Flash Fixed Income

September 2025

TwentyFour
a boutique of Vontobel

Rate cuts won't help long dated bonds

- The steepening of government bond curves reflects building term premium as investors demand compensation for uncertainty around inflation and monetary policy.
- We believe tariffs, immigration curbs and increasing tension between the Fed's dual policy objectives are the major factors driving long end US Treasury yields higher.
- We see higher long end yields as a non-trivial risk to the growth outlook, and with spreads well below medium-term averages we retain our preference for shorter, higher quality credit.

US Treasury (UST) yields have been volatile across 2025 as markets continually reassess concerns around tariffs, inflation and growth. Amid the price swings, the more durable trend for fixed income this year has been the steady re-inflation of "term premium" – the extra compensation investors demand for holding longer-term bonds rather than continually re-investing at shorter maturities.

While 10-year UST yields have bounced around this year – a high of 4.8% in January, a low of around 4% in April and multiple sharp direction changes inside that range – there has been an unambiguous rise in the difference between 10-year and 30-year yields (see Exhibit 1).

Exhibit 1: The US 10s-30s curve has steepened materially

Source: Bloomberg, 16 September 2025

We first highlighted the reemergence of term premium back in February as an underappreciated driver of rising government bond yields (**Flash Fixed Income: Is term premium back?**).

The best way to think about term premium is the compensation investors demand for holding duration (interest rate risk) beyond the roughly two-to-three-year period covered by short term rate expectations (i.e. the point beyond which central bank guidance and contemporary economic data become less useful in predicting the future).

In the quantitative easing (QE) period, central banks compressed term premium by buying long assets, supplying forward guidance, and credibly anchoring inflation expectations. Today, with a number of factors meaning uncertainty around the path for inflation and interest rates is higher, investors are once again demanding more compensation for holding duration.

Three macro factors driving long end yields higher

In our view, the rise in term premium is not just about "flow" factors such as heavy UST issuance or quantitative tightening.

Rather, we believe it is being rebuilt by three macro forces that are widening the range of projections for inflation and rates: a growth shock from tariff policy that is simultaneously inflationary, a supply shock from immigration curbs that tightens labour markets and sustains wage pressure, and a policy pivot toward more aggressive cuts even as inflation is

Credit market performance

	Total return YTD (%)	Total return last 30 days (%)	Yield (%)	Duration (yrs)
EUR IG	2.70	0.40	3.05	4.38
GBP IG	4.10	0.72	5.25	5.67
US IG	7.49	2.26	4.7	6.55
EUR HY	4.36	0.05	5.01	2.79
GBP HY	7.00	-0.07	8.09	2.92
US HY	7.08	1.52	6.63	3.00
EM HY	8.84	1.80	6.86	3.91
Euro Senior Banks	3.11	0.37	2.88	3.58
CoCo	7.99	0.84	5.58	3.39

Past performance is not a reliable indicator of current or future results. Included for illustrative purposes only. Shown in local currency terms. It is not possible to invest directly into an index and they will not be actively managed. Source: Bloomberg, TwentyFour, 16 September 2025

Gordon Shannon
Partner, Co-Head of Investment Grade

George Curtis
Portfolio Management

not fully damped, compounded by doubts over Federal Reserve (Fed) independence.

1. Tariffs

The market's fixation on tariffs rightly flags a growth headwind, but the second order effect is a wider distribution for inflation and policy. In the short-term tariffs generate inflation in core goods, (how much is uncertain but it is non-trivial), while weaker growth reduces demand and employment. The market cannot know which impact from tariffs will dominate. This combination also carries stagflationary risks as the Fed is forced to prioritise within its dual mandate of maximum employment and stable prices. For term premium, what matters is not the exact tariff rate but that the policy function becomes noisier: investors see a wider set of plausible inflation paths and a less certain Fed reaction to whichever path materialises.

2. Immigration

The US disinflation story has leaned heavily on labour supply normalisation. Prime age participation and immigration helped cool wage growth coming out of the Covid rehiring bonanza without producing a demand collapse. As we wrote in July, a deliberate curtailment of immigration could potentially reverse this effect (**Flash Fixed Income: Forget tariffs, watch the US labour market**). Wages are a slow moving component of core services; if they stick, so does underlying inflation. Ultimately the impact of immigration policy on inflation will take time to become known. It isn't a near term driver of monetary policy, but it could nudge up the Fed's estimate of the neutral rate. Thus, it is in longer dated yields, rather than at the front end of the UST curve that investors require the additional compensation.

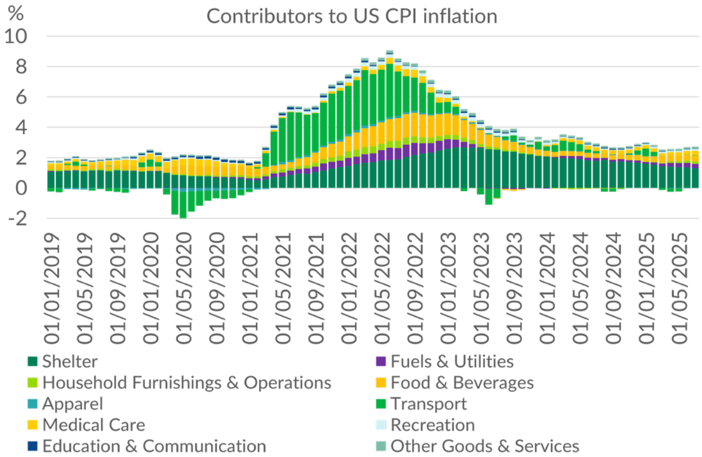
3. Fed's growth/inflation conflict

Finally, we need to look at how the present macro context is altering the Fed's communication and reaction function. Where both growth and inflation present risks to the economy, the Fed's dual mandate goals of stable prices and maximum employment come into conflict. While the Fed will not explicitly prioritise one or the other, we see the contours of its approach in its recent pivot to acknowledging the supremacy of growth risks. Signalling earlier and more numerous cuts while several inflation components remain not fully subdued puts downward pressure on front end UST yields and upward pressure on the long end. This is not a judgement on the wisdom of easing, it is an observation that tolerance for inflation appears higher when growth risks loom.

Fed independence matters

With stickiness in services, particularly housing, as well as food, the market views disinflation in the US as imperfect (see Exhibit 2). While these may follow the wider trend lower, we know that underlying inputs can create upside risks. Wages remain high even with evidence the labour market is cooling. Tariffs put price pressure on core goods. As the Fed is perceived to be prioritising growth risks over a complete inflation victory, long horizon investors demand more insurance against a drift up in trend inflation.

Exhibit 2: US disinflation is viewed as imperfect



Source: Bureau of Labor Statistics, 11 September 2025

Markets have benefited from decades of improved price stability since the advent of central bank independence. Economists generally agree that lower and more stable inflation is correlated with central bank independence. Doubts about that independence therefore create doubts about the path of inflation. The curve transmits that uncertainty by making the long end sticky, despite the Fed's dovish pivot.

President Trump has repeatedly called for the Fed to cut rates more aggressively. While rumours of the possibility of firing chair Jerome Powell have dissipated, and a recent attempt to remove Fed Governor Lisa Cook has also failed, there is clear political pressure on the institution. The Senate confirmed White House CEA chair Stephen Miran to the Fed board in a 48–47 vote, and he will keep his White House role. Dual-hatting blurs the line between the executive and a nominally independent central bank.

Rates dashboard

			Change (bp)		
		Current (%)	1w	1m	YTD
US Treasury	2yr	3.50	-6	-26	-74
	10yr	4.03	-6	-31	-50
	30yr	4.65	-8	-29	-10
UK Gilt	2yr	3.96	5	0	-49
	10yr	4.64	2	-10	3
	30yr	5.45	-2	-16	28
German Bund	2yr	2.00	6	4	-8
	10yr	2.69	3	-7	33
	30yr	3.28	0	-6	68

			Change (bp)		
	Market projection	Current (%)	1w	1m	YTD
Base rate 4.50%	end-2025	3.64	-1	-17	-30
	end-2026	2.90	-1	-24	-106
Base rate 4.00%	end-2025	3.85	2	2	-28
	end-2026	3.57	2	-1	-42
Base rate 2.00%	end-2025	2.01	4	8	11
	end-2026	2.01	7	4	-5

Past performance is not a reliable indicator of current or future results. Included for illustrative purposes only. Shown in local currency terms. It is not possible to invest directly into an index and they will not be actively managed. Source: Bloomberg, TwentyFour, 16 September 2025

This is not to say the Fed is not well guarded from political interference; the courts have upheld its authority, removal protections are strong, and staggered overlapping terms reduce the impact one president can have. But even subtle questions about the Fed's ability to stick to its mandate under political pressure widen the monetary policy distribution. Independence is not a binary on/off; it is a credibility premium that tends to compress long end yields when it is regarded as high and decompress them when it when questioned.

Governments can't ignore long end

Term premium is rebuilding because investors are facing higher macro uncertainty and a weaker monetary policy anchor, but does this matter?

As governments bias issuance to the less costly front end and structural demand for long dated bonds from insurers and pension schemes falls away, this part of the curve arguably becomes less relevant. However, governments should not entirely pivot to issuing shorter dated bills. Termed out debt gives some immunisation from yield shifts, while issuance focused at the front end makes refinancing and rising debt service costs an ongoing threat. The bond vigilantes will govern, not voters. But more broadly, significant portions of the rest of the economy's financing costs depend on long-dated government bond yields, from mortgages to long-dated corporate bonds. A higher premium on this debt will dampen activity, all else equal.

As fixed income investors we need to actively manage duration and be selective about where on the yield curve we think the best risk-reward is offered. While term premium has risen, for us the extra compensation is not compelling enough given the ongoing risks to the long end. With credit spreads well below their medium-term averages, the likelihood is they will gravitate wider in the coming months and thus our general preference for shorter maturities and higher credit quality remains. At this stage of the cycle, with yields still elevated, we feel we can build a fixed income portfolio at an attractive level of carry without reaching for too much duration or credit risk.

Important information:

The views and positioning expressed represent the opinions and positioning of TwentyFour as at 16 September 2025, they may change, and may also not be shared by other members of the Vontobel Group (collectively "Vontobel") or reflect their positioning.

This article does NOT express any political views or endorsements, but rather aims to objectively analyse the economic factors and implications. The analysis is based on publicly available information as of the date above and is for informational purposes only and should not be construed as investment advice or a personal recommendation.

Any projections, forecasts or estimates contained herein are based on a variety of estimates and assumptions. Market expectations and forward-looking statements are opinion, they are not guaranteed and are subject to change. There can be no assurance that estimates or assumptions regarding future financial performance of countries, markets and/or investments will prove accurate, and actual results may differ materially. The inclusion of projections or forecasts should not be regarded as an indication that TwentyFour or Vontobel considers the projections or forecasts to be reliable predictors of future events, and they should not be relied upon as such. We reserve the right to make changes and corrections to the information and opinions expressed herein at any time, without notice.

Past performance is not a guarantee of future results. Diversification does not assure a profit or protect against loss in declining markets. Investing involves risk, including possible loss of principal. Value and income received are not guaranteed and one may get back less than originally invested. TwentyFour, its affiliates and the individuals associated therewith may (in various capacities) have positions or deal in securities (or related derivatives) identical or similar to those described herein.

The index data referenced herein is the property of Merrill Lynch, Pierce, Fenner & Smith Incorporated (BofAML) and/or its licensors and has been licensed for use by Vontobel. BofAML and its licensors accept no liability in connection with its use. Index comparisons are provided for informational purposes only and should not be used as the basis for making an investment decision. It is not possible to invest directly in an index and they are not actively managed.

Source: Bloomberg. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). Bloomberg does not approve or endorse this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith. This marketing document was produced and approved by TwentyFour Asset Management LLP ("TwentyFour"), a company of the Vontobel Group (collectively "Vontobel") for professional/institutional investors only.

The information contained in this document is not intended for distribution to or use by any person or legal entity in any jurisdiction or country in which such distribution or use would violate any valid law or regulation or would require Vontobel or its affiliates to register within that jurisdiction or country. Vontobel makes no assurances that the information contained in this document is suitable for use at all locations or by all viewers.

This document does not in any jurisdiction constitute, directly or indirectly, a recommendation, offer or solicitation to the public or anyone else to subscribe to, purchase, hold or sell a financial instrument and is not to be construed accordingly.

This document is a general communication. It is not independent and was prepared exclusively for informational and educational purposes. The information and opinions contained in this document (jointly "information") are not to be taken as forecasts, research, recommendations or investment advice, are not intended to predict actual results and no assurances are given with respect thereto. Certain information herein is based upon forward-looking statements, information and opinions, including descriptions of anticipated market changes and expectations of future activity of countries, markets and/or investments. We believe such statements, information, and opinions are based upon reasonable estimates and assumptions. Actual events or results may differ materially and, as such, undue reliance should not be placed on such forward-looking information. All forecasts, forward-looking statements and estimates contained in this document are speculative. Various risks and uncertainties mean that it cannot be guaranteed that the estimates or assumptions made will prove to be correct and actual events and results may differ significantly from those presented or expected in this document. The opinions expressed in this document may change as a result of market, economic and other conditions. Information in this document should not be interpreted as a recommendation but as an illustration of general economic issues. Please note that past performance is not a reliable indicator of current or future performance and that forecasts are essentially limited and must not be used as an indicator for future performance.

All information in this document is provided on the basis of knowledge and/or the evaluation of the market at the time of preparing the document or at the time stated in the document without making any express or implicit representations or warranties of any kind. However such information can become void or change as a result of subsequent political or market events or for other reasons. Vontobel reserves the right to make changes and corrections to the information and opinions expressed herein at any time, without notice, but is under no obligation to do so. Viewers bear sole responsibility for decisions made on the basis of information in this document. They must not rely on information in this document when making an investment decision or any other decision.

This document was not prepared on the basis of individual investor relations. Nothing in this document constitutes advice regarding taxes, accounting, regulation, law, insurance, investments or any other form of advice regarding subscribing to, purchasing, holding or selling securities or other financial instruments, making transactions or following particular investment strategies.

Vontobel is not liable for any direct or indirect losses or damage that result from the information available in this document, including but not limited to loss of earnings, or for any losses or damage incurred as a direct or indirect result of the use of information contained in the document.

Vontobel releases itself, insofar as is possible under the applicable law, from any liability for direct or indirect damage or losses resulting from the information provided here or from the absence of information. Although Vontobel believes that the information in this document was compiled with all due care, Vontobel makes no express or implicit guarantee of the accuracy or completeness or the information, text, figures or other elements included in this document. The document should not be used as a reliable basis for decisions. Vontobel accepts no liability in this regard.

The information included in this document does not constitute a contractual relationship between the provider of this information and the viewers of this document and is not to be interpreted as such.

Vontobel, members of the management team or employees may have invested in the past or currently invest in financial instruments about which information or opinions are included in this document, or they may invest in these instruments in future. Vontobel may also have provided services in the past, may currently provide services or may provide services in the future for issuers of these financial instruments, including for example. corporate finance or market making services. It is also possible that employees or members of the management team at Vontobel have in the past exercised certain functions for the issuers of these financial issuers (e.g. work as member of the management team), or that they exercise these currently or will do so in future. Vontobel, employees or members of the management team could therefore have a personal interest in the future performance of financial instruments.

US: Distribution to U.S. persons (as defined in Regulation S under the Securities Act of 1933) by TwentyFour Asset Management (US) LP ("TwentyFour US"), Vontobel Asset Management, Inc. (VAMUS), TwentyFour US, and VAMUS are registered as investment advisers with the U.S. Securities and Exchange Commission (SEC) in accordance with the current version of the 1940 U.S. Investment Advisers Act. Registration as an investment adviser with the SEC does not presuppose a particular level of skills or expertise. TwentyFour US is a wholly-owned subsidiary of TwentyFour Asset Management LLP. VAMUS is a wholly-owned subsidiary of Vontobel Holding AG, Zurich, Switzerland.

Canada: Information herein is provided for use with permitted clients / institutional investors only. Vontobel operates in Canada in connection with our investment and business activity pursuant to the following: Vontobel Asset Management Inc. relies on the International Adviser Exemption in the provinces of Alberta, British Columbia, Saskatchewan, Ontario and Quebec and the Investment Fund Manager Exemption in Ontario and Quebec. Vontobel Asset Management AG relies on the Investment Fund Manager Exemption in the provinces of Ontario and Quebec. TwentyFour relies on the International Adviser, International Dealer and Investment Fund Manager Exemptions in the province of Ontario.

For US Offshore and LatAm: Information herein prepared and approved for institutional / professional investors and approved for use in certain jurisdictions only. Vontobel offers a variety of products and services intended solely for qualified investors from certain countries or regions. Your country of legal residence will determine the products or services that are available to you. Information herein should not be considered a solicitation or offering for the sale of any investment product or service to any person in any jurisdiction where such solicitation or offer would be unlawful or prohibited. Furthermore, this information is not intended for use in any jurisdiction which would subject Vontobel and/or TwentyFour to any registration, licensing or other authorization requirement within such jurisdiction or country. It is the responsibility of the recipient to inform themselves and observe applicable regulations and restrictions for their respective jurisdiction(s). Information herein is not intended for retail investors and/or distribution to the general public in any jurisdiction.

In Mexico: None of the funds managed by TwentyFour have been, and are not expected to be, registered in the National Registry of Securities maintained by the National Banking and Securities Commission ("CNBV"), and therefore may not be offered or sold publicly in Mexico. The funds managed by TwentyFour may only be offered or sold to qualified and institutional investors in Mexico, pursuant to the private placement exemption set forth under Article 8 of the Mexican Securities Market Law as part of a private offer.

Australia & New Zealand: Vontobel is represented in Australia by Vontobel Asset Management Australia Pty Limited (ABN 80 167 015 698), which is the holder of Australian Financial Services Licence number 453140 ("Vontobel Australia"). Vontobel and Vontobel Australia are also an Overseas Financial Adviser in the meaning of the Financial Advisers Act 2008 of New Zealand ("FAA"). Neither Vontobel Australia nor any other member of the Vontobel Group has a presence in New Zealand.

Hong Kong: The content of this document was not reviewed or approved by any regulatory body in Hong Kong, including the Securities and Futures Commission in Hong Kong. This document has been approved for use in Hong Kong by Vontobel (Hong Kong) Limited, a corporation licensed by the Securities and Futures Commission. You are therefore advised to exercise caution and, in the event of doubt regarding the contents, to seek independent professional advice.

Singapore: This document has not been reviewed by the Monetary Authority of Singapore. This document should not be considered as a solicitation to the general public or a member of the general public in Singapore to subscribe to or purchase financial instruments, either directly or indirectly.

Japan: this material has been approved and is distributed by Vontobel Asset Management Pte. Ltd. (Financial Instruments Business Operator conducting Investment Advisory and Agency Business) (Director of Kanto Local Finance Bureau (Kinsho) No. 3214) in order to provide general information only, and is not intended as a solicitation for the purchase or sale of any financial instruments, or as a solicitation for an investment management or investment advisory relationship. This document is to be used solely by your company for the purpose of research and informational purposes, and may not be copied, reproduced, used for unrelated purposes or provided outside your company without our company's consent. Although this document has been prepared based on information that we believe to be reliable, we do not warrant its accuracy or reliability. The information and data presented here are as of the date of preparation of this document. The historical performance and wording of this material do not warrant or imply any future operating results. Past performance is not a predictor of future performance or results. All rights and obligations relating to the information in this material belong to the information provider, and the content may be varied or modified without notice for any reason determined by the information provider. Any investment or other judgment based on the information in this material shall be made at the sole responsibility of the reader, and neither Vontobel Asset Management Pte. Ltd. nor any other information provider shall be held liable in any way for any loss caused by the information in this material.

本書は、投資助言・代理業の登録を受けた金融商品取引業者であるVontobel Asset Management Pte. Ltd.（関東財務局長（金商）第3214号）が、様々な投資戦略に関する需要調査の一環として、資産運用会社の概要や投資戦略などに関する情報提供の目的で作成したものであり、金融商品の取引の勧誘を意図するものでは[なく、また、投資一任契約や投資顧問契約の勧誘を意図するものでも]ありません。本書は、専ら貴社による調査及び情報収集の目的のために交付されるものであり、当社の同意なく本書を複製又は第三者に開示すること、また、当該目的以外の目的で本書を使用することは禁止されます。本書に記載された過去の業績やその他の情報は、将来の結果を保証するものではありません。また、過去の業績は、将来の業績や結果を予想するものでもありません。本書に記載された情報に関する一切の権利及び義務は情報の提供者に帰属し、その内容は、情報提供者の判断により事前の予告なく変更される可能性があります。本書に記載された情報に基づいて行われる投資その他の判断は、すべて貴社の責任において行われるものであり、Vontobel Asset Management Pte. Ltd. 及びその他の情報の提供者は、本書に記載された情報に起因して生じた損害について一切の責任を負いません。

Austria, Finland, Ireland, Luxembourg, Liechtenstein, Norway, Portugal, Sweden & The Netherlands: This document has been approved by Vontobel Asset Management SA, registered office 18 rue Erasme, L-1468 Luxembourg. Details on the extent of regulation can be obtained upon request at the same.

France: This document has been approved by Vontobel Asset Management SA, registered office 10, Place Vendôme, 75001 Paris. Details on the extent of regulation can be obtained upon request at the same.

Germany: This document has been approved by Vontobel Asset Management SA, Munich Branch, registered office Leopoldstrasse 8-10, 80802 Munich and regulated by the Commission de Surveillance du Secteur Financier (CSSF) and is subject to limited regulation by the German Federal Financial Supervisory Authority (BaFin). Details on the extent of regulation can be obtained upon request at Vontobel Asset Management SA, Munich Branch.

Italy: This document has been approved by Vontobel Asset Management SA, Milan Branch, registered office Piazza degli Affari 3, I-20123 Milan, Italy (telephone: 026 367 344). Vontobel Asset Management SA, Milan Branch, is authorized by the Commission de Surveillance du Secteur Financier (CSSF) and is subject to limited regulation by the Italian National Bank and the CONSOB. Details on the extent of regulation by the Italian National Bank and the CONSOB can be obtained upon request at Vontobel Asset Management SA, Milan Branch. The content of this document has not been reviewed or approved by any regulatory body, including the Italian National Bank or the CONSOB. This document should not be considered as an offer to the general public or a member of the general public in Italy to subscribe to or purchase financial instruments, either directly or indirectly.

Spain: This document has been approved by Vontobel Asset Management SA, registered office Paseo de la Castellana, 95, Planta 18, 28046 Madrid. Details on the extent of regulation can be obtained upon request at the same.

Switzerland: This document has been approved by Vontobel Asset Management AG, registered office Genferstrasse 43, 8002 Zurich. Details on the extent of regulation can be obtained upon request at the same.

United Kingdom: TwentyFour Asset Management LLP is registered in England No. OC335015 and is authorised and regulated by the UK Financial Conduct Authority, FRN No. 481888. Registered Office: 8th Floor, The Monument Building, 11 Monument Street, London, EC3R 8AF. For your protection telephone calls are usually recorded. This document has been approved by Vontobel Asset Management S.A., registered office at Third Floor, 22 Sackville Street, London W1S 3DN. Vontobel Asset Management S.A. is authorised by the Commission de Surveillance du Secteur Financier (CSSF) and is subject to limited regulation by the Financial Conduct Authority (FCA). Details on the extent of FCA regulation can be obtained upon request at Vontobel Asset Management S.A.

www.twentyfouram.com

TwentyFour
a boutique of Vontobel