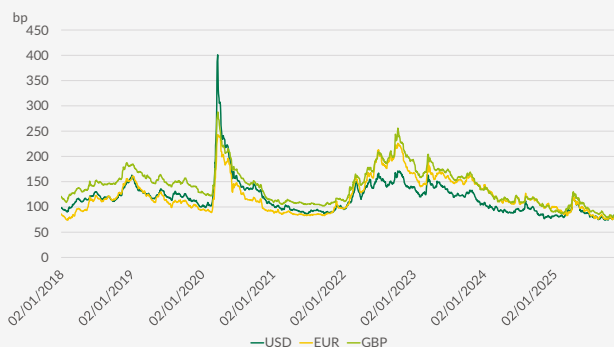


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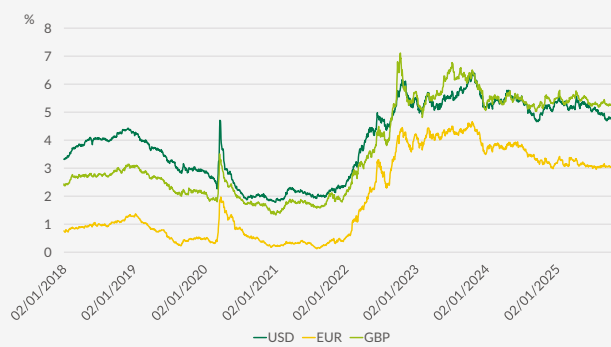
## Exhibit 1: IG spreads are tight, but yields remain attractive

Global IG spread (OAS) history



Source: CreditSights, ICE Indices, 11 November 2025

Global IG yield (YTW) history



For fixed income portfolios, these elevated yields mean “breakevens” in credit look relatively attractive; spreads would have to widen a considerable amount before it wiped out a position’s expected 12-month return. This is one reason why we believe credit can continue to deliver solid returns over the medium term, chiefly through carry since we do anticipate some widening in spreads over the coming months.

It is worth reiterating however that you earn your yield with careful due diligence. If you buy a four-year bond at a 6% yield in GBP (roughly speaking that would mean a high BB or even low BBB rated bond depending on the geography and sector), close your eyes and hold that bond to maturity, you will earn that 6% compounded for four years (around 26% total return assuming you reinvest your coupons at the same yield) whatever happens to spreads, growth or monetary policy in the interim.

The caveat of course is that this yield pays you to take on credit risk. Built into that yield is a probability of default (and loss given default), and that total return assumes it does not occur.

### Are more “cockroaches” coming?

The Tricolor and First Brands bankruptcies, added to subsequent announcements from US regional banks Zion and Western Alliance of anticipated (and potentially fraud-driven) loan losses, have left many investors questioning whether more of Dimon’s “cockroaches” could emerge in the near future.

The answer to that is probably yes. Bad loans are mostly made in good times but can remain hidden for many years before periods of volatility bring them to light.

However, the first point we would make is that defaults are normal in credit markets. The average default rate in the US HY market over the past 20 years has been around 3.5%, implying default volumes of around \$50bn per year on a market that is around \$1.5tr in size. Of course, not all defaults are accompanied by allegations of fraud, but we would argue that this was not the only issue with some of the corporates recently. First Brands for example grew aggressively, funded that growth with debt, and had a lot of that debt sitting off balance sheet. For a low-margin auto supplier, we think the “red flags” were there, even before the reports of double-pledging receivables to different collateral lines.

Second, default rates across corporate credit markets have actually declined in recent months as some of the over-levered cap stacks of the negative interest rate era have worked through restructurings. HY default rates on a notional weighted basis are below 3% in the US, for example, below longer term averages, while in Europe they are around 2.5%, slightly above the longer term average.

Third, fundamentals generally look solid. In the HY market, leverage has been stable through 2025 and interest coverage ratios have stabilised after falling steadily since 2022, while in the IG space fundamentals continue to be strong. We have seen some sector dispersion, with basic materials for example showing weaker EBITDA growth compared to more tech and consumer focused names, but generally growth and leverage have been resilient across credit markets (and particularly BB and above). From a supply perspective, we have seen a pickup in more aggressive forms of issuance (leveraged buyout, payment-in-kind etc.), but supply across most markets continues to be overwhelmingly dominated by refinancings, and corporate treasurers have generally done a good job of managing the higher interest rate environment.

## Rates dashboard

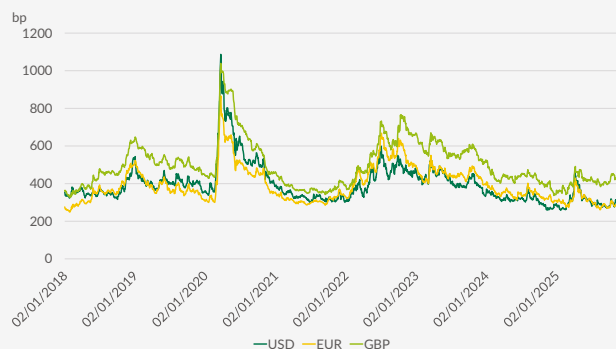
		Change (bp)			
		Current %	1w	1m	YTD
US Treasury	2yr	3.57	-6	7	-67
	10yr	4.07	-9	4	-46
	30yr	4.66	-7	4	-9
UK Gilt	2yr	3.73	-8	-17	-73
	10yr	4.40	-7	-15	-21
	30yr	5.19	-6	-15	2
German Bund	2yr	2.00	-1	8	-8
	10yr	2.64	-3	7	28
	30yr	3.23	-3	8	63

		Change (bp)			
	Market projection	Current %	1w	1m	YTD
Base rate 4.00%	end-2025	3.77	2	13	-17
	end-2026	3.10	1	12	-85
Base rate 4.00%	end-2025	3.72	-4	-10	-40
	end-2026	3.32	-6	-14	-67
Base rate 2.00%	end-2025	2.05	0	3	14
	end-2026	1.99	0	9	-8

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## Exhibit 2: Similar story in HY bonds

Global HY spread (OAS) history



Source: CreditSights, ICE Indices, 11 November 2025

Global HY yield (YTW) history



## Target carry and stay liquid

From an asset allocation perspective, it is worth reiterating that the opportunity cost of not stretching down the credit quality spectrum is not particularly high at present. The biggest source of default risk historically is low single-B and CCC rated credit. These are the companies that have the lowest margins and weakest free cashflow versus companies further up the quality spectrum, and in other words have the smallest margin of error. But given the yields on offer in the BB/BBB part of the market (and even further up the quality spectrum in some sectors), in our view one does not need to import much default risk to target mid to high single digit returns.

So while we certainly see localised pockets of weakness, and we don't expect these to disappear, we do think the credit story remains well supported. Our conviction around returns for higher quality credit remains high, since accessing these high overall yields does not require taking on too much duration or default risk.

For us, the playbook here is relatively simple. Target carry in good quality credit, and maintain liquidity to take advantage of periods of volatility when they come (which they likely will).

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