

# Fixed Income Weekly

*A look back at the year 2025*

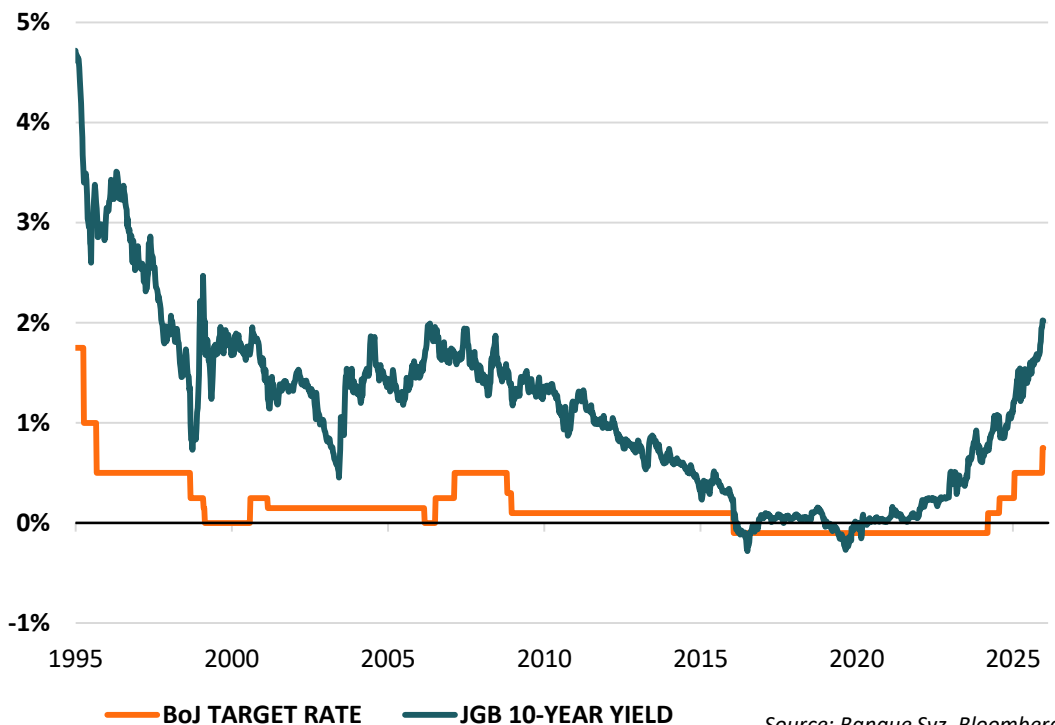


Syz Fixed Income Research – Week from 15 to 19 December 2025

***A near end to the central bank rate cut cycle, some major divergences in sovereign rates and broadly tighter credit and EM spreads***

## The Chart of the Week (and of the Year!)

***Japan rates have been rising this year toward levels not seen since the 1990's***



Source: Banque Syz, Bloomberg

During a year in which most major central banks were extending their rate-cut cycles, the Bank of Japan has continued along its own path of policy normalization. After exiting negative interest rates in 2024, the BoJ began 2025 with a 25bp rate hike in January and ended the year with another similar move last week, lifting the overnight policy rate to its highest level in 30 years at 0.75%.

Against a backdrop of resilient growth and inflation dynamics, supported by expansionary fiscal policy, this rate hike cycle could extend into 2026, particularly if yen weakness persists. Meanwhile, the long end of the JPY yield curve has continued to reprice for an environment of higher nominal growth and ballooning public debt. The 10-year JGB yield climbed to its highest level since 1999, while the 30-year yield reached an all-time high of 3.44%.

# What happened this year?

## Central banks

The global monetary policy cycle likely neared its end in 2025. Most major central banks extended the rate-cut cycles launched in 2024 until policy rates reached broadly neutral levels.

The Federal Reserve followed a distinct path, shaped by specific U.S. factors. After delivering 100bp of cuts in 2024, it paused in early 2025 as “Trumponomics” (higher import tariffs and strong fiscal support) blurred the growth and inflation outlook. The Fed resumed easing in September, once data began to signal a cooling labour market and limited upward inflationary pressures. It delivered 75bp of cuts, bringing the Fed funds target rate to 3.75%, its lowest level since late 2022.

Meanwhile, several developed-market (DM) central banks completed their easing cycles by lowering rates to estimated neutral levels. The ECB cut rates by 100bp in 2025 to 2.0%, the SNB by 50bp to 0.0%, the Bank of Canada by 100bp to 2.25%, the Reserve Bank of Australia by 75bp to 3.60%, and the Swedish Riksbank by 75bp to 1.75%. All ended the year firmly on hold, with no further cuts in sight. The Bank of England was a partial exception: despite 100bp of cuts to 3.25%, it may not yet have reached its neutral rate.

The Bank of Japan stood out as the clear outlier among DM central banks. It raised rates twice by 25bp, lifting its policy rate to 0.75%, the highest level in 30 years.

Emerging-market (EM) central banks also broadly eased policy in 2025. Banco de México cut rates by 300bp to 7.0%, the Reserve Bank of India by 75bp to 5.25%, the People’s Bank of China by 10bp to 3.0%, the Bank of Korea by 50bp to 2.50%, the South African Reserve Bank by 100bp to 6.75%, and the Central Bank of Türkiye by 800bp to 41%. Banco Central do Brasil was the main exception, raising its policy rate by 275bp to 15.0%.

## Rates

Unusual divergences emerged across major sovereign bond markets in 2025. Despite resilient economic growth, sticky inflation, and the continuation of expansionary fiscal policies, US Treasury yields declined, with the USD yield curve experiencing a “bull steepening.” Two-year yields fell broadly in line with the Fed funds rate (-75bp to 3.5%). Meanwhile, the 10-year Treasury yield was volatile in the first half of the year, trading in a 4.0%/4.5% range, before drifting lower in the second half toward 4%. It ended the year down 40bp at 4.15%, driven mainly by a decline in real yields (-30bp), while inflation breakevens fell only modestly (-10bp). Longer-dated maturities were also volatile, but the 30-year yield closed the year unchanged at 4.8%.

In contrast, euro-area government yields rose in a “bear steepening” move, triggered by Germany’s fiscal U-turn in March and the announcement of a decade-long public investment plan. While the front end of the curve was anchored by the ECB’s policy rate stabilization at 2%, long-term German yields rose to their highest level since 2023, with the 10-year Bund up 50bp to 2.9%.

French government bonds were pressured by political instability and concerns over the public debt trajectory. The 10-year OAT yield rose 40bp to 3.6%, becoming the highest 10-year yield

among euro-area sovereigns. Other European yields also increased, though more moderately, as sovereign spreads vs Germany tightened overall (Italy 10y +5bp to 3.57%, Spain 10y +25bp to 3.3%, Portugal 10y +30bp to 3.15%, Ireland 10y +40bp to 3.05%).

Japanese government bond yields recorded the largest increase among major markets. Rising short-term rates, persistent inflationary pressures, supportive fiscal policy, and concerns over public debt dynamics pushed the 10-year JGB yield up by 90bp, above 2% for the first time since 1999.

UK government bond yields were volatile but largely range-bound amid growth, inflation, and fiscal concerns. The 10-year gilt ended the year only marginally lower (-5bp) at 4.5%. Swiss Confederation long-term yields hovered just above zero for most of the year, with the 10y rate closing 2025 broadly unchanged at 0.34%.

## Credit

2025 has felt like a full credit cycle compressed into a single year. It began with a bullish tone following Donald Trump's inauguration as the U.S. President, swung abruptly into a sharp sell-off after April "Liberation Day," then staged a rapid recovery—ultimately closing the year with credit spreads at historically tight levels across asset classes.

2025 has been exceptional on multiple fronts. The year's global net rate cuts are close to the pandemic year of 2020, and this without a major economic recession.

In Europe, investment-grade spreads tightened by 24 basis points, or a 25% rally, despite sharp volatility that saw the VIX spike after April's "Liberation Day" on U.S. tariffs. By year-end, EUR credits reached post-GFC tightness (global financial crisis in 2008-9) in BBB and BB rated corporates at the front-end of the curve.

The rally broadened decisively in the second half. Ninety-eight percent of EUR investment-grade bonds tightened year-to-date, and 34 bonds traded inside the German Bund yields, a striking signal of investor preference for corporate bonds.

The year also set structural records. The five longest-dated EUR new issues all came from U.S. corporates—including Alphabet (2054 and 2064), Bristol Myers Squibb (2055), and Pepsi (2055), underscoring investors' willingness to take on extreme duration risk for top tier credits.

Altice printed the highest coupon in the EUR high-yield market at 12.875%, illustrating the credit dispersion beneath the surface.

Investors are effectively "all-in," with cash balances near historical lows. The rapid rise of fixed-maturity funds has reshaped flows, driving relentless demand for the front end of the EUR credit curve, with short-term investment funds attracting far more inflows than longer-dated credit or government bond funds.

December feels unmistakably like year-end rally season. Concerns over "cockroach" credits, quoted by Jamie Dimon, JPM Morgan, have faded.

Looking into 2026, a steeper yield curve is supportive for French and Benelux banks, while simplified capital rules for U.S. banks reinforce a constructive outlook for bank profitability.

## Emerging market

Tariffs, trade tensions, and interest-rate uncertainty have remained persistent features throughout 2025. Yet, against this unsettled backdrop, emerging market (EM) corporate dollar credit has surprised decisively to the upside, delivering a total return of +8.5% year-to-date, the strongest performance of the past five years.

EM credit spreads have tightened to historical lows, even as issuers continued to access primary markets despite higher interest rates. Nevertheless, all-in yields remain attractive, at the 57th percentile of the past ten years.

Performance, however, has not been uniform. Brazilian high-yield corporates materially underperformed, driven by idiosyncratic credit events in the petrochemical sector that weighed on sentiment across the global chemicals complex.

Countries and corporates have learnt to adapt, renegotiate tariffs and reconfigure supply chains. In many respects, this has been a blessing in disguise: corporates are reluctant to start new projects but preserving balance-sheet strength, good for bondholders.

Brent crude briefly touched \$59/barrel, the lowest level since 2021. Yet, EM corporates have so far navigated commodity price volatility effectively, sustaining resilient fundamentals.

Flows also tell a powerful story. Fund inflows into EM debt have been very positive in 2025, following three consecutive years of outflows, marking a meaningful shift in investor positioning.

Looking ahead to 2026, returns are likely to moderate but should remain positive, underpinned by solid corporate fundamentals, the prospect of Fed rate cuts, and a potentially weak dollar.

# 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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