RATHBONES

RATHBONE GREENBANK GLOBAL SUSTAINABLE BOND FUND

MONTHLY UPDATE NOVEMBER 2025

Unsurprisingly, intense speculation about the UK's Autumn Budget dominated government bond markets in November. Endless leaks, rumours and policy false starts kept investors very jittery, driving sizeable swings in UK government (gilt) yields. Corporate bond markets were much steadier.

Farewell fiscal fandango!

Chancellor Rachel Reeves finally unveiled her Budget on 26 November following weeks of messy and unpredictable 'pitch-rolling' (attempts to lay the groundwork for big policy announcements). If you're trying to warm people up for potentially unpopular policies, you've got to stick to a consistent message.

Instead, we got what Bank of England (BoE) former chief economist Andy Haldane called a "fiscal fandango": a whirligig of contradictory and confusing messaging that stoked investor uncertainty. The final bit of clumsy footwork came on Budget day itself when the Office for Budget Responsibility (OBR), the watchdog monitoring the government's performance against its fiscal targets, accidentally leaked details of the Chancellor's speech before she'd delivered it.

Notwithstanding this highly inauspicious run-up, the substance of the Budget seemed to reassure investors (for now at least) that the government is serious about trying to plug the massive gap between what it spends and what it brings in from taxes. The Chancellor more than doubled her 'fiscal headroom' (the margin for error built into the government's tax and spending plans in case tax receipts are lower than expected or spending is higher), raising it from just under £10bn to £22bn. She funded this headroom boost via tax-raising policies (largely freezing people's income tax thresholds) that are expected to bring in more than £26bn by 2030-31.

Accumulating this extra headroom should help ease constant speculation about whether the government is veering towards breaching its self-imposed fiscal rules (like its commitment to get government debt falling as share of GDP). Hopes of a breather from many months of intense fiscal uncertainty have been further bolstered by the announcement that the OBR will calculate the government's performance against its fiscal rules only once a year from here (instead of every six months).

Unlike last year's Budget, this one didn't include policies that might fuel inflation significantly. That keeps the door open for the Bank of England (BoE) to cut interest rates further – good news for investors in gilts and UK corporate bonds. Compared with other big central banks, we think there's a greater chance that the BoE will cut rates by more than investors expect in the coming year or so. While inflation is higher here, the trajectory is downward. Meanwhile, growth is shaping up to be especially lacklustre and the jobs market is weakening. That should encourage the BoE to press ahead with rate-cutting.

Another big positive on Budget day was the Debt Management Office (DMO)'s announcement that the government will issue less new debt in the current fiscal year than investors had feared. Even more importantly, the DMO is cutting back the supply of long maturity gilts. Less supply should help ease some of the pressures on long-dated gilt prices, which have been extra-volatile this year.

Against this backdrop, the 10-year gilt yield started the month at 4.40% but rose to over 4.60% in mid-November (meaning its price dropped) as investors worried about a potentially grim fiscal outlook. Immediately after the Budget, the yield fell back to 4.42% before ending the month at 4.44%. Longer-dated gilts rallied more strongly still, with the 30-year yield falling from a monthly peak of 5.46% to 5.20% by the end of November. Good news for us: we've been buying longer-dated green gilts when their yields have spiked because they offer attractive 'carry' – the income you get from bond coupons even if their prices are volatile.

While the Budget overall proved more gilt-friendly than many investors had feared, we do need to be a bit cautious about what might happen from here. The government is increasing spending immediately, but many of the tax increases unveiled won't kick in for several years. The result is a "spend now, pay later" Budget, with a lot of the fiscal consolidation heavily back-loaded. That raises the risk that investors might start to question whether the paying back will go as planned, potentially triggering more bouts of gilt market volatility.

As well as adding to our green UK Treasury 1.5% 2053s ahead of the Budget, we also bought some French government bonds (known as OATs) in November, notably some **OAT 3.5% 2035s**. Like gilts, OATs have taken quite a battering for many months because of concerns about France's creaky public finances. The key indicator of fiscal risk in European debt markets is the spread between the yield on a country's 10-year bonds and the yield on the equivalent German Bund. That spread was very volatile in November as France's minority government struggled to get its 2026 Budget bill approved by parliament before year-end. We felt that OATs' striking yields offered opportunities to generate attractive carry even if their prices remain under pressure.

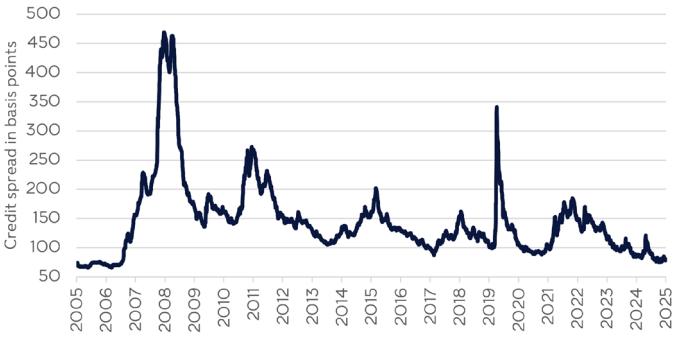
Meanwhile, in the US, the Federal Reserve (Fed) cut interest rates by 0.25% for the third time this year at its meeting on 9-10 December, bringing rates to the 3.50%-3.75% range. The 10-year US Treasury yield hovered at around 4.10% for most of November, but fell back to 4.02% by month-end as investors grew more confident that the Fed was moving towards another rate cut.

Sustainability investment labels help investors find products that have a specific sustainability theme. This product has a 'Sustainability Focus' label: it invests mainly in assets that focus on sustainability for people or the planet.

Staying cautious in credit

Credit spreads – the premium investors demand for lending to companies versus governments – widened very slightly in November. But even though that spread (as measured by the ICE Bank of America Global Corporate Bond index) widened from 79 basis points (bps) to 82bps, it's still at or near its tightest level in almost 20 years.

CREDIT SPREADS ARE SUPER-SLIM



Source: FactSet, ICE Bank of America Global Corporate Bond index option adjusted spread; data to 16 December 2025

We're not expecting a sudden blow-out in credit spreads. Investor demand for corporate bonds remains very robust and the dip in new bond issuance in the run-up to the Christmas/New Year holidays creates a supportive supply/demand dynamic.

But we're keeping a close watch on a couple of trends that might dent investor appetite for credit next year. First, some of the massive US tech firms at the forefront of AI are issuing huge amounts of investment grade bonds to fund things like AI data centres in coming years. That will lead to a big spike in bond supply, raising the risk that all this extra volume might prove too much for bond markets comfortably to digest, thereby driving spreads wider. Secondly, we're on the look-out for any further signs of trouble brewing in the private credit industry. A couple of quite sizeable American firms defaulted on private credit loans in September. Further defaults might unnerve investors, which again might risk a spike in spreads.

For much of this year, we've been gradually shifting towards bonds that we hope would prove more resilient if credit markets wobble. This approach drove our decision to sell some of our bonds that we felt looked a touch too expensive for comfort. For example, we sold some of our US pharmaceutical firm **Pfizer 5.6% 2040s** on concerns about the amount of new bonds it's issuing to fund its takeover of obesity drug developer Metsera. We felt that this extra borrowing might drive some widening in these bonds' particularly tight spreads.

In a similar vein, we decided to trim back our South Korean chipmaker **SK Hynix 6.5% 2033s**. The firm is a key supplier to Nvidia and other US AI hyperscalers. As such, these bonds' spreads have benefited from the huge wave of investor enthusiasm for anything linked to AI. But we felt they'd begun to look tight for bonds with a BBB credit rating so we chose to pare back our holding.

We also decided to sell some of our Spanish mobile operator **Telefónica 4.055% 2036s** because we had concerns about the firm's five-year strategic plan as outlined by its new CEO in early November.

Looking towards 2026

This has been a good year for bond investors. Credit spreads are super-slim, but investor demand is holding up given the very generous yields on offer. As we've explained, we're keeping a close watch on a couple of potential trouble-spots going into 2026. That means we're sticking with our focus on higher quality, higher rated corporate bonds. We're concentrating our credit risk exposure at the short end to 'belly' (middle part) of the yield curve and taking our duration exposure (sensitivity to the direction of interest rates) mainly through longer-dated government bonds, especially green gilts. As well as offering attractive carry, we view these gilts as a valuable insurance policy against the risk of a nasty wobble in credit markets. If credit spreads do blow out, government bonds should rally and offset some of the volatility in credit prices.

Thank you for your support in 2025 and wishing you a happy holiday season and a healthy and prosperous 2026!

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For more info on our fund, including factsheets, performance and fund manager views, please click here.

If you require further clarification on this commentary, then please contact your adviser or Rathbones at the contact details below.

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