

Market commentary and outlook

By GIB AM Fixed Income Team

Market commentary

Q2 started abruptly with Trump's 'Liberation Day' announcements which set a universal 10% baseline tariff on nearly all imports, with higher reciprocal tariffs for many countries. This sent global financial markets tumbling and economists started to predict weaker growth and higher inflation as a result. After US 30yr yields jumped by over 54bps (the biggest three day increase since 1982) and global spreads rose materially (by more than 100bps for Global HY), Trump announced a 90-day pause. This calmed the market and eventually led it back on an upward trajectory for the remainder of quarter. The S&P500 eventually reached new all-time highs, whilst credit markets rallied back strongly and spreads closed tighter.

The quarter was also marked by escalating geopolitical tensions. During April, US/China relations deteriorated as a tit-for-tat trade war ensued, with tariff levels effectively barring US/China trade from occurring. In May, a 90-day reprieve on Chinese tariffs was announced as negotiations in Geneva and London advanced, which marked a significant de-escalation and left Chinese imports at a more bearable 10% baseline tariff with a 20% fentanyl related surcharge on most goods. Elsewhere, tensions flared in the Middle East, leading to a military conflict in which the US directly intervened. The violent exchange of missiles and drone attacks in the region temporarily drove oil prices higher but had limited overall market impact as the conflict remained somewhat contained.

In the rates markets, the US Treasury curve steepened over the quarter. Front end yields fell due to concerns over growth and improving month-on-month core inflation readings, whilst longer end yields went higher due to rising risk premiums stemming from the potential impact of the Big Beautiful Bill on the fiscal deficit and debt burden in the US. In Europe, the bund curve bull steepened as it became clearer that inflation is trending back to the ECB's medium-term target, but the long end of the curve saw no such respite as European nations committed to further defence spending at the 2025 Nato Summit.

In credit markets, spreads tightened over the quarter, with High Yield (HY) outperforming Investment Grade (IG) and the US marginally outperforming Europe, reversing the trend seen during the first quarter. Global IG spreads

closed the month of June only a few basis points above their year-end lows, despite a round trip that took them about 20bps wider in April before tightening back by around 40bps. The trend was similar across HY (where spread volatility exceeded 125bps) and Emerging Market (EM) corporates, which ultimately slightly underperformed due to a slower recovery.

Positioning and outlook

At this point, US IG spreads are trading at levels "more than one standard deviation expensive" than the 10y average, a pattern seen across most asset classes.

Chart 1: US IG spreads¹



Given these historically tight spreads and our cautious outlook for the global economy going into H2 25, we believe conservative risk positioning is the most appropriate approach at this juncture. As a result, we have reduced the portfolio's DTS beta relative to the custom benchmark to below 0.95x, one of the most conservative positions since the Fund's inception in September 2022.

While the US economy has demonstrated strong resilience over the H1 25, signs of a slowdown are emerging. These include softer confidence readings, cooling retail sales and a gentle uptick in default rates. Meanwhile, global uncertainty remains elevated. Trade tensions persist despite a three-month negotiation pause, and there is no clear path to a resolution in the ongoing conflicts in Ukraine and the Middle East.

Against this backdrop, we like to move up in credit quality where spreads appear overly compressed, are taking a more selective approach to HY exposure, and seek to

¹GIB AM Analysis, 30.06.2025

Views, opinions, statements, forecasts and projections are as of date and subject to change without prior notice. There is no guarantee they will be met.

capture relative value opportunities, such as extending duration in steeper Euro-denominated curves versus US dollar equivalents. Our investment process also supports maintaining duration at neutral levels. This reflects the absolute level of government bond yields (particularly in the US) and the interesting upside/downside potential over the medium term. That said, we acknowledge that the ongoing deterioration in the fiscal outlook could lead to further curve steepening.

Overall, we continue to see investment grade bonds as an attractive risk-reward proposition. They provide steady income in a relatively expensive market and are likely to benefit from rate cuts should the global economy weaken materially. We expect volatility to remain elevated in the second half of the year and are well-positioned to take advantage of any market dislocation.





This document is not for distribution to retail clients and is directed exclusively at GIB Asset Management's professional clients, institutional clients and/or Qualified Persons. This document has been prepared by Gulf International Bank (UK) Limited ("GIB (UK)"), trading as GIB Asset Management for discussion purposes only with the intended recipient. GIB UK is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority and PRA. GIB UK is registered as an Investment Adviser with the Securities and Exchange Commission in the United States. The document shows market commentary and does not constitute investment research. This document is provided for information purposes and is intended for your use only and does not constitute an invitation or offer to subscribe for or purchase any of the products or services mentioned. The information provided is not intended to provide a sufficient basis on which to make an investment decision and is not a personal recommendation.

The portfolio will exclude stocks with revenue derived from prohibited activities, e.g. alcohol production or controversial weapons. It will also exclude based on international standards, such as UN Global Compact or any environmental, social, and governance controversies, e.g. an oil spill or data privacy scandal of a company. Exclusions can be tailored to meet the needs of our clients.

Observations and views of GIB UK may change at any time without notice. Information and opinions presented in this

document have been obtained or derived from sources believed by GIB UK to be reliable, but GIB UK makes no representation as to their accuracy or completeness. GIB UK accepts no liability for loss arising from the use of this document. Moreover, any investment or service to which this document may relate will not be made available by GIB UK to retail customers.

The price and value of investments mentioned and any income that might accrue could fall or rise or fluctuate. Past performance is not a guide to future performance. If an investment is denominated in a currency other than your base currency, changes in the rate of exchange may have an adverse effect on value, price or income. Nothing in any document constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to individual circumstances, or otherwise constitutes a personal recommendation to any specific investor unless clearly stated. The registered address of GIB UK is First Floor, One Curzon Street, W1J 5HD.

Contact

info@gibam.com

T: +44 (0) 20 7259 3456

Follow us: 