

# Fixed Income Weekly

## Imminent Fed Easing Lifts Bond Markets in Thanksgiving Week

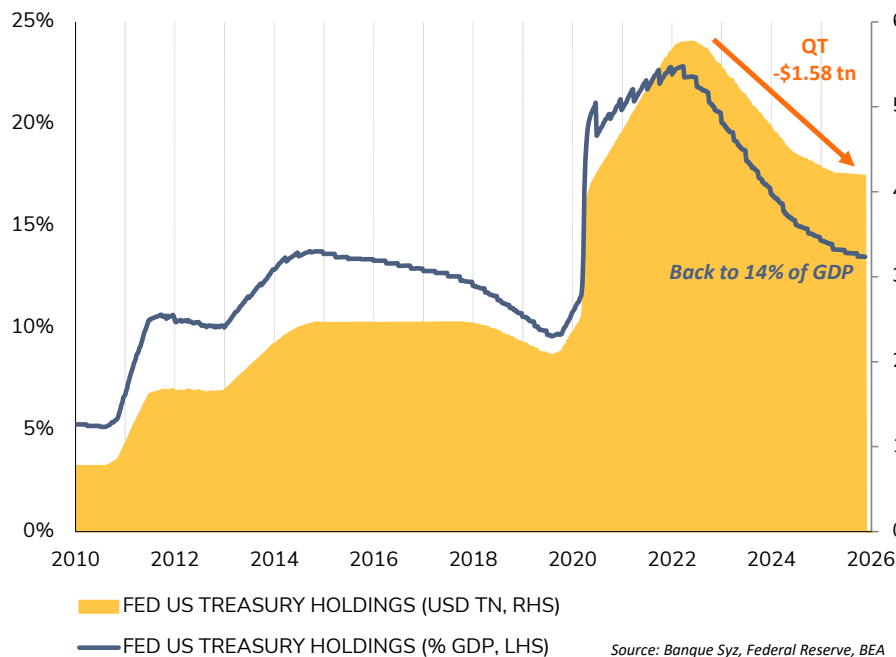


Syz Fixed Income Research – Week from 24 to 28 November 2025

*A quasi-certain Fed rate cut in December, the end of the Quantitative Tightening program and a rebound in sentiment toward credit and EM Debt lifted bond markets last week*

### The Chart of the Week

**The Federal Reserve brings Quantitative Tightening to an end as its balance sheet has been normalized relative to the size of the economy.**



The Federal Reserve officially halted its Quantitative Tightening program on December 1<sup>st</sup>, ending a program that had been ongoing since June 2022. Over three-and-a-half years, the Fed withdrew approximately USD 2.4 trillions from the financial system, including a decline of 1.58 trillion in US Treasury held onto its balance sheet.

In absolute terms, this decline has only partially offset the amount of bonds added to the Fed's balance sheet during the Covid crisis. However, relative to the size of the US economy, those holdings have been almost fully normalized, down below 15% of the US GDP. In recent weeks, some signs of tight liquidity conditions on US funding markets have signaled that excess liquidity had been fully removed and that the process of balance sheet normalization had to be brought to an end. The end of the Quantitative Tightening will create more favorable liquidity conditions for financial assets and especially USD bond markets going forward.

# What happened last week?

## Central banks

The Federal Reserve has entered its pre-meeting blackout ahead of the 10 December FOMC. As the Quantitative Tightening program is ended, future markets now almost fully price additional monetary policy easing, with a 25bp rate cut for the last meeting of the year (96% probability). The standout development is political: Kevin Hassett has emerged as the leading candidate to replace Chair Powell.

At the Bank of Japan, Governor Ueda raised expectations around the upcoming December 19 meeting, noting that the Board will “consider the pros and cons of raising the policy interest rate.” In the context of lower uncertainty around US trade tariffs, upward pressures on wages and inflation still firmly above target, markets perceived these comments as rising the chance of a 25bp rate hike, with probabilities up from 20% to 80% last week.

The ECB's October meeting account struck a slightly hawkish tone. At the October 30<sup>th</sup> meeting, policymakers debated whether the cutting cycle had already ended or whether further easing might still be needed. The minutes flagged “loud” food inflation, rising inflation-expectation risks, and uneven but potentially “worrisome” house-price dynamics. Future markets continue to attach only a small probability to an additional 25bp rate cut next year.

In Australia and New Zealand, policy paths are diverging. Australia's inflation beat reinforces the RBA's extended hold through 2026, while the RBNZ's split November cut and neutral guidance suggest stability ahead.

## Rates

Government bond markets posted a broadly firmer tone last week, led by the U.S. Treasury curve, where yields fell modestly across maturities. The 2-year and 5-year declined by 2bp each, while the 10-year and 30-year both fell 5bp, to 4.01% and 4.66% respectively. Real yields eased slightly, with the 10-year TIPS rate down 3bp, and breakevens softened by 2bp, signalling marginally weaker inflation compensation. This backdrop supported Treasury ETFs, where performance increased steadily along the curve (from +0.06% in the 1–3y segment to +0.79% in 20y+ exposures).

In Europe, moves were mixed but generally skewed lower at the long end. Bund yields were little changed, with the 10-year down 1bp. French, Italian, Spanish, Portuguese and Irish 10-year yields all compressed between 3–6bp, reflecting a mild risk-on shift and supportive technicals. Correspondingly, EUR government bond ETFs recorded modest gains: +0.15% in the 3–7y bucket, +0.64% in the 10–15y segment and +0.28% for the broad EUR aggregate index. Inflation-linked EUR bonds also advanced (+0.22%).

Elsewhere, UK Gilts outperformed with a notable 11bp rally in the 10-year to 4.44%, while Swiss yields moved slightly higher. Japanese yields extended their upward trend, with the 10y JGP yield up +3bp to 1.81%.

## Credit

Credit spreads tightened across USD and EUR investment-grade and high-yield markets, even as concerns mounted over the scale of AI-infrastructure spending. Funding needs have grown so large that they increasingly require debt issuance. Given the magnitude of projected AI-capex, this wave of AI-related supply is unlikely to fade; instead, it is set to become a defining segment of fixed-income markets, much as AI has already reshaped equities.

While exposure to the AI-investment cycle offers access to a powerful structural theme, the rising reliance on leverage reinforces the importance of disciplined issuer selection.

In the UK, last week's Autumn Budget brought a rally in U.K. Gilts, helped by a surprise increase in fiscal headroom projections.

Fund inflows into U.S. and EUR investment-grade credit remained solid despite equity volatility and heavy November issuance, with demand concentrated in short-duration strategies.

The combination of tighter spreads and a modest decline in U.S. Treasury yields supported a broad-based rally: U.S. investment grade and high yield each advanced +0.8%, EUR investment grade gained +0.3%, and EUR high yield rose +0.7%.

In EUR credit, high-beta sectors outperformed across the rating spectrum. Autos led performance in investment grade, while Chemicals delivered the strongest returns in high yield.

Looking ahead to 2026, USD and EUR investment-grade issuance could accelerate, driven by AI-related capex and renewed M&A activity. Stronger foreign demand for USD credit, supported by expected Fed rate cuts and lower hedging costs, should help contain spreads. Credit fundamentals may soften, but they start from an exceptionally strong base.

## Emerging market

Emerging market (EM) Sovereign and corporate USD bonds gained again last week, supported by tighter credit spreads and a modest decline in U.S. Treasury yields. Ukrainian bonds jumped on renewed peace talks with Russia. Strength was broad-based across EM sovereigns, led by Ivory Coast, Nigeria, Egypt, Türkiye and Mexico.

Global EM debt funds continued to see inflows this year, after three consecutive years of outflows.

In Brazil, the October 2026 election cycle is taking shape. Lula retains a polling lead, bolstered by recent U.S. tariff developments. Washington briefly imposed 50% duties on selected Brazilian goods, reportedly tied to pressure over Bolsonaro's release, before rolling back most agricultural tariffs on coffee, beef, cocoa, and fruit ahead of Thanksgiving. Combined with Lula's firm stance toward Trump, the reversal lifted his public support. He enters the Presidential race with an advantage, though balancing growth, inflation, and fiscal consolidation remains critical. Softer inflation can potentially allow a cumulative 300 basis point SELIC policy rate cut (from 15% to 12%), supporting the economy.

In China, property-sector risks persist. Even Vanke—partially owned by Shenzhen Metro—has sought bondholder consent to delay repayment on an onshore bond. Housing data continue to deteriorate, with price declines across both upper- and lower-tier cities, and banks reportedly listing more foreclosed properties. The likelihood of another policy-easing round is rising.

Performance was positive across the board: EM hard-currency debt advanced (iShares EM Sovereign USD Bond ETF +0.6%), local-currency bonds outperformed (J.P. Morgan EM Local Currency ETF +1.1%), EM corporates gained +0.3%, while Asian high yield was flat.

EM corporates enter 2026 on solid ground, supported by healthy credit fundamentals, modest capex needs, manageable maturities, and steady access to local funding. EM GDP growth is expected to remain resilient with a moderate acceleration in 2026, strong in the Middle East and Africa, but softer across Latin America and Eastern Europe. Against this favourable backdrop, net financing needs should remain low, a supporting anchor for EM credit performance.

# Our view on fixed income

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## Rates

### NEGATIVE in current environment

We maintain 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.

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## 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.

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## 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.

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## 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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