

April 17, 2025

# Global Credit Weekly:

Potential for tension in  
the dual mandate

**BlackRock**

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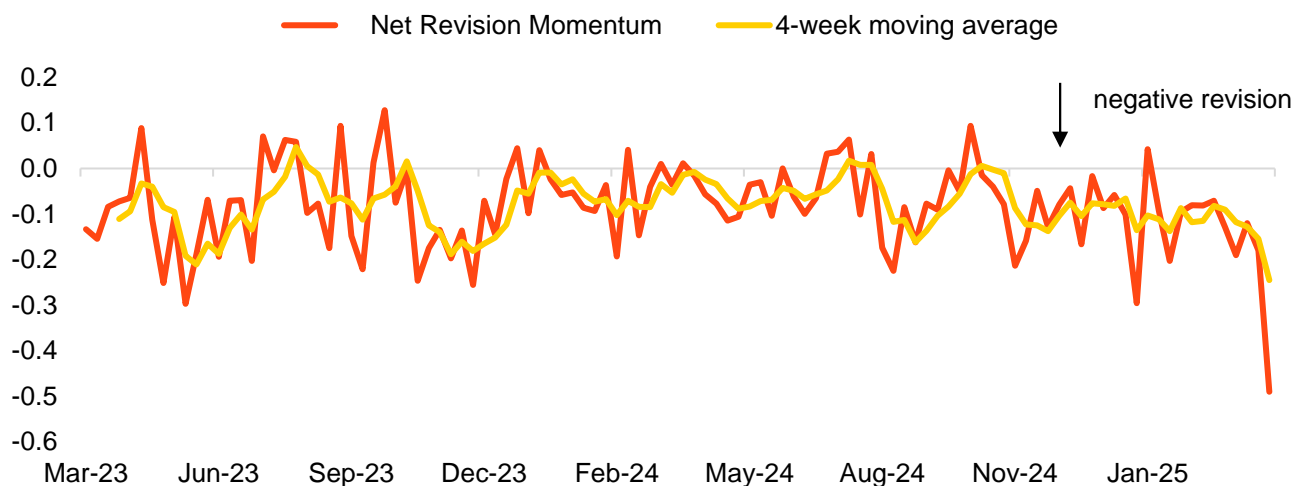
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## Key takeaways

- Federal Reserve Chair Jerome Powell's remarks at the Economic Club of Chicago were, in our view, consistent with a more constrained reaction function. Most notable, from our perspective, was Chair Powell's acknowledgement of the risk of potential tension to its dual mandate goals of price stability and maximum employment. This echoed similar comments from Cleveland Fed President Beth Hammack this week.
- In our view, despite the growing downside risks to economic activity, the Fed is unlikely to cut rates preemptively. Rather, evidence of material deterioration in the labor market would likely be required before the Fed delivers additional policy normalization (beyond the 100bp of rate cuts enacted since September 2024). While uncertainty is especially elevated, we continue to view a rate cut in 1H2025 as unlikely.
- Given the recent volatility, in this *Global Credit Weekly* we take stock of the performance of IG and HY credit spreads across the USD and EUR markets. Among the most visible patterns is the theme of EUR credit spread outperformance, relative to its USD peer – in both the IG and HY markets. Sector dispersion is also evident, most notably the underperformance of cyclical sectors such as Energy, Airlines, Autos, Lodging/Leisure and a range of consumer-facing industries. As we outlined last week, we remain comfortable selectively moving down in credit quality within the corporate credit market (to the low-end of IG, and the high-end of HY rating categories).
- While credit spreads have materially repriced from the local tights of mid-February, they remain below the post-financial crisis average levels. Said another way, credit valuations are not reflecting material concerns regarding a sharp downturn in growth. Given the elevated policy uncertainty, we see scope for some additional spread widening from current levels. As Exhibit 1 illustrates, analyst earnings estimates have inflected lower over the past week – and we see additional scope for this pattern to extend, to reflect a more challenging growth-inflation mix.

### Exhibit 1: Earnings revision momentum has inflected lower

Net Revision Momentum of 12-month forward EPS for the S&P 500, as calculated by Bloomberg Intelligence, and the 4-week moving average



Source: Bloomberg, BlackRock. As of April 11, 2025 (most recent update as of April 16, 2025). Net Revision Momentum = (Positive Revisions – Negative Revisions) / Total Revisions.

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## Watching for potential tension to the Fed's dual mandate

On Wednesday (April 16<sup>th</sup>), Federal Reserve (Fed) Chair Jerome Powell provided remarks at an event hosted by the Economic Club of Chicago. Given the recent volatility in the financial markets, the event was closely watched by market participants for incremental color on the Fed's reaction function and whether the central bank would cut rates preemptively in response to downside risks to economic activity and tightening financial conditions.

On net, we viewed Chair Powell's remarks as consistent with a more constrained reaction function, owing to elevated policy uncertainty and PCE inflation which remains above the Fed's 2% target (and appears poised to move higher, as we outline below). While the remarks were met with a late-day decline in the U.S. equity market, they were not entirely surprising. Indeed, the tone of Chair Powell's address was similar to a separate interview he conducted on April 4<sup>th</sup>.

Most notable, in our view, was Chair Powell's acknowledgement of the risk of potential tension to its dual mandate goals of price stability and maximum employment (Exhibit 2). This echoed similar comments from Cleveland Fed President Beth Hammack earlier that same day.

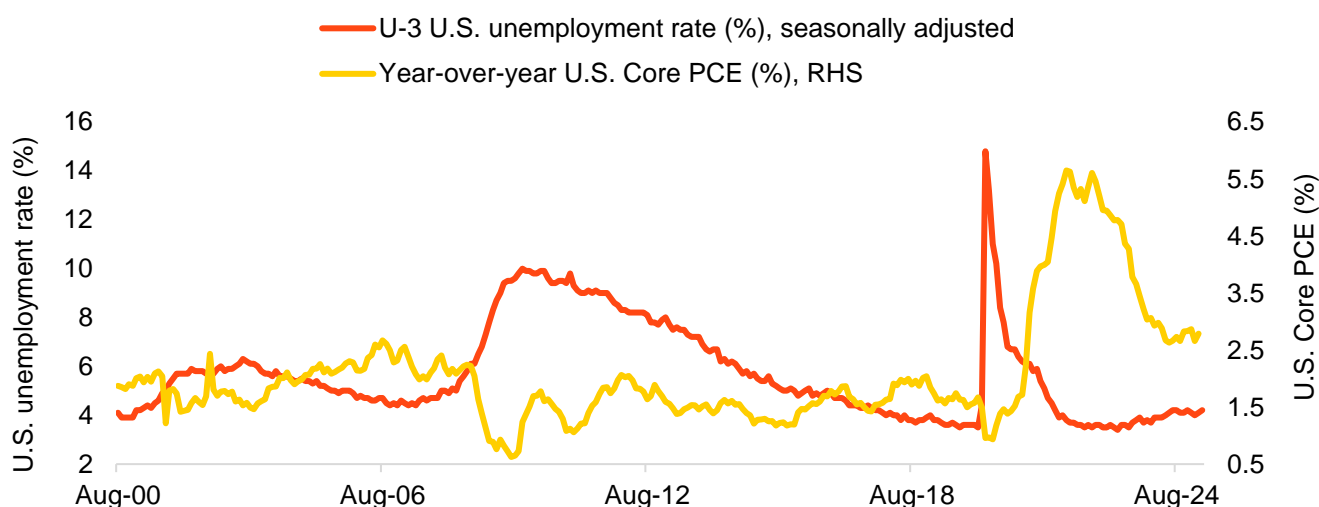
In our view, despite the growing downside risks to economic activity, the Fed is unlikely to cut rates preemptively. Rather, evidence of material deterioration in the labor market would likely be required before the Fed delivers additional policy normalization (beyond the 100bp of rate cuts already announced since September 2024). While uncertainty is especially elevated, we view a rate cut in 1H2025 as unlikely.

### Key takeaways for corporate credit investors are outlined below:

- **Higher inflation, slower growth is the baseline:** Chair Powell noted the economic effects of “significant policy changes...particularly trade” are likely to result in higher inflation and slower growth. He acknowledged that the Fed will likely be moving away from its price stability and maximum employment goals – or at least not making any further progress – for the balance of this year.
- **Inflation effects could be temporary or persistent.** He added that tariffs are “likely to generate at least a temporary rise in inflation,” and that some effects “could also be more persistent,” if, for example, accompanied by persistent supply chain disruptions. Avoiding that outcome, Chair Powell noted, will depend on (1) the size of the tariff effects, (2) how long it takes for them to pass-through to prices, and (3) whether longer-term inflation expectations are well-anchored. As Exhibit 3 highlights, survey-based measures of inflation expectations have increased in recent months.

### Exhibit 2: The Fed's baseline anticipates higher inflation and slower growth, which will impact its dual mandate goals of price stability and maximum employment

U-3 U.S. unemployment rate (%) seasonally adjusted, and year-over-year U.S. Core PCE inflation (%) seasonally adjusted, RHS



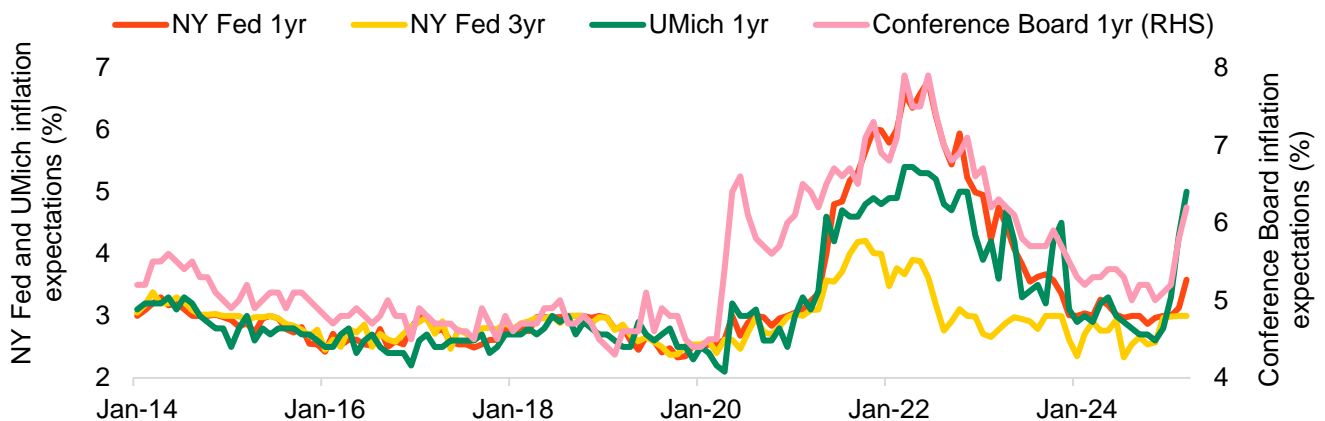
Source: Bureau of Labor Statistics, Bureau of Economic Analysis, BlackRock. Captures data through March 31, 2025 for unemployment and February 28, 2025 for core PCE (both most recent available as of April 16, 2025).

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- **The labor market is not a catalyst for near-term rate cuts, in our view:** Chair Powell characterized the U.S. labor market as in a “solid” condition, pointing to a range of factors including a range-bound unemployment rate (currently at 4.2%), a rebalanced jobs-workers gap (to just above 1x), an average pace of job creation in 1Q2025 of 150k per month, and a low layoff rate.
- **A potential tension to the dual mandate...:** Chair Powell specified that the Fed’s dual mandate of price stability and maximum employment is not in tension currently. That said, he mentioned the expectation for higher unemployment and higher inflation would result in “a difficult place” for the central bank, considering the tool of monetary policy (i.e., raising or cutting interest rates) addresses only one of the mandates at a time. In such a situation, the FOMC will assess how far the economy is from each of the two goals and will make “what will no doubt be a difficult judgment.”
- **...also echoed by other FOMC members:** Chair Powell’s remarks followed similar ones from Cleveland Fed President Beth Hammack on the same day, where she noted: “I see risks around both legs of our dual mandate that could lead to higher inflation outcomes and to lower growth and employment outcomes in the near to medium term...Given the economy’s starting point, and with both sides of our mandate expected to be under pressure, there is a strong case to hold monetary policy steady...” She added: “...if elevated inflation is paired with a slowing labor market, then monetary policy will face some challenging tradeoffs...it will be important to ensure inflation expectations remain well anchored while assessing the likely magnitude and persistence of the misses to each side of our dual mandate goals.”

### Exhibit 3: Survey-based measures of inflation expectations have increased

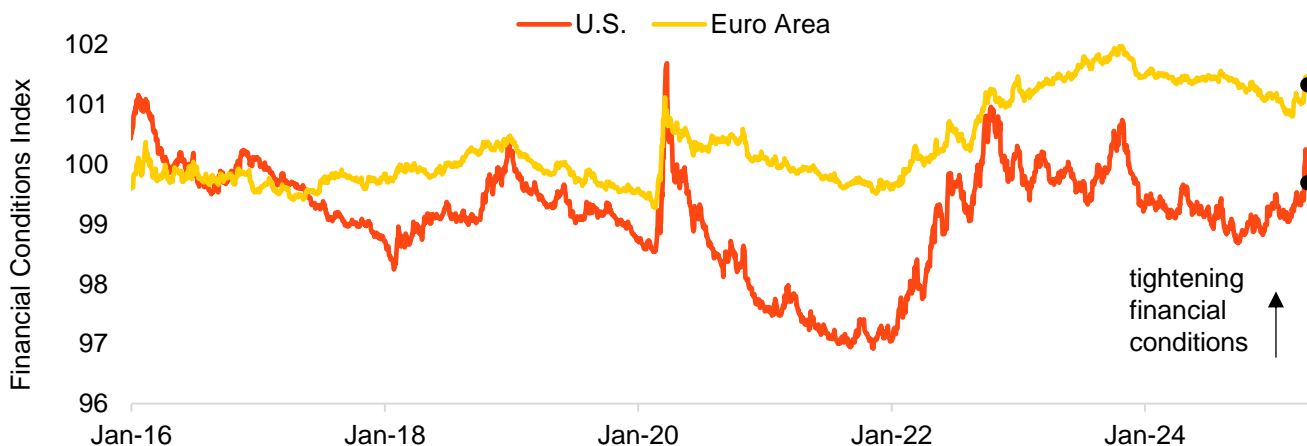
Inflation expectations: NY Fed 1-year and 3-year ahead, University of Michigan 1-year ahead, and Conference Board 1-year ahead



Source: Federal Reserve Bank of New York, Conference Board, University of Michigan, Bloomberg, BlackRock. As of March 31, 2025 (latest available as of April 16, 2025).

### Exhibit 4: Financial conditions have tightened as of late

Goldman Sachs U.S. and Euro Area Financial Conditions indices



Source: Bloomberg, Goldman Sachs Global Investment Research, BlackRock. As of April 15, 2025.

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## Taking stock of the credit spread repricing

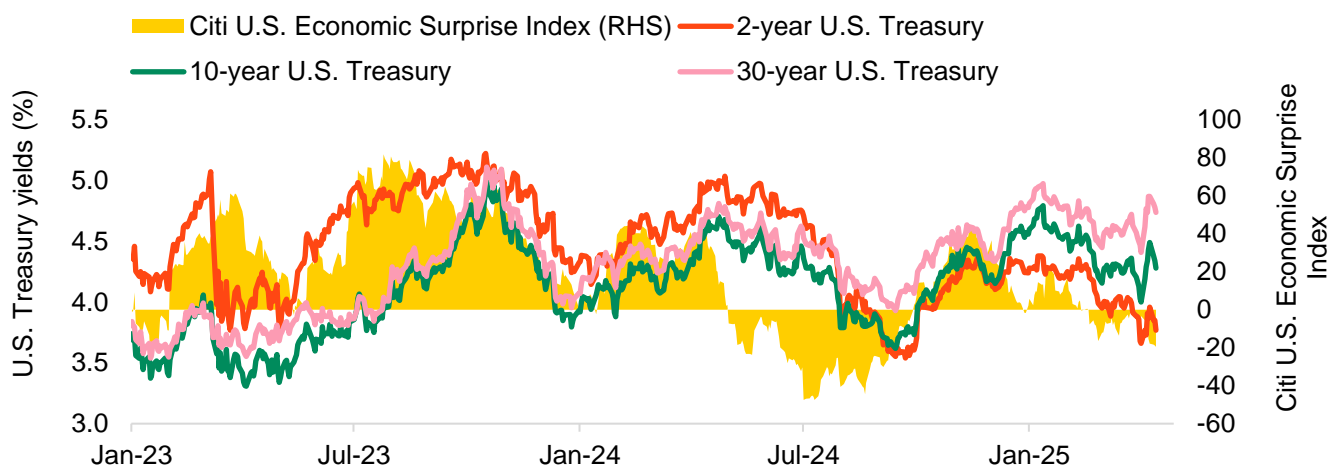
Two weeks after the April 2<sup>nd</sup> tariff announcements, we take stock of the repricing in corporate credit spreads, including the relative performance across *and within* USD and EUR markets.

To start, we first frame two notable moves in broader macro markets. First, the backdrop has been characterized as of late by elevated volatility in U.S. Treasury yields, which have not consistently provided a reliable hedge to risk off episodes or downside economic surprises (Exhibit 5). Second, the U.S. dollar has also trended weaker – both versus the Euro as well as a basket of other currencies (Exhibit 6).

Higher U.S. Treasury yields and a weaker U.S. dollar represent a departure from the typical response of these asset classes in past ‘risk-off’ episodes (a point which was also highlighted by Cleveland Fed President Hammack this week). This, in our view, likely reflects some combination of a rebuild in term premia in the U.S. Treasury market as well as potential shifts in cross-region allocation decisions for international investors. Finally, while financial conditions have somewhat moderated from local peaks, they remain elevated (i.e., tighter) vs. a few months ago (Exhibit 4).

### Exhibit 5: U.S. Treasuries have not been a reliable hedge in recent risk-off episodes

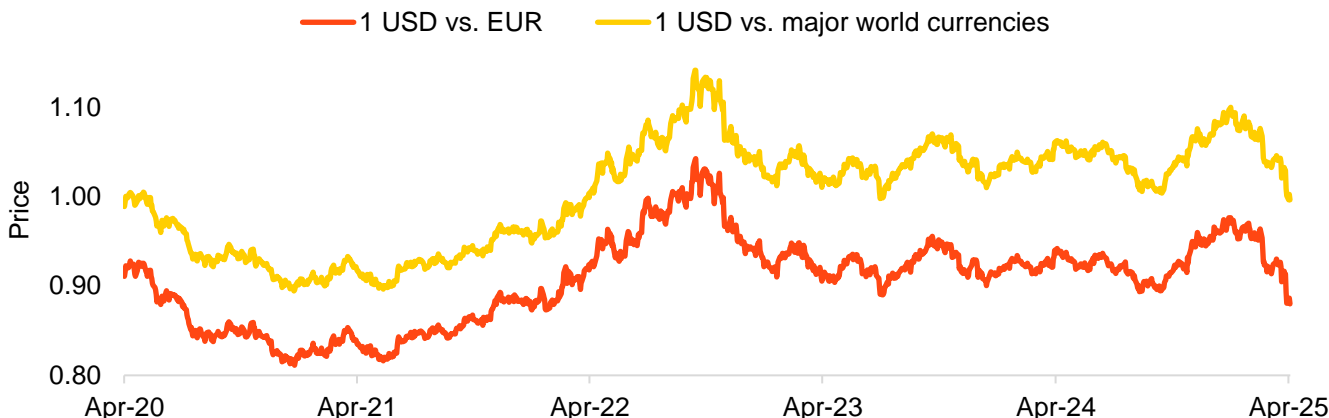
On-the-run 2-year, 10-year, and 30-year U.S. Treasury yields vs. the Citi U.S. Economic Surprise Index (CESI). A positive reading on the CESI means data releases have been stronger than expected and a negative reading means data releases have been worse than expected.



Source: Bloomberg, Citi, BlackRock. As of April 16, 2025.

### Exhibit 6: The USD has weakened vs. other major world currencies

USDEUR spot exchange rate, which reflects the price of 1 USD in EUR, and U.S. Dollar Index (USDIX), which reflects the value of the USD using average exchange rates between the USD and major world currencies, including EUR, JPY, GBP, CAD, SEK, and CHF.



Source: Bloomberg, BlackRock. As of April 16, 2025. USDIX values are divided by 100 to align with the USDEUR spot exchange rate.

**For both charts: 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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## Current spread levels favor high-quality credits

Amid the market volatility of the past several weeks, IG spreads have modestly outperformed their HY peers in both the EUR and USD markets, as illustrated in Exhibits 7 and 8. Notably, within the USD market, some of the recent outperformance of IG retraced over the past several days.

We expect current uncertainty around policy and the economic outlook to persist in the near term. That said, and as we discussed last week, we see potential to move *selectively* down in quality including into the low-end of IG (BBBs) and even into the high-end of HY (BBs).

Across regions, EUR spreads have outperformed their USD peers in both the IG and HY markets (Exhibits 9 and 10). This is likely supported by a confluence of factors, in our view, including (1) recent fiscal policy proposals in Europe, which are expected to support the EUR growth backdrop over the longer term and (2) resilient fundamentals and favorable technicals in the EUR credit markets (i.e., a higher ratings skew in HY, residual ECB ownership in IG, and smaller market sizes).

### Exhibit 7: EUR IG spreads have modestly outperformed EUR HY, year to date

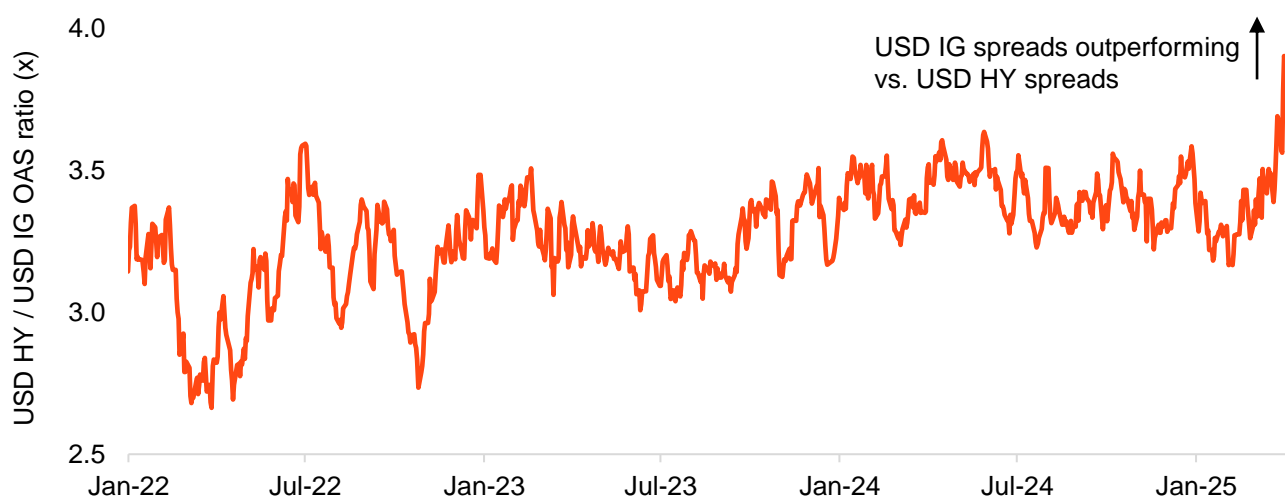
Option adjusted spread (OAS) ratio for the ICE-BAML EUR HY Corporate Index vs. the EUR IG Corporate Index



Source: ICE-BAML, Bloomberg, BlackRock. As of April 15, 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 8: After recent underperformance of USD HY spreads, the HY/IG ratio has retraced

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



Source: ICE-BAML, Bloomberg, BlackRock. As of April 15, 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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### Exhibit 9: EUR HY spreads have outperformed relative to USD, so far this year

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



Source: ICE-BAML, Bloomberg, BlackRock. As of April 15, 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: The same pattern of EUR spread relative outperformance holds in the IG market

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



Source: ICE-BAML, Bloomberg, BlackRock. As of April 15, 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.

Further, we see scope for sector-related dispersion to continue, especially as the impact from policy shifts become more visible. Exhibits 13-16 demonstrate index- and sector-level option adjusted spreads (OAS) on February 19, 2025 (a date close to the year-to-date index-level spread tight), and as of April 15, 2025, the most recent available as of this writing.

Notably, the magnitude of spread widening was not uniform across sectors. For example, USD and EUR HY index-level spreads widened 56% and 46%, respectively, though certain sectors saw more material- and less material, widening. In our view, such dispersion underscores the importance of active management and credit selection.

## Guidance and earnings estimates skew lower

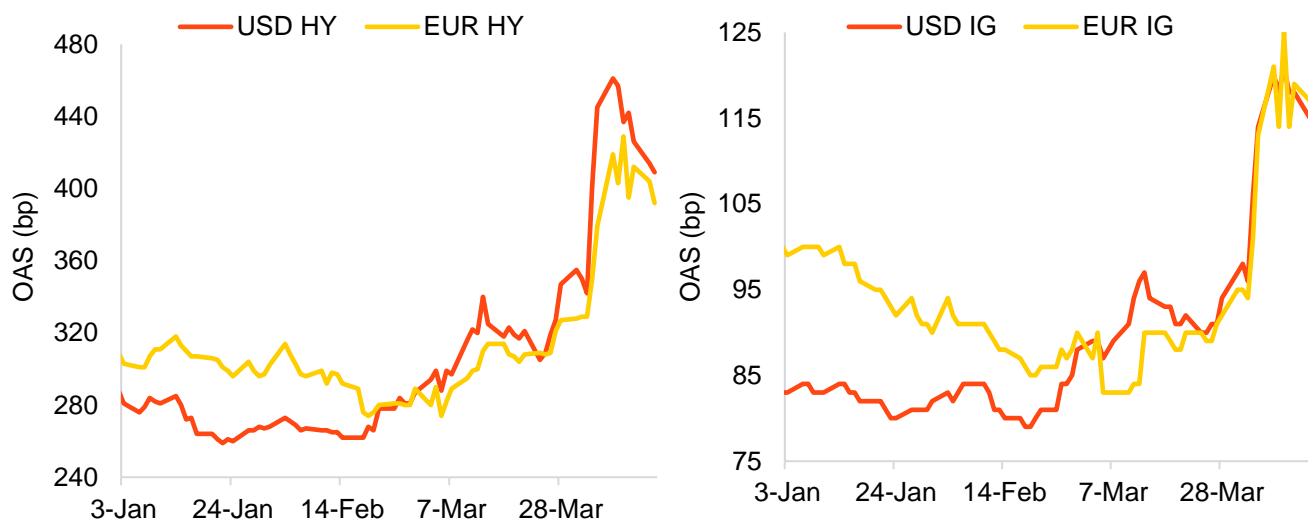
Still, even after the widening over the past few months (Exhibit 11), index-level spreads remain below post-financial crisis averages. And as we've discussed previously, we see scope for *further* widening if the market begins to price in a sharper growth slowdown, or a recessionary outcome.

In recent weeks, we've discussed the risk of data "catching down" on two fronts: (1) "hard" economic data catching down to "soft" sentiment/survey data (which has been weak), and (2) corporate margins catching down to a more challenging backdrop for profitability (given headwinds to growth and upward pressure on inflation).

While still very early in the 1Q2025 earnings season, recent commentary from management teams has suggested companies are still in the early stages of incorporating the impact of policy shifts into their guidance. So far, however, full-year 2025 guides have skewed negatively (Exhibit 12). The same is true for analysts' earnings estimates – especially over the past week, as illustrated by Exhibit 1. We see scope for negative analyst earnings revisions to continue as more information becomes available.

### Exhibit 11: Spreads have widened across markets

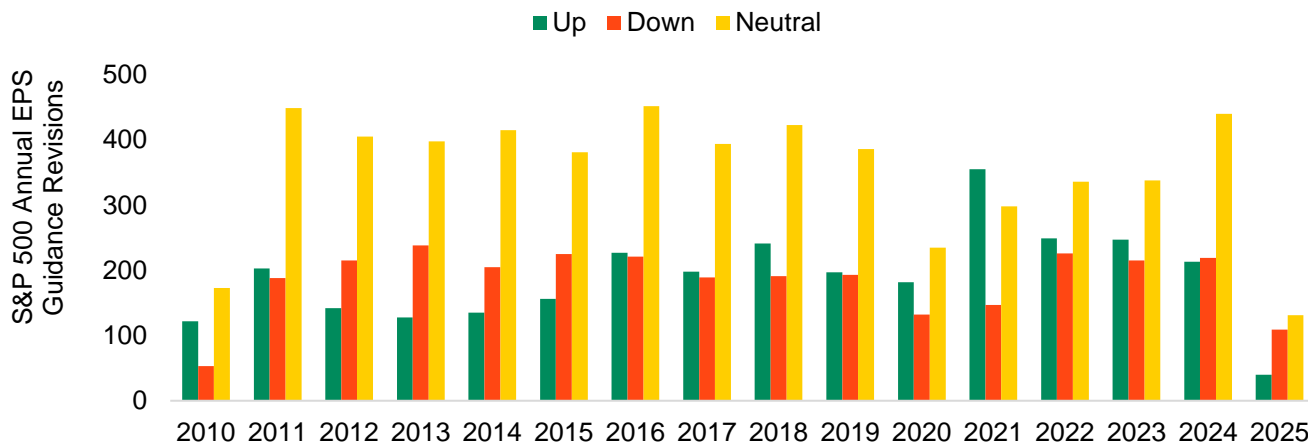
Index-level option adjusted spreads (bp) for the ICE-BAML USD and EUR HY Corporate indices (left panel) and ICE-BAML USD and EUR IG Corporate indices (right panel)



Source: ICE-BAML, Bloomberg, BlackRock. As of April 15, 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 12: Guidance revisions have skewed lower so far in 2025

Annual EPS Guidance Revisions for the S&P 500, as captured by Bloomberg Intelligence



Source: Bloomberg Intelligence, BlackRock. As of April 11, 2025 (most recent update as of April 16, 2025). **There is no guarantee any forecasts may come to pass.**

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### Exhibit 13: In USD IG, Energy, Autos, Gaming and other cyclical sectors widened most

Sector option adjusted spread (OAS) for the Bloomberg USD IG Corporate index on February 19, 2025 (near YTD OAS index tight) and as of April 15, 2025

	February 19, 2025	April 15, 2025	Percent change
<b>USD IG Index OAS</b>	<b>77</b>	<b>110</b>	<b>44%</b>
Construction Machinery	37	62	68%
Environmental	54	72	34%
Retailers	51	75	48%
Consumer Products	52	78	51%
Pharmaceuticals	61	84	36%
Integrated	63	84	34%
Food and Beverage	67	89	32%
Railroads	69	90	30%
Technology	61	90	49%
Restaurants	62	91	47%
Other Industrial	65	92	42%
Diversified Manufacturing	64	93	45%
Other Financial	63	100	59%
Other Utility	79	101	28%
Apartment REITs	68	102	49%
Wirelines	82	103	26%
Consumer Cyclical Services	63	104	65%
Health Insurance	87	107	22%
Property and Casualty Insurance	79	108	36%
Healthcare	81	108	33%
Retail REITs	72	110	53%
Electric	87	110	27%
Banking	73	112	54%
Wireless	79	112	42%
Aerospace/Defense	82	112	37%
Supermarkets	88	113	28%
Transportation Services	80	113	42%
Brokerage/Asset Managers	73	113	55%
Other REITs	76	116	54%
Tobacco	82	116	41%
Packaging	81	117	45%
Home Construction	73	117	60%
Building Materials	78	120	53%
Metals and Mining	86	120	40%
Healthcare REITs	79	121	52%
Natural Gas	96	124	29%
Chemicals	90	126	39%
Lodging	73	126	74%
Paper	90	131	45%
Midstream	97	141	45%
Life Insurance	97	142	47%
Cable Satellite	118	143	21%
Media Entertainment	101	143	43%
Refining	96	147	53%
Oil Field Services	89	152	71%
Airlines	89	153	73%
Independent	104	159	53%
Automotive	95	162	72%
Gaming	108	182	69%
Office REITs	118	185	56%
Finance Companies	109	190	74%

Source: Bloomberg, BlackRock. As of April 15, 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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**Exhibit 14: In EUR IG, Energy, Airlines, Lodging, Leisure, Airlines and Consumer widened most**  
Sector option adjusted spread (OAS) for the Bloomberg EUR IG Corporate index on February 19, 2025 (near YTD OAS index tight) and as of April 15, 2025

	February 19, 2025	April 15, 2025	Percent change
<b>EUR IG Index OAS</b>	<b>87</b>	<b>117</b>	<b>35%</b>
Diversified Manufacturing	67	86	28%
Pharmaceuticals	65	86	32%
Food and Beverage	67	88	32%
Oil Field Services	66	89	34%
Consumer Products	62	91	47%
Construction Machinery	69	93	33%
Aerospace/Defense	75	95	27%
Technology	72	97	34%
Restaurants	70	97	37%
Healthcare	76	97	27%
Building Materials	76	98	29%
Chemicals	79	100	27%
Wirelines	76	105	38%
Railroads	83	106	28%
Retailers	71	107	50%
Transportation Services	81	108	33%
Consumer Cyclical Services	83	110	32%
Brokerage/Asset Managers	85	110	30%
Other Industrial	85	111	31%
Office REITs	85	111	31%
Midstream	66	112	70%
Electric	89	114	28%
Wireless	83	114	36%
Paper	85	114	34%
Supermarkets	84	115	37%
Cable Satellite	95	115	21%
Natural Gas	94	118	26%
Airlines	79	119	49%
Banking	87	120	38%
Packaging	90	120	34%
Environmental	103	123	19%
Integrated	89	130	45%
Metals and Mining	91	130	42%
Automotive	96	132	38%
Media Entertainment	97	134	37%
Other Utility	113	139	23%
Lodging	90	140	55%
Retail REITs	101	140	39%
Other REITs	105	141	34%
Healthcare REITs	100	141	41%
Refining	120	143	19%
Property and Casualty Insurance	103	145	41%
Tobacco	105	145	39%
Finance Companies	102	147	44%
Other Financial	114	148	31%
Life Insurance	111	159	43%
Leisure	131	159	22%
Gaming	106	160	51%
Health Insurance	120	164	37%
Independent	140	193	37%
Home Construction	171	212	24%

Source: Bloomberg, BlackRock. As of April 15, 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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## Exhibit 15: In USD HY, Energy, Airlines and Leisure sectors widened most in recent months

Sector option adjusted spread (OAS) for the Bloomberg USD HY Corporate index on February 19, 2025 (near YTD OAS index highs) and as of April 15, 2025

	February 19, 2025	April 15, 2025	Percent change
<b>USD HY Index OAS</b>	<b>260</b>	<b>402</b>	<b>55%</b>
Health Insurance	155	186	20%
Aerospace/Defense	97	190	95%
Environmental	134	205	53%
Lodging	126	216	71%
Supermarkets	147	230	57%
Retail REITs	197	245	24%
Property and Casualty Insurance	168	247	47%
Food and Beverage	198	253	28%
Banking	179	255	42%
Leisure	136	267	97%
Restaurants	181	273	51%
Construction Machinery	170	280	64%
Electric	197	283	44%
Diversified Manufacturing	182	293	61%
Brokerage/Asset Managers	167	294	76%
Life Insurance	231	313	35%
Other Industrial	191	315	65%
Other REITs	208	317	53%
Gaming	178	323	81%
Finance Companies	202	327	62%
Home Construction	193	337	75%
Healthcare	270	340	26%
Building Materials	208	357	72%
Midstream	196	367	87%
Technology	251	387	54%
Natural Gas	326	387	19%
Automotive	230	391	70%
Wirelines	282	392	39%
Metals and Mining	212	392	85%
Consumer Cyclical Services	261	396	52%
Chemicals	249	403	62%
Independent	185	422	128%
Other Financial	260	429	65%
Paper	278	456	64%
Retailers	291	466	60%
Airlines	226	502	122%
Consumer Products	351	564	61%
Packaging	353	570	61%
Cable Satellite	457	579	27%
Railroads	411	579	41%
Transportation Services	303	584	93%
Media Entertainment	419	589	41%
Healthcare REITs	449	600	34%
Pharmaceuticals	555	628	13%
Oil Field Services	326	656	101%
Office REITs	437	697	59%
Wireless	693	741	7%
Refining	363	809	123%

Source: Bloomberg, BlackRock. As of April 15, 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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# Exhibit 16: In EUR HY, cyclicals also underperformed in the EUR HY market

Sector option adjusted spread (OAS) for the Bloomberg EUR HY Corporate index on February 19, 2025 (near YTD OAS index highs) and as of April 15, 2025

	February 19, 2025	April 15, 2025	Percent change
<b>EUR HY Index OAS</b>	<b>284</b>	<b>406</b>	<b>43%</b>
Environmental	141	207	46%
Life Insurance	155	211	36%
Airlines	153	214	40%
Electric	148	220	48%
Banking	157	221	41%
Natural Gas	165	236	43%
Transportation Services	186	280	51%
Midstream	149	282	90%
Construction Machinery	119	291	144%
Gaming	125	333	165%
Consumer Products	183	334	82%
Food and Beverage	230	335	46%
Pharmaceuticals	269	343	28%
Independent	246	346	41%
Media Entertainment	99	347	250%
Lodging	223	350	57%
Finance Companies	292	354	21%
Wirelines	267	355	33%
Paper	240	374	56%
Other Industrial	243	383	58%
Oil Field Services	219	387	76%
Automotive	241	394	63%
Leisure	214	397	85%
Office REITs	262	402	54%
Home Construction	323	403	25%
Brokerage/Asset Managers	298	413	39%
Retailers	298	430	44%
Cable Satellite	402	436	8%
Other Utility	496	446	-10%
Property and Casualty Insurance	273	450	65%
Metals and Mining	310	458	47%
Consumer Cyclical Services	253	467	85%
Healthcare	271	477	76%
Supermarkets	353	486	37%
Chemicals	258	499	93%
Wireless	472	565	20%
Technology	343	592	72%
Other Financial	498	594	19%
Restaurants	548	610	11%
Packaging	470	652	39%
Diversified Manufacturing	425	670	57%
Healthcare REITs	447	685	53%
Building Materials	439	706	61%
Refining	344	968	181%

Source: Bloomberg, BlackRock. As of April 15, 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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**Unless otherwise stated, all reference to \$ are in USD.**

**Risk Warnings:**

**Capital at risk.** The value of investments and the income from them can fall as well as rise and are not guaranteed. You may not get back the amount originally invested.

**Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.**

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

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