IG Fixed Income Recap

July 2025

A review of IG Fixed Income Sectors

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Performance recap for the month

Other Asset Classes

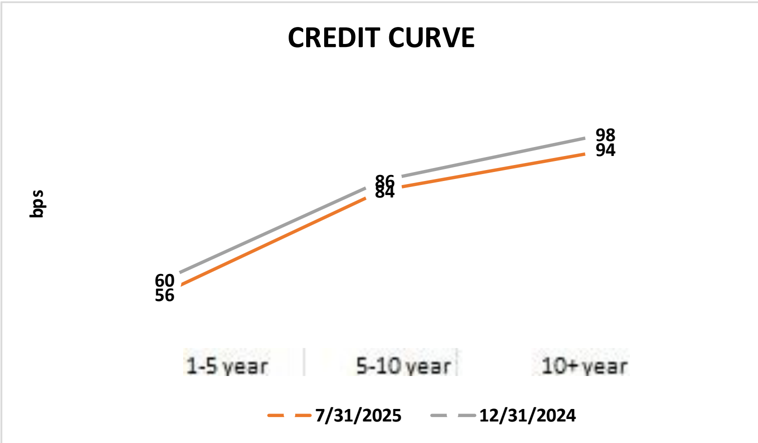
	bps	*bps*	*%*	*%*
	OAS	**OAS change**	**Total Return**	**Excess Return**
Bloomberg Aggregate	31	-2	-0.26	0.16
IG Corporate Market	75	-8	0.07	0.56
Intermediate	67	-9	0.13	0.44
Long	94	-8	-0.07	0.83
A Finance	66	-9	0.15	0.54
BBB Finance	102	-9	0.22	0.62
A Industrials	56	-5	-0.09	0.48
BBB Industrials	91	-11	0.05	0.57
BBB-A basis	35	-6		
MBS	39	3	-0.40	0.00
current coupon 30 year	148	2		
ABS	50	-6	0.13	0.23
CMBS	81	-3	-0.12	0.21
Local Authorities	60	-4	-0.16	0.40
High Yield	277	-11	0.45	0.59
CCCs	628	-40	1.47	1.58
Euro Agg Corporate	78	-12	0.53	0.63
EM USD	194	-24	0.92	1.35
IG	89	-15	0.65	1.13
HY	362	-39	1.35	1.71
Asia	106	-22	0.52	0.85
Latin America	278	-27	0.81	1.30

Source (data): Bloomberg; Date range: 6/30/2025-7/31/2025

Fixed Income Summary

By Elizabeth Henderson, CFA

In July, credit markets strengthened with tighter corporate spreads and flatter credit curves, driven by supportive technicals. Financials and Utilities outperformed Industrials, while sector and event-driven risks weighed on Food & Beverage, Chemicals, and Autos. 'BBB' Industrial spreads continued to compress vs. 'A' rated peers. Second-quarter earnings have come in largely "as expected" for the companies that have reported thus far, with clarity around tariffs helping to reduce uncertainty. Mortgage-backed Security performance was mixed, with higher coupons outperforming. Issuance in the CMBS and ABS markets was strong, with tight spreads and solid demand. CLO spreads tightened amid continued refinancing. Munis saw strong demand on the short end, while longer maturities weakened, steepening the 10s-20s curve. Taxable muni spreads tightened on light supply.



Corporate Market

Corporate spreads tightened and credit curves flattened as technicals continued to be supportive, especially on the long end of the curve. Financials and Utilities outperformed Industrials, with Senior Banks compressing to Industrials. Idiosyncratic risk, including event risk, is driving underperformance in sectors such as Food & Beverage, while sector-related challenges plague industries like Chemicals and Autos. About half of the market has reported second-quarter earnings, which have been largely in line with expectations. 'BBB' Industrial spreads are compressed vs. 'A' rated Industrials at a meager 35 bps.

Looking at sectors relative to broad Industrials:

- Z scores >1.5: ~~Construction Machinery~~, Health Insurance, Autos, Life Insurance, **Food & Beverage, Chemicals**

- Z scores <-1.5: **Diversified Manufacturing**, Metals & Mining, Environmental, **Media, Wireless, Banking (Senior)**

Source (data and graph): Bloomberg, AAM (bold=new for the month; strike-through = no longer valid vs last month)

Corporate market Technicals and Rating Changes

High-grade bond supply in July was **lower than expectations again** at $80B, **18% lower** than the average July since 2021. Coupons plus maturities were $120B, resulting in negative net supply. This is expected to persist in the second half of 2025. 30-year supply is 10% of the total issuance, which is the lowest since 2011.

Portfolio trading in HG bonds surged 40% year-over-year, accounting for 16% of total volume—up from 13% in the first half of 2024. Overall, turnover in the HG bond market reached its highest level in two decades.

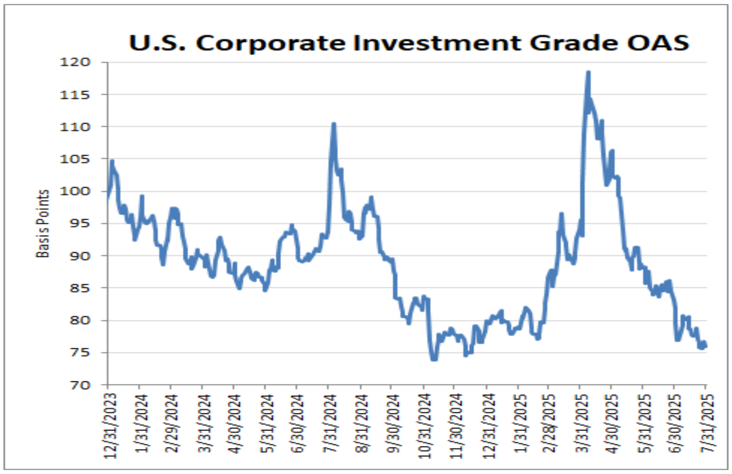
New issue supply is expected to be around **$95-100B in Aug**.. With lower yields and the potential for pull-forward of September supply, the risk is to the upside.

Sources: AAM, JPM

Rating changes (rising stars/fallen angels) *(Source: Bloomberg):*

- *Fallen angels: Televisa, Huntsman Intl,*

- *Rising stars: Permian Resources, Cameco, Hess, ChampionX, DT Midstream*



Ticker level performance

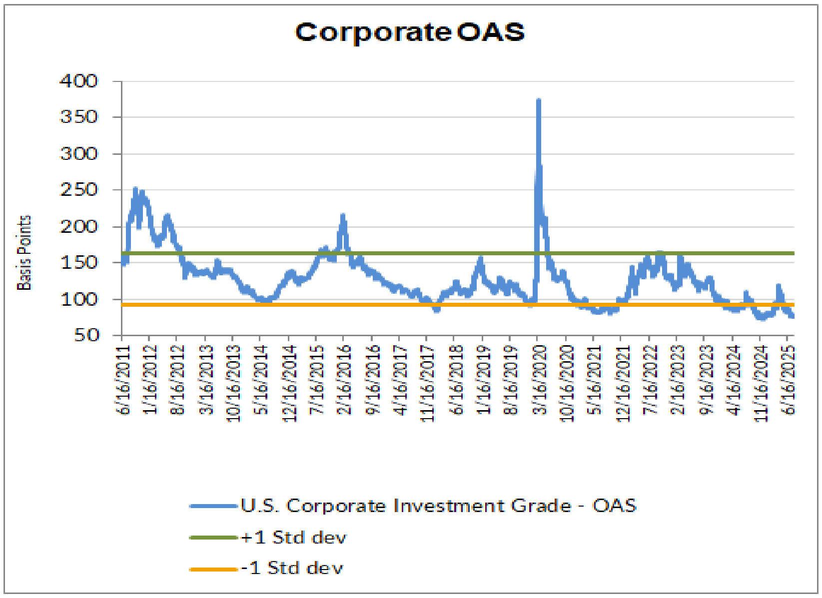
The following shows the top and bottom performing issuers based on 'excess return per unit of duration' for that month. This list excludes those with market values less than 0.05% of the Bloomberg Corporate Index. AAM's analysts have provided an explanation for issuer performance when relevant.

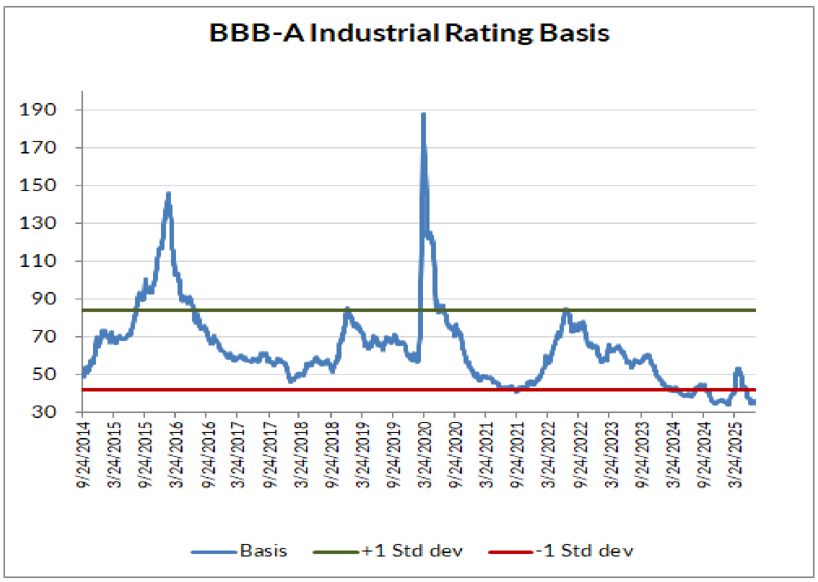
Top 15 tickers	Tickers	Sector	ER (%)	MV%*	Duration	Notes
1	FSK	Finance Companies	1.1	0.05	2.9	High beta, short duration; BDC
2	HES	Independent	2.2	0.08	6.9	Chevron completes acquisition
3	PARA	Media Entertainment	2.2	0.16	7.4	Deal closer to approval
4	RF	Banking	1.6	0.05	5.7	Strong guidance and 2Q25 performance
5	BCRED	Finance Companies	0.9	0.11	3.4	High beta, short duration; BDC
6	BXSL	Finance Companies	0.6	0.05	2.3	High beta, short duration; BDC
7	PCG	Electric	2.1	0.48	7.8	Wildfire fund negotiations
8	ARCC	Finance Companies	0.8	0.11	3.1	High beta, short duration; BDC
9	EIX	Electric	1.8	0.41	7.5	Wildfire fund negotiations
10	DB	Banking	0.8	0.33	3.4	High beta, short duration; strong 1H25 results
11	F	Automotive	0.9	0.65	3.9	Reiterated 2025 guidance
12	GM	Automotive	1.1	0.72	4.8	Reiterated 2025 guidance
13	OVV	Independent	1.4	0.07	6.3	Delivered better than expected 2Q25 results
14	BABA	Retailers	1.9	0.18	8.8	Resumption of Nvidia's H20 shipment to China
15	RRX	Diversified Manufacturing	0.9	0.05	4.1	

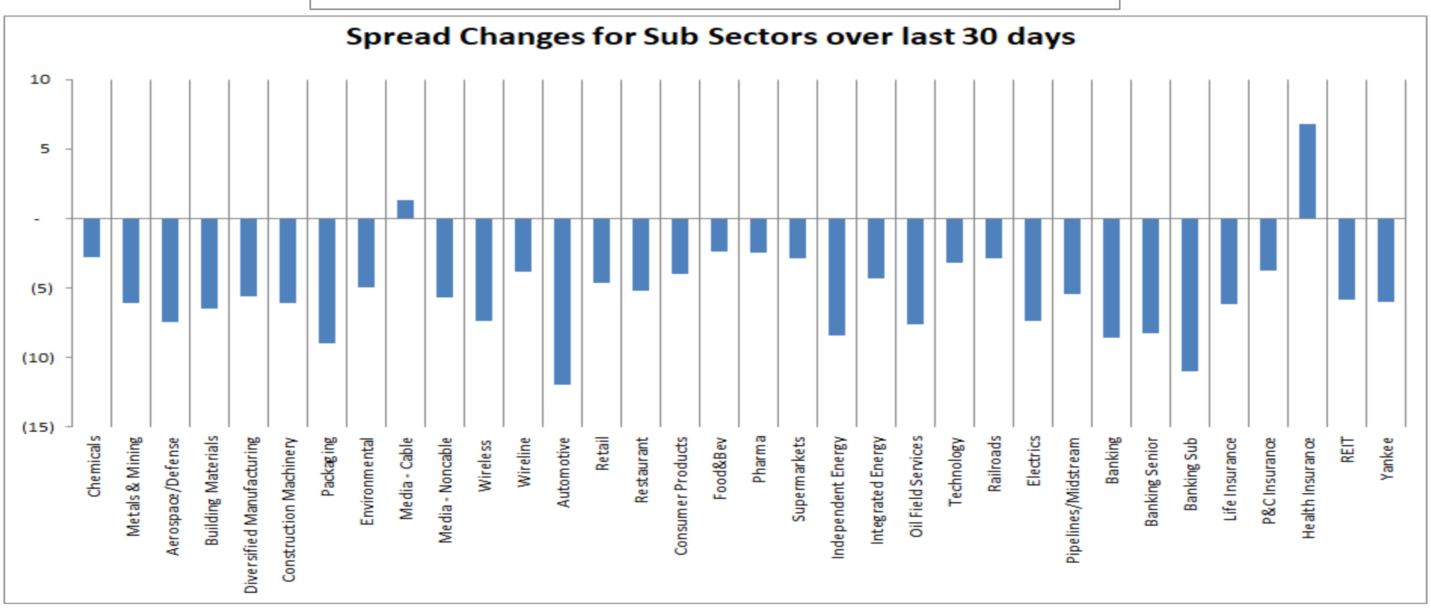
Bottom 15	Tickers	Sector	ER (%)	MV%	Duration	Notes
1	CNC	Health Insurance	(1.6)	0.20	3.7	Negative outlooks from all 3 agencies, faces uncertain 2026
2	DOW	Chemicals	(0.9)	0.16	9.3	Moody's downgrades and assigns a negative outlook
3	INTC	Technology	(0.8)	0.52	8.6	Any turnaround will need more time, foundry struggles to gain traction
4	KHC	Food and Beverage	(0.7)	0.19	9.1	Fears surrounding its strategic review
5	CAG	Food and Beverage	(0.3)	0.08	5.4	Weak guidance and leverage expected to increase
6	CHTR	Cable Satellite	(0.5)	0.66	9.2	Stock price fell after weaker earnings and internet sub adds
7	LYB	Chemicals	(0.2)	0.11	10.2	S&P assigns a negative outlook
8	CL	Consumer Products	(0.1)	0.05	6.6	
9	ABT	Healthcare	(0.0)	0.14	8.4	
10	FI	Technology	0.0	0.24	4.6	
11	COST	Retailers	0.0	0.06	3.5	
12	BRK	Other	0.1	0.19	11.5	
13	ORCL	Technology	0.1	1.02	8.7	
14	UNH	Health Insurance	0.1	0.95	9.3	
15	ELV	Health Insurance	0.1	0.37	8.8	

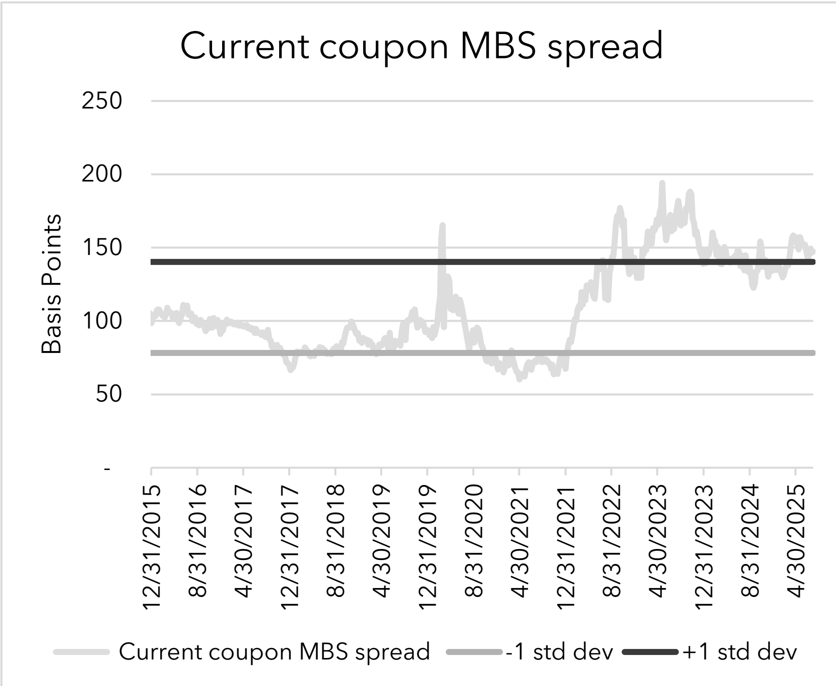
Source (graph, table data): Bloomberg, AAM

Corporate market graphs (Source: Bloomberg, AAM)









Structured Products

By Chris Priebe and Mohammed Ahmed

Agency MBS continued to lag with low coupons underperforming, as CMBS and ABS performed well

Rating Changes

Rating changes continued to be negative for CMBS conduit and single-asset deals. More ABS deals were upgraded than downgraded, continuing a positive trend.

AGENCY MBS ER 0 bp

Current coupon MBS spreads were essentially unchanged for July. The basis widened a tad from 146 to 150 intra-month and closed at 146. The AGY MBS market continues to see higher 30-year coupons (6.00’s and 6.50’s) perform the best, earning +32 bps of performance versus UST in July. Low coupon 30-year 2.00’s through 30-year 3.00’s again struggled with -11, -17, and -10 bps in excess returns, respectively, and were the worst performers.

CMBS ER 21 bps

During July, CMBS issuance came in at just over $8.00 billion of supply. Conduit deals made up $3.23 billion, and SASB (Single Asset/Single borrower) priced $4.86 billion, with a skew towards floating rate transactions on maturing deals that needed to be refinanced. Spreads continued to tighten with the secondary spreads moving into the low 80s for 10-year maturities and mid-80s for 5-year transactions, respectively. New issue transaction concessions also continued to narrow and came in within three basis points of secondary spreads with smaller transactions and decent demand.

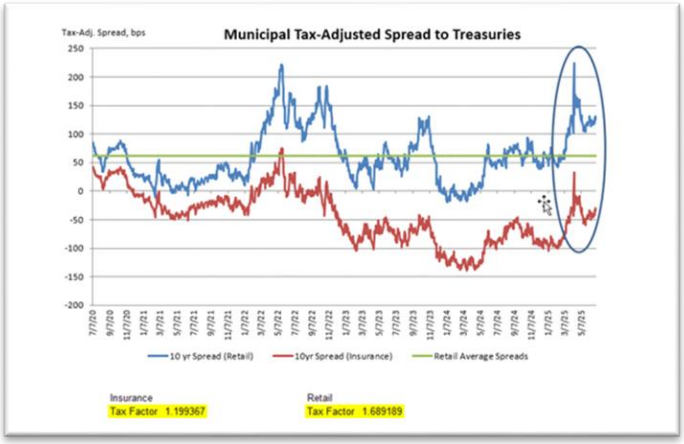
ABS ER 23 bps

ABS new issue volume is near $202.2 billion YTD, according to JPM. ABS July new issue supply alone was near $41.3 billion. This month’s heavy deal flow was the highest since July 2016. The ABS market saw many on-the-run, bigger card and auto issuers hit to anchor the heavy month. The ABS-Utility sector again had a nice month, generating +92 bps of excess return. ABS cards and autos carried well with +13 and +14 bps of excess return. The Utility index excess returns are still lagging near -63 bps YTD, versus on the run cards and autos at +33 and +36 bps.

CLO spreads moved tighter to end the month at 118. With over 9% of the market repricing in July alone, CLOs continued their refinancings and were met with robust demand. Technicals are still favorable for CLOs with demand outpacing supply, and we can expect spreads to continue to narrow.

Sources: Bloomberg (chart: FNCL CC Spread to 5/10), FHN Financial

Municipal Bonds



Source: Greg Bell, CFA, CPA

Tax-exempt spreads tightened on the front end of the curve while widening over the balance, as heavy new issue supply was ill-timed with mutual fund selling and waning demand from household/retail investors. Taxable spreads tightened, as new issuance was modest.

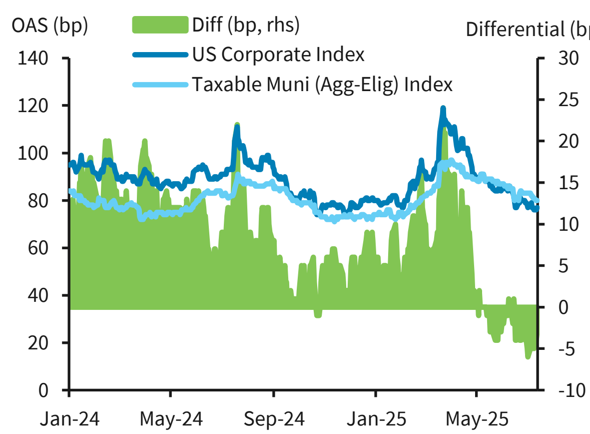
Tax-exempts Strong seasonal technicals provided for a firmer tone and market performance for maturities inside of 6yrs for the sector. However, heavy new issue supply continues to pressure relative valuations to weaker levels over the balance of the curve. Substantial reinvestment flows led to strong demand from retail investors, which helped drive yields lower by 17 and 12 basis points (bps) in 2- and 5-year maturities. On longer maturities, waning household/retail interest, combined with mutual fund flows turning negative during the month, resulted in rates rising by 8, 17, and 15bps in maturities of 10, 20, and 30yrs, respectively. More notably, because of the mixed yield curve performance, the slope of the yield curve from 10 to 20 years steepened to a 12-year high of 115bps during the month, before settling in at 113bps at month-end. (Source: Bond Buyer, BofA, Bloomberg, Refinitiv)

For July, new issuance came in at $50B, which was very close to expected levels. For August, the market is expecting a very sizable calendar of $58B, which would be a new record for the month. Reinvestment flows of coupons/calls/maturities are expected to reach $75B for the month, which should be supportive of current relative valuation levels. (Source: Bond Buyer, BofA)

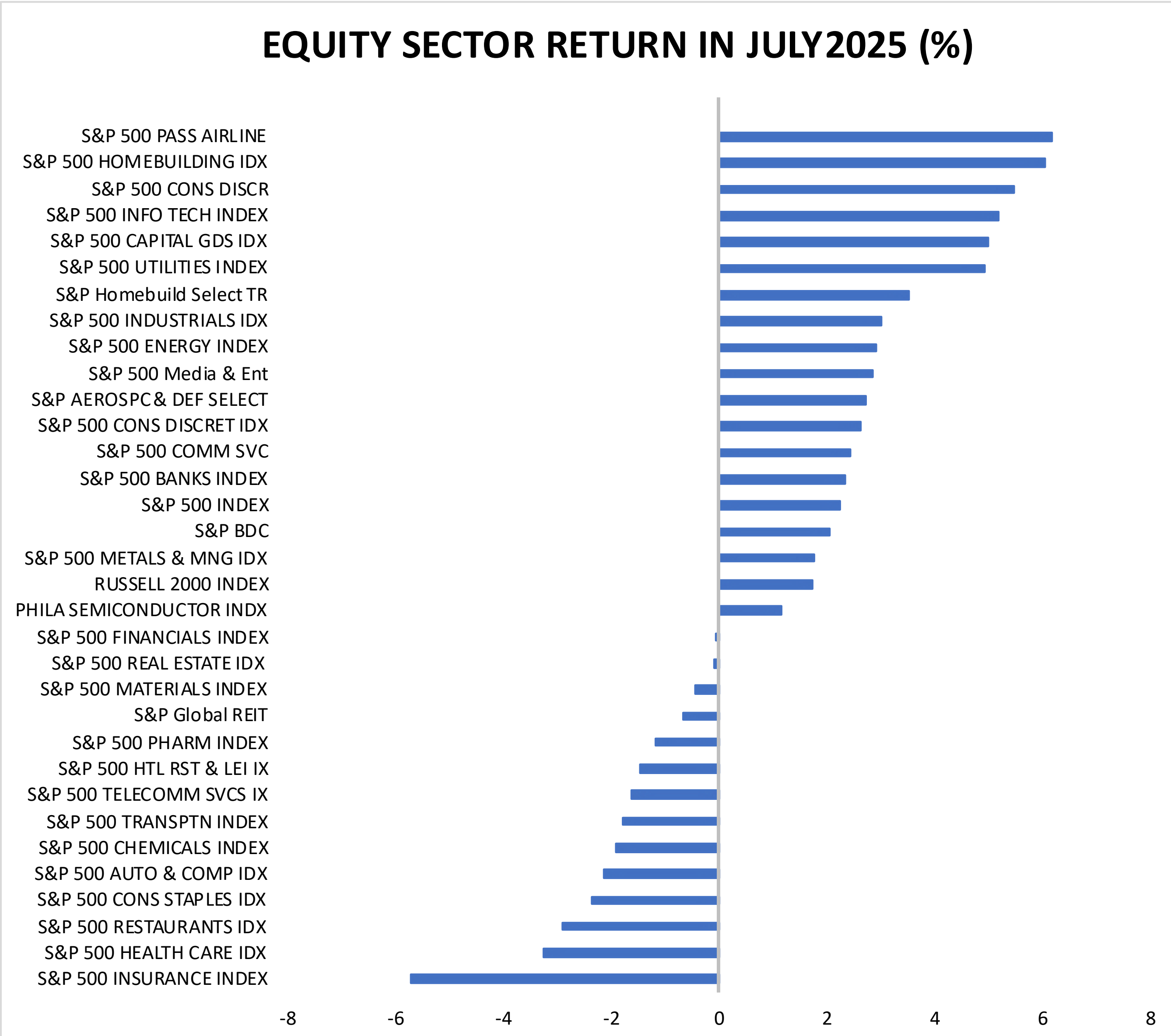
Muni/Treasury ratios in 10yrs ended the month at 75.8%, which was modestly lower than June's 77% level. However, with the yield curve steepening bias, the 20-year ratio finished the month 1 percentage point higher to end the month at 91%. On a tax-adjusted basis (insurance companies subject to 21% corporate tax rate), tax-exempt yield spreads to Treasuries in 10yrs were tighter by 9bps to end the month at -40bps, while 20 and 30yrs maturities were wider by 6 and 3bps to end the month at 44 and 70bps, respectively. (Source: AAM, Bloomberg, Refinitiv)

Taxables. The overall tone of the market was steady for the month, and spreads continued to grind tighter across the curve. The market also saw support from a continued modest new issuance calendar. Issuance in July came in at just $2.2B, which was down 30% versus July 2024. (Source: BofA, Bond Buyer)

Spreads during the month moved tighter by 6 to 9bps, with the 3yr and 30yr tightening the most at 8 and 9bps, respectively. Looking forward, we expect the new issue calendar to remain quiet for August. (Source: AAM, Bloomberg)



U.S. Equity Performance



Source: Bloomberg, AAM