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Navigating a Volatile Global Fixed Income Market

Alexander Viner

Head of Portfolio Management
Wise Wolves Group

Fixed income overview

	YTD	2024	2023	2022	Rating	Duration	YTW	Current yield
US								
USD 3-Month Money Market rates	+1,3%	+5,5%	+2,4%	+0,2%			4,2%	4,2%
The Bloomberg US Aggregate Index	+1,9%	+1,3%	+5,5%	-13,0%	AA2/AA3	6,19	4,4%	3,8%
The Bloomberg US Corporate Bond Index	+0,4%	+2,1%	+8,5%	-15,8%	A3/BAA1	7,07	5,1%	4,7%
The Bloomberg US Corporate High Yield Bond Index	-1,8%	+8,2%	+13,4%	-11,2%	BA3/B1	3,64	8,3%	6,9%
EU								
3-Month EUR Money Market rates	+0,8%	+3,3%	+0,0%	-0,5%			2,1%	2,1%
The Bloomberg EuroAgg Index	-0,6%	+2,6%	+7,2%	-17,2%	AA3/A1	6,45	2,9%	2,3%
The Bloomberg Pan-European Aggregate: Credit Index	-0,7%	+4,4%	+8,3%	-16,4%	A1/A2	5,45	3,4%	2,7%
The Bloomberg Pan-European High Yield Index	-1,3	+9,1%	+12,8%	-11,1%	BA3/B1	3,17	6,6%	5,3%
EM								
The Bloomberg Emerging Markets Hard Currency Aggregate Index	+0,4%	+6,6%	+9,1%	-15,3%	BAA2/BAA3	6,20	6,6%	5,6%
Bloomberg Emerging Markets High Yield	-1,7%	+14,9%	+13,1%	-12,4%	BA3/B1	5,29	8,9%	7,0%
Equity indices								
S&P 500 INDEX	-14,4%	+25,0%	+26,3%	-18,1%				
STXE 600 (EUR) Pr	-6,3%	+9,6%	+16,6%	-9,9%				
MSCI ACWI	-11,2%	+18,0%	+22,8%	-17,9%				

Source: Bloomberg

Recent Market Movers in Fixed Income

- **EU**: Fiscal restructuring and €500bn infrastructure plan triggered the biggest Bund selloff since Germany reunification, weighing on EU bond markets.

- **US**: Rising trade tensions linked to Trump's tariff agenda led to risk-off sentiment—HY and EM bonds sold off , but we've recently seen signs of stabilization and selective recovery in higher quality segments. Treasuries had very volatile trading with MOVE index reaching highest level since 2023.

- **Japan**: 10Y JGB yields hit 16-year high (~1.6%) amid expectations of BOJ tightening—largest quarterly rise since 2003.

Equity Corrections History

Index	Euro area crisis		China slowdown		FED rate, 1st trade war		2nd COVID wave		**Average**		**Current**	
	Price performance	OAS Spread widening	Price performance	OAS Spread widening	Price performance	OAS Spread widening	Price performance	OAS Spread widening	**Price performance**	**OAS Spread widening**	Price performance	OAS Spread widening
U.S. Treasury index	9,8%	- 6,2	4,6%	- 14,7	2,4%	- 90,8	-1,2%	- 20,7	**3,9%**	**- 33,1**	1,9%	-1,3
US IG Corporate	5,7%	99,9	1,1%	66,9	-0,1%	44,3	-1,3%	- 0,6	**1,4%**	**52,6**	-0,6%	41,2
US Corp HY	-6,0%	377,7	-11,5%	364,8	-4,9%	213,7	-0,8%	31,9	**-5,8%**	**247,0**	-3,3%	190,5
EM USD	-0,2%	232,8	-2,3%	143,3	0,2%	47,8	-2,0%	- 2,7	**-1,1%**	**105,3**	-1,1%	61,0
Euro-Aggregate	4,4%	105,9	2,6%	22,5	0,5%	14,4	1,3%	- 1,5	**2,2%**	**35,3**	-0,3%	9,1
Pan-Euro IG Corp	3,0%	149,8	-1,6%	42,9	-0,4%	31,3	0,5%	1,0	**0,4%**	**56,2**	-1%	23,7
European High Yield	-11,0%	496,9	-7,0%	209,9	-3,9%	163,9	-0,7%	33,6	**-5,6%**	**226,1**	-2,6%	139,9

Performance and OAS Spread widening during corrections, as of 08/04/25. Source: Bloomberg.

- Since February 19, 2025, the S&P 500 has dropped by ~ 19% as of the 8th April 2025, entering correction territory.
- Fixed income market performance and spread moves have been generally in line with past corrections, such as during the euro crisis, China slowdown, and early COVID periods.
- Corporate and High Yield spreads have widened, but still remain below historical averages, suggesting there may still be some repricing potential, especially in lower-quality segments.

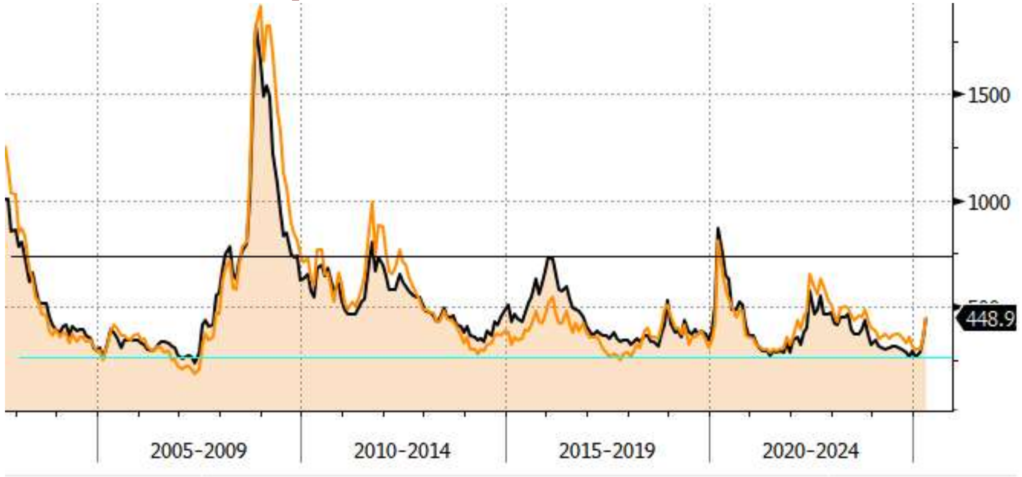
Credit Spreads in Bear Markets

Index	Dot com bubble	GFC	COVID-19	Inflation 2022	Bear Market Average	Current
US Corporate IG	116,5	374,3	283	67	**210**	**41,2**
US Corporate HY	473	1267	755	241	**684**	**190,5**
EM USD Aggregate	4,16	442	418	131	**249**	**61,0**
Euro-Aggregate	8	145	55,2	60	**67**	**9,1**
European Corp IG	42	334	123,4	117	**154**	**23,7**
European Corp High Yield	491	1820	606,2	359	**819**	**139,9**

OAS spread widening. Source: Bloomberg

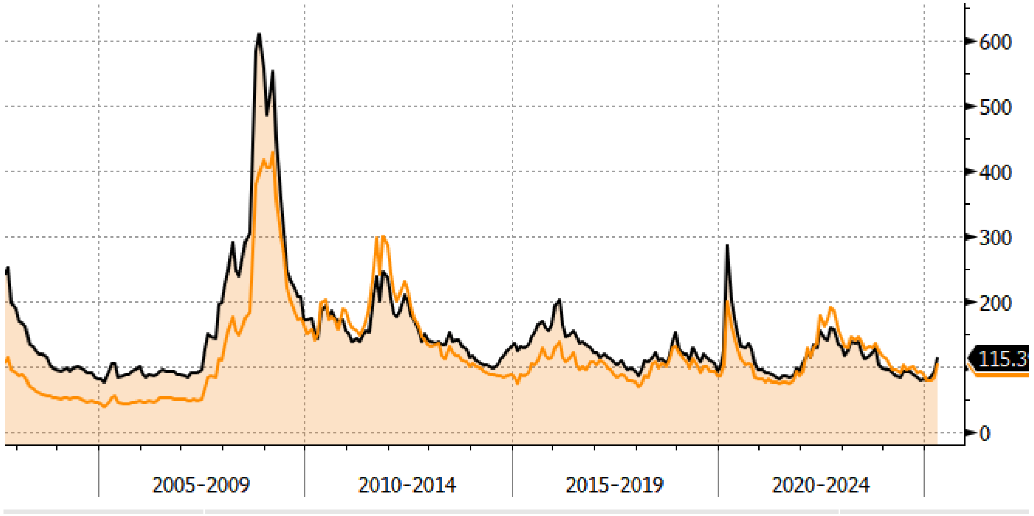
- With equity markets correcting and policy uncertainty rising (e.g., tariffs), the risk of a broader bear market is back on the table.
- History shows that during past shocks (GFC, COVID-19, Inflation 2022), credit spreads widened dramatically—far beyond current levels.
- Current spreads remain way below recession-era peaks, they have already started to normalize, and some areas are approaching more attractive entry levels.
- HY and EM debt appear to be selectively repricing, and some sub-sectors are already compensating investors more fairly for risk.

Credit Spreads in Historical Context



Eur HY OAS spread — US HY OAS Spread

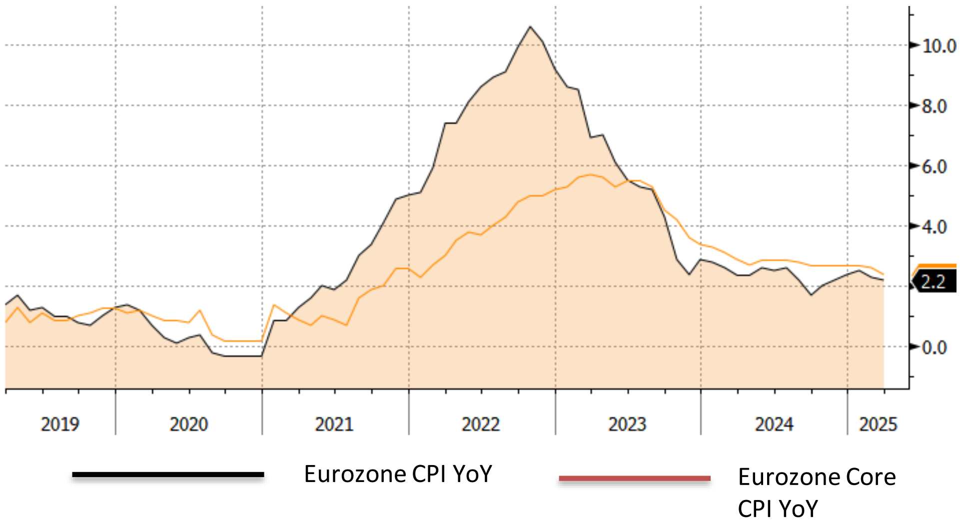
EM HY OAS spread — EM USD Agg OAS Spread

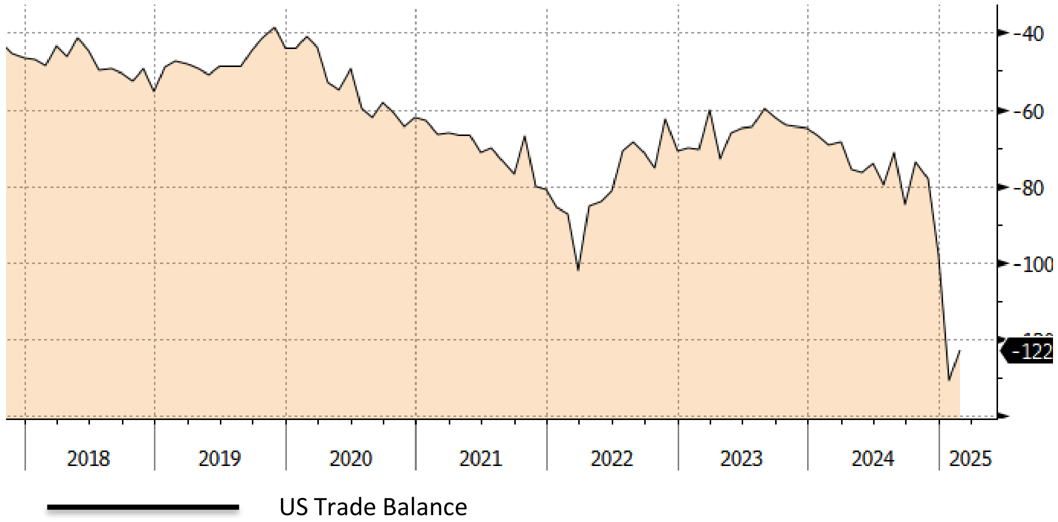


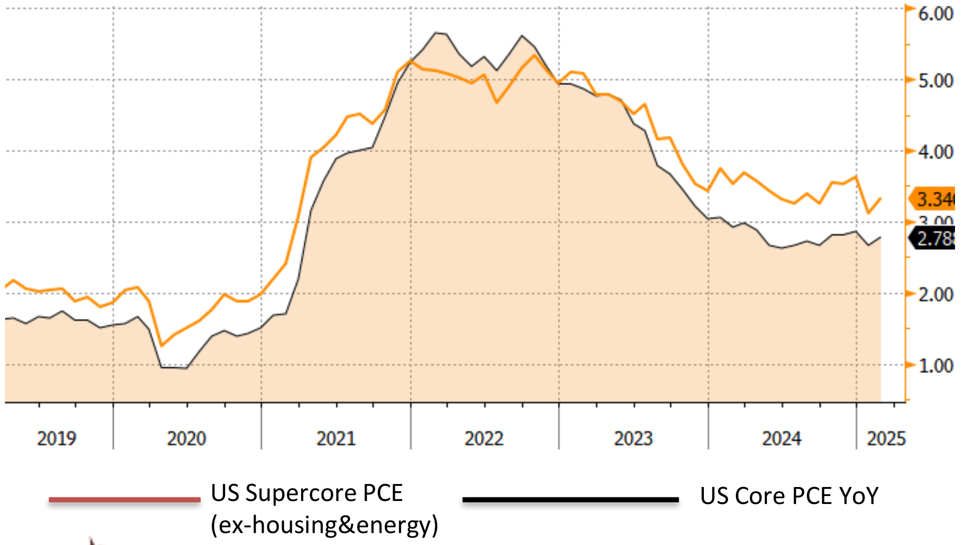
Eur IG OAS Spread — USD IG OAS Spread

- Spreads have moved off their multi-year lows, but IG and EM indices are still not pricing in significant dislocation while broad market repricing has created selective opportunities.
- Spreads remain below crisis or recessionary levels, political uncertainty persists.
- The recent widening looks more like an initial repricing, not a full-blown dislocation.
- Broad sell-offs often create pockets of opportunity for active investors.

Inflation & Trade: Diverging Dynamics

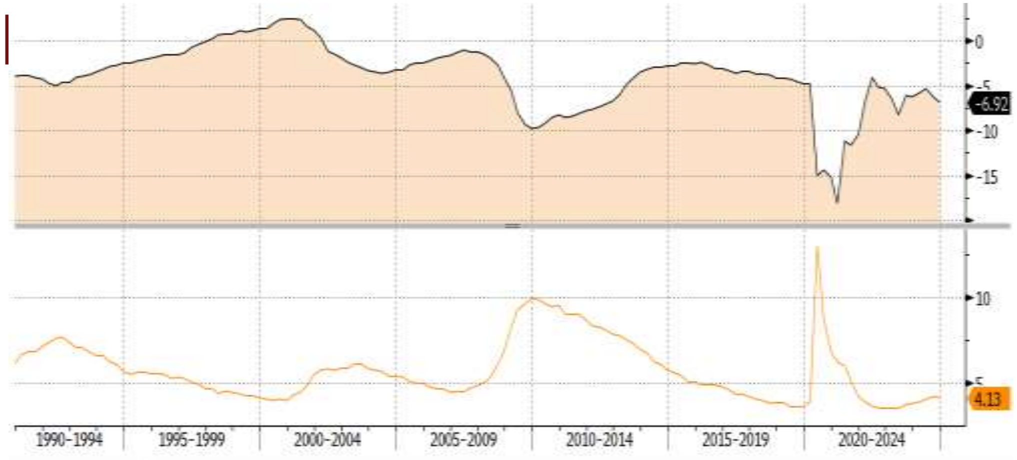




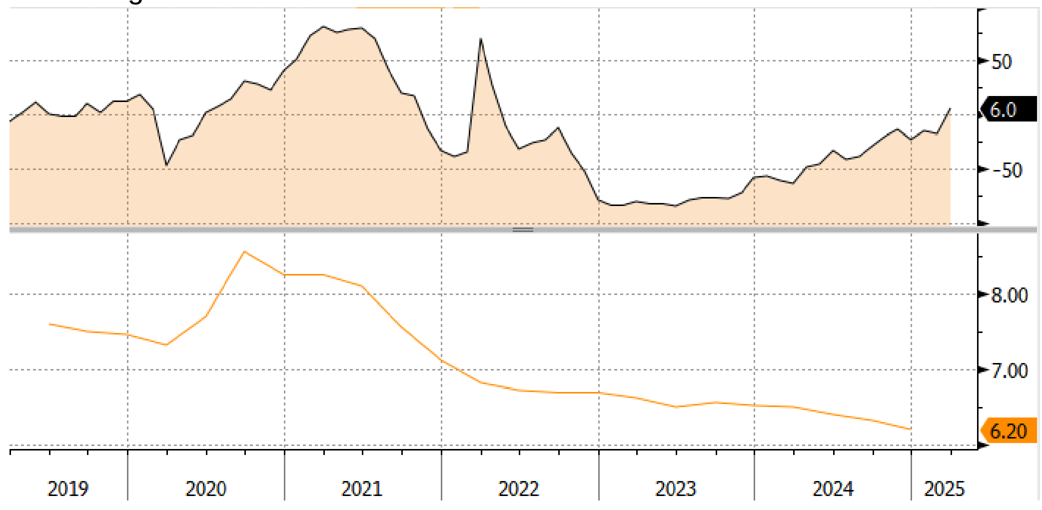


- Eurozone inflation has largely normalized, with core CPI near the ECB's 2% target.
- US Core and Supercore PCE remain above target, suggesting persistent inflationary pressures.
- A recent import surge widened the US trade deficit—companies appear to be front-loading goods ahead of potential tariffs, potentially delaying the inflation impact.
- According to Goldman Sachs, proposed tariff hikes could lead to an 18.8% effective increase, and each 1% tariff typically adds ~0.1% to PCE inflation.

Diverging Fiscal Strategies: U.S. vs.



US Budget Deficit (upper graph) vs Unemployment rate (bottom graph), Bloomberg



ZEW Eurozone Inflation Expectations (upper graph) vs Eurozone unemployment rate (bottom graph), Bloomberg

- In the U.S., the budget deficit reached -6,9% of GDP, driven by large-scale fiscal programs like the Infrastructure Investment and Jobs Act and the Inflation Reduction Act.

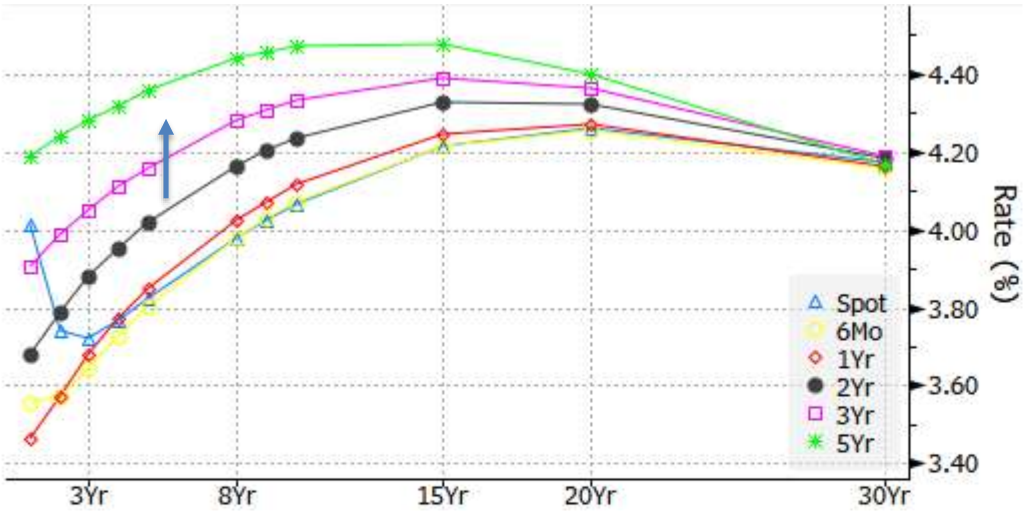
- The Trump administration and DOGE aim to cut spending by $1 trillion (~55% of the deficit), but this could be offset by planned tax cut extensions.

- In Europe, fiscal policy is turning more expansionary:

  - Germany is launching a €500 billion infrastructure fund and planning to remove debt limits on ~€200 billion defense spending.
  - The European Commission’s "Readiness 2030" initiative may mobilize up to €800 billion for infrastructure and defense-related expenses.
  - Italy is proposing a €200 billion fund to attract private investment in strategic sectors.

- With low unemployment and rising inflation expectations, there's a growing risk that these fiscal expansions could fuel inflation in the Eurozone—though the effect will depend on implementation.

Forward Curves Signal Near-Term Cuts, Higher Long-Term Rates



Forward curve based USD interest curves forecasts, Bloomberg

- USD swap forward curves indicate that markets expect policy rate cuts in the short term, particularly over the next 1–2 years.
- However, beyond that, the curves steepen, suggesting that rates may rise again in the medium term, with 3Y–5Y forwards approaching 4.2–4.3%.
- This reflects expectations that any easing cycle may be temporary, with structural drivers like fiscal expansion and inflation persistence pushing rates higher again.
- Additionally, AI-driven productivity gains may support stronger long-term growth, which in turn could imply a higher neutral rate than previously estimated.

Risks & Opportunities

Risks	Opportunities
Rate and credit volatility remains elevated	90-day tariff reset benefits exporters in Asia & EU (flat 10%)
Central bank policy path remains unclear: data lag, headline-driven	Selective value in apparel, retail and some Asian countries names post drawdown
EM credit may underprice political and fiscal uncertainty	Forced selling in most hit sectors may create credit mispricing

CONTACTS:
Alexander Viner
Head of Portfolio Management
Wise Wolves Group

m: +357 97 837 153
alexander.viner@wise-wolves.com

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Spyrou Kyprianou 61, Mesa Geitonia, 4003, Limassol, Cyprus
t: +357 25 259 377
office@wise-wolves.com
www.wise-wolves.com