

Fixed Income Weekly



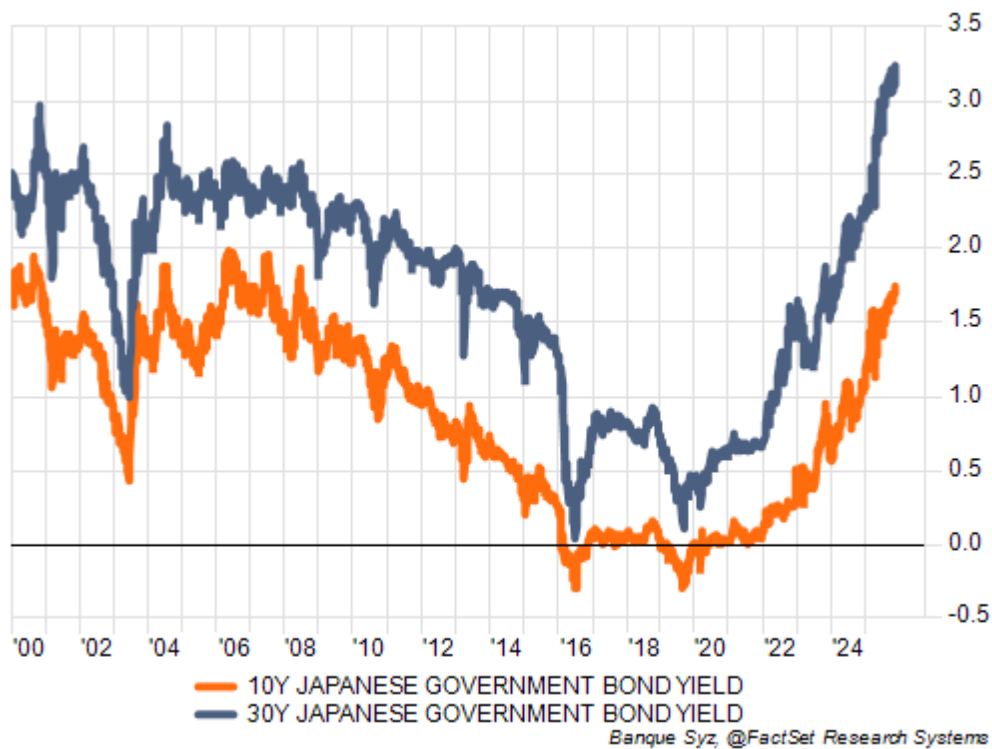
Fed rate cut prospects bounce up and drive USD yields lower

Syz Fixed Income Research – Week from 17 to 21 November 2025

A repricing of Fed rate cut odds pushes USD yields lower, while credit spreads widen

The Chart of the Week

Japanese Government yields surge on fiscal and inflation worries



Japanese government yields rose again last week, with the 10-year yield climbing above 1.8% for the first time since 2008, while 30-year yields reached 3.39%. Since 2022, Japanese government yields are on a rapid upward trend after two decades of downward pressures.

Inflation now firmly anchored above the Bank of Japan's target and supportive fiscal policies are raising concerns around the inflation outlook. Last week, Prime Minister Sanae Takaichi's announced ¥21.3 trillion fiscal stimulus (equivalent to \$135bn, 3% of Japan GDP).

This rise in long-term Japanese government yields reflects markets' concerns around public debt and inflation dynamics in Japan. Their rise might unleash upward pressures on long-term government rates across the world, especially in countries facing a similar combination of persisting inflation and worrying public debt dynamics.

What happened last week?

Central banks

Investor sentiment swung notably this week as markets recalibrated expectations for US monetary policy. The probability of a December Fed rate cut rose toward 80%, up sharply from 43% a week earlier, after NY Fed President Williams said he sees room for another cut “in the near term.” This came after expectations had briefly plunged to 25%, following the BLS announcement that both the October CPI and payrolls reports were cancelled and that November data will arrive only after the December FOMC meeting. With no fresh inflation or labor-market prints before 12 December, uncertainty is elevated across asset classes. In parallel, the October FOMC minutes highlighted an increasingly divided Committee: while several members judged inflation close to target, many stressed persistent upside risks and little progress toward 2%. Policymakers delivered conflicting messages this week, from Waller supporting a December cut to Logan, Bostic and Goolsbee expressing caution. Minutes showed that most participants see further easing as appropriate over time, though not necessarily in December. This coming December Fed’s meeting remains highly uncertain in its outcome.

Euro-area negotiated wage growth slowed to 1.9% in Q3 (vs 2.5% expected and after 4.0% in Q2), reinforcing ECB confidence that services inflation will moderate. President Lagarde pushed back firmly against political calls for renewed QE, emphasizing the need for fiscal reforms rather than monetary accommodation. The European Commission’s autumn forecasts show inflation near target by 2026 and subdued growth through 2027, underscoring a landscape of balanced inflation risks but persistent downside risks to activity. ECB rate future pricings were barely affected last week, unlike in the UK where milder-than-expected inflation data for October and dovish-leaning talks from BoE members pushed the probability of a December rate cut up toward 90%.

The South Africa Reserve Bank cut its key rate by 25bp to 6.75%, as expected, while the Bank Indonesia kept its rate unchanged at 4.75%.

Rates

US government bond markets strengthened over the week as risk-off sentiment dominated global trading, and the probability of a December rate cut rose. US Treasuries rallied, with yields declining across the curve. The 2-year yield fell nearly 10 bps to 3.51%, while the 10-year drop 8 bps to 4.06%. The belly of the curve led the rally, while the long end underperformed, helping drive a noticeable steepening: the 2s30s yield differential is now at its largest in almost three months. Inflation expectations eased, with the 10-year breakeven down 5 bps, and real yields also edged lower.

In Europe, yields were marginally softer. German bunds declined modestly across maturities (10-year: -2 bps), while Italian BTPs fell 1 bp. Gilts also rallied, with the 10-year down almost 3 bps, as investors positioned cautiously ahead of the UK Autumn budget and the probability of a December BoE rate cut rose.

ETF performance mirrored the rates backdrop. US Treasury funds recorded gains across the curve, led by the 7-10y segment (+0.78%). In Europe, performance was more mixed: core government bond ETFs were broadly flat, while EUR inflation-linked bonds lagged at -0.33%.

Japan 10-year yields extended their relentless increase and climbed above 1.8% for the first time since 2008, after a large fiscal stimulus was announced by the new Prime Minister while inflation is still above target.

Credit

Credit spreads widened as investors continued to absorb heavy supply in the secondary market. Meanwhile, equity and cryptocurrency volatility were elevated, with another week of pullback on technology stocks. Meanwhile, U.S. Treasury and German bund yields fell and drove total returns of most credit segments positive.

U.S. primary issuance accelerated last week, exceeding expectations ahead of the holiday-shortened week of Thanksgiving. Despite broader market volatility, demand held firm: U.S. investment-grade deals averaged slightly over 4 times oversubscription. New issue supply could rise further in 2026, driven by AI-related capex investments and large M&A pipeline. With U.S. rates forecast to decline next year, opportunistic refinancing could also boost issuance volumes.

In Europe, high-grade funds posted another week of inflows, marking 30 out of the last 31 weeks of positive momentum. Short-term strategies continued to attract stronger demand, partly due to the fixed-maturity fund launches, capturing the majority of inflows this week.

Moody's upgraded Italy by one notch to Baa2 with Stable outlook last week, citing consistent track-record of political and policy stability. This will likely translate into improved funding conditions for Italian banks.

Credit markets delivered mostly positive returns, supported by lower U.S. Treasury and German bund yields. Both U.S. and EUR investment grade gained +0.1%, while U.S. high yield advanced +0.2%. The only exception was EUR high yield, which declined -0.2%.

Emerging market

Emerging market (EM) Sovereign and corporate \$ bonds advanced last week, thanks to the lower U.S. Treasury yield. Nigeria and Turkiye were among the outperformers.

In Chile, far-right candidate José Antonio Kast is widely expected to win the presidential runoff on December 14, after securing roughly 70% in the first round. Markets view his potential victory could accelerate fiscal deficit reduction and bring more business-friendly policies. Chile's GDP growth has so far exceeded IMF forecasts, inflation is moderating, and the fiscal deficit is projected to narrow towards 2% of GDP by year-end. With most Chilean exports destined to Asia and raw copper (key export) exempt from the 50% U.S. tariffs on semi-finished goods, Chile's credit fundamentals could continue to strengthen.

Colombia successfully issued €2 billion across three maturities to repurchase USD bonds, lowering funding costs and diversifying away from reliance on dollar markets.

In China, October housing data showed renewed weakness, with home price falling across upper and lower tier cities. Political tensions with Japan escalated after comments by Prime Minister Takaichi regarding Taiwan, prompting China to cancel Japanese cultural events, suspend seafood imports, and discourage travel to Japan. This is after Takaichi's statement that Japan could take self-defense force if China will attack Taiwan.

Despite stronger hard-currency markets, local-currency sovereign performance lagged. The J.P. Morgan EM Local Currency Bond ETF fell -0.5%, reversing part of the previous week's gain. EM Asia high yield also declined -0.3%.

With a weaker U.S. dollar and improved external balances, Latin American corporates should be better positioned than the last election cycle in 2021-22 in navigating political uncertainties.

Our view on fixed income

Rates

NEGATIVE in current environment

We shift to a Negative stance on government bonds. Positive global growth dynamics, price pressures in the US and profligate fiscal policies reduce the attractiveness of long-term government bonds as a potential hedge for economic downturn and increase the risk of higher long-term yields. Limited prospects of further central banks' rate cuts and unattractive yield curve slopes at the front-end also reduce the attractiveness of government bonds on short-to-medium term maturities.

High Yield

NEUTRAL, favor short maturities

We like High Yield bonds with short maturity for their attractive combination of yield and low sensitivity to interest rate movements. HY spreads have tightened, signaling economic stability and contained default risk in the short run. However, those tight spreads are not attractive for medium-to-long term maturities as they do not compensate adequately for a potential deterioration in the economic environment. As such, we hold a Neutral view for High Yield in an allocation, with a clear preference for short-duration investments. We continue to find value in subordinated debt.

Investment Grade

NEUTRAL, harvest the carry

We find Investment Grade corporate bonds attractive in the current environment, given their yield level and our constructive economic scenario. However, tight credit spreads reduced the margin for safety in credit and make the asset class expensive from a valuation standpoint. As a result, we keep a Neutral stance on Investment Grade credit from an asset allocation perspective. The credit market's overall health is supported by robust demand and strategic maturity management.

EM

NEUTRAL, be selective

We advocate for a careful selection of issuers to benefit from attractive absolute yields. Substantial inflows into EM debt this year have been fueled by a weak dollar along with EM corporates' solid credit metrics and support the asset class. However, risks persist, with rich valuations and unpredictable Trump's trade policies. Idiosyncratic risks also remain, notably in Brazil and India. Given this backdrop, we stay selective, favoring short-duration opportunities while remaining Neutral on the broad EM debt asset class.

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