



(UBS)

How to position in fixed income for the year ahead

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Treasury markets faced headwinds in December after the Fed indicated a slower pace of easing for 2025 during its final policy meeting. This capped a volatile year for US government bonds, with shifting market expectations regarding the speed and extent of Fed rate cuts.

The yield on the 10-year US Treasury, which began the year at 3.86%, ended at 4.57%, having fluctuated between a high of 4.7% in April and a low of 3.62% in September. This marks the first time since the 1980s that the 10-year yield has increased for four consecutive years.

The Bloomberg US Treasury index lost 1.5% in December and 3.1% for the final quarter, notching a modest annual return of 0.6%. In contrast, the Bloomberg Pan-European Aggregate lost 0.7% in December and dropped 0.1% for the fourth quarter. Notably, US and euro high yield credit delivered the highest returns for 2024, at 8.2% and 8.6%, respectively. Investment grade bonds also produced positive returns, with the Bloomberg US Credit index returning 2% and its euro counterpart 4.7%.

Looking ahead, we maintain a Neutral recommendation on fixed income overall. The trajectory of yields will depend on Fed rate cuts and the implementation of President Trump's policy proposals. We have adjusted our base case for 2025 rate cuts from 100 basis points to 50 basis points.

Takeaway: Within fixed income, we find investment grade bonds Attractive due to robust corporate fundamentals and strong investor demand. We also upgraded high grade government bonds to Attractive, anticipating a favorable risk-return profile, especially if economic growth slows more sharply than expected.

For more, see the [Weekly Global: Charting 2025 after robust returns in 2024](#), published 6 January, 2025.

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