Press Release
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Fixed income markets weather November uncertainty with focus on 2025 outlook

London, 12 December 2024 -

- After some uncertainty driven by the US election earlier in the month, bond markets generally performed well in November
- Flows into fixed income ETFs stalled with the market experiencing a small net outflow (-$0.4bn) for the first time since September 2022
- Uncertainty about President-elect Trump's policy agenda is likely to drive further inflows into perceived safe-haven assets, such as cash and government bonds in the near-term

Paul Syms, Head of EMEA ETF Fixed Income and Commodity Product Management at Invesco, comments:

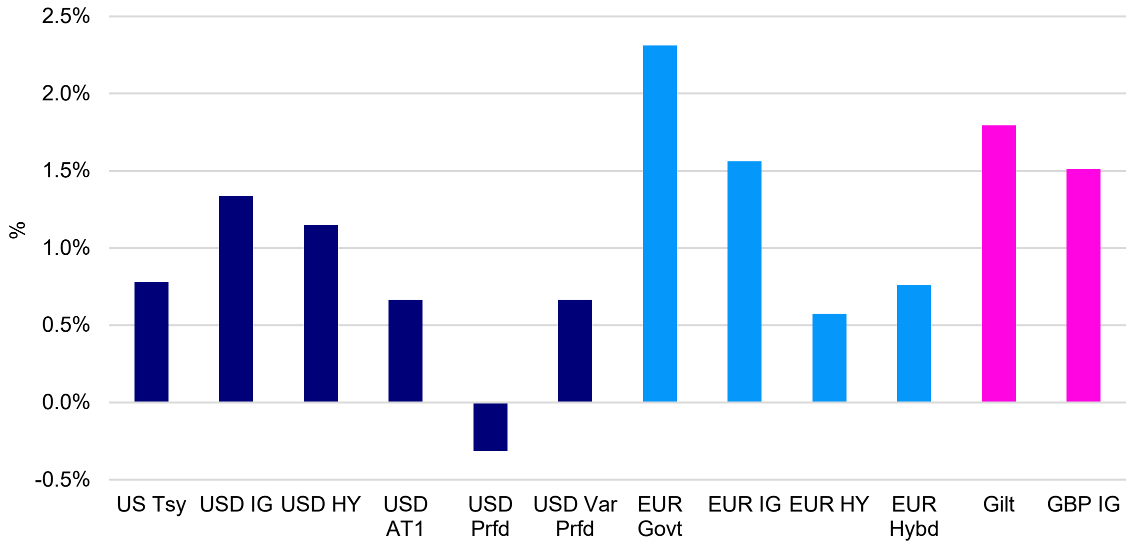
"Although lacking direction early in the month, November was a broadly positive month for bond markets as yields rallied into month end. While the US employment report at the start of the month indicated further signs of weakness in the labour market, with non-farm payrolls undershooting expectations and downward revisions to previous months, the Treasury market rally was limited by the imminent US presidential election.

"The initial reaction to Trump's victory was an increase in Treasury yields due to concerns about tariffs and their potential impact on inflation and the outlook for US interest rates, along with fiscal policy which could lead to a higher budget deficit.

"Nevertheless, the Federal Reserve delivered the expected 25bp cut shortly after the election, while adjusting the statement to indicate that the risks to achieving the employment and inflation goals are now roughly in balance. President-elect Trump's pick for the Treasury secretary, Scott Bessent, was taken positively by bond markets given his financial market background, and yields rallied into month-end.

"Bond markets in the UK and eurozone also rallied in the second half of the month with the Bank of England cutting rates by a further 25bps during the month. French bonds, however, lagged due to concerns about the fragile political situation, driving the spread over German Bunds to the widest levels since the eurozone debt crisis more than a decade ago. Spreads in both US investment grade and high yield credit markets tightened further during the month but ended the month slightly wider in European markets."

Asset class returns – November 2024

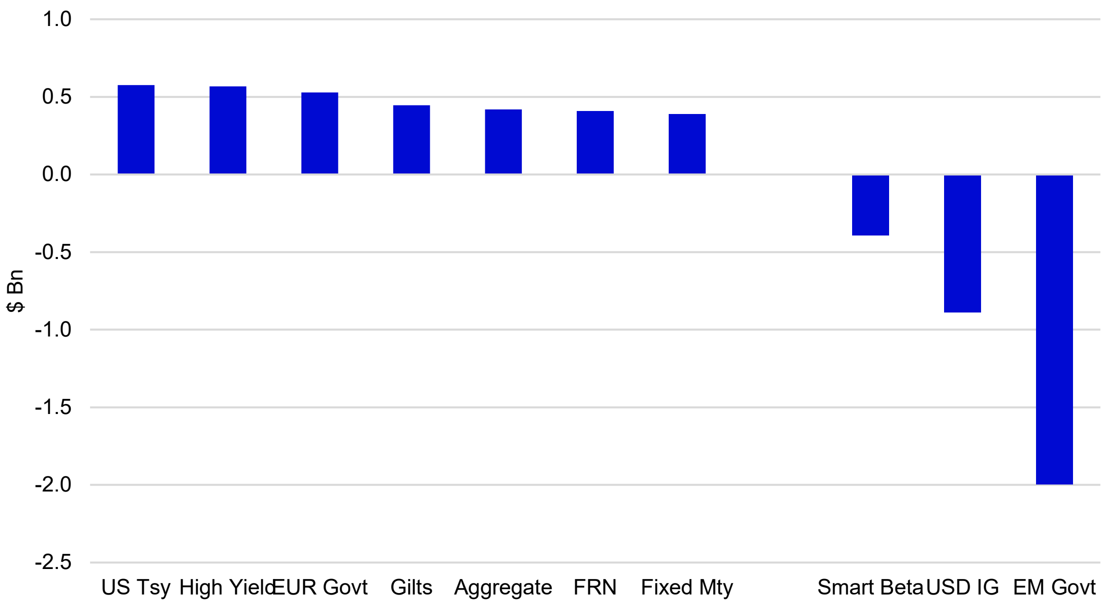


Source: Bloomberg, Invesco as at 29 Nov 2024

Fixed Income ETF Flows

"Flows into fixed income ETFs stalled in November with the market experiencing the first negative month since September 2022. Nevertheless, the small net outflow of $0.4bn still leaves the year-to-date total at a robust $57.6bn. Several fixed income categories attracted inflows over the month with US Treasuries, High Yield and EUR government bonds all seeing NNA above $0.5bn. However, the net inflows across a broad range of categories were not sufficient to offset heavy sales of EM government bonds (-$2.0bn) and USD investment grade credit (-$0.9bn)."

Top Fixed Income ETF Categories in November 2024



Source: Bloomberg, Invesco, as at 29 Nov 2024

Outlook

“Although there is no longer uncertainty over who will be the next US President, plenty of uncertainty remains regarding the policies Trump will implement once back in office and their impact on the global economy and bond markets.

“Tariffs, if implemented, could push inflation up and slow the pace of US rate cuts, limiting how far US Treasury yields can rally. Indeed, concerns about the largely unfunded tax cuts mentioned during Trump’s campaign could see US Treasury yields rise, and the yield curve steepen in coming months.

“Meanwhile, tariffs could have a negative impact on growth elsewhere and cause other central banks to cut rates more aggressively. In the eurozone, there are also concerns about the political situation in Europe with the French Prime Minister pushing through an austerity budget that includes €40bn of spending cuts and €20bn of tax rises without parliamentary approval. With ongoing geopolitical concerns and the increasing uncertainty over the economic outlook, investors may decide to keep their powder dry in the near-term, focusing on ‘safe-haven’ assets such as cash and short-dated government bonds, while they wait for better opportunities to add risk within their bond portfolios in 2025”

Positioning

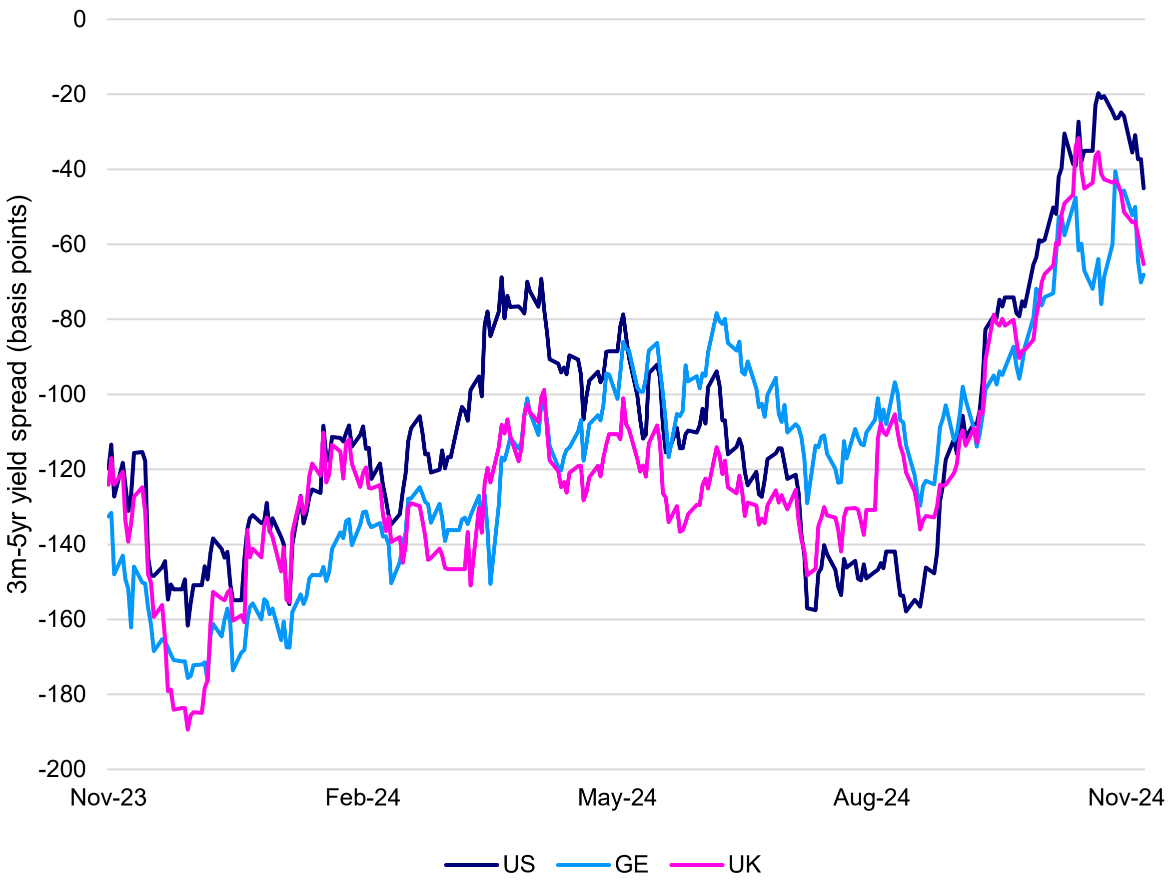
“2024 has been a year of caution for fixed income ETF investors.

“Cash management has been the strongest category for net inflows, which currently stands at $12.6bn, with EUR government bonds ($10.0bn) and US Treasuries ($9.0bn) also experiencing strong demand. A deeper dive into government bond flows shows that much of the demand (>$9bn) has been focused in short-dated (<1yr) ETFs.

“Inverted government yield curves and relatively flat credit curves have meant that, to date, there has been little need for investors to increase interest rate risk given the attractive level of yields available on cash and short-dated bonds.

“In the short term, with heightened uncertainty, flows into ‘safe-haven’ asset classes appears likely to continue. However, central banks are likely to ease further and, as yields and therefore expected returns on cash decline and yield curves steepen, investors are likely to start locking in yields currently available in bond markets by rolling along the yield curve in coming months.”

Yield curves have steepened aggressively since the first-rate cuts



Source: Bloomberg, as at 29 Nov 2024. Graph shows the spread between 3 month and 5-year bonds for the US, Germany and the UK

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For further information, please contact:

Invesco
Jane Drew
jane.drew@invesco.com
Telephone +44 20 3370 1104

Lansons
Anthony Cornwell / Tom Straker
anthonyc@lansons.com / toms@lansons.com
Telephone +44 207 294 3606 / +44 20 7566 9705

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The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

Important information

All data and charts sourced from Invesco, Bloomberg, as at 30 November 2024 unless otherwise stated. All figures in USD

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