June outlook:

# Fixed income credit sector views

Ahead of the Curve

## Risk off in June

This month, T. Rowe Price's Sector Strategy Advisory Group (SSAG) **maintained its negative risk stance,** not necessarily because of imminent downside risks, but due to the lack of a catalyst for further spread compression. In our view, current valuations already reflect a substantial amount of good news.

While technicals remain supportive, the macro and policy backdrop is more complicated. Geopolitical tensions are building: China's imposition of six-month export licenses on key minerals has reignited supply chain concerns and underscores the fragility of recent trade progress. A weaker U.S. dollar is adding volatility to inflation and capital flows.

Against this backdrop, the Committee continues to value flexibility and liquidity, favoring synthetics over cash for efficient market exposure. We remain selectively constructive and ready to add risk opportunistically, particularly if volatility creates attractive entry points given our more constructive view on risk in the second half of the year.

## What we like: Securitized Credit

Securitized credit remains a preferred overweight in June, with a particular focus on high-quality Asset-Backed Securities (ABS) and Collateralized Loan Obligations (CLOs). Prime consumer ABS, including auto and credit card deals, continue to offer appealing spread profiles and demonstrate strong fundamentals, bolstered by stable household balance sheets. In the CLO sector, AAA-rated tranches stand out, providing a compelling mix of structural protection, spread premium, and liquidity compared to similarly rated corporate bonds. These sectors have lagged behind the broader credit rally, rendering their valuations particularly attractive. This aligns well with our team's focus on high-quality, liquid exposures in a market environment that increasingly rewards selectivity.

## What we are watching: Macro, trade and geopolitics

Key risks continue to center on macro, trade, and geopolitical developments. In the U.S., we are closely monitoring labor market dynamics—particularly initial and continuing jobless claims—for signs of softening that could challenge the resilience narrative underpinning current valuations.

On the global stage, progress on U.S.-China trade negotiations remains tentative, with recent developments around export licenses on critical minerals raising concerns about sustained supply chain friction. Meanwhile, the Israel-Iran conflict remains a key source of geopolitical uncertainty, with recent military escalations contributing to higher oil prices and elevated risk premiums. Against this backdrop, we remain cautiously positioned, but have intentionally maintained ample liquidity in portfolios to allow us to add risk opportunistically should volatility create more attractive entry points or valuations materially cheapen.

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

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

Negative Neutral Positive ▼ Prior month position

| Sector | View and Change Versus Prior Month | Comments |
|---|---|---|
| Global High Yield (HY) Corporates |  | – **Attractive Yields Despite Spread Compression:** High yield bonds rallied with spreads nearing YTD tights yet yields around 7.5% remain attractive versus history. Solid fundamentals—anchored by low defaults and improved issuer quality—provide support, though the pace of further spread tightening may be limited.<br>– We have moderated our **preference for high yield bonds over loans** and f**avor Euro HY to US HY**. Loans' yield and spread advantage improved month-over-month, combined with floating-rate exposure in an uncertain rate environment, supports a more balanced stance this month. |
| Bank Loans |  | – **Bank loan spreads have retraced through their post-Liberation Day widening to now nearing YTD tights**—more than any other major credit sector—leaving limited room for further capital appreciation.<br>– That said, loan yields in the 8% area continue to offer among **the highest carry in credit**, and their floating-rate structure remains appealing for investors seeking income in a volatile rate environment. |
| EM USD Sovereign and Corporate Credit |  | – EM spreads have tightened meaningfully, especially in IG sectors, with valuations now near recent tights. Still, we see value in select corporates—particularly triple B-rated names—such as in Mexican corporates and quasi-sovereigns where we see attractive spreads (~200+ bps) relative to risk.<br>– A weaker U.S. dollar supports EM fundamentals, while a growing "sell America" rotation could provide a lasting tailwind in the medium-term. These dynamics may help sustain demand for emerging market credit, even as near-term valuations appear stretched. |
| Global Investment-Grade (IG) Corporates |  | – **Valuation Concerns:** particularly in the long end of the credit curve, valuations have seen significant spread compression to historically tight levels, presenting a low risk-reward profile and increasing the risk of potential spread widening.<br>– **Preference for EUR IG and Synthetics:** The team prefers EUR IG over US IG due to relatively better hedged yields, and favors synthetics (particularly Euro IG CDX) over cash bonds, given their superior liquidity and efficient beta access in the current environment. |
| Securitized Credit |  | – Securitized credit, including RMBS, performed well on a beta-adjusted basis, **with AAA non-QM RMBS proving to be a profitable recommendation last month.** The broader sector has not fully retraced spread widening, with securitized credit lagging corporate credit in the recovery phase.<br>– This month, the team **favors high-quality securitized assets**—specifically prime ABS (e.g., auto, credit card) and AAA-rated CLOs—as defensive carry positions that offer structural protections and spread pick-up versus similarly rated corporates. |
| 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.<br>– 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 |  | – Taxable muni valuations improved month-over-month, and **new issues** have come to market **with attractive economics** relative to index levels (e.g., ~+80 bps).<br>– 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 | 7.43 | 3.48 | 351 | -60 | 471 | 301 | 359 | 1.68 | 2.85 | 10.46 |
| US HY | 7.46 | 2.85 | 315 | -69 | 453 | 253 | 304 | 1.68 | 2.68 | 9.54 |
| Euro HY[2] | 8.06 | 2.68 | 334 | -40 | 446 | 286 | 344 | 1.49 | 2.91 | 9.87 |
| Asia HY | 10.10 | 2.62 | 496 | -55 | 635 | 381 | 476 | 0.98 | 2.48 | 8.47 |
| Loans[3] | 7.98 | 0.25 | 443 | -28 | 514 | 419 | 448 | 1.64 | 2.05 | 6.99 |
| **Emerging Markets** | | | | | | | | | | |
| EM Sovereigns (USD) | 7.81 | 6.41 | 335 | -34 | 430 | 310 | 355 | 1.12 | 3.15 | 8.04 |
| EM Corporates (USD) | 6.56 | 4.11 | 257 | -21 | 296 | 229 | 257 | 0.61 | 2.61 | 7.33 |
| **Investment Grade Corporates** | | | | | | | | | | |
| Global IG | 4.60 | 5.77 | 94 | -16 | 120 | 82 | 96 | 0.21 | 2.35 | 6.88 |
| US IG | 5.21 | 6.69 | 88 | -18 | 119 | 74 | 89 | -0.01 | 2.26 | 6.06 |
| Euro IG[2] | 5.76 | 4.58 | 101 | -12 | 128 | 87 | 106 | 0.61 | 2.19 | 7.88 |
| Asia IG | 4.93 | 5.01 | 76 | -17 | 101 | 66 | 80 | 0.08 | 2.86 | 6.68 |
| **Securitized Credit** | | | | | | | | | | |
| CLOs | 5.84 | 1.54 | 207 | -9 | 279 | 178 | 231 | 0.98 | 2.3 | 6.61 |
| CMBS | 4.91 | 3.95 | 87 | -10 | 104 | 75 | 90 | -0.26 | 3.23 | 7.73 |
| ABS | 4.62 | 2.52 | 60 | -14 | 75 | 42 | 56 | 0.02 | 2.05 | 6.26 |
| **Other Spread Sectors** | | | | | | | | | | |
| Agency MBS | 5.15 | 6.09 | 42 | -1 | 50 | 31 | 41 | -0.91 | 2.41 | 6.22 |
| Taxable Munis | 5.46 | 8.96 | 89 | -3 | 97 | 71 | 81 | -1.48 | 1.11 | 3.86 |

**Common Benchmarks**

| Index | Yield to Maturity (%) | Duration (years) | Total Returns (%)[1]: 1M | YTD | 1YR |
|---|---|---|---|---|---|
| Global Aggregate | 3.57 | 6.44 | -0.33 | 1.83 | 6.29 |
| US Aggregate | 4.71 | 5.98 | -0.72 | 2.45 | 5.84 |

**Sovereign Yields**

| 10-Year Rates | Yield to Maturity (%) | M/M Change (bps) | 1YR High (%) | 1YR Low (%) |
|---|---|---|---|---|
| U.S. Treasury | 4.40 | 18 | 4.79 | 3.62 |
| German bund[2] | 4.90 | 19 | 5.05 | 3.50 |

**Past performance is no 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

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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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