

A photograph of a blue industrial building with yellow metal stairs and railings. The image is used as a background for the document.

March 13, 2025

Global Credit Weekly:

Risk of a more challenging
growth-inflation mix

BlackRock

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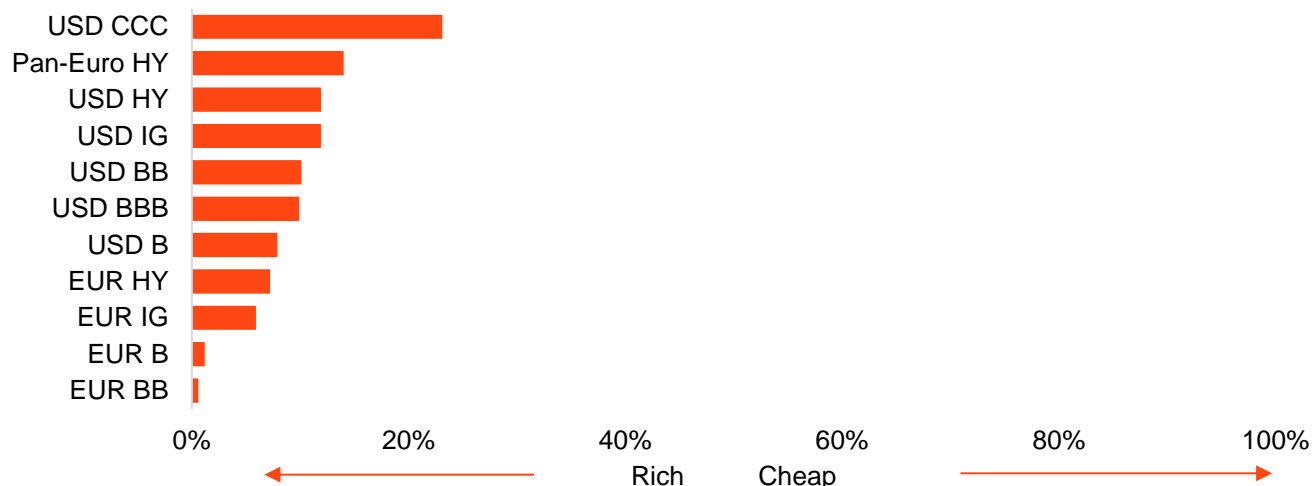
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Key takeaways

- In early February, we [outlined](#) an expectation for modest spread widening, to reflect elevated trade policy uncertainty and the risk of more extensive tariffs. For the USD market, we expected 10-15bp of widening in IG, and 30-40bp of widening in HY, bringing index-level spreads to 95-100bp and 300-310bp, respectively. We penciled in more widening for the EUR market (15-20bp for IG, and 45-55bp for HY), bringing spreads to the areas of 110bp and 360bp, respectively. In both instances, these forecasts still left spreads well below their post-financial crisis averages.
- Five weeks later, we take stock of the spread moves, amid broader market volatility and expectations for a more challenged growth-inflation mix in the U.S. The widening in USD IG (+13bp since early February) is in-line with our expectations, while USD HY has exceeded what we envisioned (+51bp). Meanwhile, the EUR market continues to demonstrate [resilience](#) with EUR IG (-7bp) and EUR HY (-3bp) spreads *tighter*.
- Our colleagues in the *BlackRock Investment Institute* [believe](#) an average effective tariff rate of approximately 10% could be the ultimate [landing zone](#) – with volatility along the way. As a result, we see potential for additional widening in the USD market (and *eventual* widening in EUR; Exhibit 1). We see two key risks to the broader macroeconomic backdrop, which could negatively impact corporate credit valuations: (1) a *prolonged* period of elevated policy uncertainty, and (2) if corporates use layoffs more aggressively to protect margins.
- The *magnitude* of the anticipated growth headwinds – if the [indications](#) from recent soft data are indeed confirmed in hard data – is important. Our base case reflects a slowdown, and not a sharp downturn, owing in large part to the still-solid U.S. labor market. That said, we will be watching micro-level company commentary and high-frequency signals closely.
- We have primarily been focused on the attractive yield and income [opportunities](#) within corporate credit. That said, with U.S. Treasury yields still lower vs. their mid-February levels, duration exposure in USD credit has been a boost to total returns in recent weeks. The bulk of the recent move lower in U.S. rates is likely in the rear-view mirror at this stage, however.

Exhibit 1: Spreads are still tight vs. history, even after the recent (USD) widening

Percentile rank of daily index-level corporate bond option adjusted spreads, since January 1, 2010



Source: ICE-BAML, Bloomberg, BlackRock. As of March 11, 2025. **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs, or expenses. Indices are unmanaged and one cannot invest directly in an index.

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A mark-to-market on our expectations for spread widening

In early February, we outlined an expectation for a rebuild of risk premia (spread widening) in the corporate credit market, largely reflective of the risk of more extensive tariffs (beyond a targeted approach). Our expectations were as follows:

- **For the USD market**, we expected approximately 10-15bp of spread widening in IG, and 30-40bp of spread widening in HY. This would bring index-level spreads to the 95-100bp and 300-310bp areas, respectively, using the ICE-BAML USD IG and HY Corporate indices. Notably, these base-case estimates of wider spreads would still leave USD IG and HY index-level spread metrics well below the post-financial crisis averages of 139bp and 466bp, respectively.
- **For the EUR market**, we saw scope for incrementally more widening, owing to the region's more pronounced downside risks to growth. We penciled in 15-20bp of widening for EUR IG and 45-55bp of widening in EUR HY. This would bring index-level EUR IG and HY spread metrics to the areas of 110bp and 360bp, respectively. Here too, even these wider estimates for EUR IG and HY spreads would be below the post-financial crisis averages of 137bp and 444bp, respectively.

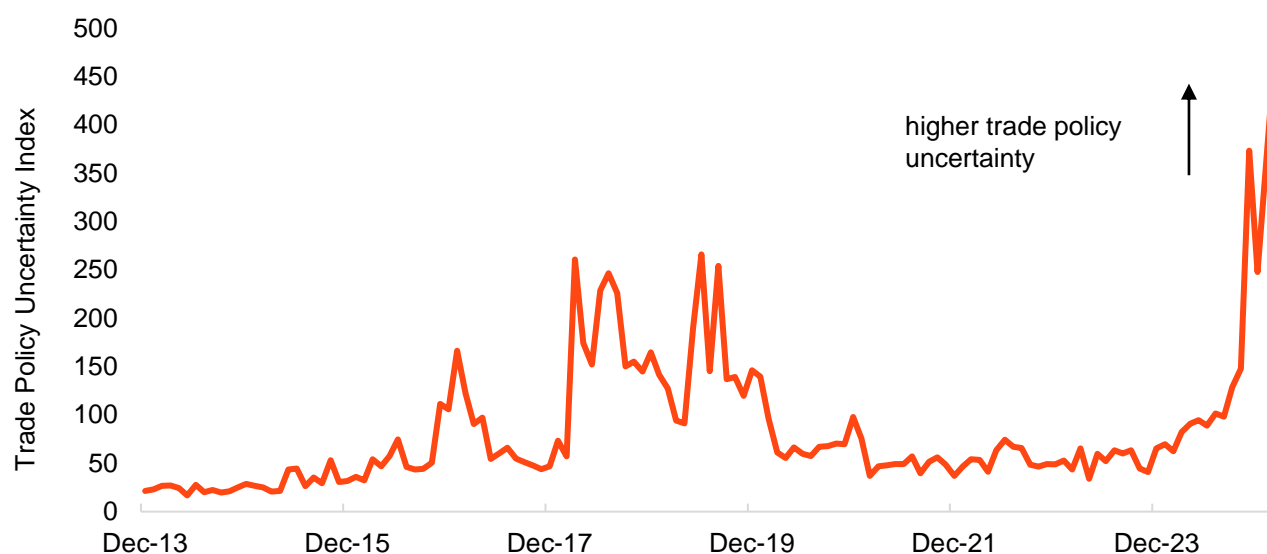
A more challenging growth-inflation mix

Since that time, a range of macro developments have occurred which point to a more challenging growth-inflation mix in the U.S. For example, trade policy uncertainty has further increased (Exhibit 2) as a mix of tariffs were officially implemented (with others expected), and sentiment/survey data in the U.S. turned softer. Meanwhile, in Europe, signs point to a boost in defense and infrastructure spending, which could have positive spillover effects to growth in the region. A wave of consensus revisions reflect potential for a narrowing in the growth differential between the U.S. and Europe over the next several quarters (Exhibit 3).

Amid broader market volatility, USD IG index-level spreads have widened 13bp since early February – generally in-line with our expectations. USD HY spreads have widened more than we expected, however (+51bp). Meanwhile, the EUR market continues to demonstrate resilience with both EUR IG (-7bp) and EUR HY (-3bp) spreads *tighter* since early February (Exhibit 4).

Exhibit 2: Trade policy uncertainty has moved higher following the U.S. election

Trade Policy Uncertainty Index (measured monthly)



Source: Haver Analytics, BlackRock. Captures data through February 28, 2025 (most recent as of March 11, 2025). The Trade Policy Uncertainty (TPU) Index is based on automated text searches of the electronic archives of seven newspapers: Boston Globe, Chicago Tribune, Guardian, Los Angeles Times, New York Times, Wall Street Journal, and Washington Post. The measure is calculated by counting the monthly frequency of articles discussing trade policy uncertainty (as a share of the total number of news articles) for each newspaper. The index is then normalized to a value of 100 for a one percent article share. Developed by Dario Caldara, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo.

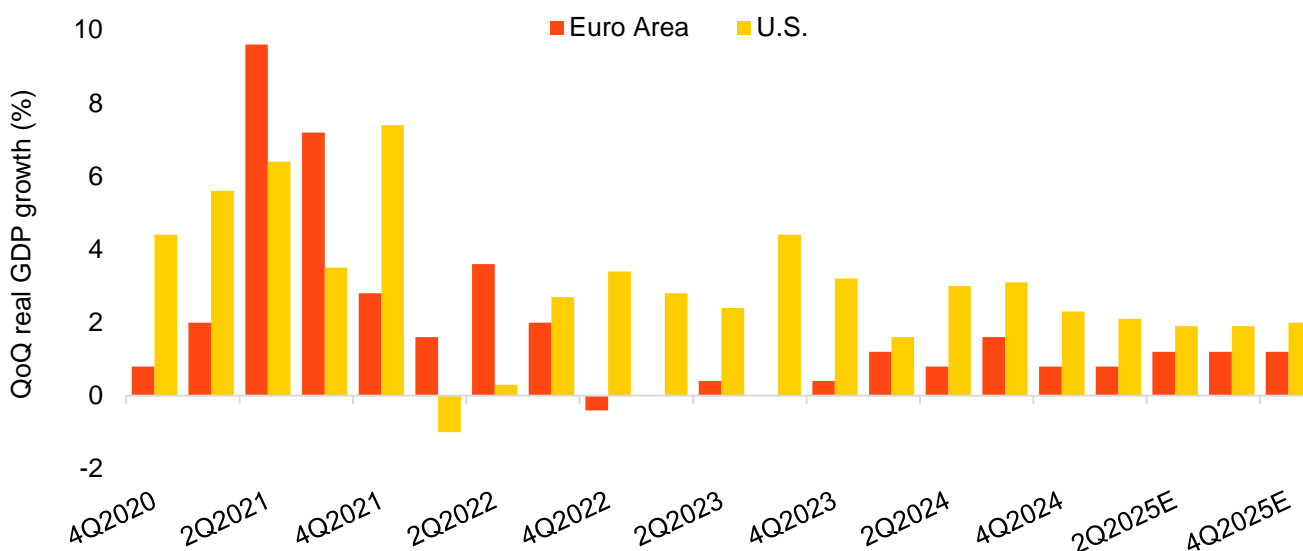
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That said, as Exhibit 1 illustrates, credit spreads across most rating and regional buckets remain tight by post-financial crisis historical standards. Our colleagues in the *BlackRock Investment Institute* believe an average effective tariff rate of approximately 10% could be the ultimate landing zone – with volatility along the way. As a result, we see potential for additional rebuild of risk premia in the USD market, and *eventual* widening in the EUR universe.

We see two key risks to corporate credit spread valuations. First is a *prolonged* period of elevated policy uncertainty. Second is the risk that corporates use layoffs (which are currently low) more aggressively, to protect margins. This could allow the weakness (which is currently contained to the low-income U.S. consumer cohort) to extend more broadly and would weigh on broader economic activity.

Exhibit 3: Signs point to a narrowing growth differential between the U.S. and Europe

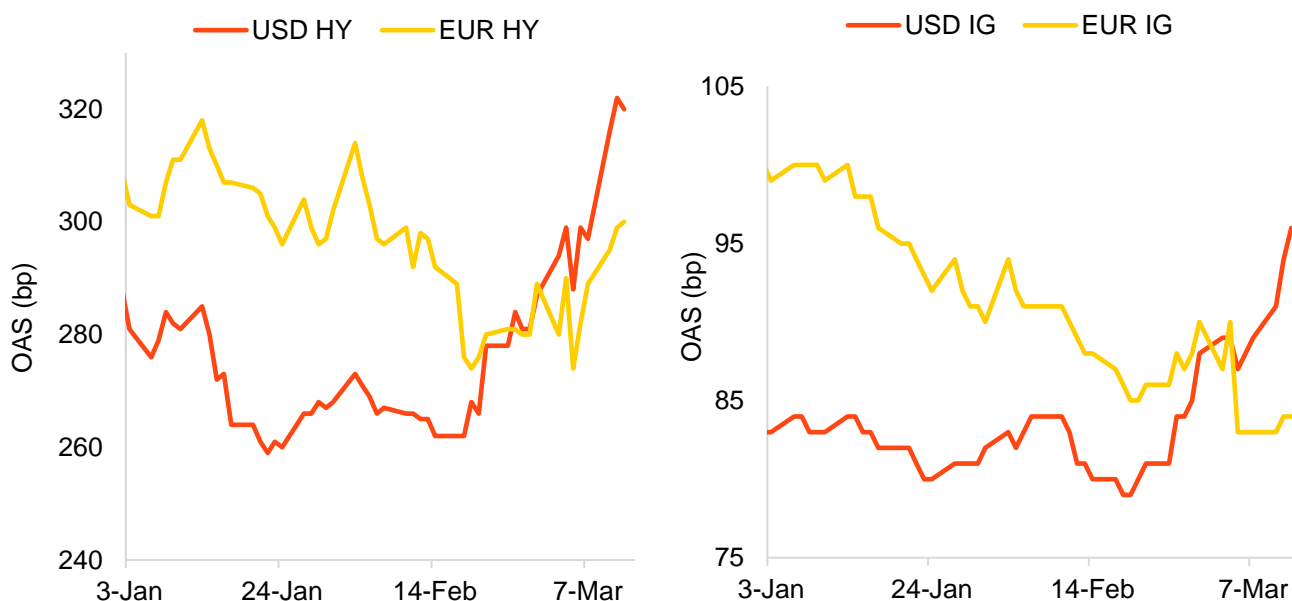
Quarter-on-quarter (QoQ) real GDP growth (%), seasonally adjusted at an annualized rate



Source: BlackRock, Bureau of Economic Analysis, Eurostat. 1Q2025 – 4Q2025 are forecasts, using the Bloomberg Contributor Composite as of March 11, 2025. **There is no guarantee any forecasts may come to pass.**

Exhibit 4: The widening in USD credit since early February has outpaced its EUR peer

Index-level option adjusted spreads (bp) for the ICE-BAML USD and EUR HY Corporate indices (left panel) and ICE-BAML USD and EUR IG Corporate indices (right panel)



Source: ICE-BAML, Bloomberg, BlackRock. As of March 12, 2025. **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

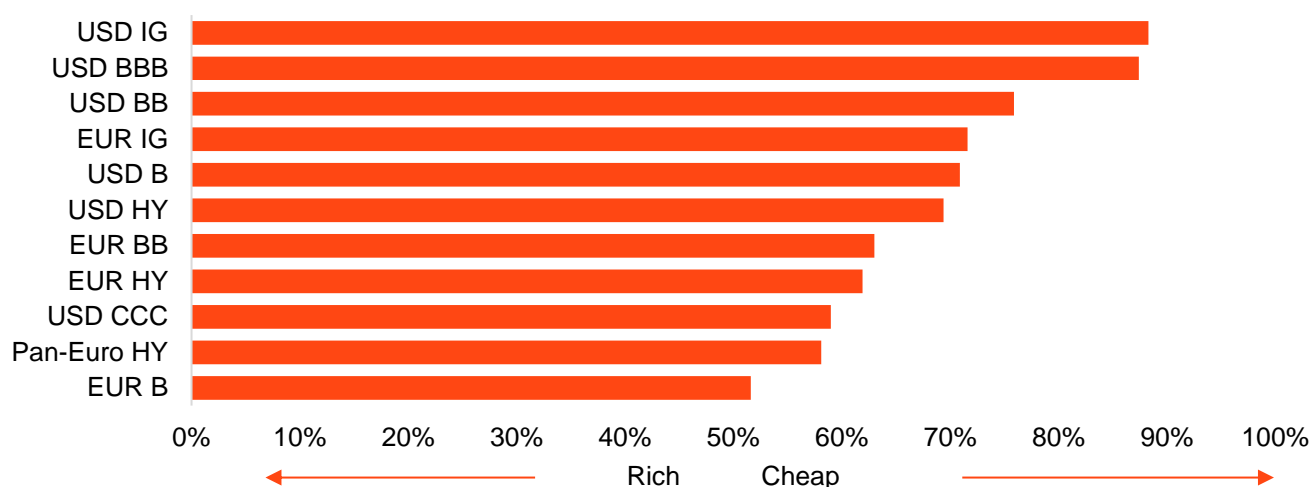
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As we highlighted in our *1Q2025 Global Credit Outlook*, we have primarily been focused on the all-in yield and income opportunities within corporate credit, which remain attractive by historical standards (Exhibit 5). Because we see scope for structurally higher interest rates (across the curve) owing to a shallow Federal Reserve rate cutting cycle and a rebuild of term premium, we placed less emphasis on the potential total return boost from duration exposure, which benefits fixed rate bond total returns (mechanically), if/when interest rates decline.

But duration exposure in USD credit has been a boost to total returns in recent weeks – as Treasury yields remain below their mid-February levels – helping to mitigate the headwind from spread widening (Exhibit 6). A similar trend can be seen in Exhibits 7 and 8, which illustrate positive year-to-date total returns for USD HY and USD IG, despite negative excess returns (which exclude the impact of interest rate fluctuations).

Exhibit 5: Yields across most segments of corporate credit are elevated vs. history

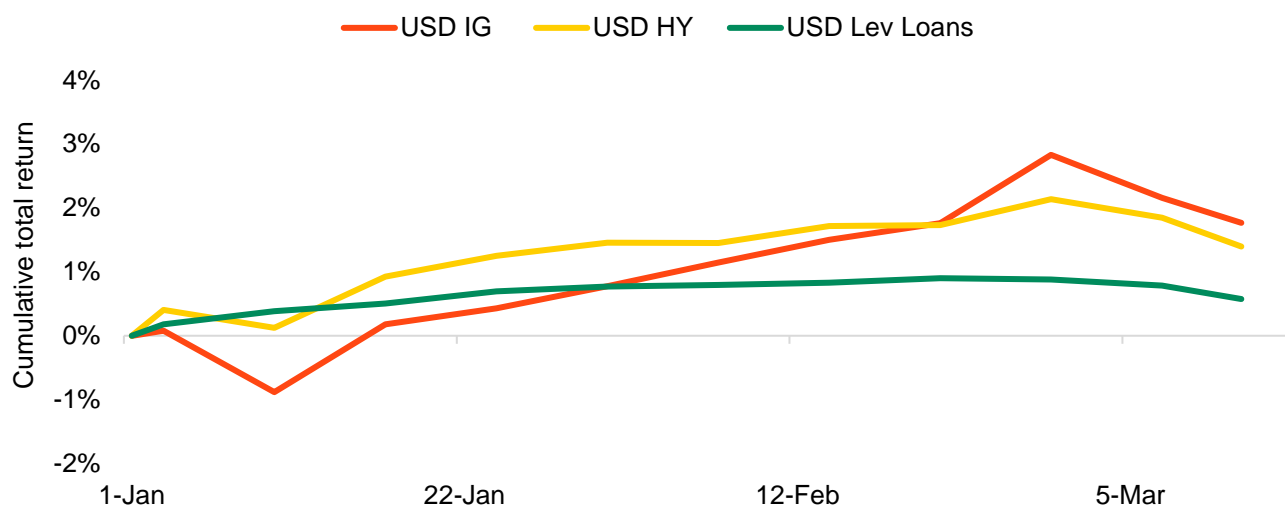
Percentile rank of daily index-level corporate bond yield-to-worst levels, since January 1, 2010



Source: ICE-BAML, Bloomberg, BlackRock. As of March 11, 2025. **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs, or expenses. Indices are unmanaged and one cannot invest directly in an index.

Exhibit 6: Duration exposure has provided a boost to fixed-rate total returns, as Treasury yields declined from levels earlier in the year

Cumulative total returns for the Bloomberg USD IG and HY Corporate indices, and the Morningstar/LSTA USD Leveraged Loan Index, all since year-end 2024



Source: Bloomberg, Morningstar/LSTA, BlackRock. As of March 12, 2025. **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Uses weekly observations for cumulative total returns.

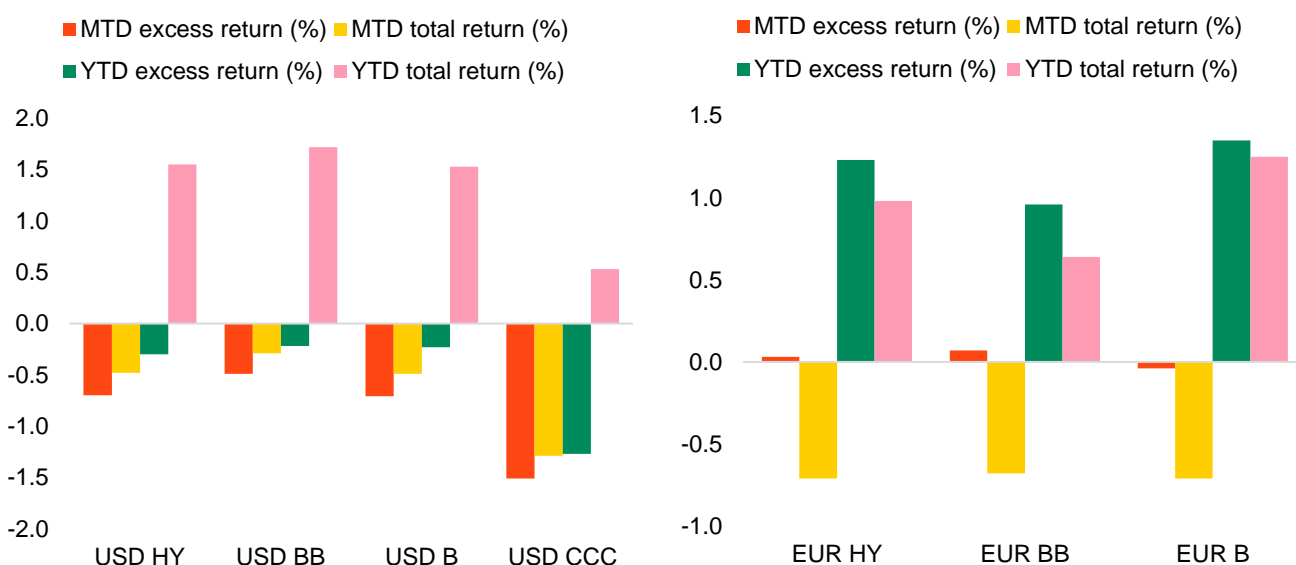
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Absent a sharp deceleration, the bulk of the move lower in U.S. rates is likely in the rear-view mirror, at this stage. That said, the potential for duration exposure to act as a quasi-hedge in a prolonged risk-off move – in addition the positive fundamental and technical factors we have [previously flagged](#)– leaves us comfortable taking credit risk in this environment. We continue to place a heavy emphasis on granular credit and sector selection, however, given our expectation for various policy shifts to drive further [dispersion](#).

The recent volatility in the equity market further underscores our comfort with taking credit risk, owing to credit's capital structure seniority. Exhibits 9 through 12 provide some context on USD IG and HY credit's relative performance vs. the S&P 500 and Russell 2000, respectively.

Exhibit 7: Total vs. excess returns in the USD and EUR HY markets

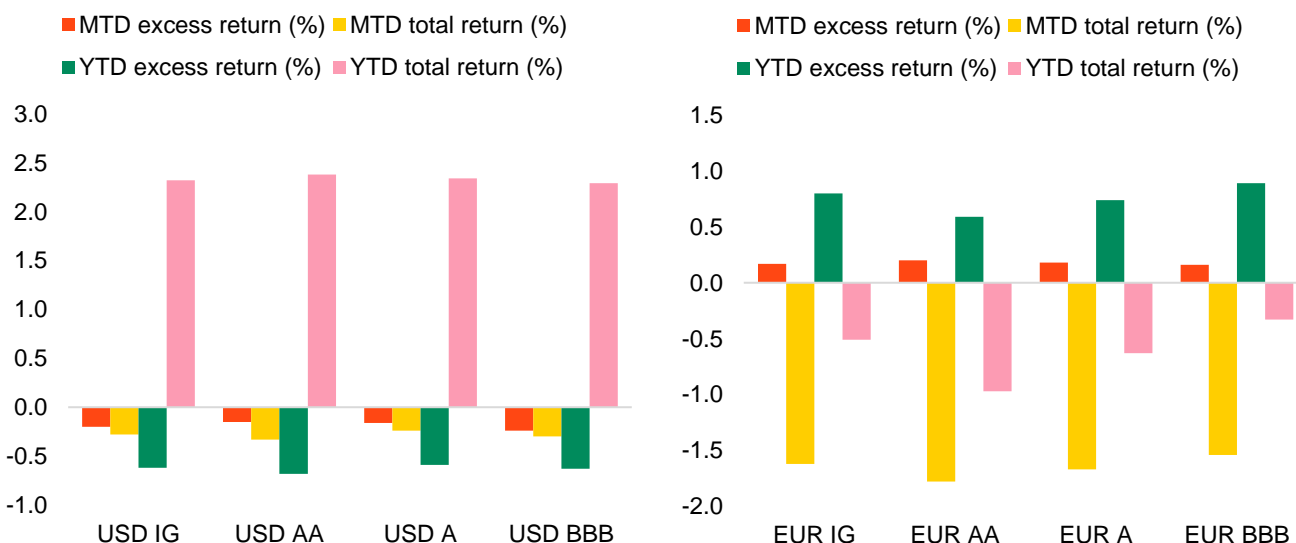
Month-to-date and year-to-date total returns and excess returns (which exclude the impact of interest rate fluctuations) for the Bloomberg USD HY (left panel) and EUR HY (right panel) Corporate indices



Source: Bloomberg, BlackRock. As of March 10, 2025. **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. We exclude EUR CCC due to its small size.

Exhibit 8: Total vs. excess returns in the USD and EUR IG markets

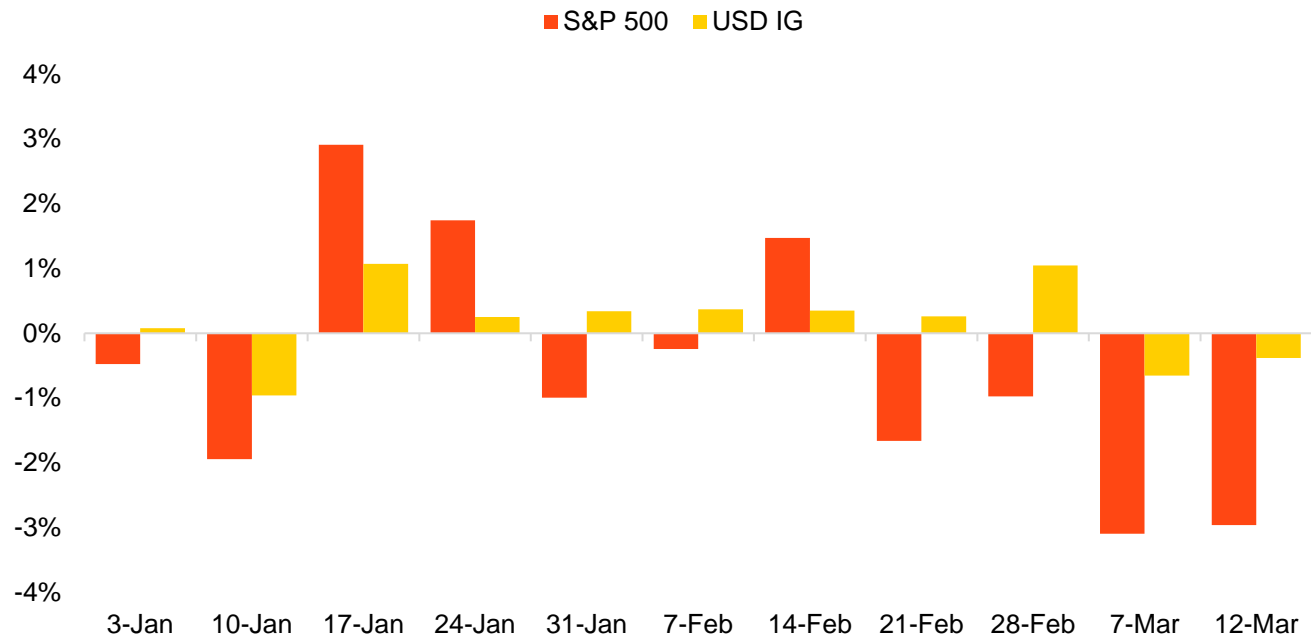
Month-to-date and year-to-date total returns and excess returns (which exclude the impact of interest rate fluctuations) for the Bloomberg USD IG (left panel) and EUR IG (right panel) Corporate indices



Source: Bloomberg, BlackRock. As of March 10, 2025. **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. We exclude USD AAA and EUR AAA due to their small size. FOR QUALIFIED, PROFESSIONAL, INSTITUTIONAL AND WHOLESALE INVESTORS/ PROFESSIONAL CLIENTS ONLY | NOT FOR PUBLIC DISTRIBUTION

Exhibit 9: Total returns S&P 500 vs. USD IG

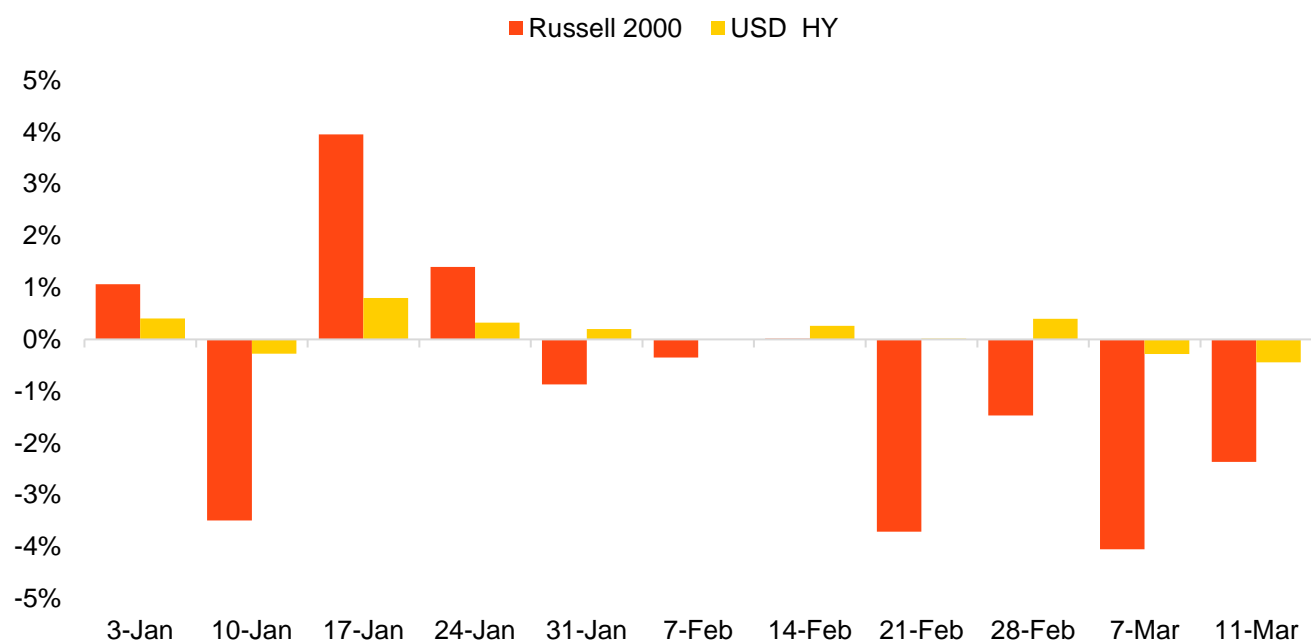
Weekly total returns (in 2025) for the S&P 500 vs. the Bloomberg USD IG Corporate Index



Source: Bloomberg, BlackRock. As of March 12, 2025. **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

Exhibit 10: Total returns for Russell 2000 vs. USD HY

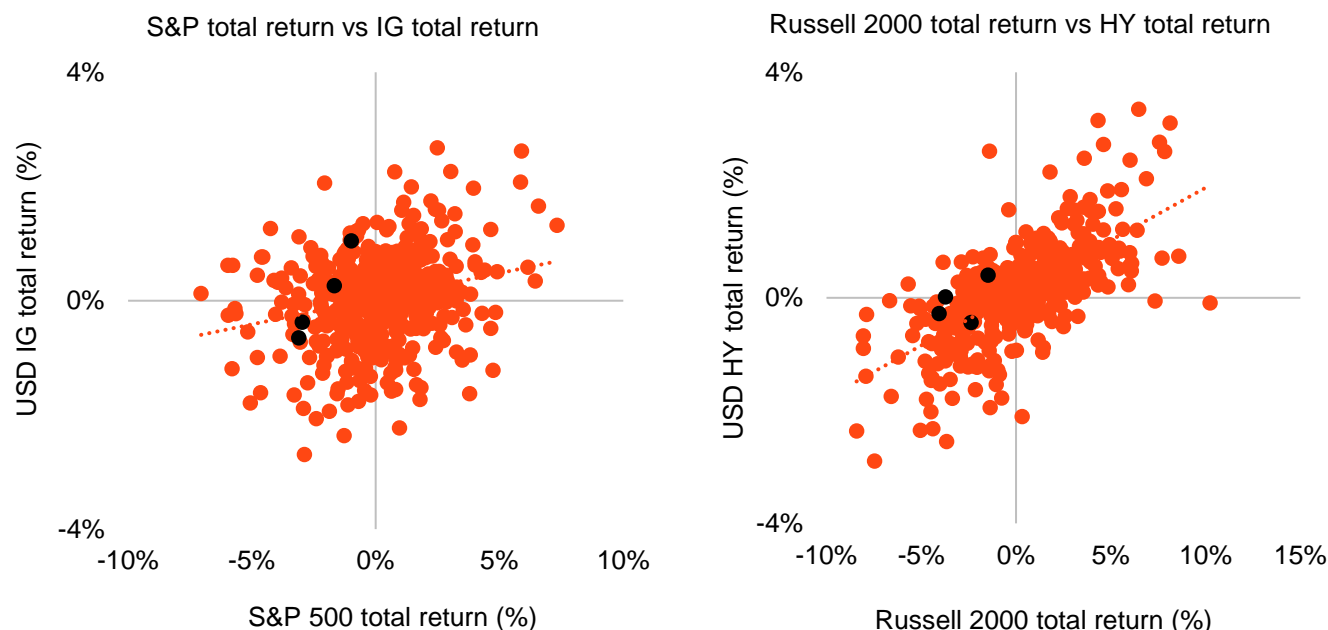
Weekly total returns (in 2025) for the Russell 2000 vs. the Bloomberg USD HY Corporate Index



Source: Bloomberg, BlackRock. As of March 12, 2025. **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

Exhibit 11: Credit vs. equity performance in recent weeks – total returns

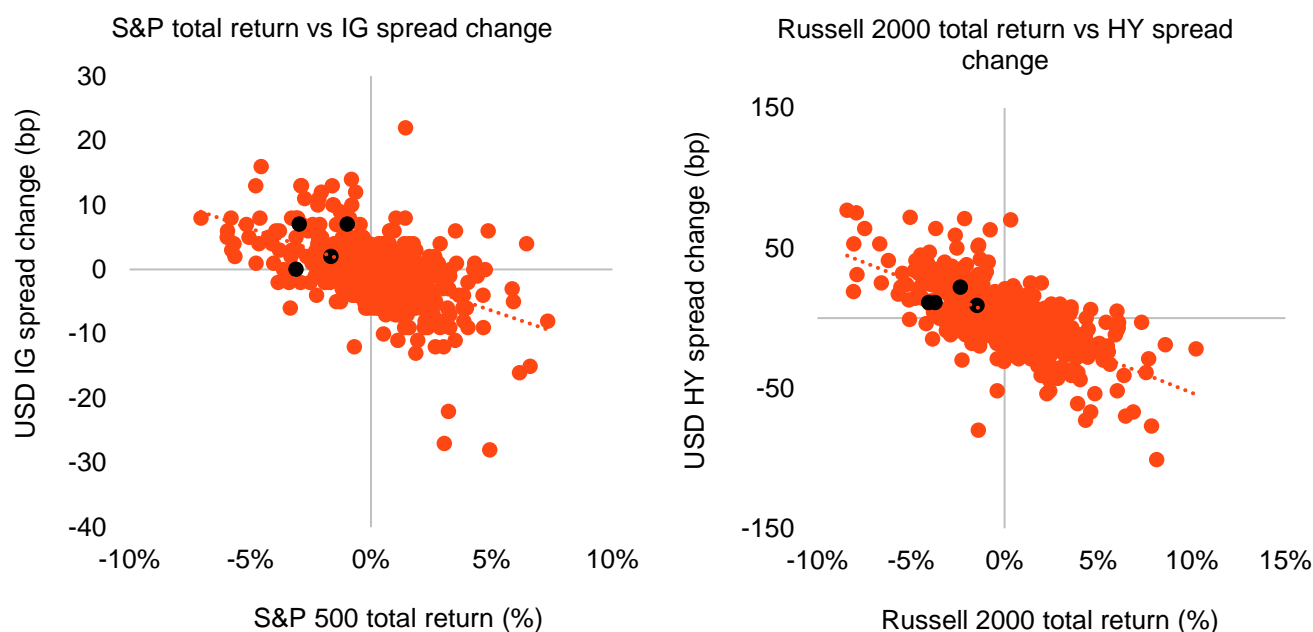
Weekly total returns (%) for the S&P 500 vs. the Bloomberg USD IG Corporate Index (left panel), and for the Russell 2000 vs. the Bloomberg USD HY Corporate Index (right panel). Scatter plots capture weekly observations for the last 10 years, beginning in mid-March 2015, excluding pandemic outliers. Last four weekly observations are shown in black.



Source: Bloomberg, BlackRock. As of March 12, 2025. **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Excludes weekly observations during the height of the onset of the pandemic, from late-February 2020 through mid-April 2020.

Exhibit 12: Credit vs. equity performance in recent weeks – spread changes

Weekly total returns (%) for the S&P 500 vs. weekly spread changes (bp) for the Bloomberg USD IG Corporate Index (left panel), and weekly total returns (%) for the Russell 2000 vs. weekly spread changes (bp) for the Bloomberg USD HY Corporate Index (right panel). Scatter plots capture weekly observations for the last 10 years, beginning in mid-March 2015, excluding pandemic outliers. Last four weekly observations are shown in black.



Source: Bloomberg, BlackRock. As of March 12, 2025. **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Excludes weekly observations during the height of the onset of the pandemic, from late-February 2020 through mid-April 2020.

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What's changed in Europe?

Recent events have refocused investors on Europe and the potential for relative outperformance vs. USD-denominated risk assets. Alongside this, some market participants have questioned whether the theme of “U.S. exceptionalism” – which had been especially dominant for most of 2023 and 2024 – could be waning.

In the final section of this *Global Credit Weekly*, we'll discuss recent events which have been top of mind for credit market participants, as well as takeaways from the most recent ECB meeting.

A shift in spending

Last week, the European Commission proposed the ReArm Europe Plan, which aims to boost E.U. defense spending. The plan could mobilize roughly €800 billion in the coming years. Leadership from two political parties in Germany (following the recent election) also proposed a plan that could ramp defense and infrastructure spending in the coming years.

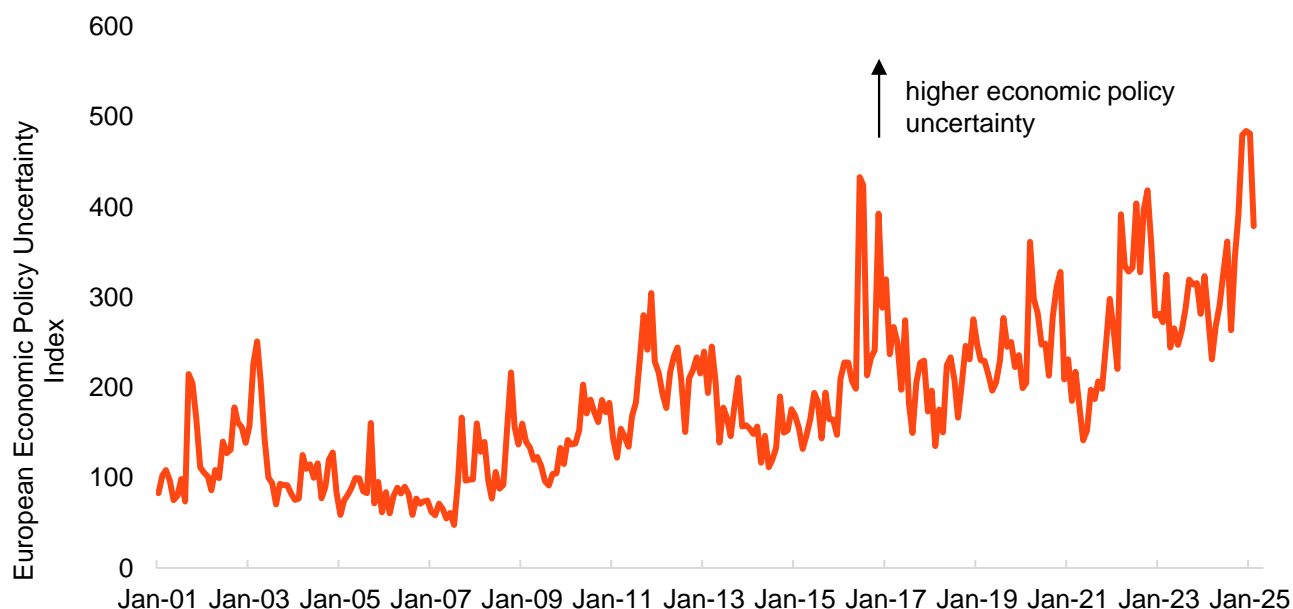
While it is still uncertain whether these proposals will be approved and executed in full, they suggest a departure from Europe's planned fiscal prudence.

These proposed reforms also come on the heels of the Draghi report, which was published in September 2024 and underscored the importance of “increasing security and reducing dependencies” in further developing Europe's competitiveness in the coming decades.

Recent comments from ECB President Christine Lagarde suggested that these policies “would be supportive to European growth at large and would be a boost to the European economy.” Still, the range of potential outcomes, including these policies and others (for example, trade policy), remains remarkably broad, depending on the final details.

Exhibit 13: Economic policy uncertainty is elevated in Europe

European Economic Policy Uncertainty Index (through February 28th)



Source: Haver Analytics, Economic Policy Uncertainty Index developed by professors Scott Baker, Nick Bloom, and Steven Davis (more details on methodology can be found at: PolicyUncertainty.com), BlackRock. Captures data through February 28, 2025 (most recent available as of March 11, 2025). The European Economic Policy Uncertainty (EPU) Index is based on news articles from two newspapers from each of the five largest European economies: France: Le Monde, Le Figaro; Germany: Handelsblatt, Frankfurter Allgemeine Zeitung (FAZ); Italy: Corriere della Sera, La Repubblica; Spain: El Pais, El Mundo; UK: Financial Times, The Times of London. The number of news articles containing the terms uncertain or uncertainty, economic or economy, and one or more policy-relevant, such as policy, tax, spending, regulation, central bank, budget and deficit terms are counted. All news searches are done in the native language of the paper in question. Each paper-specific series is normalized to standard deviation 1 prior to 2011 and then summed. The series is normalized to a mean of 100 prior to 2011.

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March ECB meeting: a landscape “clouded with uncertainty”

The ECB Governing Council cut rates by another 25 basis points at its March meeting, marking the sixth 25bp rate cut over a nine-month period and bringing the deposit rate to 2.5%. While this cut was broadly expected, the press conference included some notable takeaways for corporate credit investors:

- **Nearing an end:** President Lagarde suggested the end of the cutting cycle may be nearing, stating “monetary policy is becoming meaningfully less restrictive.” Exhibit 14 demonstrates how market expectations shifted to reflect a slightly higher terminal rate following the recent fiscal spending proposals and the March 6th meeting.
- **Uncertainty ahead:** President Lagarde noted that the macroeconomic situation is not “straightforward,” in part due to recent fiscal proposals. She reiterated that the Governing Council is “not pre-committing to any particular rate path” and that it “will be data dependent more than ever,” deciding on rate decisions (referencing only the “cut” and “pause” options) “meeting by meeting.”
- **Geopolitics and ongoing trade policy uncertainty represent a risk...**
 - **...to a timely return to 2% inflation:** President Lagarde noted, “we have to reach our destination” of 2% target inflation. Indeed, while progress has been made, staff estimates pushed out 2% inflation expectations to March 2026, vs. year-end 2025, due to “higher energy price inflation.” She also acknowledged that due to “geopolitical tensions,” inflation risks were “two-sided,” especially with regards to “energy markets, consumer confidence and business investment.” The extension of the inflation timeline is similar to the trend evident in the Federal Reserve’s December 2024 Summary of Economic Projections (SEP), where the median FOMC participant expected core PCE to return to 2% in 2027 (note: the FOMC’s next SEP will be released March 19th).
 - **...to growth projections:** The ECB staff also marked down growth projections to reflect “lower exports and ongoing weakness in investment, in part originating from high trade policy uncertainty as well as broader policy uncertainty.” Importantly, recent fiscal proposals *were not incorporated* into the ECB’s policy decision or economic projections. In her commentary, President Lagarde noted that “if all that works, it will boost growth.” Exhibit 3 demonstrates Bloomberg consensus growth estimates for the U.S. and Euro Area as of March 11, 2025. While growth expectations for the Euro Area remain modest through 2025, we view risks to such projections as skewed to the upside, should these policies be implemented.

Exhibit 14: After several ECB rate cuts...

Monetary policy rates for the ECB, Federal Reserve, and Bank of England

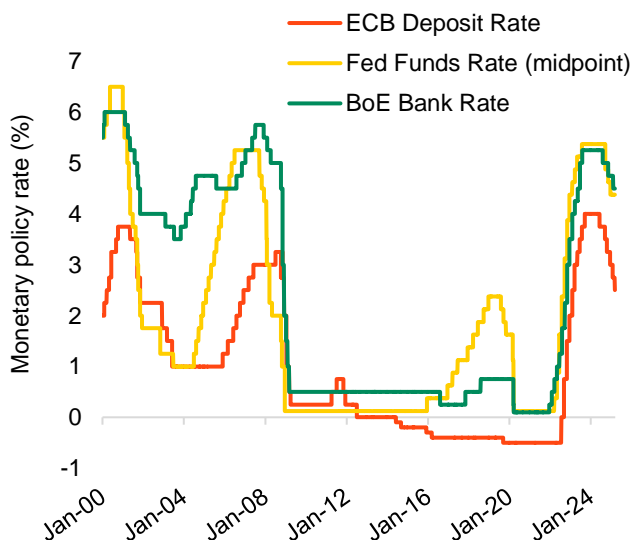
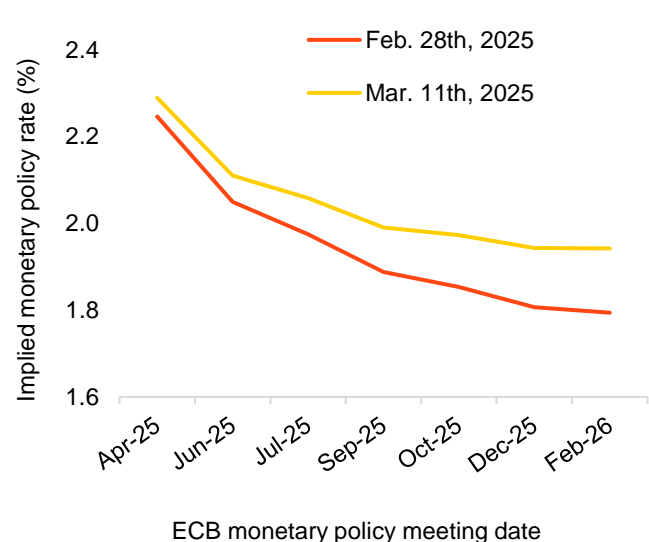


Exhibit 15: ...a higher implied terminal rate

ECB policy rate path implied by Overnight Index Swaps (before/after fiscal proposals, ECB meeting)



Source: European Central Bank, Federal Reserve, Bank of England, Bloomberg, BlackRock. As of March 11, 2025. **There is no guarantee any forecasts may come to pass.**

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EUR IG spreads outperform EUR HY

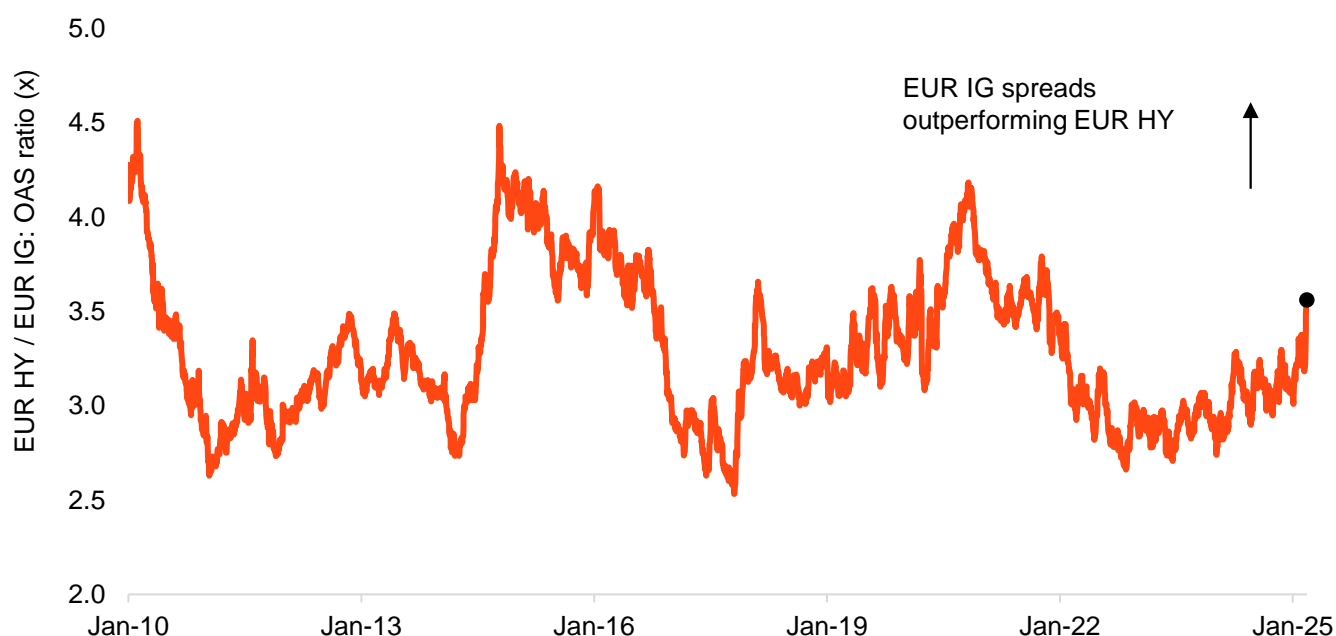
The potential growth tailwind from a fiscal boost – if it materializes – would add to the existing fundamental and technical factors supporting EUR corporate credit spreads, which have contributed to the resilience we have [previously](#) outlined.

That said, trade policy uncertainty is an important downside risk to monitor, in our view, given its [potential](#) to weigh on economic activity.

Indeed, EUR IG spreads have outperformed their HY peers as of late (Exhibit 16). In our view, this suggests that policy uncertainty remains an overhang for the EUR HY universe, which is generally more sensitive to economic growth vs. the larger, more diversified IG cohort. We also believe the relative outperformance of EUR IG reflects its more significant weighting to Financials – a sector that is less exposed to tariffs on goods – relative to other industries such as Autos, for example. For context, Banks represent [28%](#) of the market value of the ICE-BAML EUR IG Corporate Index, and Financials more broadly represent 38% (vs. 10% and 14%, respectively, in the ICE-BAML EUR HY Corporate Index).

Exhibit 16: The EUR HY / IG spread ratio has climbed to levels last seen in late 2021

Option adjusted spread (OAS) ratio for the ICE-BAML EUR HY Corporate Index vs. the EUR IG Corporate Index



Source: ICE-BAML, Bloomberg, BlackRock. As of March 11, 2025. The figures shown relate to past performance. **Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs, or expenses. Indices are unmanaged and one cannot invest directly in an index.

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Cliffwater Direct Lending Index (CDLI) is an index that assists investors to better understand private credit as an asset class. The CDLI seeks to measure the unlevered, gross of fees performance of U.S. middle market corporate loans, as represented by the underlying assets of Business Development Companies ("BDCs"), including both exchange-traded and unlisted BDCs, subject to certain eligibility criteria. The CDLI is an asset-weighted index that is calculated on a quarterly basis using financial statements and other information contained in the U.S. Securities and Exchange Commission ("SEC") filings of all eligible BDCs. Eligibility is set as all assets held by BDCs that (1) are regulated by the SEC as a BDC under the Investment Company Act of 1940; (2) have a substantial majority (approximately 75%) of reported total assets represented by direct loans made to corporate borrowers, as categorized by each BDC and subject to Cliffwater's discretion, and (3) file SEC form 10-Q (or 10-K, as applicable) within 75 (or 90) calendar days following the current Valuation Date. If a BDC meets the eligibility criteria, but has not filed its report on Form 10-K or 10-Q with the SEC at the time the index is reconstituted, asset information from its report will be included in the index at the time of the next reconstitution. This information is derived from sources that are considered reliable, but BlackRock does not guarantee the veracity, currency, completeness or accuracy of this information.

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