



IG Fixed Income Recap

August 2025

A review of IG Fixed Income Sectors

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Performance recap for the year

Sector relative value

Sector performance during the month, as well as valuation

Technicals and rating changes

Supply and demand for IG bonds, as well as rating actions to/from high yield

	<i>bps</i>	<i>bps</i>	<i>%</i>	<i>%</i>
	OAS	OAS change	Total Return	Excess Return
Bloomberg Aggregate	30	-1	1.20	0.11
IG Corporate Market	78	3	1.01	-0.08
Intermediate	71	4	1.18	-0.11
Long	94	0	0.67	-0.01
A Finance	70	4	1.07	-0.10
BBB Finance	106	3	1.19	-0.02
A Industrials	58	2	0.94	-0.09
BBB Industrials	94	3	1.00	-0.10
BBB-A basis	36	1		
MBS	34	-5	1.61	0.47
current coupon 30 year	136	-2		
ABS	50	0	0.96	0.05
CMBS	78	-3	1.47	0.17
Local Authorities	59	-2	1.29	0.12
High Yield	267	-9	1.25	0.20
CCCs	563	-65	1.86	0.86
Euro Agg Corporate	84	6	0.02	-0.19
EM USD	198	5	1.34	0.22
IG	92	3	1.30	0.22
HY	373	12	1.39	0.22
Asia	104	-1	1.29	0.22
Latin America	287	9	1.36	0.21

Source (data): Bloomberg; Date range: 7/31/2025-8/31/2025

Ticker performance and market graphs

Structured Products summary

Performance recap for the month

Muni summary

Performance recap for the month

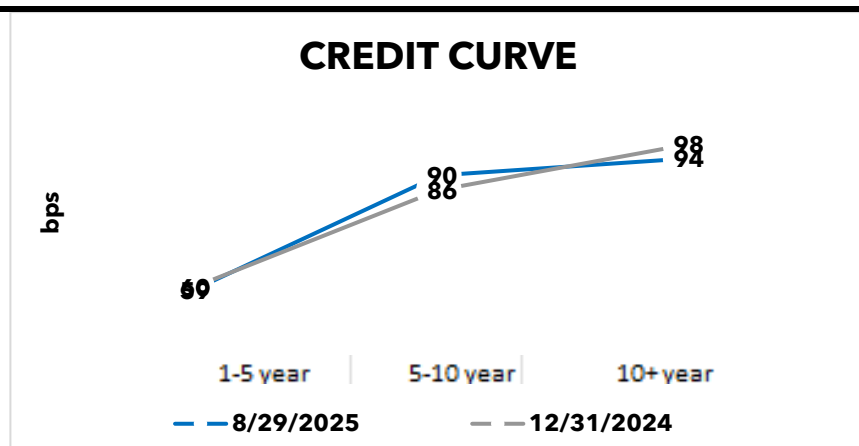
Other Asset Classes

Fixed Income Summary

By Elizabeth Henderson, CFA

In August, economic data were mixed. The curve ultimately bear steepened after a dovish Jackson Hole speech by Chair Powell and an appellate court ruling rejecting tariffs, intensifying fiscal worries at a time when the bond vigilantes are emerging in Europe. Credit markets saw spreads modestly widen and curves flatten, with long-end spreads outperforming and intermediates lagging, while BBB spreads tracked As, keeping the BBB/A differential at a historically tight 36 bps. Securitized products were varied: Agency RMBS tightened on strong demand for lower coupons, CMBS spreads reached two-year tights on modest issuance, ABS remained active with cards and autos outperforming rate reduction, and CLO OAS tightened further amid strong new-issue demand, though it lagged other fixed-income alternatives. In municipals, tax-exempts weakened modestly in relative value as the muni/Treasury ratios rose, while taxable munis traded in a tight range with limited supply and solid demand.

IG Fixed Income Recap



Corporate Market

Corporate spreads widened and credit curves flattened as technicals continued to be supportive, especially on the long end of the curve. The intermediate part of the curve underperformed from a spread perspective, and long-end spreads outperformed. From a sector standpoint, the widening was broad-based (1-5 bps). BBB spreads moved in line with A-rated bonds, leaving the BBB pick-up vs. A's unchanged at a historically tight 36 bps for Industrials. Idiosyncratic risk remains the primary driver of underperformance at the issuer level. Rating actions turned negative in August, although the outlook for future rating actions remains balanced, with 2.6% of the Index on positive outlook/watch.

Looking at sectors relative to Industrials:

- **Z scores >1.5:** Health Insurance, Food & Beverage, ~~Autos~~, Life Insurance, Chemicals, **Construction Machinery**
- **Z scores <-1.5:** Diversified Manufacturing, Metals & Mining, Environmental, **Retail**, ~~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

The high-grade bond supply in August was in line with expectations at \$100 billion, 8% higher than the average for August since 2021.

Average daily trading volume was \$32B/day, which is 4% lower than August last year, while 12% of trading was done through portfolio trades vs 10% last August.

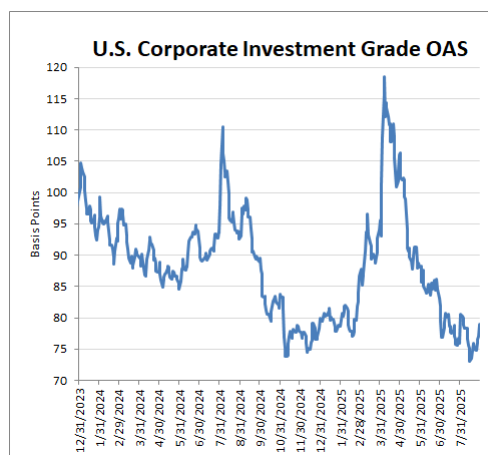
According to JPM's "Forward Foreign Attractiveness Index," US IG yields are expected to appear very attractive to foreign investors over the next six months, as hedging costs are anticipated to decline. With approximately 30% of USD corporate credit owned by non-US investors per JPM, this is a supportive technical.

New issue supply is expected to be around \$175B in September, a historically heavy month. Issuance has averaged around \$133B over the past four years in September.

Sources: AAM, JPM

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

- *Fallen angels:* Celanese, Blackrock TCP Capital Corp
- *Rising stars:* Roblox



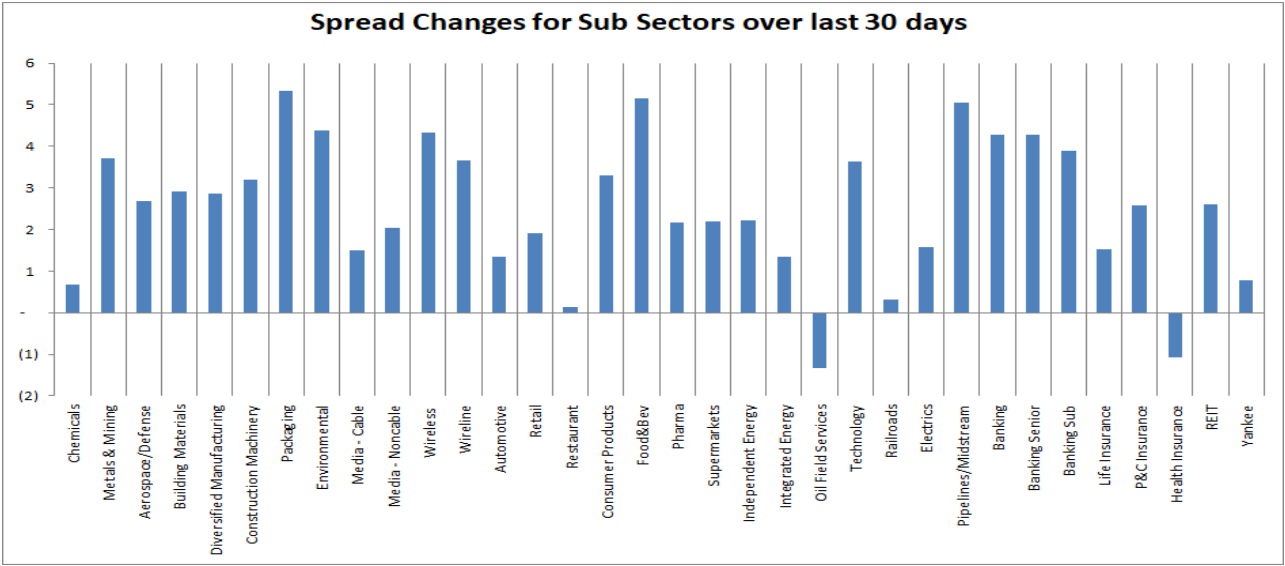
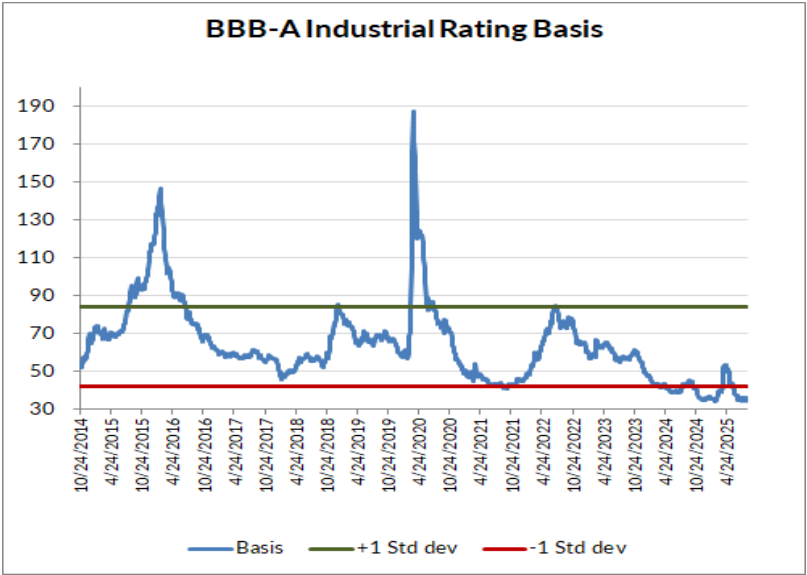
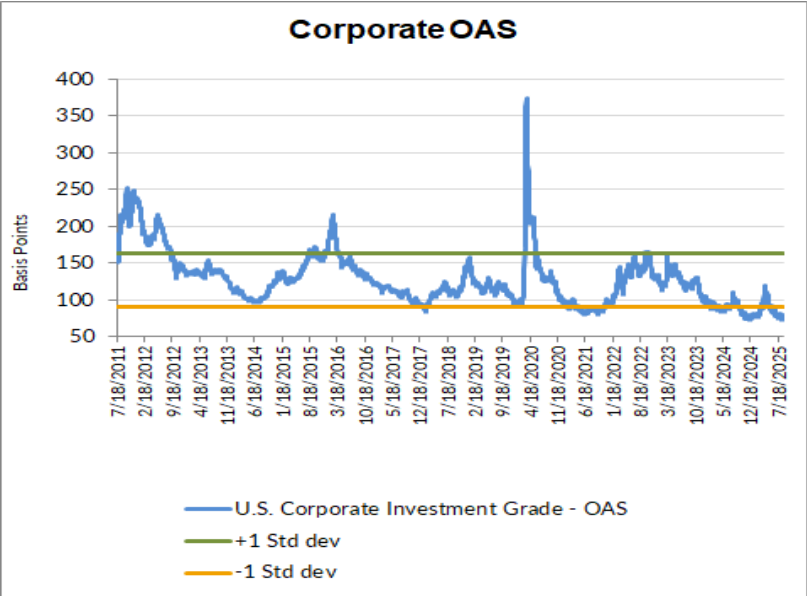
Ticker level performance

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	EIX	Electric	1.1	0.41	7.5	California legislation optimism
2	ARESSI	Finance Companies	0.4	0.06	3.5	High beta, short duration, BDC
3	INTC	Technology	1.0	0.52	8.8	Equity stakes by the US Gov't and Softbank
4	OCINCC	Finance Companies	0.3	0.08	2.9	High beta, short duration, BDC
5	BABA	Retailers	0.8	0.18	8.9	Strong Q1 Results
6	OXY	Independent	0.5	0.23	6.2	Improved leverage in 2Q25
7	BCRED	Finance Companies	0.3	0.11	3.4	High beta, short duration, BDC
8	CNC	Health Insurance	0.3	0.21	3.6	Pulled guidance & reinstated. '25 will be worse but visibility now into a 2026 turnaround
9	PARA	Media Entertainment	0.6	0.16	7.4	Prospect of LME/tender; management dispelled split rumors
10	LNC	Life	0.4	0.05	5.9	New issue repriced curve tighter
11	BXSL	Finance Companies	0.2	0.05	2.2	High beta, short duration, BDC
12	FFHCN	P&C	0.5	0.08	7.9	Strong earnings driven by net gains on investments
13	SOLV	Healthcare	0.4	0.10	6.6	Paying down debt from asset sales
14	ARCC	Finance Companies	0.2	0.10	3.4	High beta, short duration, BDC
15	SANUK	Banking	0.2	0.09	2.9	Purchasing TSB; adding scale
Bottom 15	Tickers	Sector	ER (%)	MV%*	Duration	Notes
1	FSK	Finance Companies	(1.2)	0.05	2.8	Negative outlook by S&P; elevated fallen angel risk
2	KDP	Food and Beverage	(1.5)	0.17	6.1	Buying JDEP and creating 2 entities. Ratings downgrades followed.
3	BAX	Healthcare	(0.7)	0.09	4.6	Leverage remains high even after asset sales.
4	EMN	Chemicals	(0.8)	0.05	7.0	S&P changed outlook to negative
5	PPC	Food and Beverage	(0.5)	0.05	5.4	Concerns about input costs and margin sustainability more broadly
6	CQP	Midstream	(0.5)	0.11	5.2	Nat gas weakness
7	EXE	Independent	(0.3)	0.05	3.4	Nat gas weakness
8	HES	Independent	(0.5)	0.08	6.9	Chevron priced \$5.5B new issue
9	SW	Paper	(0.4)	0.11	5.8	Weak earnings
10	PAYX	Technology	(0.4)	0.06	5.4	Weakening labor market weighing on outlook
11	VICI	Gaming	(0.4)	0.11	6.0	Gaming REIT; increased its mezz investment in One Beverly Hills development
12	RELLN	Technology	(0.3)	0.05	4.7	Shares down due to potential AI disruption
13	AMCR	Packaging	(0.3)	0.06	4.5	Weak earnings
14	S	Wireless	(0.3)	0.07	3.9	Issuer within TMUS structure; high coupon legacy debt
15	CAH	Healthcare	(0.4)	0.10	6.6	New issue

Source (graph, table data): Bloomberg, AAM

Corporate market graphs (Source: Bloomberg, AAM)



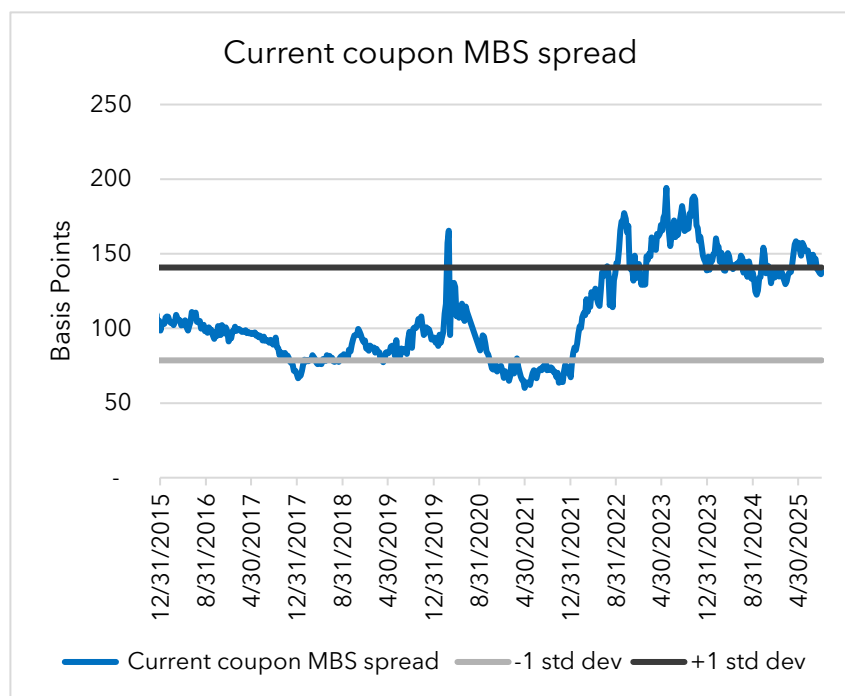
Structured Products

By Chris Priebe and Mohammed Ahmed

Agency MBS outperforms with low coupons leading the way, as CMBS and ABS outperform credit

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 RMBS ER 47 bps

Current coupon RMBS spreads tightened in August, with lower coupons outperforming. Higher coupons lagged after months of outperformance this year. Index demand for lower-coupon RMBS was strong towards month-end. Bank demand is reportedly increasing and broadening to include more discount coupons, as investors become more confident that prepays could occur as interest rates fall. Yield expectations are resetting lower, with current coupons moving lower from the beginning of the summer.

CMBS ER 17 bps

CMBS issuance came in at just over \$7 billion (B) of supply, with most of that in Single Asset / Single Borrower (SASB) at \$5.7B. There were two new conduit deals, supporting pricing, with spreads tightening modestly for the sector to 2-year tights.

ABS ER 5 bps

ABS supply continued to be active in August, with more than \$240 billion, as the supply year-to-date is running slightly behind last year. Cards and Autos performed marginally better than US Treasuries, while the Utility (rate reduction) ABS bonds lagged after strong performance in July.

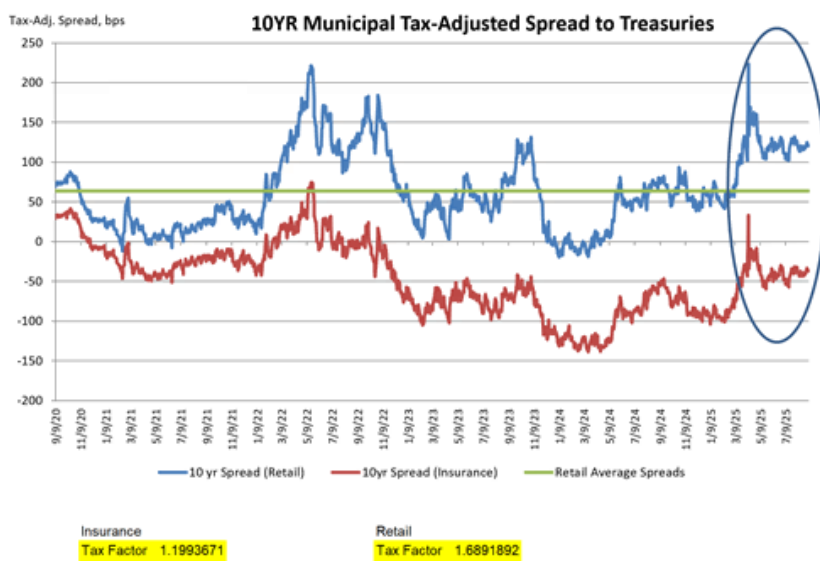
CLO spreads continued to tighten. New issue and CLO reset activity have garnered strong demand, with deals oversubscribed. That has resulted in tighter secondary spreads as well. On-the-run AAA CLO OAS is around 115. CLOs underperformed fixed-rate alternatives in August.

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

Municipal Bonds

Source: Greg Bell, CFA, CPA

Tax-exempt spreads widened as the Treasury yield curve steepened, with the front-end underperforming from a spread-widening perspective. Taxable spreads were unchanged, with supportive technicals

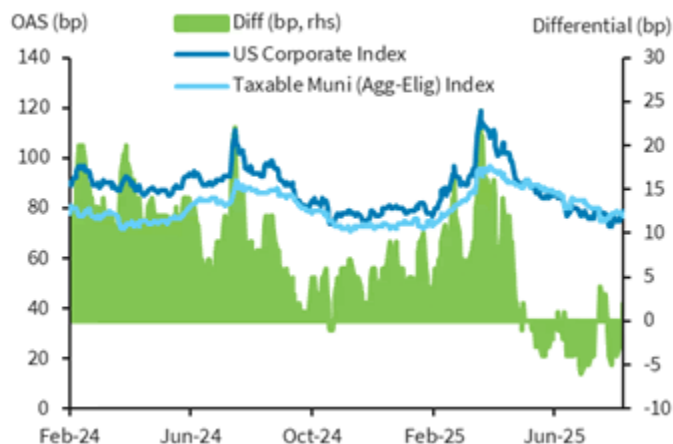


Tax-exempts - The month of August marked the end of a three-month surge in reinvestment flows that averaged \$72B per month. These flows resulted in further front-end demand, which pressured yields lower in 3, 5, and 7 years by -19, -16, and -14 bps, respectively. The yield curve from 2 to 30 years also steepened by 13bps, which culminated in a total of 53bps of steepening over the last three months.

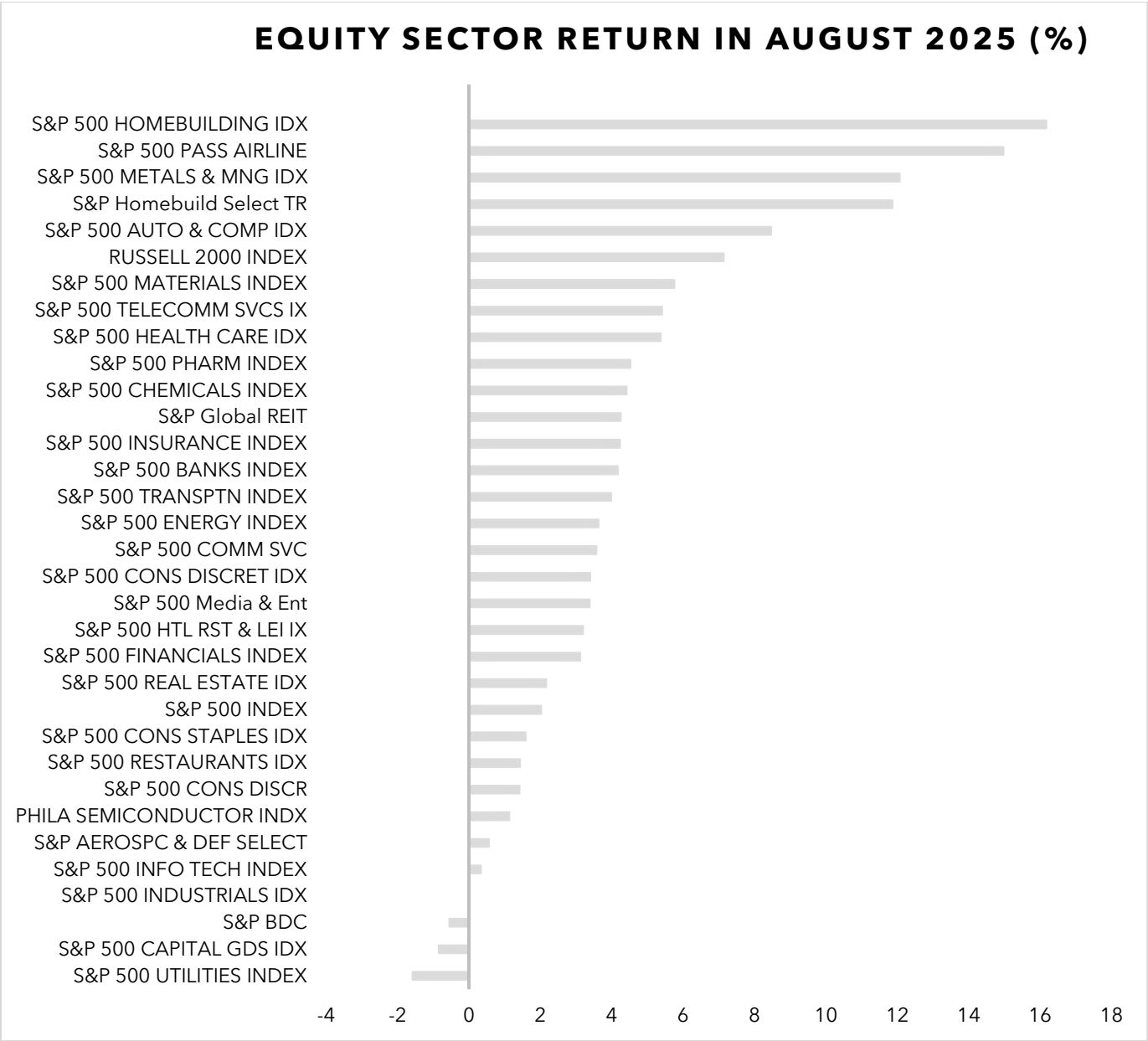
For August, new issuance came in at \$46.968, which was far below market expectations of \$58B, and it was also down 7.8% from August 2024. However, it was still ~17% heavier than the 10-year average for this month. Looking forward to September, the calendar is expected to remain elevated at \$49B. This issuance coincides with softer demand flows that are expected to fall month-over-month by 38% to \$45B. (Source: Bond Buyer, BofA)

Relative valuation levels for the sector weakened as rates fell and the Treasury yield curve steepened. Muni/Treasury yield ratios in 10 years ended the month at 76%, which was modestly higher than July's 75.8% month-end level. Additionally, the front end of the yield curve underperformed, with tax-adjusted yield spreads to Treasuries (insurance companies subject to 21% corporate tax rate) widening by 10, 8, and 6bps in 3, 5, and 7yrs, respectively. (Source: AAM, Bloomberg, Refinitiv)

Taxables - The taxable municipal sector remained in a very tight trading range during August. Spreads were essentially unchanged across the curve for the month. The market continues to see solid demand across the curve, while new issue supply continues to underwhelm, with August producing just \$2.1B. (Source: BofA, Bond Buyer)



U.S. Equity Performance



Source: Bloomberg, AAM