T.RowePrice

Fixed income credit sector views

March 2025

Ahead of the Curve

T.RowePrice

T. ROWE PRICE FIXED INCOME CREDIT SECTOR VIEWS

Sector Strategy Advisory Group (SSAG)* Insights—March 2025

	RISK REGIME	MAC RISK REGIME COMMENTS
Multi-Asset Credit (MAC) Risk Indicator	**RISK NEUTRAL**	• SSAG has a **neutral bias** in the current risk environment. The team is evaluating a **near-term opportunity to add credit risk, notably in the US,** as recent pressure in risk assets appears technically-driven, while fundamentals warrant caution but remain constructive. • A slowing but not recessionary US economy combined with better European growth and a stabilizing China leave **global growth** as **neutral and we prefer European and Emerging Markets credit risk over the medium-term.**

SSAG Tactical View: ■ Positive ■ Neutral ■ Negative
Change vs. Prior Month: ▲ Upgraded ■ Stable ▼ Downgraded

SECTOR		SECTOR COMMENTS
Global High Yield (HY) Corporates	■	• **All-in yields remain attractive** and **technical backdrop remains supportive**, particularly in European HY. • **Fundamentals continue to be solid** and **default activity remains benign**.
Bank Loans	■	• The team prefers **loans over high yield bonds**, largely due to loans' significant carry advantage (roughly +100 bps) over conventional high yield. • We see more base rate certainty over the next 1-3 months which also means that **loans' current yield advantage appears sustainable** near-term.

EM USD Sovereign and Corporate Credit	■	• **All-in yields remain attractive.** Relative value favors **investment grade (IG) EM sovereign debt over IG corporate debt.**
		• **Tariff risks exist** and vary by region:
		  ◦ **Potential beneficiaries**: Central and Eastern Europe (positive impact from EU stimulus and defense spending), Turkey, Chile, Colombia.
		  ◦ **Potential challenges**: China, Brazil, Mexico (has rallied materially YTD), and South Africa.

Global Investment-Grade (IG) Corporates	■	• The **team has been constructive on Euro IG for several months but now the relative value gap between European and US IG corporates has closed**. • Over a longer lookback period, Euro IG has traded through US IG and we envision this occurring again in the future.
Securitized Credit	■	• We **expect some modest near-term technical pressure** as securitized credit plays "catch-up" to the recent volatility we have seen in other credit markets; this may provide opportunities in the future. • SSAG continues to **favor higher-quality areas of the market such as senior tranche CLOs, auto-related areas of the ABS market and seasoned SFR (single-family rental) RMBS**.
Agency MBS	■	• The sector **has outperformed** US IG Corporates year-to-date because of the **lower sensitivity to the slow down in economic growth and optimism on possible SLR (supplementary leverage ratio) reform** which seem well priced**.** • **We anticipate elevated rate volatility in the near term** which adversely impacts the sector**.**
Taxable Municipals	■	• **Taxable munis have outperformed corporate credit** of late, **making relative value slightly less compelling**. • Attractive all-in yields and the diversification properties of the sector keep us neutral.

*See additional information on the next page for details about the SSAG. **Past performance is no guarantee or a reliable indicator of future results.**

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. Views are intended to be tactical, are as of the date indicated, and are subject to change.

What is the MAC Risk Indicator?

The MAC Risk Indicator is a proprietary credit risk model based on an aggregation of five underlying risk signals including:

1. fundamental sector conviction ratings from T. Rowe Price's Fixed Income sector teams;
2. T. Rowe Price economics team's internal forecast for near-term global economic growth;
3. credit spread momentum and value;
4. state of financial market volatility;
5. investor risk sentiment and positioning.

Applying an established set of rules, the combination of these inputs produces either an overall positive ("risk-on") or negative ("risk-off") view on the environment for credit risk, which influences the SSAG's tactical sector allocation views.

SECTOR STATISTICS AND RETURNS

As of 28 February 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	7.19	3.50	324	17	450	301	360	0.78	2.13	12.04
US HY	7.15	2.88	280	19	381	253	294	0.67	2.05	10.18
Euro HY[2]	7.34	2.60	297	-10	412	289	345	1.19	1.91	10.58
Asia HY	8.96	2.56	399	-32	621	381	497	2.34	2.41	12.74
Loans[3]	7.96	0.25	427	8	486	419	452	0.12	0.87	9.51
EMERGING MARKETS										
EM Sovereigns (USD)	7.56	6.56	328	12	430	310	357	1.57	3.03	9.82
EM Corporates (USD)	6.29	4.16	249	3	296	229	261	1.55	2.36	8.75
INVESTMENT GRADE CORPORATES										
Global IG	4.54	5.89	90	5	117	82	96	1.58	2.19	7.33
US IG	5.08	6.83	87	8	111	74	87	2.04	2.60	6.68
Euro IG[2]	5.26	4.58	91	0	127	87	109	0.69	1.33	8.10
Asia IG	4.84	5.05	70	-1	98	66	80	1.99	2.63	7.11
SECURITIZED CREDIT										
CLOs	5.82	0.97	189	11	302	178	250	0.34	1.02	7.71
CMBS	4.86	4.04	79	3	104	75	91	1.57	2.30	7.27
ABS	4.55	2.59	50	3	66	42	54	0.97	1.30	6.28
OTHER SPREAD SECTORS										
Agency MBS	4.85	5.85	31	-3	56	31	44	2.55	3.07	6.66
Taxable Munis	5.14	9.15	78	2	91	71	78	3.25	3.56	5.67

COMMON BENCHMARKS

Index	Yield to Maturity (%)	Duration (years)	Total Returns (%)[1] 1M	YTD	1YR
Global Aggregate	3.54	6.47	1.20	1.60	6.16
US Aggregate	4.58	6.02	2.20	2.74	5.96

Sovereign Yields

10-Year Rates	Yield to Maturity (%)	M/M Change (bps)	1YR High (%)	1YR Low (%)
U.S. Treasury	4.21	-32	4.79	3.62
German bund[2]	4.35	2	4.45	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.

Sources: Bloomberg Index Services Limited, J.P. Morgan Chase. Please see the following page for benchmark information.

ADDITIONAL INFORMATION RELATING TO THE MARKET INDICES ON THE PREVIOUS PAGE

Market indices shown on previous page 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.

Yields for European credit indices and German bunds are hedged using the EUR 3-month implied yield and 3-month USD LIBOR. Source: Bloomberg.

ADDITIONAL DISCLOSURES

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