T. Rowe Price

Fixed income credit sector views

May 2025

Ahead of the Curve

T. ROWE PRICE FIXED INCOME CREDIT SECTOR VIEWS

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

	RISK REGIME		MAC RISK REGIME COMMENTS
Multi-Asset Credit (MAC) Risk Indicator	RISK OFF	RISK ON	▪ **SSAG downgraded the risk environment to a negative outlook** driven by a **downgrade in the fundamental outlook for the U.S. economy** alongside maintaining negative fundamental outlooks for the Eurozone and Chinese economies. ▪ After markets seemed to overreact to the tariff announcements last month, **markets have likely become too complacent about implications of incoming trade disruptions**. For context, most sectors' spreads are now tight to pre 'Liberation Day' levels despite the tariff regime shifting materially higher—from ~2.5% effective rate at the beginning of the year to a new baseline above 10%—even after headline-grabbing concessions. ▪ While the de-escalation of U.S.-China trade tensions via recent talks in Geneva is a constructive development, the **Committee sees limited clarity on potentially offsetting domestic policies**. Investor focus now turns to Washington, D.C., where **decisive fiscal action**—such as an extension of the 2017 TCJA tax cuts—**is needed to help counteract rising tariff-related headwinds and broader global economic pressures**. ▪ **Liquidity remains paramount** in the current environment, and the Committee prefers **synthetics over cash** given superior liquidity and efficient access to beta.

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

SECTOR		SECTOR COMMENTS
Global High Yield (HY) Corporates	■ (Neutral)	▪ Despite the relief rally in risk over the second half of the month, high yield bond yields of just under 8% are still attractive relative to history. And while spreads of just under 400 bps don't screen overly attractive, they remain wide of recent tights (~300 bps). ▪ Sound fundamentals, low expected default rates, and quality of the high yield market today are balanced by material concerns on macro and policy uncertainty. ▪ **We continue to favor HY bonds over loans** given loans' diminished yield/spread premium and greater uncertainty around base rates.
Bank Loans	▲ (Neutral)	▪ We are **upgrading bank loans to neutral** following modest underperformance relative to HY bonds and IG corporates. ▪ While HY bonds are still preferred, loans maintain a yield/spread premium—albeit narrower than in prior months—and may benefit in a scenario where rate cuts are more limited than markets currently price. ▪ Additionally, bank loans are **less exposed to cyclical commodity sectors and industries more vulnerable to tariff escalation**.
EM USD Sovereign and Corporate Credit	■ (Positive)	▪ EM Local has had strong recent relative performance; preference for local over hard currency given structural inflation differentials and diversification benefits ▪ EM Corporates have seen some decompression in frontier names which have created tactical opportunities in high quality, short-dated bonds. ▪ Continue to reduce lower-quality/cyclical exposure; preference for high-quality self-reliant economies (India, Central and Eastern Europe, LatAm).
Global Investment-Grade (IG) Corporates	▼ (Negative)	▪ Valuations look stretched, **particularly in long-end BBBs**; technicals also weakening with signs of declining foreign demand. ▪ Fundamentals came into this period of volatility from a position of strength; however, **policy uncertainty elevates downgrade risk over the medium term**. ▪ **Preference for synthetics over cash** due to superior liquidity and **Euro IG over U.S. IG** on better valuations, technical support, and the continuation of the ECB's monetary easing.
Securitized Credit	▲ (Positive)	▪ **Strong relative value in AAA Non-QM RMBS**. Credit fundamentals are solid (low delinquency/losses and high levels of home equity due to home-price-appreciation) especially for prime mortgage consumers. Structural enhancements improve durability. This allocation remains scalable with improving technical support. ▪ **High quality ABS also screens attractive** and has lagged the broader risk-rally.
Agency MBS	▼ (Negative)	▪ Valuations optically screen fair-to-attractive vs. history and corporates; however, **we have less confidence of the sector fulfilling its role as a credit diversifier due to lack of technical support**. ▪ Money managers remain very overweight which makes the marginal buyer unclear.
Taxable Municipals	■ (Neutral)	▪ Taxable munis' outperformance versus IG corporates has narrowed month-over-month, **making relative value neutral**. ▪ 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 30 April 2025

			Credit Spreads (basis points)					Total Returns (%)[1]		
	Yield to Worst (%)	Duration (years)	Current Spread	M/M Change	1YR High	1YR Low	1YR Avg.	1M	YTD	1YR
HIGH YIELD CORPORATES										
Global HY	7.82	3.54	411	34	471	301	360	-0.02	1.15	9.82
US HY	7.90	2.97	384	37	453	253	302	-0.02	0.98	8.69
Euro HY[2]	8.30	2.77	374	28	446	286	344	0.42	1.4	9.43
Asia HY	10.33	2.58	551	116	635	381	479	-1.37	1.48	10.20
Loans[3]	8.01	0.25	470	18	514	419	450	-0.07	0.41	6.26
EMERGING MARKETS										
EM Sovereigns (USD)	7.89	6.49	368	19	430	310	358	-0.22	2.02	8.77
EM Corporates (USD)	6.59	4.16	278	20	296	229	258	-0.43	1.98	8.23
INVESTMENT GRADE CORPORATES										
Global IG	4.57	5.80	110	13	120	82	96	0.36	2.13	7.83
US IG	5.14	6.75	106	12	119	74	88	-0.03	2.27	7.60
Euro IG[2]	5.65	4.58	113	14	128	87	107	1.24	1.57	7.63
Asia IG	4.84	5.02	93	13	101	66	80	0.29	2.78	7.97
SECURITIZED CREDIT										
CLOs	5.63	3.17	216	3	302	178	237	0.23	1.3	6.48
CMBS	4.75	4.00	97	9	104	75	90	0.91	3.49	9.37
ABS	4.49	2.54	74	14	75	42	55	0.49	2.03	7.08
OTHER SPREAD SECTORS										
Agency MBS	4.93	6.00	43	7	56	31	42	0.29	3.35	8.99
Taxable Munis	5.26	9.03	92	6	97	71	80	-0.20	2.62	6.93

COMMON BENCHMARKS

			Total Returns (%)[1]		
Index	Yield to Maturity (%)	Duration (years)	1M	YTD	1YR
Global Aggregate	3.46	6.48	0.98	2.17	7.35
US Aggregate	4.51	6.01	0.39	3.18	8.02

Sovereign Yields

10-Year Rates	Yield to Maturity (%)	M/M Change (bps)	1YR High (%)	1YR Low (%)
U.S. Treasury	4.16	-4	4.79	3.62
German bund[2]	4.71	-7	4.85	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. As of 30 April 2025, currency hedges increased European sector yields by approximately 227 basis points for USD-based investors.

[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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