

FUND NEWS

Outlook for bonds in Q4 2025

David Roberts **3 October 2025** 4 min read

It may have been several decades since I was a junior, however I well remember my then head trader saying US and UK economies had bifurcated. I nodded sagely (and then ran off to find a dictionary). How did we cope pre AI? Bifurcated remains one of my favourite words. Indeed, similar markets moving in different directions, not just in the same direction at differing speeds has been a major source of alpha for us YTD.

The Nedgroup Investments Global Strategic Bond Fund has returned around 7.5% gross so far in 2025, with the global index up around 5% I hate point forecasting, held hostage to fortune on a specific date in the future especially when I'm running an open ended fund.

Makes little sense but folk love it none the less. With that in mind, it needs little by way of a tail wind for the fund to hit 10% for 2025 as a whole. That is well above my expected run rate and normally could signal that bonds have become too expensive.

Where could the extra 2.5% return to year end come from? Well, core sovereign yields are little changed year to date despite our strong fund return. Gilt yields are modestly higher. Index returns have been largely "carry", plus some spread compression as credit continued to rally relative to sovereign debt. Remember, bond yields started 2025 way higher than at most points in the past 2 decades.

So the base for bond returns, the income, was and remains well above inflation. Good for Q4, probably good for 2026 returns and offering enough to likely blow inflation out of the water over the coming 5-10 years. Which really should be all you need from the core of the asset class.

As Q3 ends, the US government shuts down which could result in a hiatus of official data. To kick October off, the independent ADP jobs report posted a negative number. With Trump threatening to lay off 500,000 Federal workers, the impact on unemployment, confidence and consumption could be significant. Much depends on the length of the stoppage. During Trump's first term shut down 10 year US yields fell 50 basis points. If that were to happen again, my 10% for the year would be conservative!

So far, markets have shrugged off the shut down. Just more political noise. Folk are increasingly inured to it. Such complacency can create opportunity

Assuming we are entering a dull period (I hope not), no black swans swimming over the horizon, what do we expect?

I had to check. Yes multifurcated is a word. Given current local economic and political divides in the G10, we could well see some markets rally, some remain stable and at least one sell off.

I won't go through each in detail, suffice to say the US, Canada and possibly Australia could bond prices rise. Base case for Europe is no change. Japanese bonds should fall. And as for the UK? Looks cheap but the jury is still out

Turning to credit – too expensive to chase. Short maturities, better quality, look fine. The compression between good and bad, short and long has gone further than warranted by fundamentals. If things turn ugly for any reason, there is scant to no protection for investors in low quality bonds. Don't be fooled by our raw credit weighting. It has come down only marginally since summer. However, similar to duration in a multifurcated world, it is less about how much you have as where you have it

Similar markets moving in differing directions. Core yields still attractive. The outlook for both alpha and beta opportunity looks good.

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