

Weekly Macro and Markets View

19 October 2025



Highlights and View

High Yield spreads widen notably, while CoreWeave spreads surge as AI funding concerns build

While we don't expect the AI investment cycle to be derailed as the large Hyperscalers are likely to keep investments on track, more leveraged AI players such as CoreWeave could face financing challenges as business models get scrutinized at higher yields

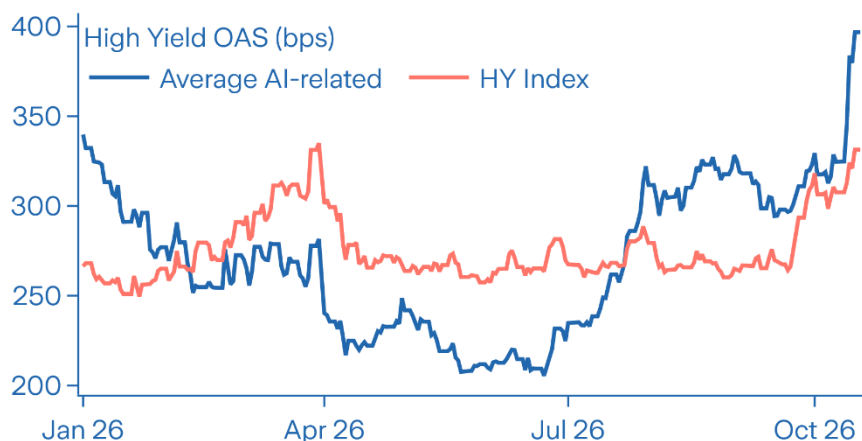
US headline inflation accelerates to 3.7% YoY, with core CPI picking up to 2.6% YoY

While energy prices drove most of the pickup in inflation, broader price pressure remains a risk.

MSCI considers reclassifying Indonesia from EM to standalone market status, sending the IDX down more than 15% in one day

A decision will be announced by June 30, 2027, and if implemented, drawdowns are expected to be even more severe.

AI funding fears weigh on High Yield



Source: Bloomberg; Note: OAS = Option-Adjusted Spread

Corporate credit markets weakened last week as concerns over AI funding spread through High Yield (HY). Supply slowed in Investment Grade (IG) and HY as some issuers stayed on the sidelines, and fund flows also reflected the worsening sentiment. US HY bond spreads widened by 24bps on the week, with a broad-based widening seen across BB, B, and CCC rating buckets. Europe held up better at the index level, though the European CCCs also continued to sell off sharply. CoreWeave was the biggest AI-related underperformer in High Yield. Its unsecured bond yields have approached 15% and its 5yr CDS has reached 1128bps, a significant increase from around 500bps in June. Concerns over further borrowing grew after the co-founder told the Financial Times that the company aims to tap insurers' capital through more investment grade-rated, chip-backed debt. While we remain constructive on the large Hyperscalers with strong balance sheets and diversified cash flows, caution is warranted around the more leveraged names such as CoreWeave. Borrowing costs near 15% raise the question of whether business models are sustainable at these funding costs, a concern that matters far less for the large Hyperscalers that are capable of funding investment internally. All in all, we don't expect the AI investment cycle to be derailed, despite the concerns seen last week, as the large Hyperscalers who commit the most to the AI capex are likely to remain on track, while more leveraged players could face financing challenges.

US

Price pressure remains elevated

Headline inflation accelerated in September in line with expectations, rising 0.6% MoM, mostly driven by a pickup in energy prices. This pushed up the annual rate to 3.7% from 3.4% the month before. Core inflation was above expectations, rising 0.3% MoM, which drove the annual rate up to 2.6%. Producer prices also show that inflation risks remain elevated, with headline PPI rising by 1.3% MoM, pushing the annual rate to 6.3%, the highest since December 2022. Meanwhile, retail sales numbers show a mixed picture. While overall retail sales remained robust in

September, driven by higher spending on gasoline, core numbers have moderated substantially, indicating that consumer spending is slowing. Equity markets faced some headwinds, and the S&P 500 suffered its worst week since June, losing almost 2%. The sell off was driven by renewed pressure on technology stocks and semiconductor stocks in particular. The Philadelphia Stock Exchange Semiconductor Index shed more than 11%, the worst week since April 2025.

Bonds

Government bonds rally as AI stumbles

Government bonds rallied last week, with the 10yr Treasury yield down 17bps, closing at 5.07%, with a similar move for the 30yr. In our view, the decline in yields was overdue, and the trigger was the broader risk-off mood on the back of AI related funding and growth concerns. The rally happened despite US inflation data surprising to the upside and was driven by a tempering of Fed rate hike expectations and reduced risk premia in particular, leading real yields sharply lower from recent multi-decade highs. Other bond markets also did well, though lagged

significantly behind the US. These dynamics were important as the decline in yields helped to stabilise broader market sentiment, while confirming that the asset class retains its safe haven status. With growth expected to hold up and inflation continuing to be buffeted by energy prices, we see only limited further downside for yields near term, unless broader market sentiment, particularly with respect to AI prospects, were to deteriorate further.

Eurozone

Protectionism, gradually

Last week saw a flurry of trade related announcements across the European Union. Evidence continues to build towards the fact that the EU is slowly but steadily embracing trade protectionism. The first was a quota system for Chinese hybrid auto imports, adopted under a WTO framework. The second was that France and Germany jointly requested the EU develop a new tool that could act as a discretionary trade 'kill-switch' in extreme scenarios. This is currently messaging rather than a legislative reality, but highlights a mindset shift away from free

trade. This is particularly true in Germany, which has traditionally been an influential advocate of free trade. Lastly, French student protests blurred over into unaffiliated riots over the weekend, increasing the intensity of presidential campaigning. France's difficult fiscal situation limits the government's ability to respond to cost-of-living demands. This further highlights political and fiscal instability, with continued downside risks to French asset prices.

China

It's time to speed up

China faces a heavy data week. September activity improved modestly, with retail sales up 1.1% YoY and fixed-asset investment (FAI) less negative at -7.2% YoY. Exports surged close to 30% YoY, highlighting the economy's continued reliance on external demand. The recent "Six Networks" infrastructure push, aimed at upgrading infrastructure and energy systems to support new technologies and AI, should provide further support to FAI in Q4 and make this year's GDP target more reachable. Meanwhile, PPI came in above consensus and accelerated to 5% YoY,

largely due to a sharp increase in mining and chemical products amid higher energy prices due to continued conflicts in the Middle East. Computer and electronic equipment remain the clearest area of underlying strength, reflecting strong tech capex globally. CPI only edged up slightly to 0.9% YoY. Energy showed the largest increase, but there is little sign of this broadening out, with core inflation remaining flat MoM. Overall, momentum is improving, but China's growth model remains heavily reliant on investment and exports.

US Municipal Bonds

Recovery underway, risks remain

October has brought some relief for US tax-exempt municipal bonds after September's sharp sell off. Alongside the decline in US Treasury yields, municipal yields retreated from their recent highs and returns turned positive month-to-date, with municipals outperforming both Treasuries and corporate bonds on a total return basis over the period. Investor sentiment also improved after the recent repricing, with municipal funds recording inflows for two consecutive weeks according to LSEG Lipper data. Despite the rally, municipal yields remain elevated relative

to recent history, while the after-tax yield advantage versus taxable alternatives remains significant, which should continue to support investor demand. Looking ahead, the backdrop appears broadly supportive, underpinned by stable credit fundamentals and low default activity. We expect supply to ease in Q4, as refunding activity, a key contributor to issuance this year, is likely to moderate in the current higher-yield environment. Nevertheless, Treasury market volatility remains a key risk, which we think will limit the pace of further gains in the near term.

What to Watch

- In the UK, inflation numbers, employment data, and retail sales will give crucial insight into the current state of the UK economy.
- Eurozone survey data is available in the form of Flash PMIs and the German ZEW. Many ECB speakers are also set to discuss their outlook.
- There will be releases on industrial production in China, India and Taiwan, as well as trade data for Japan, Malaysia and Korea. Also available will be October PMI for Australia, India and Japan.
- Brazil's presidential runoff takes centre stage next Sunday, October 25, with right-wing candidate Flávio Bolsonaro holding a narrow lead over President Lula.

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