RPIA

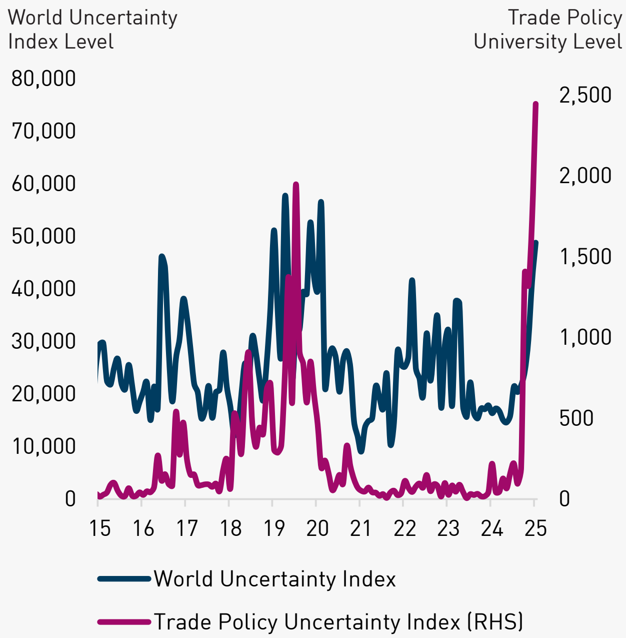
Credit Market Themes in 5 Charts

Q1 2025

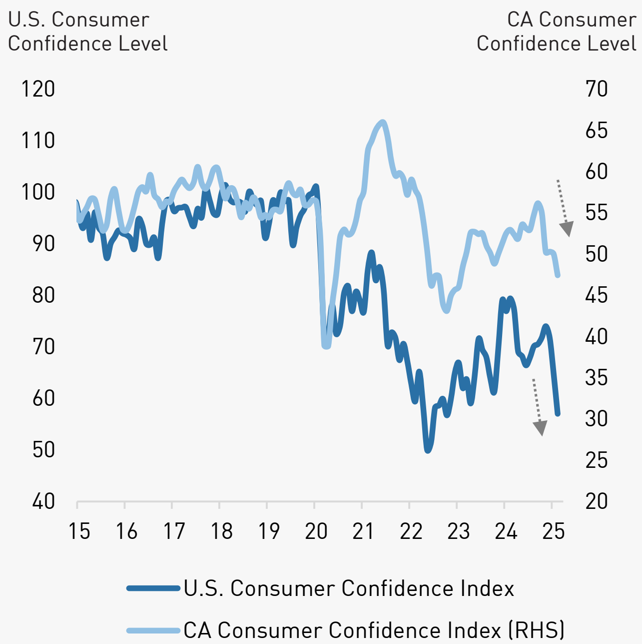
1 U.S. Trade Policy Uncertainty Drives Sharp Drop in Consumer Confidence

The Trump administration's policy decisions have significantly heightened uncertainty, especially around trade. This uncertainty has led to a drop in business investment and a collapse in consumer confidence in the U.S. and Canada. The risk-off sentiment has led to bond outperformance compared to equities, with the global investment grade bond index up 3.2% on the year, while the S&P 500 has fallen over 7%, officially entering correction territory.

Sharp Increases in Uncertainty - Particularly Around Trade



Consumer Confidence Has Plunged to the Lowest Level Since 2023



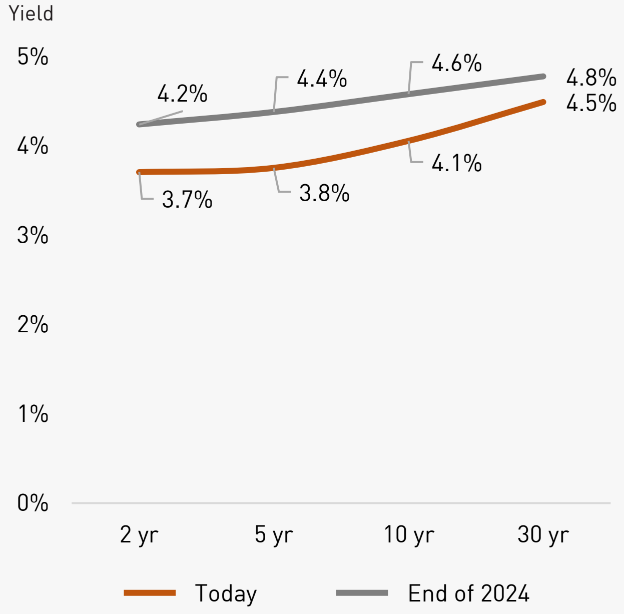
Source: Bloomberg, policyuncertaintyindex.com. Index returns as of April 3, 2025. Uncertainty Index data as of February 28, 2025; Consumer Confidence Index data as of March 31, 2025. Global investment grade bond index = Bloomberg Barclays Global Aggregate Corporate Bond Index; US Consumer Confidence Index = University of Michigan US Consumer Sentiment Index; CA Consumer Confidence Index = Canada Bloomberg Nanos Canadian Confidence Index.

2 Continued Divergence in U.S.-Canada Rate Path Due to Deteriorating Economic Outlooks and Trade Risks

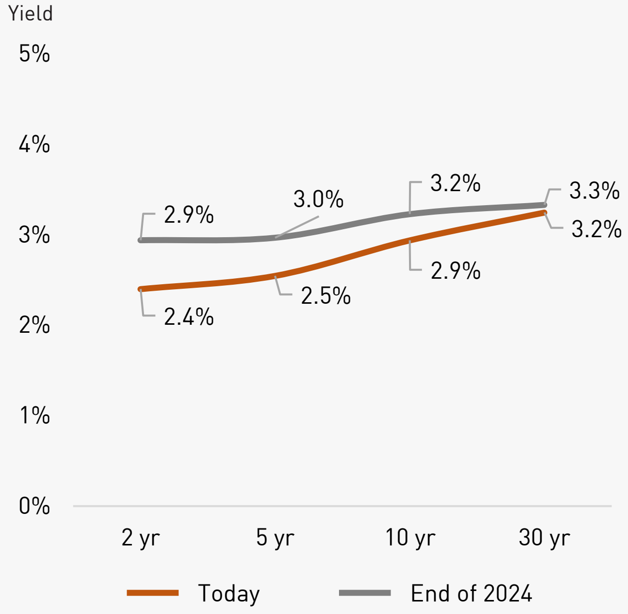
Investors have piled into government bonds (a "flight-to-quality") in response to the ongoing uncertainty in the market. While both U.S. and Canadian yields have declined significantly in Q1 2025, the Canadian curve has shown more of a steepening bias.

The yield differential across the two regions continues to be larger than usual, given different economic outlooks and the asymmetry of what's at stake when it comes to trade. Note that in the event of a "risk-off" scenario, we believe U.S. yields have more room to rally than Canadian yields, given the higher starting levels.

U.S. Yields Have Declined Around 50bps YTD Across the Curve



Short-Term Canadian Yields Have Dropped ~50bps YTD



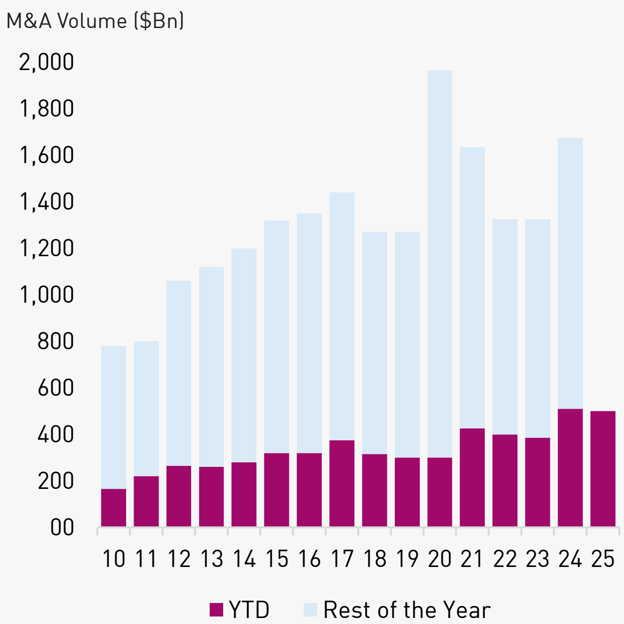
Source: Bloomberg.
Data as of April 3, 2025.

3 Volume of M&A Activity Has Not Grown as Expected This Year

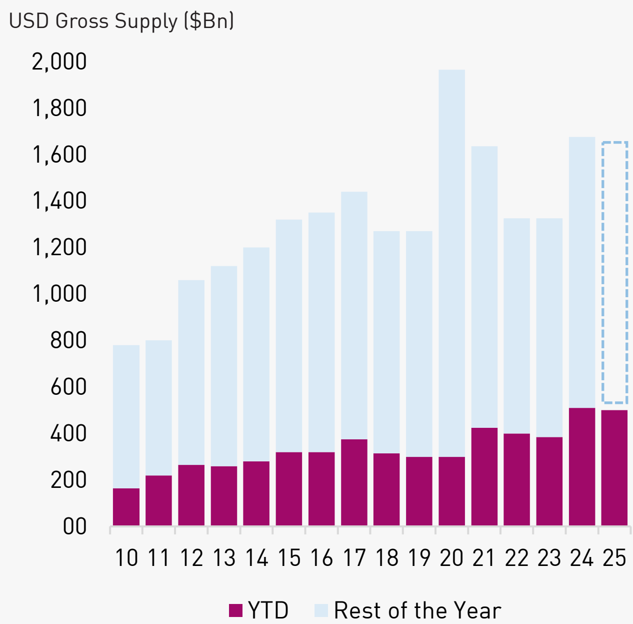
Despite expectations of a more favourable regulatory environment for mergers and acquisitions ("M&A") activity, heightened uncertainty has led to sluggish M&A growth in the U.S. To date, in 2025, U.S. M&A announcements total approximately $290 billion, roughly the same as last year's year-to-date volume.

This stands in stark contrast to the elevated 2025 M&A estimates made at the end of last year. M&A activity is, at the margin, a key driver of U.S. investment grade (IG) issuance. A lower-than-expected number of deals this year would mean less IG bond supply than previously anticipated.

YTD M&A Volume is in Line with 2024 Despite Expectations of an Uptick



The Market Now Expects Slightly Lower IG USD Gross Supply in 2025 vs. End of 2024



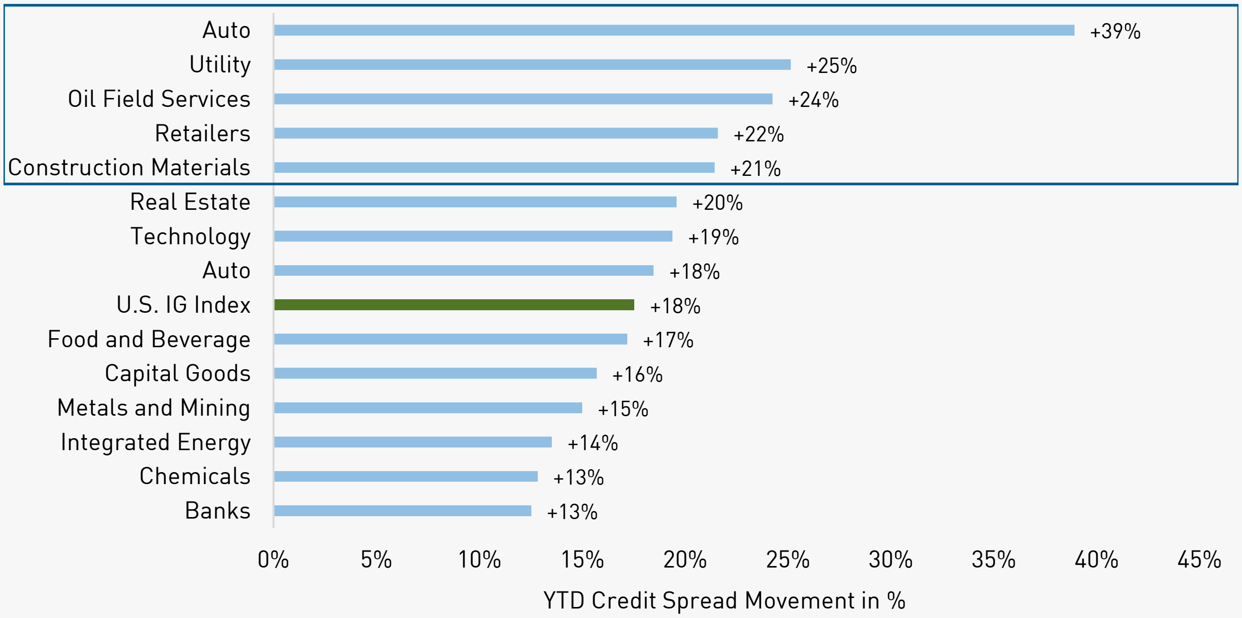
Source: Goldman Sachs.
Data as of February 28, 2025.

4 Signs of Dispersion Emerge as Sectors Respond Differently to Tariff Threats

So far this year, U.S. industries have experienced varying degrees of spread widening, marking a reversal from the steady tightening observed throughout 2024.

Dispersion is emerging as Trump's policy measures take effect. Notably, credit spreads for industries most exposed to trade tariff risks – such as autos, retailers, materials, etc. – have experienced more pronounced widening. We are treading particularly cautiously in these tariff-sensitive segments of the market but monitoring fundamentals for opportunities where it makes sense to add exposure.

Trade-Sensitive Sectors Bear the Brunt of Market Turmoil While Others Show More Resilience



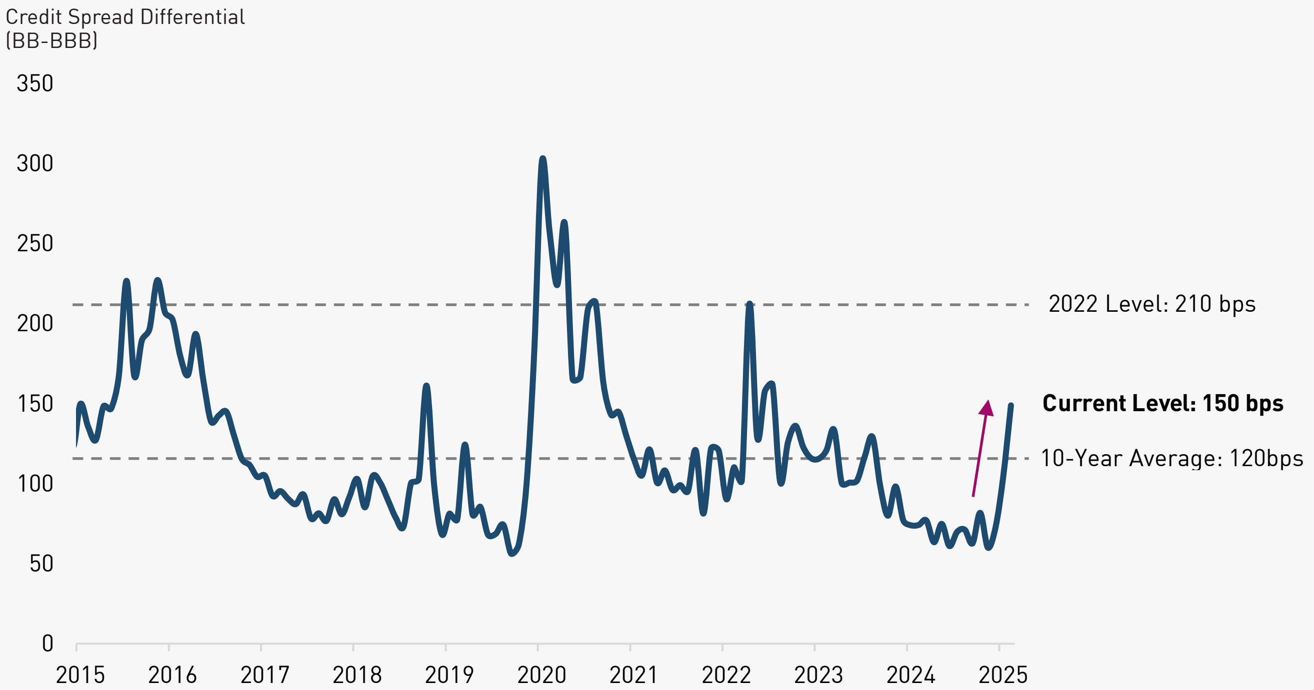
Source: BarclaysLive.
Data as of March 31, 2025.

5 Credit Spreads Have Started to Decompress After a Long Period of Convergence

High yield spreads have shifted meaningfully over the past month with BB-rated bond spreads widening by nearly 150bps, now sitting at ~300bps. This move is consistent with the broader theme of decompression across all ratings categories.

While the spread differential has risen, the yield premium offered by BB-rated U.S. issuers is not yet as wide as that seen in 2022. While we continue to favor defensive positioning, we may look to add BBs exposure selectively in certain mandates as valuations become more attractive.

The Additional Yield Offered by BB U.S. Issuers Has Increased Significantly But Not Yet to 2022 Levels



Source: BarclaysLive, Bloomberg.
Data as of April 4, 2025.

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