Global Investment Research
Market Maps

FTSE RUSSELL
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Fixed Income Insights

MONTHLY REPORT | **NOVEMBER 2025**

NORTH AMERICA
US & CANADA EDITION

Policy easing starts to support long government bonds

Some evidence lower rates are helping longs, as well as shorts, emerged in October. The BoC took out more recession protection by easing rates beyond neutral but the Fed rate cut also reduces the risk of a sharper slowdown during a data blackout. The extent of yen undervaluation versus PPP and widening rate differentials in its favour are of note. Strong Latam currencies drove EM outperformance and reflect favourable tariff outcomes.

Macro and policy backdrop – Weaker labour markets drive easing but pause now likely

G7 policy switch away from inflation to employment concerns almost complete, with BoC rates on the easy side of neutral. Fed signals end of QT. Monetary/fiscal policy balance may be shifting in the UK, helping longs. (pages 2-3)

US IG & HY credit – Fed easing extends credit sweet spot, against benign backdrop

Both IG & HY credit show very low distress levels (7th & 12th percentiles). (pages 4-5)

Canadian govt bonds, provis & munis – Yield attractions tighten provis & munis spreads

Curve steepening stalled in 10s/2s, but longs bull steepened after BoC rate cuts. (page 6)

Canadian IG & HY credit – IG spread tightening most pronounced in longs

Yields well below US credit, but still near 10 yr mean in HY, and above in IG. (page 7-8)

Performance – Shorter Bunds and gilts lead returns in USD and CAD on 1M & YTD

Exchange rate moves dominated YTD. Euro & sterling strength boosted Bund & gilt returns. Strong Latam currencies drove EM linker outperformance, while JGBs weakened. (page 9-11)

Appendix (from page 11) Global bond market returns, historical bond yields, bond market durations and market values and foreign exchange returns.

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Chart 1: Excluding the core Eurozone, long yields fell in the last 3M, as markets anticipated central bank easing, and inflation breakevens were stable notably in Canada and the US. France's fiscal travails continue.

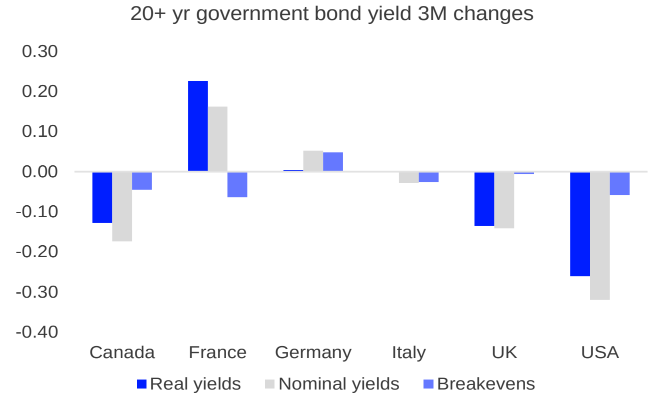
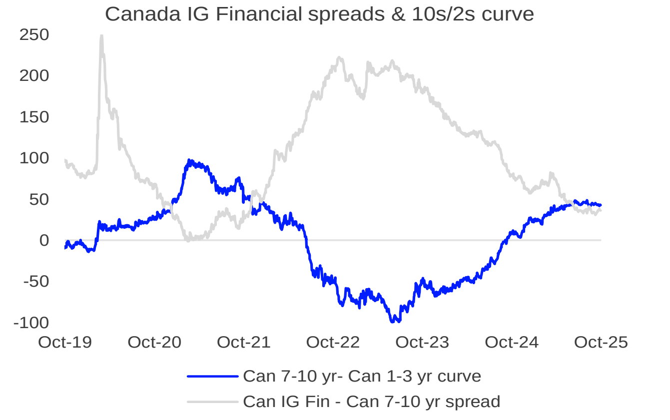


Chart 2: Canadian IG financial spreads continue to show a strong negative correlation to the 10s/2s yield curve. This reflects the impact on net interest income and maturity transformation from the yield curve.



Source: FTSE Russell and Datastream. Other data as of October 31, 2025. Past performance is no guarantee of future results. This report should not be considered 'research' for the purposes of MIFID II. Please see the end of the report for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indices. See Appendix for list of indices used for each market.

Macroeconomic Backdrop – Growth and Inflation Expectations

Higher IMF forecasts for 2025, in the October review, show re-assessment of tariff effects, as lower negotiated tariffs, the AI boom in the US, central bank policy easing and improved risk appetite all reduced recession risks. Only Canadian growth forecasts were down-graded, after the sharp rise in unemployment to 7.1%, and weaker domestic demand.

Upgraded IMF October growth forecasts reflect weighted US tariff rates of 17.5%, although Canada is an outlier, with labour market weakness more pronounced. This explains the BoC's willingness to push short rates towards the lower end of neutral range estimates. The Fed policy switch to labour market focus comes during a difficult data vacuum, and with the Atlanta Fed nowcast survey still projecting 4.0% GDP Q3 growth, but reduces recession risks.

Sticky core inflation rates above 2% in the US and Canada, driven by higher services, food and wage inflation, are not preventing central banks from easing, with labour markets softening, and inflation expectations broadly stable (Chart 2; also see Chart 2, page 6). Given the structural changes in labour markets with ageing demographics and reduced labour migration, increases in 2% central bank inflation targets may be the solution in the longer term.

Lack of official data for September and October restricts analysis of the Q4 US labour market. But private surveys suggest modest employment growth, and job openings are falling. Chart 3 shows reduced job openings were correlated with higher unemployment in previous cycles, but lower labour supply and possible hoarding mean unemployment increased less in this cycle.

Long term metrics for gauging long term growth potential and neutral interest rates focus on productivity and labour force input growth. BoC estimates* for Canada are shown in Chart 4. Since 2024, lower labour input (TLI) growth is offset by higher long-term labour productivity growth so estimates remain 2.25-3.25%. Faster productivity growth from AI raises the marginal product of capital and neutral rates, but this is offset by reduced labour migration, and higher uncertainty if savings rise on tariff fears.

Chart 1: IMF forecasts generally show notable upgrades to 2025 GDP forecasts since the height of the tariff turbulence in April, led by China, though Canada is an outlier, with growth revised lower, on weaker domestic demand.

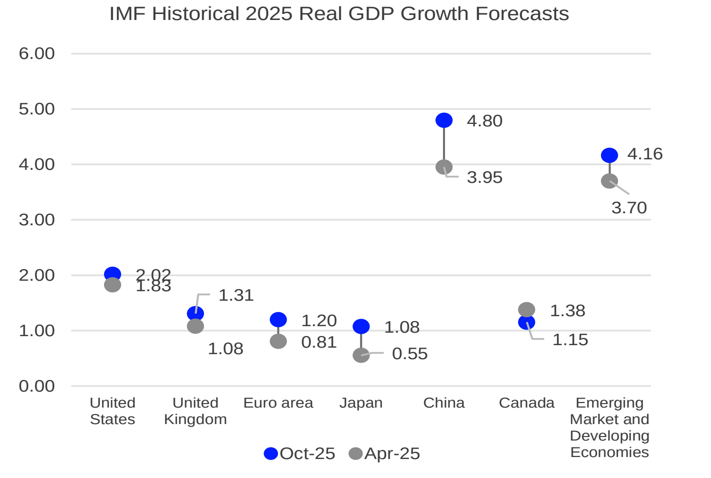


Chart 2: Canadian core inflation measures remain above 2% but the BoC has switched focus to the weakening labour market. The Fed noted inflation risks in October but reduced the restrictiveness of policy.

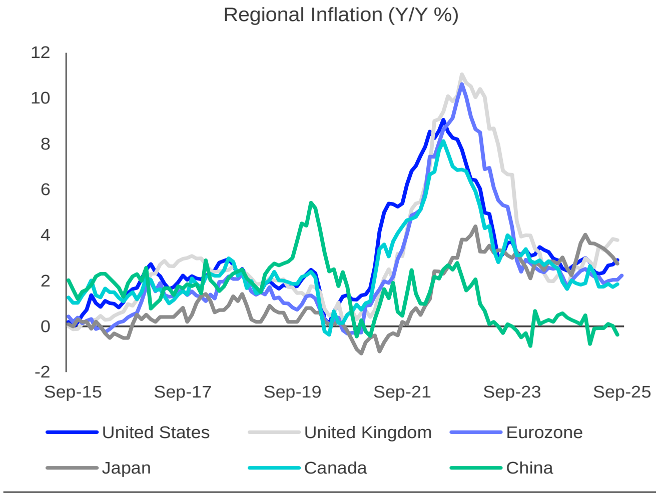


Chart 3: Lower US labour demand signalled by job openings has not been matched by a sharp increase in unemployment, unlike previous cycles, because labour supply also fell sharply, due to an ageing labour force.

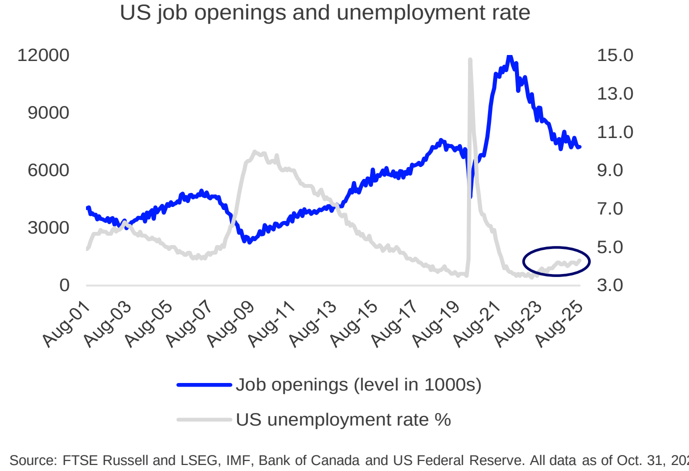
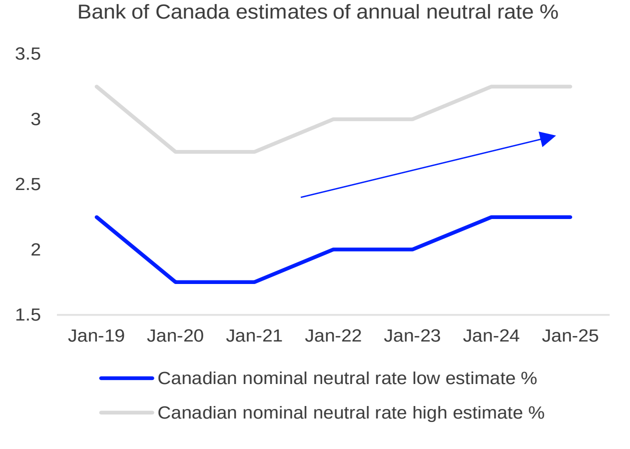


Chart 4: The BoC held its estimated range for the nominal neutral rate in Canada at 2.25% - 3.25%, for 2025 (50bp higher than the post-Covid estimates). Policy rates at 2.5% are near the lower end of this range.



Source: FTSE Russell and LSEG, IMF, Bank of Canada and US Federal Reserve. All data as of Oct. 31, 2025, apart from US labour market data, due to govt shutdown. Past performance is no guarantee of future results. This report should not be considered 'research' for the purposes of MIFID II. Please see the end of the report for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indices. See Appendix for list of indices used for each market.

Financial conditions and economic policy

The FTSE Russell Financial conditions indicators * (FCIs) show most easing in Canadian FCs, driven by easing and lower credit spreads, helping explain strength in Canadian equities in 2025. Meanwhile, the Fed's Quantitative Tightening (QT) has drained excess bank reserves, leaving money market liquidity strained, explaining the FOMC decision to end QT on Dec 1. Rate cuts by the BoC and Fed show a shift to labour market focus. Yen weakness is at odds with improved rate differentials.

FCIs began easing in advance of central bank easing, as Chart 1 shows, as markets anticipated easing. FTSE Russell FCIs show the 2023 tightening in US FCIs exceeded that elsewhere, including Canada, driven by policy tightening of 525bp, the strong dollar and inverted curve. But faster easing by the BoC, a weaker CAD in 2024 and tighter credit spreads eased Canadian FCs more in 2025.

Key changes in the US Fed's balance sheet are underway, with overnight reverse repo agreements falling to near zero, from a peak near $2.5trn in 2023. Chart 2 shows ONRRPs have generally been successful in steering rates in the policy corridor. But when excess reserves fall near zero, and money markets are drained of liquidity, as in 2019, spikes in money market rates are more common, risking collateral damage in the financial system, which explains the FOMC decision to freeze the Fed balance sheet from Dec 1.

A more benign view of tariffs and inflation, and higher unemployment explain Fed and BoC decisions to cut rates 25bp in October. With Fed rates restrictive, rather than on the easy side of neutral (BoC), the FOMC could justify the move as risk management, during a period of uncertainty, with no Q4 data. The BoJ decision to leave rates was well discounted, awaiting detail on Japanese fiscal policy.

Exchange rate moves have stabilised since mid-2025, although the euro remains near highs versus the USD, and yen weakness persists, despite improved rate differentials versus the dollar. Given new Japan PM Takaichi has expressed support for expansionary fiscal policy, the BoJ may wait and see the impact on the economy before raising rates further. Weaker oil and trade risks may be weighing on the CAD.

See * Building the FTSE Russell financial conditions indicator | LSEG, September 2025.

Chart 1: Financial conditions have eased to 2022 levels in the US and Canada, and are notably easier in Canada than the US, reflecting the bigger decline in Canadian short rates, and the tightening in credit spreads.

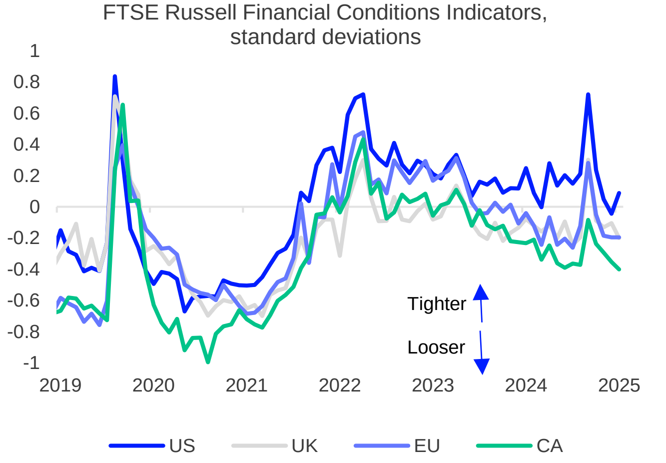


Chart 2: The US Fed's reverse repo agreements have dwindled to near zero, removing a cushion protecting systemic liquidity. This leaves a risk money market rates spike unintentionally, as in 2019.

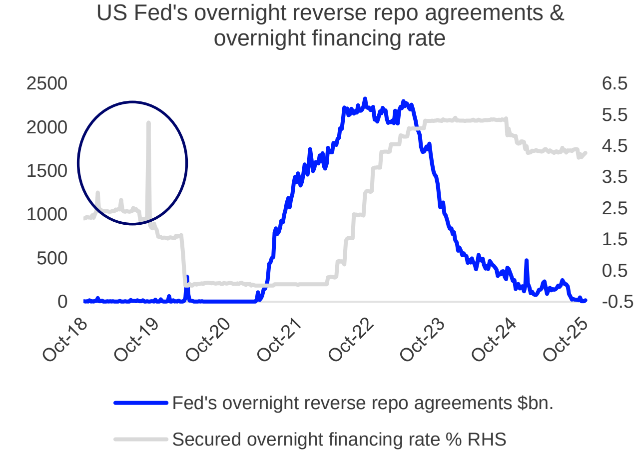


Chart 3: The Fed eased rates further on October 29th, despite a lack of Q4 data, but cast doubt on a December move, given above target inflation. The BoC easing was driven by the softening Canadian labour market.

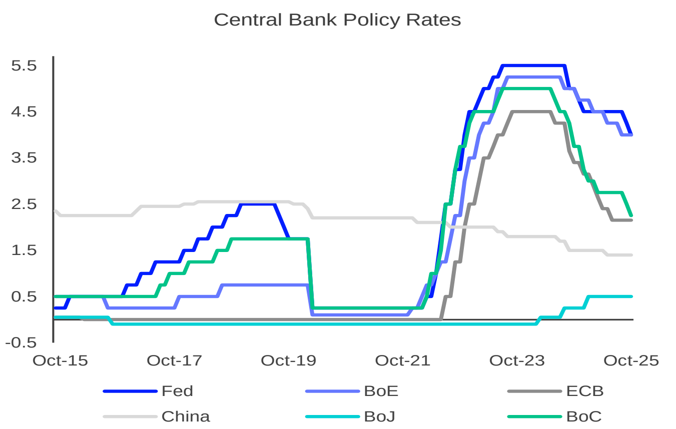
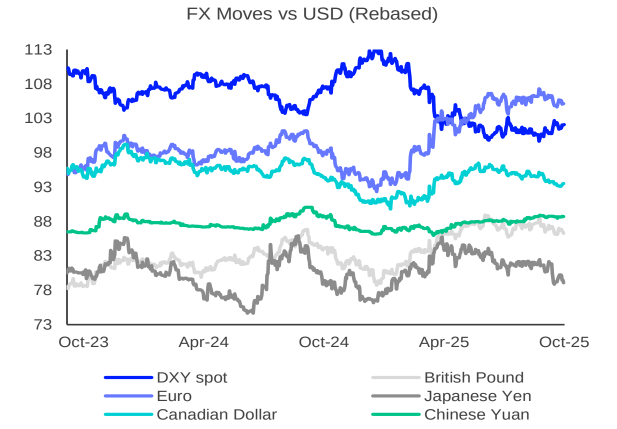


Chart 4: US dollar weakness and Euro strength remain the main currency feature in 2025, alongside persisting yen decline. The CAD recovered from the early 2025 lows, but remains exposed to trade risk.



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US Credit : Investment Grade Credit and RMBS analysis

Chart 1: US IG yields are attractive benchmarked against pre-Covid levels, even if yields are now below UK levels, after the Fed's recent rate cuts. IG yields in all markets remain well above pre-Covid levels.

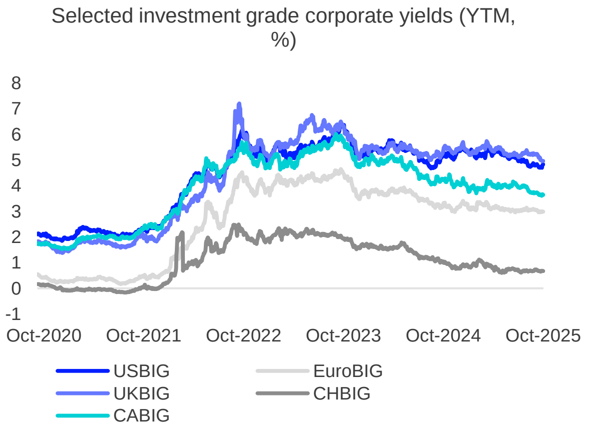


Chart 2: Since the Ukraine shock, credit distress indexes show greater distress in IG than HY, but both show very low distress. The NY Fed IG index is at its 12th historical percentile, versus the 7th percentile for HY.

Chart 3: Longer duration of the US and UK IG credit markets left them more vulnerable to higher govt bond yields and rates in 2022-2023. The Canadian and Euro IG credits were better protected in that regard.

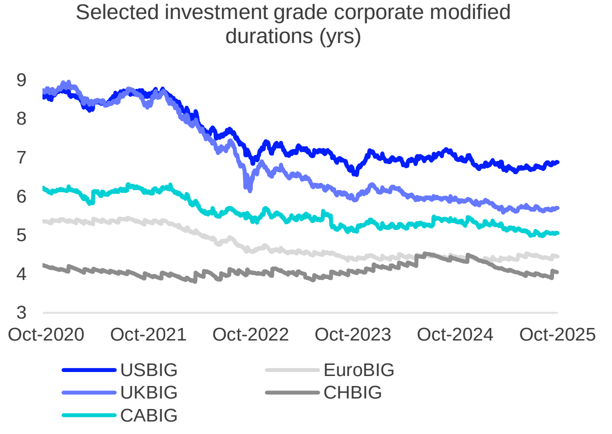


Chart 4: The impact of longer duration in US and UK IG credits is evident in the 2022 sell-off, showing underperformance, even in USD. Chinese credits outperformed in 2025, despite shorter duration.

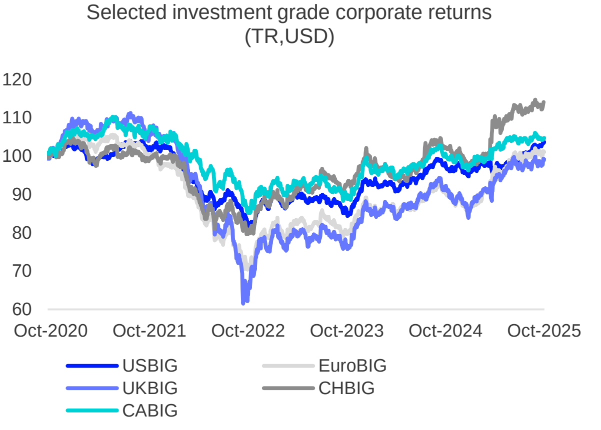


Chart 5: Asset backed credits continue to outperform other sectors, with low volatility increasing their attractiveness. Banks recovered strongly after a period of underperformance during the regional banking collapse in 2023.

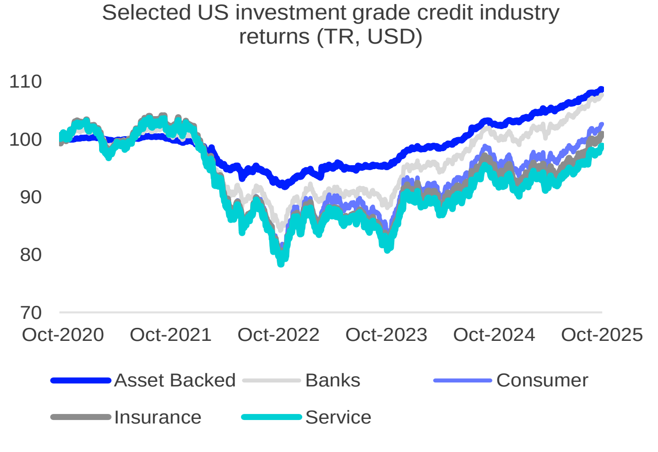
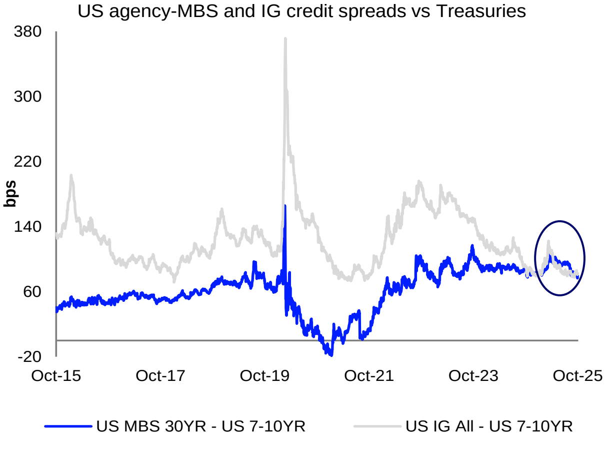


Chart 6: The Fed's decision to re-invest maturing MBS into Treasury bills (from Dec. 1) confirms the policy of reducing MBS holdings. This may be helping to drive MBS spreads wider versus credit.



Source: FTSE Russell and LSEG, NY Fed. All data as of October 31, 2025. Past performance is no guarantee of future results. This report should not be considered 'research' for the purposes of MIFID II. Please see the end of the report for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indices. See Appendix for list of indices used for each market.

US Credit : High Yield Credit Analysis

Chart 1: HY yields remain well above 2021 levels, even if they have fallen in 2024-25. Since market duration is much shorter, this means yield per unit of duration risk is still attractive versus pre-Covid levels.

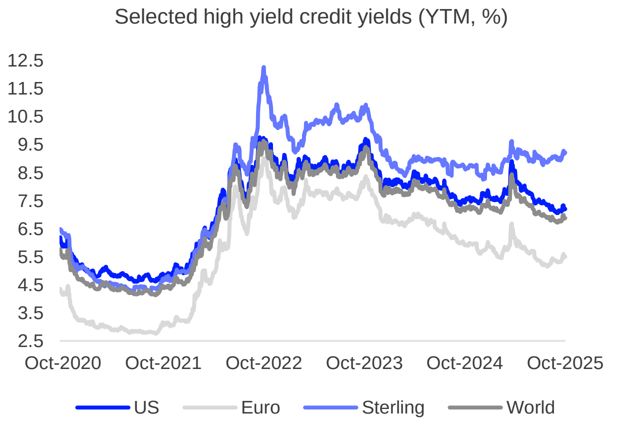


Chart 2: OAS spreads for US HY have widened since Q4, 2024, even if coupon effects delivered solid HY returns. Spreads should be gauged vs 3-5yr Treasuries, given the short duration of US HY, and not 7-10 yr.

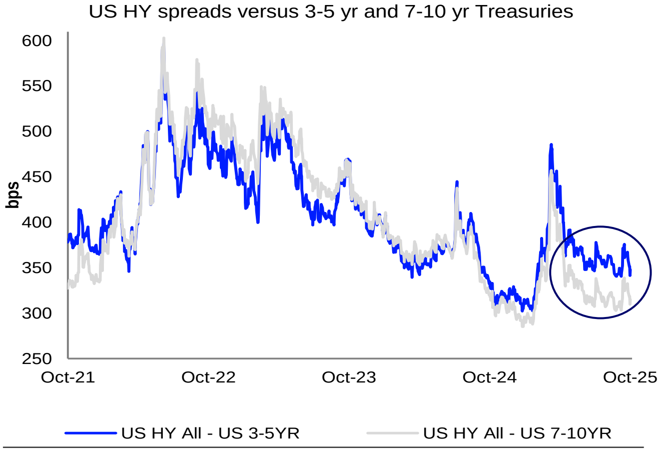


Chart 3: There was a temporary increase in HY duration in 2020-21, as issuers exploited low rates to refinance at longer maturities. But duration fell sharply in 2022-23, partly due to buyer disdain for longer maturities.

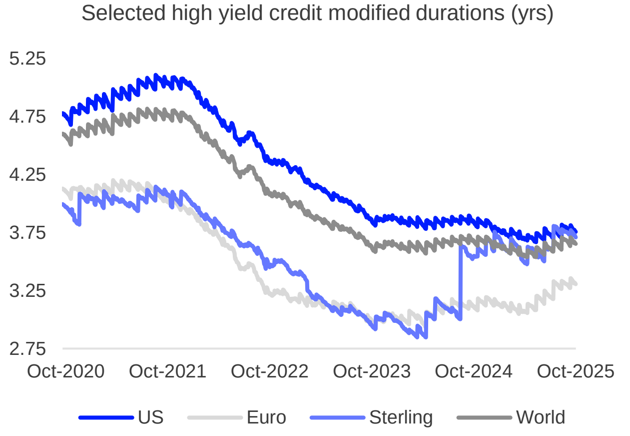


Chart 4: The share of longer dated issues in US HY fell sharply since 2021, particularly 7-10 yr, as the Chart shows. A shorter duration market, with improved credit quality, has proved attractive to investors.

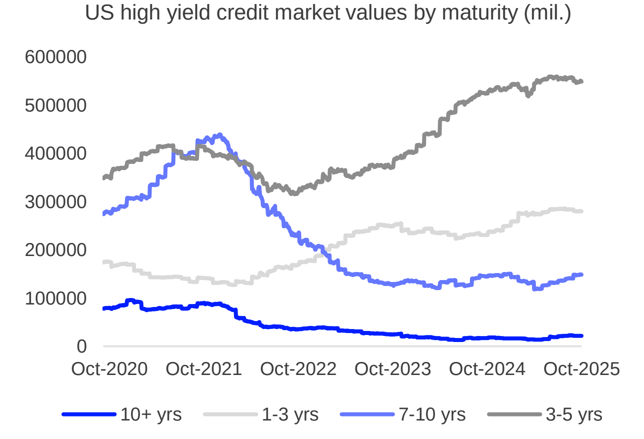


Chart 5: The share of CCC rated bonds in US HY is under 10%, while the share of BB is the largest, and comfortably above 50%. This reflects the steady improvement in credit quality in US HY in recent years.

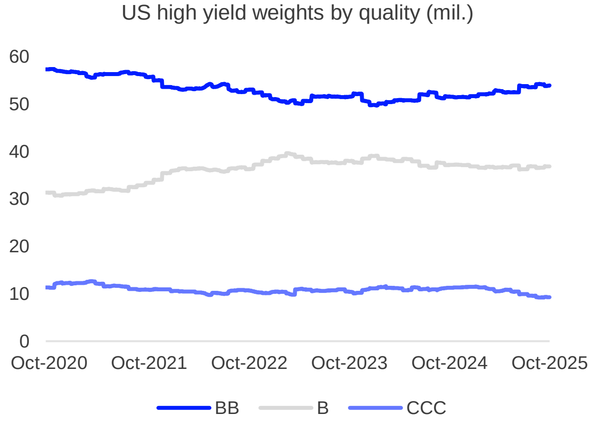
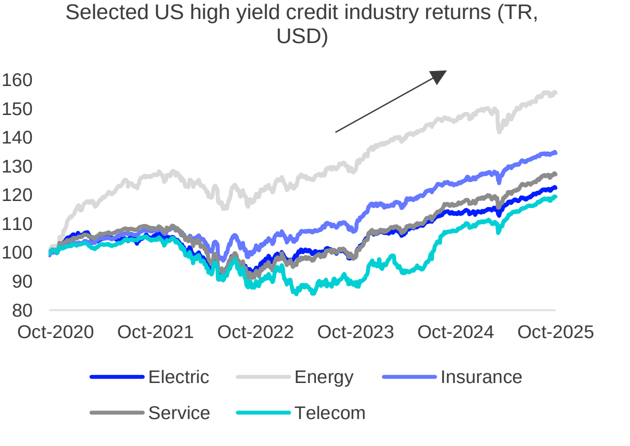


Chart 6: Industry returns show energy outperforming, though financials have proved strong performers in 2024-25, helped by steeper yield curves and low default rates. Telecom has benefitted from lower rates.



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Canadian Governments, Provinces and Municipalities

Chart 1: 10s/2s has stabilised since mid-year, though the BoC signal it has finished easing for now, at 2.25% may renew steepening. Longs are overshadowed by the inflation overshoot, and fiscal stimulus risk.

Canada govt yields: mediums and longs vs shorts (bps)

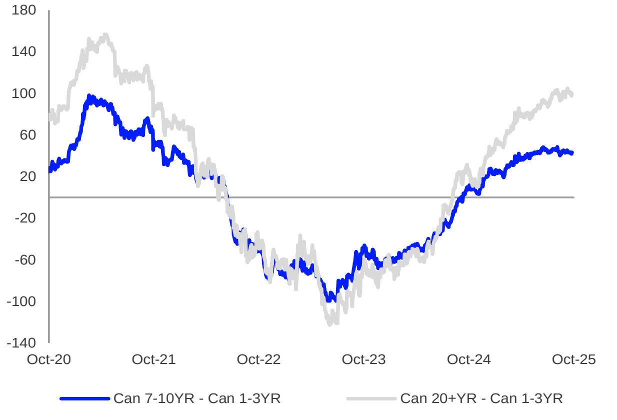


Chart 2: The Canadian breakeven curve shows notable disinversion since tariff turbulence erupted in April. Short-dated inflation expectations have fallen to < 2% target. Long-dated are higher but still below the 2% target.

Canada Breakevens

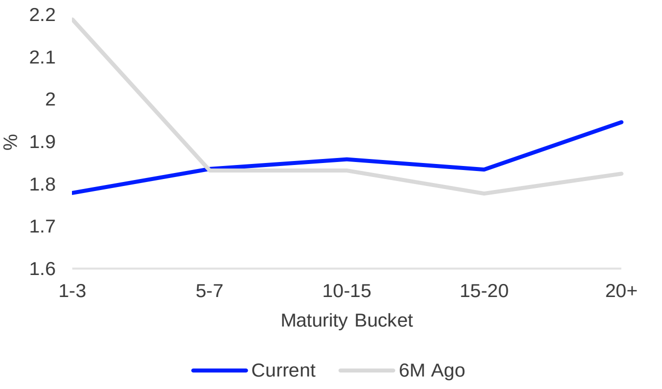


Chart 3: Canadian 7-10 yr spreads have tightened further versus Japan and Germany, driven by the Sept & October BoC rate cuts. Canada trades well through Treasuries but Fed easing reduced the spread.

7-10 year Canadian sovereign spreads

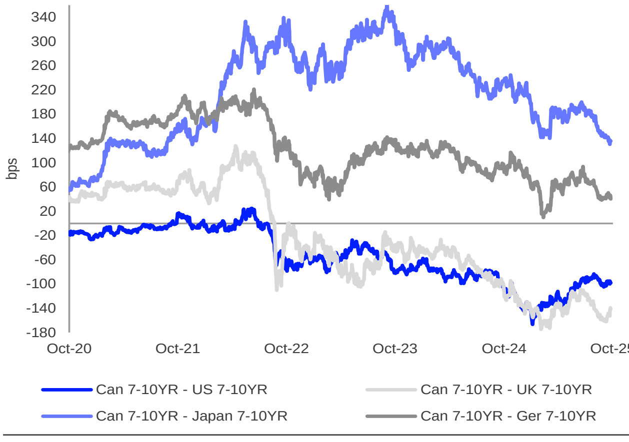


Chart 4: It is a similar picture in longs, where the US Treasury rally has closed yield differentials versus Canada modestly. Long spreads versus UK gilts remain near multi-year lows, due to UK issuance pressures.

Canada 20yr+ spreads vs US, UK, Japan & Germany

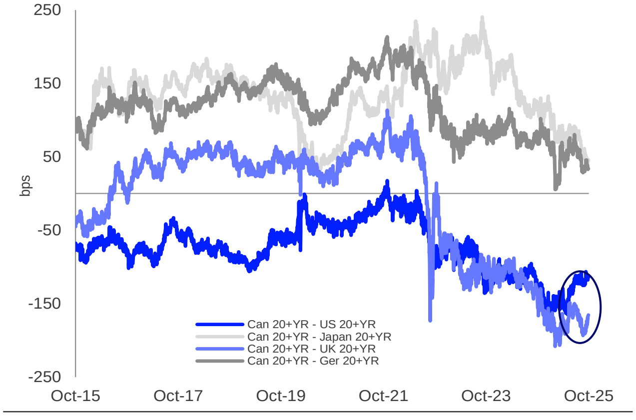


Chart 5: Real yields have fallen more from the 2023 highs than nominal, pushing long-dated breakevens a little higher, but there is little evidence of genuine de-stabilization in inflation expectations as Chart 2 shows.

Long-dated Canadian nominal and real yields (%)

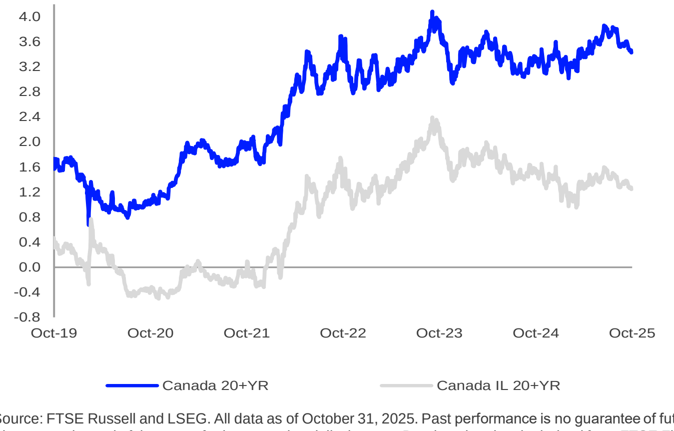
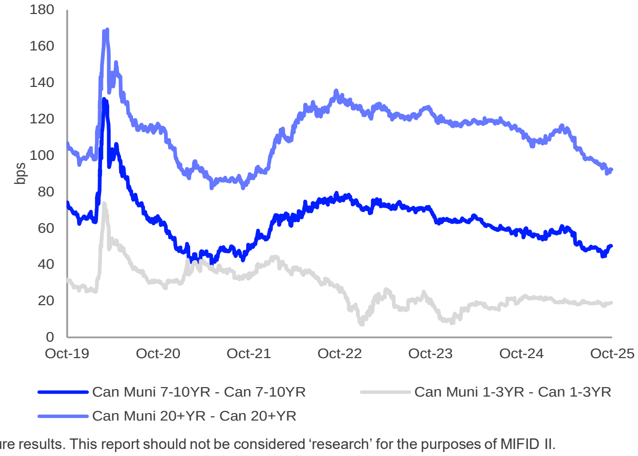


Chart 6: Municipal spreads edged out in October, but mainly due to lower rates driving Canadian govt bond yields a little lower, and trend tightening continues in Munis, as investors seek yield enhancement.

Duration matched Municipal spreads



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Canada : Investment Grade Credit Analysis

Chart 1: Canadian IG yields were pulled lower by the BoC rate cuts in September and October. Correlation between 7-10 yr govt yields and Canadian IG credit remains high. Tariff effects have been modest.

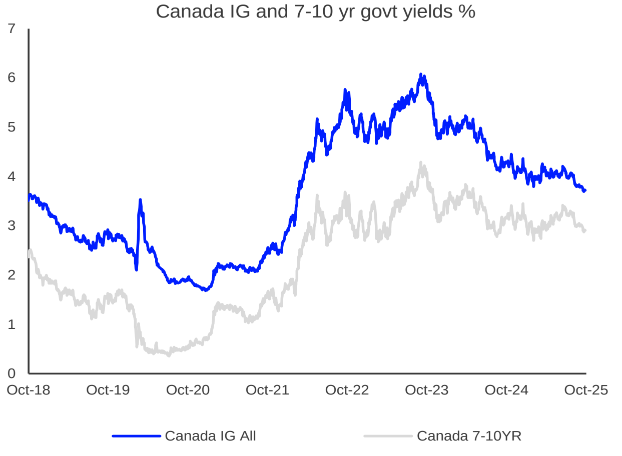


Chart 2: Shorter maturities have shown much more favourable risk-return profiles since 2020, even if the 7-10 yr sector has rallied strongly since October 2023, helped by its extra duration vs 1-5 yrs.

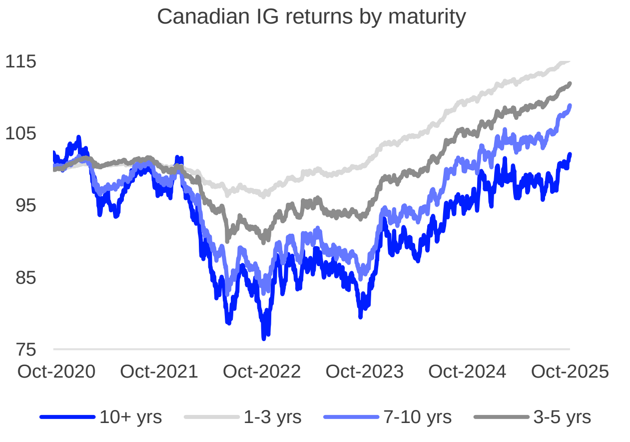


Chart 3: Spreads have tightened most in financials and other interest rate sensitive sectors, like real estate, since the risk rally began in October 2022 (see Chart 4). Infrastructure spreads show lower beta.

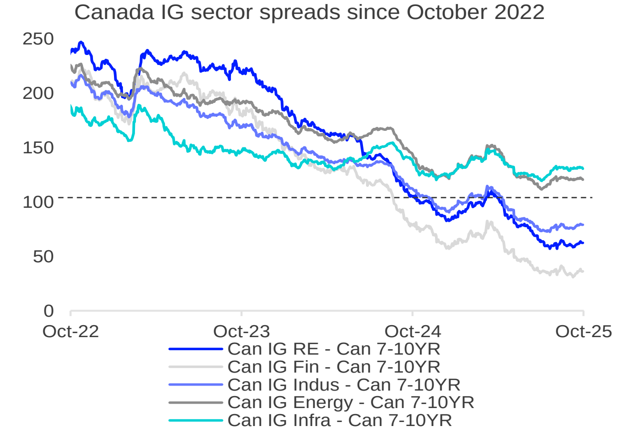


Chart 4: Reflecting the steepening of the Canadian govt yield curve, long-dated Canadian IG spreads have tightened more than shorts and mediums, with spreads now well below 2020-21 and pre-Covid levels.

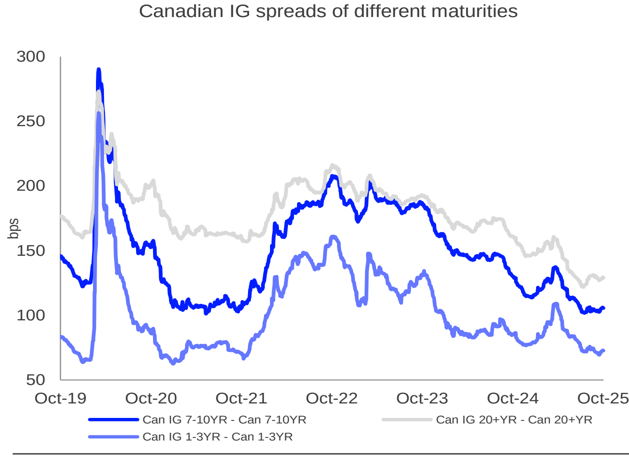


Chart 5: Canadian IG credits remain dominated by energy (38% weight) and infrastructure (24% weight), reflecting the underlying structure of the economy, and the substantial energy sector.

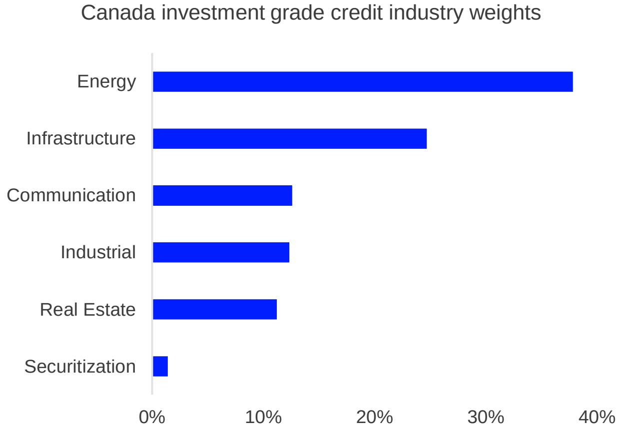
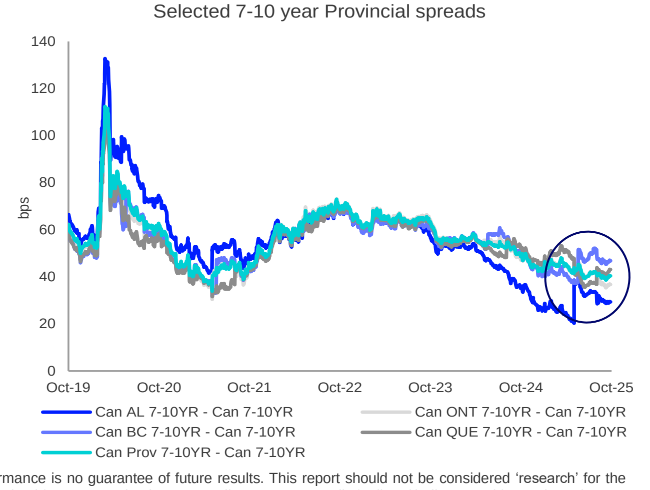


Chart 6: Alberta spreads stabilized after the spike on fears of an independence referendum earlier in 2025. Other provincial spreads have remained stable in 2025, after the sharp move lower in 2024.



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Canada : High Yield Credit Analysis

Chart 1: Benchmarking historical value, yields on Canada HY issues are below the 2015/2020 Covid highs and US HY, but near the 10 yr mean, so there is still some value in the sector, despite the strong 2025 returns.

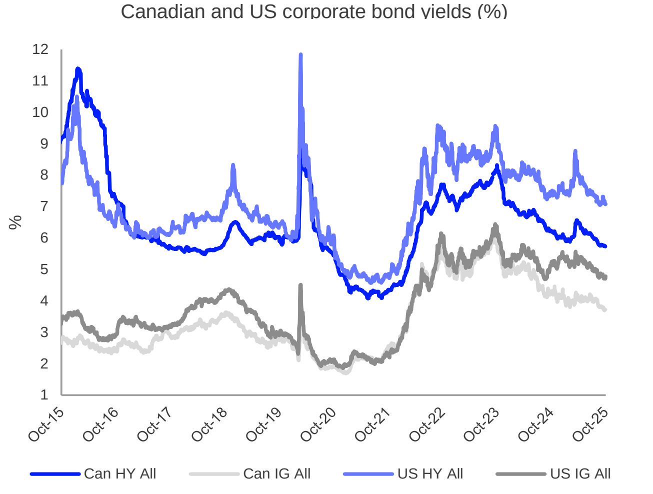


Chart 2: The yield protection in US HY versus Canada HY has increased of late, with Canadian HY yields falling relative to US, and US Treasury yields falling relative to Canada govts. But it is still low versus 2021-22.

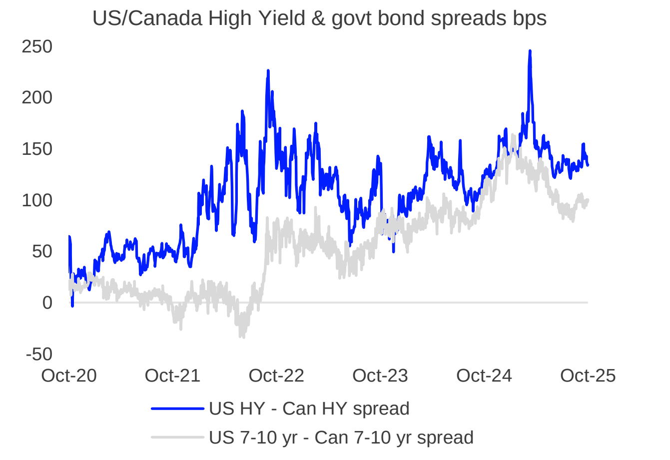


Chart 3: Energy issues clearly dominate the Canadian HY credit market, with a much higher weight (45%) than US energy issues in the US HY market (only about 11%). Financials have close to zero weight.

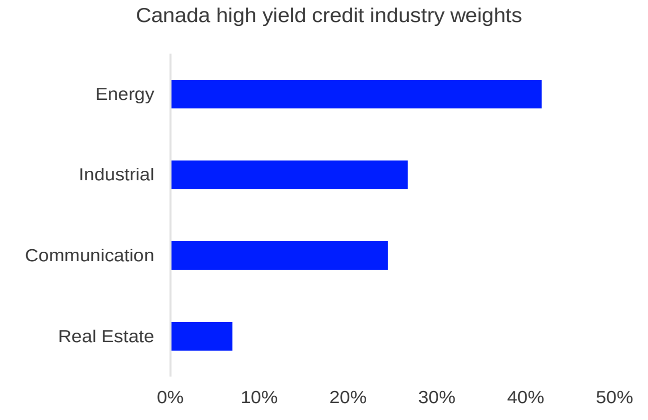


Chart 4: Canadian HY credits outperformed again in Q3, and shrugged off tariff-related risks to growth and profit margins in 2025. With curves steepening in 2024-25, the longer duration advantage of IG was offset.

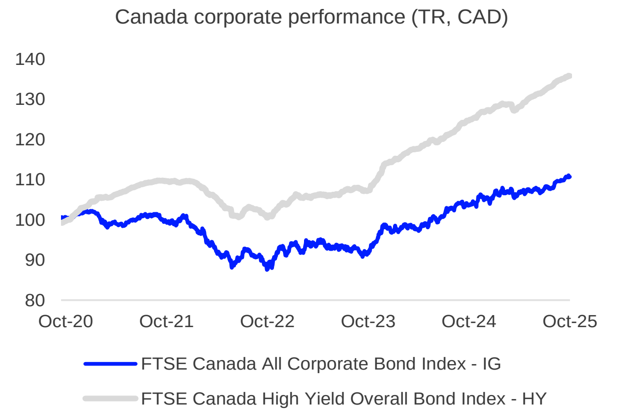


Chart 5: Canada's high yield Energy sector has outperformed, despite oil prices drifting lower in 2025. The Communication industry has stabilised and is improving. Real estate has benefitted from BoC easing.

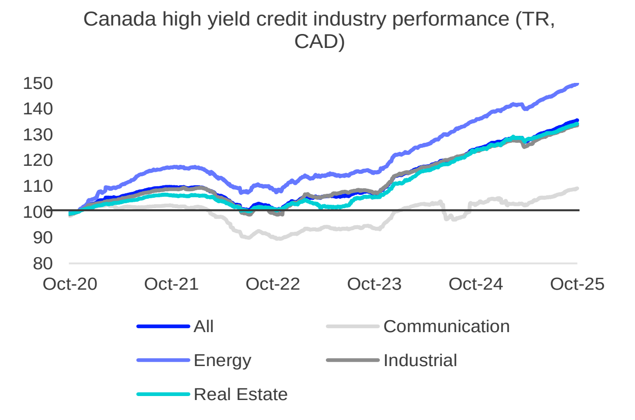
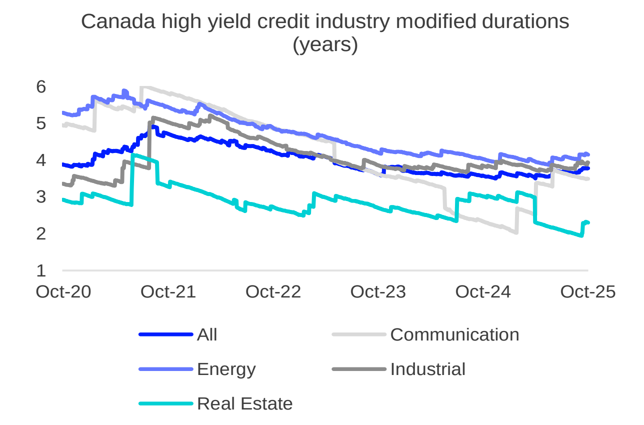


Chart 6: Energy issues, which represent near 45% of the Canadian high yield universe, have the highest level of duration, at about 4 years, followed by Industrial at 3.7 years.



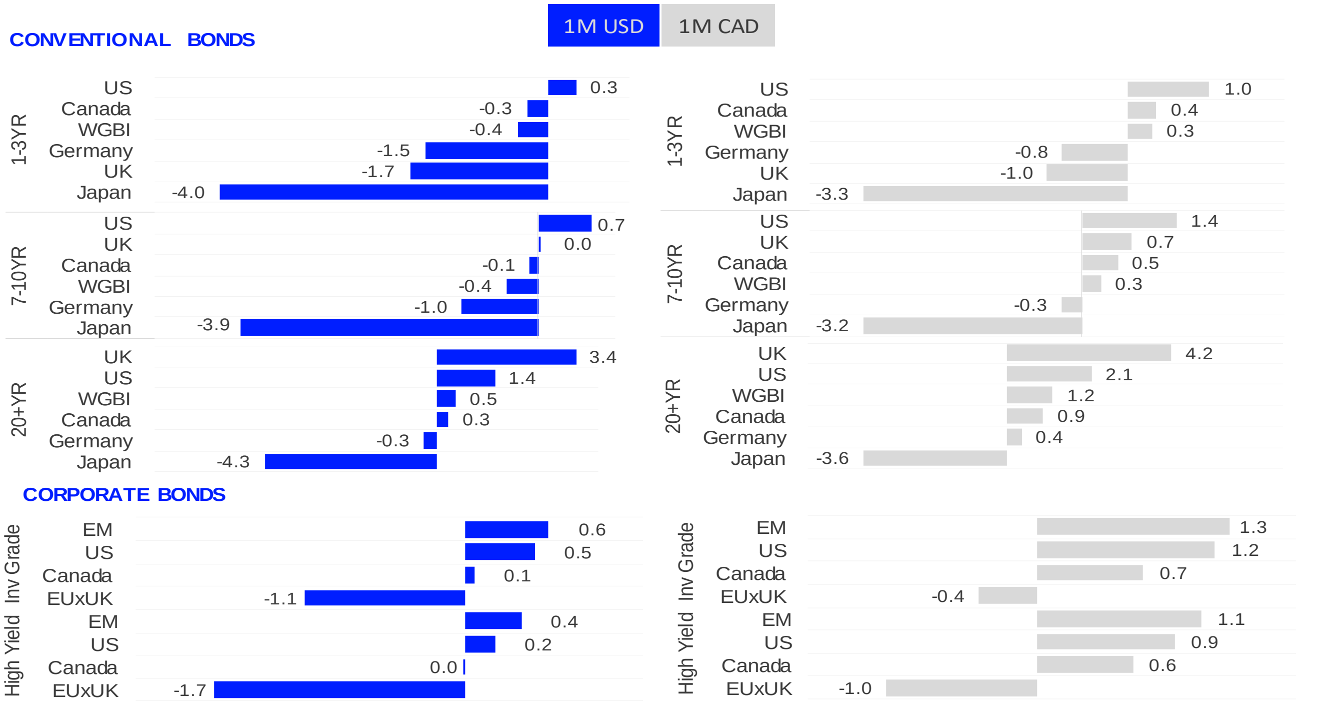
Source: FTSE Russell and LSEG. All data as of October 31, 2025, unless indicated otherwise. Past performance is no guarantee of future results. This report should not be considered 'research' for the purposes of MIFID II. Please see the end of the report for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indices. See Appendix for list of indices used for each market.

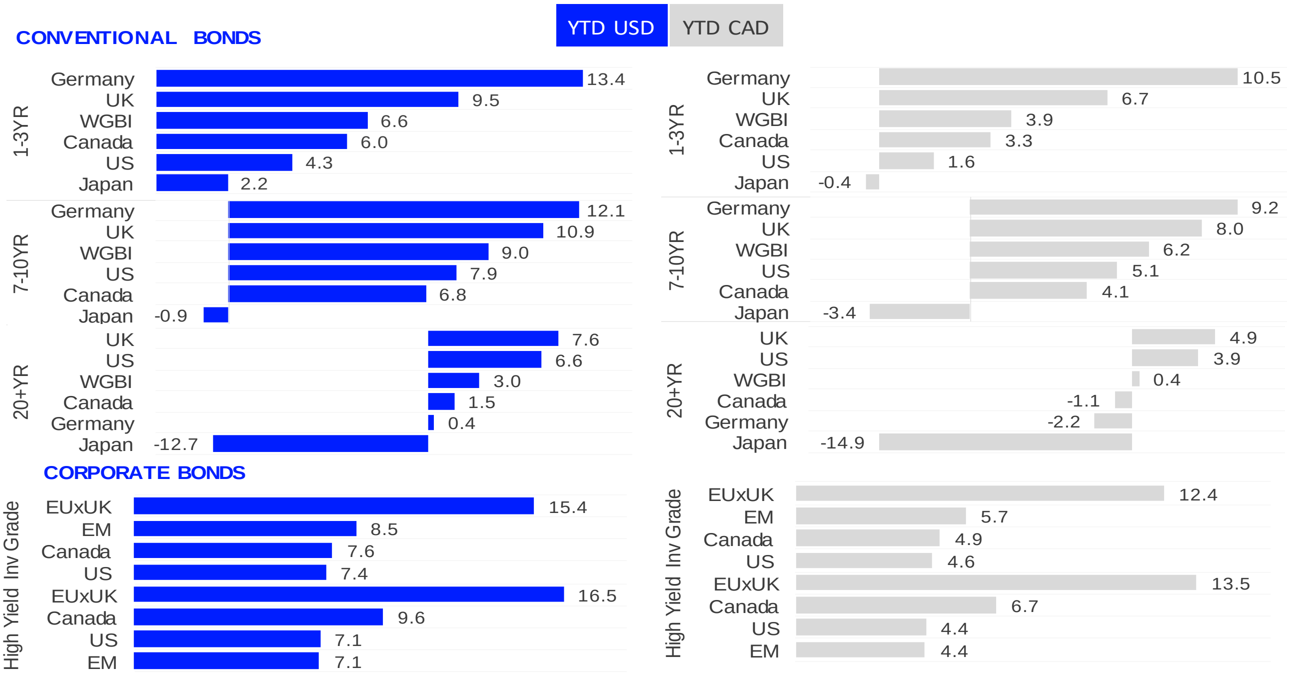
Conventional Government Bond Returns − 1M & YTD % (USD, CAD, TR)

Weaker Canadian and US dollars still dominate YTD returns, with returns in overseas bonds led by Bunds and gilts, thanks to stronger currencies, and rate cuts. Treasuries and longer gilts led 1M returns, as markets priced in tighter UK fiscal policy & rate cuts. JGBs fell again in CAD and USD terms in Q4, and YTD, with losses of 13-15%, and the yen hit by the BoJ deferring a rate increase in October. Credit shows solid returns YTD, led by Eurozone credit, with returns boosted by the strong euro.

Longs outperformed shorts in October, in anticipation of rate cuts at end-month, which duly materialised from the BoC and US Fed. But shorts and mediums still showed bigger gains of 8-13% YTD, led by gilts and Bunds, helped by stronger EUR and GBP and rate cuts.

Credit has steadily outperformed govt bonds again in 2025, with HY just exceeding IG returns, driven by the risk rally, and Canadian credit surpassing US credit returns for both CAD and USD investors. Canadian and euro HY achieved 7-17% returns.





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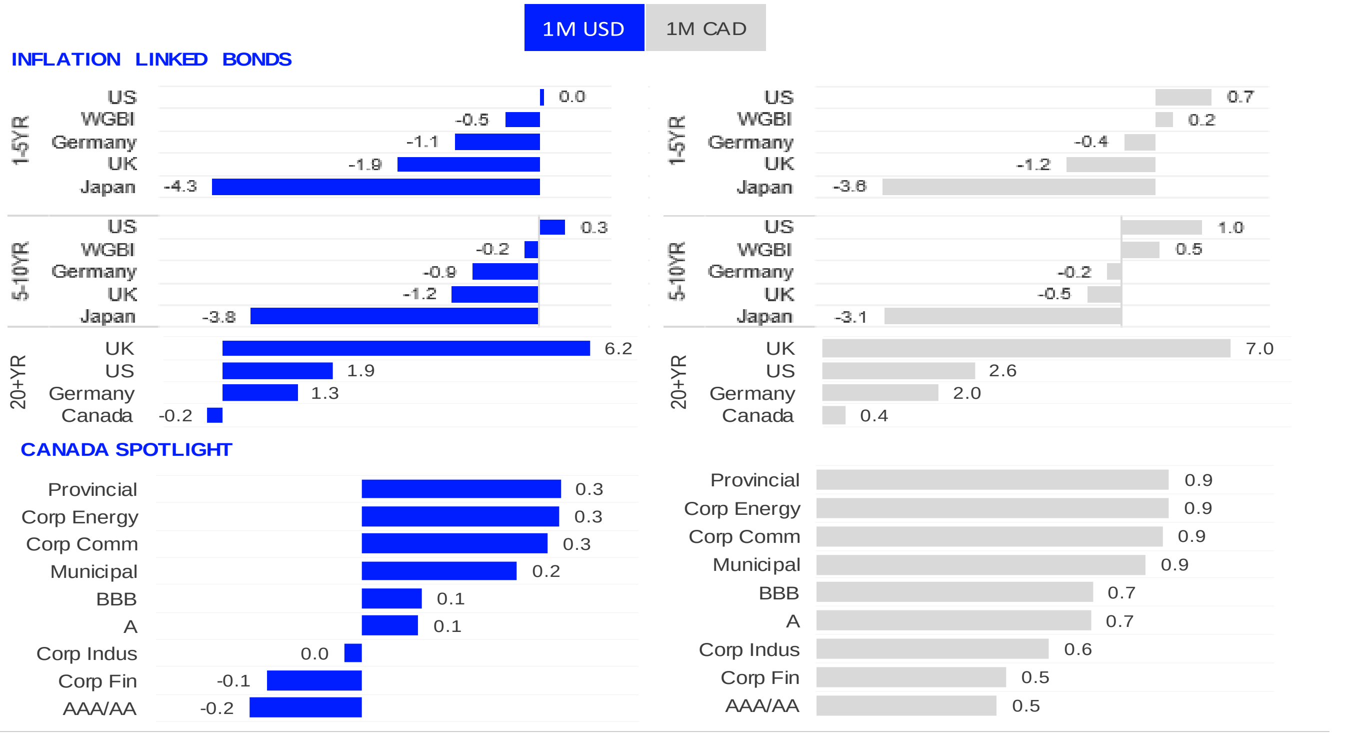
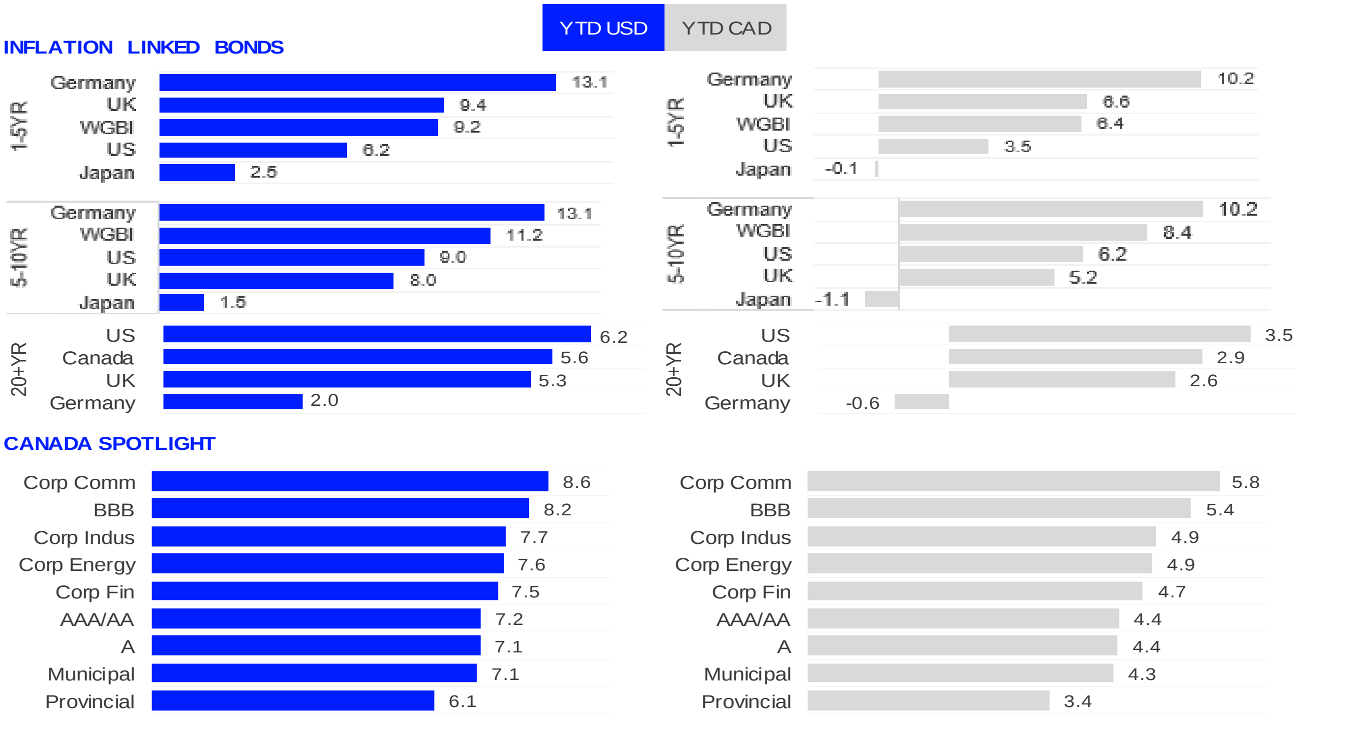
Credit and Canada Spotlight − 1M & YTD % (USD, CAD, TR)

Inflation-linked returns were marginally negative in October, apart from a strong rebound in long UK linkers, helped by long duration and signs of tighter UK fiscal policy. Yen weakness drove renewed losses of 3-4% in USD and CAD. Linkers show strong returns YTD in CAD and USD, led by shorter Bunds, the WILSI and gilt linkers with gains of 6-13%. In Canadian credit, corporate comms. and BBB led returns, with single-A credits and Canadian provis lagging.

Most Canadian credit sectors show returns of 5-6% in CAD terms, and 8-9% in USD, outperforming inflation linked and govt bonds, as the risk rally continued. Higher grade credits underperformed BBBs and HY, as improved credit quality drew investment support.





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Top and Bottom Bond Returns – 12M % (USD, CAD, TR)

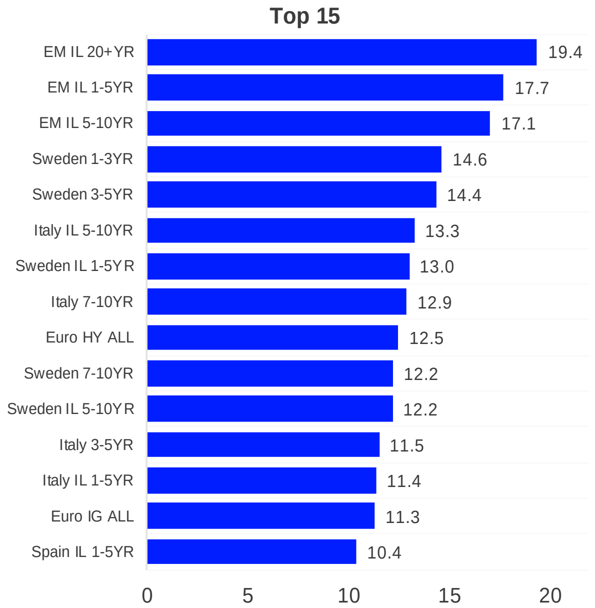
Longer-dated EM inflation-linked bonds still dominate 12M returns with gains of 17% to 20%, in CAD and USD terms. Currency gains in Latam currencies continue, and the strong SEK boosted Swedish bond returns. Yield convergence trades in Italy and Spain also drove gains in those markets. French govt bonds remain weak with losses of 8-9% in USD and CAD terms in longs, after difficulty in enacting fiscal deficit reduction, and the credit downgrade.

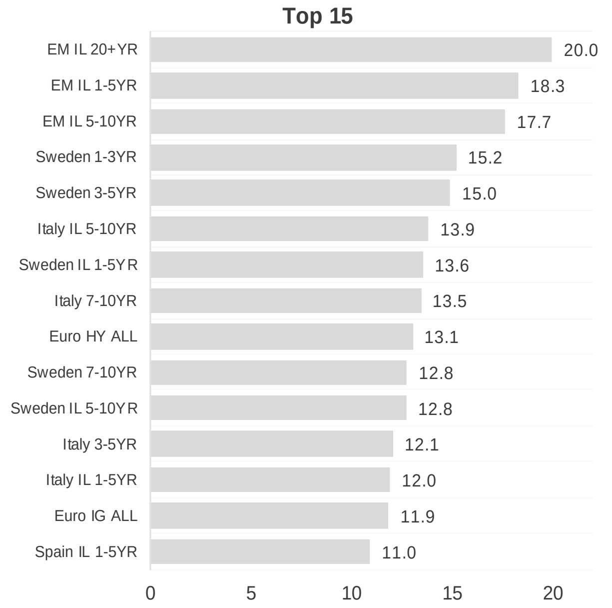
Latam economies have dodged the largest US tariff increases, have low shares of US imports and local currencies have benefitted from USD weakness in 2025. Mexico could also benefit from US re-shoring, and logistical advantages in supply-chains.

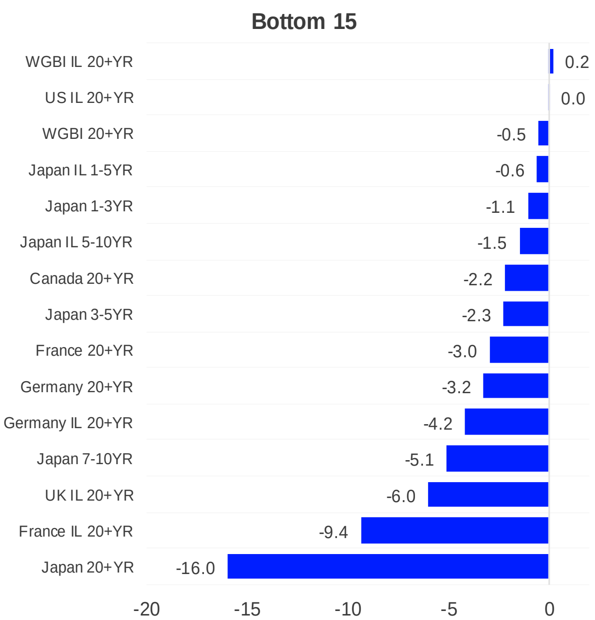
Eurozone returns remain more mixed, despite the strong Euro, though Italy and Spain gained from stronger relative growth and more fiscal deficit control, with returns of 10-14% in USD and CAD on 12M, whereas France has suffered from fiscal frailty.

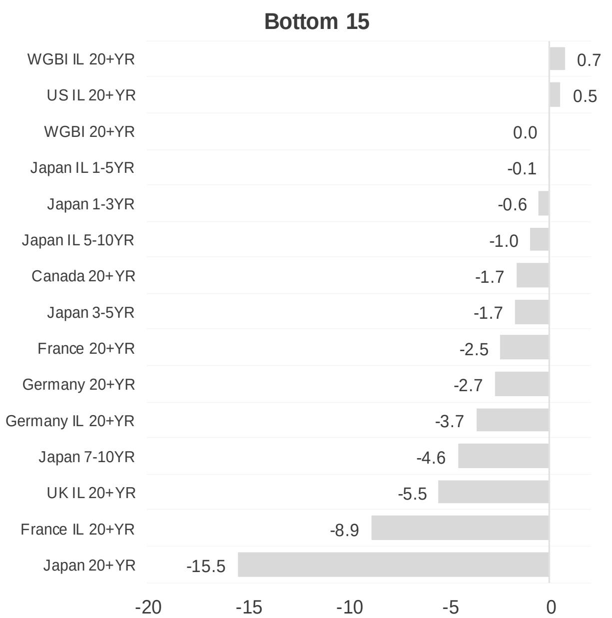
Bear steepening in the JGB yield curve and the weak yen continue to depress JGB returns, with losses of 16% in long JGBs in CAD and USD. The yen now stands considerably below its PPP levels – IMF estimates USD/JPY at 93.5 versus current levels above 150, and recent narrowing in US/Japan yield differentials is a more bullish signal for the yen.

12M USD | 12M CAD









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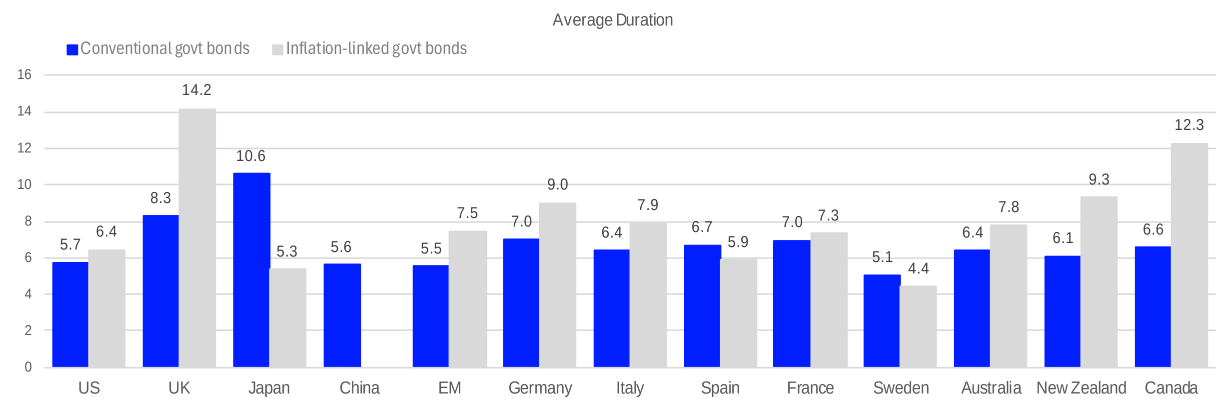
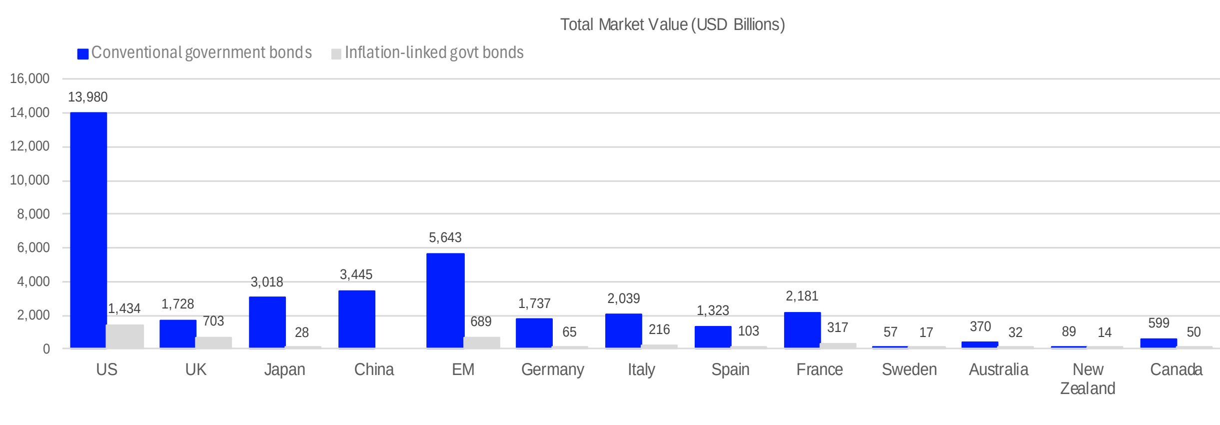
Appendix – Duration and Market Value (USD, Bn) as of October 31, 2025

	Conventional government bonds								Inflation-linked government bonds					
	Duration				Market Value				Duration			Market Value		
	3-5YR	7-10YR	20+YR	Overall	3-5YR	7-10YR	20+YR	Total	5-10YR	20+YR	Overall	5-10YR	20+YR	Total
US	3.6	7.0	16.0	**5.7**	3,077.1	1,347.5	1,583.1	**13,980.2**	7.0	20.9	**6.4**	486.9	117.1	**1,434.1**
UK	3.4	7.2	17.3	**8.3**	208.8	276.8	340.5	**1,727.7**	7.4	25.7	**14.2**	156.7	220.7	**702.7**
Japan	3.9	8.2	21.8	**10.6**	386.0	508.9	538.4	**3,017.7**	7.8		**5.3**	15.1		**28.3**
China	3.7	7.8	18.0	**5.6**	824.1	600.1	358.9	**3,445.4**						
EM	3.5	7.1	15.8	**5.5**	1,290.7	1,033.8	530.7	**5,643.4**	6.0	13.4	**7.5**	157.2	168.3	**689.1**
Germany	3.7	7.5	20.0	**7.0**	353.2	310.3	200.0	**1,737.0**	7.2	19.6	**9.0**	14.5	17.2	**65.0**
Italy	3.7	7.0	16.5	**6.4**	360.5	339.3	174.4	**2,038.7**	7.4	23.0	**7.9**	81.6	9.7	**215.8**
Spain	3.6	7.3	18.0	**6.7**	265.0	232.9	111.4	**1,323.4**	6.2		**5.9**	61.0		**102.9**
France	3.5	7.1	18.4	**7.0**	458.7	447.6	232.4	**2,180.7**	6.3	22.7	**7.3**	73.2	21.2	**317.4**
Sweden	3.9	7.8		**5.1**	9.1	13.4		**57.3**	6.4		**4.4**	3.6		**16.9**
Australia	3.5	7.1	15.8	**6.4**	65.1	107.7	20.9	**369.7**	8.0	20.6	**7.8**	10.6	2.6	**31.6**
New Zealand	3.7	7.0	15.5	**6.1**	18.4	22.5	5.4	**88.5**	8.7	17.1	**9.3**	5.4	1.2	**13.7**
Canada	3.9	7.3	18.6	**6.6**	132.3	130.5	82.3	**598.7**	5.4	21.2	**12.3**	8.3	13.0	**49.7**

	Investment grade bonds										High Yield	
	Duration					Market Value					Duration	MktVal
	AAA	AA	A	BBB	Overall	AAA	AA	A	BBB	Overall		
US	10.2	8.2	6.9	6.5	6.8	75.7	464.5	3160.9	3684.0	7385.1	3.7	1195.1
Europe	6.1	4.9	4.6	4.2	4.4	39.8	244.9	1440.8	1731.4	3457.0	3.3	405.9
EM		6.3	5.7	5.5	5.7		76.2	171.0	253.3	500.4	3.7	184.2





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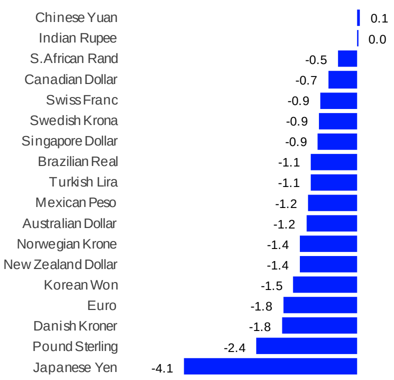
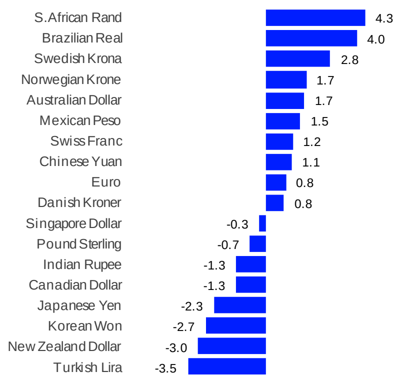
Appendix − Foreign Exchange Returns % as of October 31, 2025

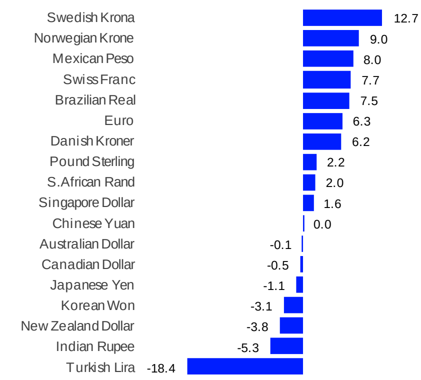
1M vs USD



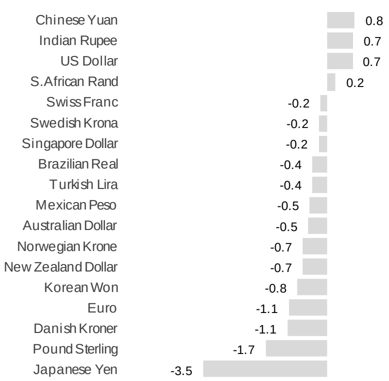
3M vs USD



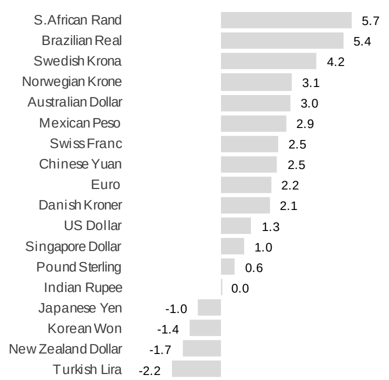
12M vs USD



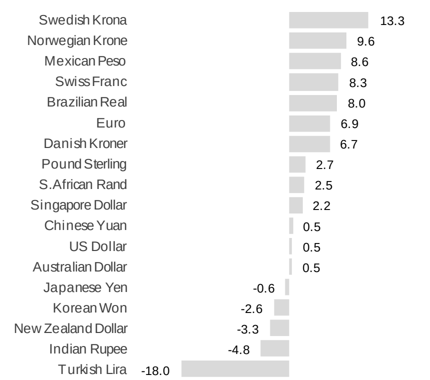
1M vs CAD



3M vs CAD



12M vs CAD



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Appendix − Glossary

Bond markets are based on the following indices:

FTSE World Government Bond Index (WGBI) for all global government bond markets

FTSE World Inflation-Linked Securities Index (WorldILSI) for all global inflation-linked bond markets

FTSE US Broad Investment-Grade Bond Index (USBIG®) for the US corporate bond market

FTSE US High-Yield Market Index for the US high yield bond market

FTSE Euro Broad Investment-Grade Bond Index (EuroBIG®) for the Euro-denominated corporate bond market

FTSE European High-Yield Market Index for the European high yield market

FTSE Chinese Government and Policy Bank Bond Index (CNGPBI) for the Chinese government bond market

FTSE Emerging Markets Inflation-Linked Securities Index (EMILSI) for the emerging markets inflation-linked bond market

FTSE Emerging Markets Government Bond Index (EMGBI) for the emerging markets government bond market. Please note that over 50% of this index is invested in China

FTSE Emerging Markets Broad Bond Index (EMUSDBBI) for the emerging markets corporate bond market

FTSE ESG World Government Bond Index for the global government bond markets with an ESG tilt

FTSE Climate Risk-Adjusted World Government Bond Index (Climate WGBI) and FTSE Advanced Climate Risk-Adjusted World Government Bond Index (Advanced Climate WGBI) for each country's relative exposure to climate risk, with respect to resilience and preparedness to the risks of climate change

List of Abbreviations used in charts:

IL = Inflation-linked bonds

IG = Investment-grade bonds

HY = High-yield bonds

BPS = Basis points

EM = Emerging market

LC = Local currency

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