July outlook:

Fixed income credit sector views

Ahead of the Curve

Risk on in July

This month, T. Rowe Price's Sector Strategy Advisory Group (SSAG) has upgraded its risk stance to positive. The switch to a risk-on regime was supported by shifts in our fundamental views and some of our underlying quant models: our positioning model shows the market is skewed toward risk-off/short-risk positioning—a historically favorable indicator for adding risk—and our risk regime model now reflects a low volatility environment. Combined, these signals suggest conditions are optimal for a more constructive risk allocation.

Fundamentals have improved, with the passage of a US fiscal package aiming to incentivize Capital expenditures (CapEx) and potential deregulation now a top policy focus for the Administration. Technical and positioning factors remain robust, with strong demand for credit and systematic strategies expected to continue allocating risk, particularly through synthetics. Major event risks—such as the expiry of the 90-day tariff pause, US fiscal bill passage, and Middle East de-escalation—have cleared, reducing headline uncertainty and creating a more constructive environment for credit in the near-term.

Risks do persist—chiefly, tight valuations. The team remains selective and flexible, favoring sectors with strong fundamentals and attractive carry, while maintaining liquidity to respond to volatility.

What we like: Sub-Investment Grade Credit

Reflective of the upgraded risk backdrop, the team is recommending tactical overweights to sub-investment grade credit, with a preference for floating rate bank loans over fixed rate high yield bonds.

Due to the floating rate nature of their coupons, bank loans offer two key benefits for portfolio construction. First, their low duration profile provides investors with insulation from interest rate volatility. Second, if the "higher for longer" rate environment plays out—our team's base case—loan coupons will deliver some of the most attractive carry in fixed income markets—around 7.8% today. This blend of rate protection and strong income makes bank loans a compelling choice for investors seeking both stability and yield.

Global High Yield bonds are a key overweight as well. Despite spread compression, yields around 7.1% are still attractive relative to historical levels. The sector benefits from solid fundamentals, including low default rates and improved issuer quality. Within high yield, the team prefers Euro credits over US credits, driven by relative value and supportive technical factors. The sector continues to offer strong carry in a tight spread environment.

What we are watching: Macro, trade and geopolitics

Tight valuations—particularly in US investment grade and US high yield—translate to asymmetric risk in credit-oriented portfolios. Given the lurking macroeconomic, policy, and geopolitical risks, liquidity remains a top priority in multi-sector portfolios to help manage potential volatility and downside risk.

Heavy overweights by money managers in Agency MBS warrant close monitoring. Due to the sector's concentrated ownership and sensitivity to interest rate volatility, any significant rate moves or liquidity stress could trigger an unorderly unwind of these positions. While such an event could be disruptive, it may also create attractive opportunities for nimble investors.

Overall, the environment remains complex with ongoing uncertainties. The team continues to prioritize liquidity and selectivity, balancing the need to capture opportunities with the imperative to manage risk amid evolving macro, policy, and geopolitical dynamics.

Our views on the remaining sectors are shown in Figure 1.

Figure 1: Our views on the different sectors in June; and the reasoning behind that view (as of 16 July)

Negative | Neutral | Positive | ▼ Prior month position

Sector	View and Change Versus Prior Month	Comments
Global High Yield (HY) Corporates		– Valuations in Euro HY remain off cycle tights, with spreads in roughly the 16th percentile post-GFC. Meanwhile, US HY is approaching cycle-tights. Global High Yield's low duration profile and attractive yield/carry provide a buffer to modest amounts of spread widening relative to longer-dated, lower yielding asset classes. – The shift to overweight is supported by still-attractive all-in yields (~7.1% today for Global HY), stable fundamentals—defaults remain below average—and improving issuer quality.
Bank Loans		– Floating rate structure and constructive risk backdrop mean the asset class is conducive to a higher rate environment. The sector is also relatively insulated from further tariff-related risks being comprised largely of services, technology, and financials industries. – Yields remain among the highest in credit – around 7.8% today – with improving fundamentals and positive fund flows.
EM USD Sovereign and Corporate Credit		– Despite solid recent performance in EM USD Sovereigns, current tight valuations soften the risk/return profile. The team has a slight preference for EM USD corporates over sovereigns given their lower duration risk, more resilient characteristics, and greater spread pickup vs. US credits. – While both sectors still offer some relative yield advantage, particularly in select credits, macro and geopolitical uncertainties—including ongoing regional risks and potential volatility in global rates—are prompting a more balanced, neutral outlook.
Global Investment-Grade (IG) Corporates		– Credit spreads are back to the tightest levels in over two decades, highlighting valuation risk. Most notable caution is in the long end where duration risk is most pronounced. – While technical support has persisted, tight valuations and low carry in long-end US corporates leave very little room to withstand even small spread widening.
Securitized Credit		– This month, we still favor high-quality securitized assets—specifically prime ABS (e.g., auto, credit card), non-QM RMBS, and AAA-rated CLOs—as defensive carry positions that offer structural protections and spread pick-up versus similarly rated corporates. – Given the improved backdrop for risk, we move high quality securitized credit to a neutral stance in favor of higher beta sub-investment grade sectors.
Agency MBS		– In our view, the outsized overweight to Agency MBS among money managers could become a technical headwind, particularly in a volatile environment, where concentrated ownership can exacerbate spread moves and liquidity challenges. – While there are some idiosyncratic opportunities in the MBS market—such as premium coupons—overall valuations, in combination with the afore mentioned technical headwinds, are not quite attractive enough to recommend a neutral weight.
Taxable Municipals		– While spreads have modestly tightened versus corporates since our last update, they continue to trade at largely fair, investable levels—albeit now at the tighter end of that range. – Relative value opportunities persist, particularly in the 5- and 10-year A-rated space. The sector offers diversification benefits, attractive high-quality carry, and persistently low issuance continues to provide a technical tailwind for the sector.

Sector statistics and returns

As of 30 May 2025

	Yield to Worst (%)	Duration (years)	Credit Spreads (basis points): Current Spread	M/M Change	1YR High	1YR Low	1YR Avg.	Total Returns (%)[1]: 1M	YTD	1YR
High Yield Corporates										
Global HY	7.10	3.43	332	-19	471	301	355	1.75	4.65	11.53
US HY	7.06	2.70	290	-24	453	253	304	1.84	4.57	10.29
Euro HY[2]	7.94	2.72	321	-12	446	286	342	0.58	3.51	9.94
Asia HY	8.64	2.59	454	-42	635	381	474	1.54	4.05	8.72
Loans[3]	7.73	0.25	435	-8	514	419	447	0.79	2.85	7.48
Emerging Markets										
EM Sovereigns (USD)	7.54	6.48	322	-12	430	310	350	2.41	5.64	9.97
EM Corporates (USD)	6.32	4.12	253	-4	296	229	256	1.39	4.03	7.82
Investment Grade Corporates										
Global IG	4.44	5.82	89	-5	120	82	95	1.41	3.79	7.30
US IG	4.99	6.76	83	-5	119	74	88	1.87	4.17	6.91
Euro IG[2]	5.71	4.63	93	-8	128	87	105	0.64	2.84	7.61
Asia IG	4.75	5.06	75	-1	101	66	80	1.32	4.21	6.99
Securitized Credit										
CLOs	5.78	1.30	215	8	270	178	226	0.58	2.89	6.70
CMBS	4.69	3.92	84	-3	104	75	89	1.22	4.49	7.74
ABS	4.41	2.56	57	-2	75	42	56	0.87	2.93	6.33
Other Spread Sectors										
Agency MBS	4.93	5.92	37	-5	49	31	41	1.78	4.23	6.52
Taxable Munis	5.26	9.04	85	-4	97	71	82	2.43	3.56	4.92

Common Benchmarks

Index	Yield to Maturity (%)	Duration (years)	Total Returns (%)[1]: 1M	YTD	1YR
Global Aggregate	3.47	6.44	0.96	2.81	6.15
US Aggregate	4.51	6.00	1.54	4.02	6.08

Sovereign Yields

10-Year Rates	Yield to Maturity (%)	M/M Change (bps)	1YR High (%)	1YR Low (%)
U.S. Treasury	4.23	-17	4.79	3.62
German bund[2]	4.99	9	5.05	3.50

Past performance is not a guarantee or a reliable indicator of future results.

[1] Returns are hedged to USD.
[2] Yields are hedged to USD.
[3] Loan yields and spreads are forward to maturity.
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T. Rowe Price Sector Strategy Advisory Group (SSAG)

The team

The T. Rowe Price Sector Strategy Advisory Group (SSAG) is comprised of select Fixed Income investment professionals, specializing in a range of disciplines, who collaboratively generate investment ideas for use in portfolios across our platform. Views are based on SSAG research and discussions, combining fundamental analysis from sector specialists with insights from our quantitative research experts and proprietary tools. The primary goal of SSAG is to help answer two key questions: how much credit risk to take; and within what sectors to take it. Views are intended to be tactical, are as of the date indicated, and are subject to change.

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Market indices shown on page 3 represent the following:

Global HY: Bloomberg Global High Yield Bond Index USD-Hedged; US HY: Bloomberg US Corporate High Yield Bond Index; Euro HY: Bloomberg Pan-European High Yield Bond Index USD-Hedged; Asia HY: Bloomberg Asia USD High Yield Bond Index; Bank Loans: J.P. Morgan Leverage Loan Index; EM Sovereigns (USD): J.P. Morgan EMBI Global Diversified Index; EM Corporates: J.P. Morgan CEMBI Broad Diversified Index; Global IG: Bloomberg Global Aggregate – Corporate Index USD-Hedged; US IG: Bloomberg US Corporate Bond Index; Euro IG: Bloomberg Pan European Aggregate Corporate Index USD-Hedged; Asia IG: Bloomberg Asia USD Investment Grade Bond Index USD-Hedged; CLO: J.P. Morgan CLO Post-Crisis Index; CMBS: Bloomberg US CMBS ERISA Eligible Index; ABS: Bloomberg US ABS Index; Agency MBS: Bloomberg US MBS Index; Taxable Munis: Bloomberg Taxable Muni US Agg Eligible Index; Global Aggregate: Bloomberg Global Aggregate Bond Index USD-Hedged; US Aggregate: Bloomberg US Aggregate Bond Index.

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