

Allview: Iran Conflict Fixed Income Implications

As the events concerning Iran continue, Allspring Fixed Income's message—"bonds provide certainty in an uncertain world"—remains central to our positioning.

Authors	Date	Topic
Allspring Fixed Income Teams	6/24/2025	Market Events

Key takeaways

- Fixed income markets have reacted relatively calmly, with volatility low and credit spreads steady.
- Our fixed income portfolios are positioned for slower economic growth and the normalization of yield curves.
- A weaker U.S. dollar provides selective opportunities in global bond markets.

Generally, at the onset of many military conflicts, financial market volatility has increased, the U.S. dollar has rallied, investors have rushed into U.S. Treasuries, oil prices have often risen, and credit spreads have widened.

This time appears to be different: financial market volatility has declined, the U.S. dollar has declined, U.S. Treasuries have rallied with a curve-steepening bias, oil prices have started to fall (after rising), and credit spreads have remained steady. It seems the market expects the conflict to be fairly contained.

Allspring Fixed Income's message is this: "Bonds provide certainty in an uncertain world." Broadly speaking, our portfolios are set up for slower economic growth and the normalization of yield curves. We expect interest rate volatility to decline in the coming weeks/months and inflation to stabilize after absorbing the effects of tariffs. We believe some attractive relative-value opportunities may be found in the securitized market, specifically in mortgage pass-through securities. Corporate credit spreads have been rich, but there are potential opportunities for good credits and attractively priced securities. A weaker U.S. dollar presents possible opportunities in global bond markets, especially for non-U.S. dollar bonds hedged back to the U.S. dollar.

Central themes

- **Growth:** In our view, it's too early to suggest a notable change in direction for the U.S. economy. Growth is slowing and is likely to continue doing so in the second half of the year. We believe a recession is still unlikely—but an extended conflict could weigh on growth and push the U.S. into recession.
- **Inflation:** The conflict could be inflationary, especially as tariffs start to work through the system, but higher prices may prove more growth-negative than persistently inflationary.
- **Federal Reserve (Fed):** The Fed remains in "backstop mode" and likely will react to any financial dislocations with easier policies. That said, Fed officials may be slow to react given the prospect of tariff-induced inflationary pressures.

- **Yield curve:** The long end remains the relief valve for macro pressures. Further steepening of the yield curve is likely until growth concerns truly emerge.
- **Rates:** Treasuries seem to have attracted more investors. It's unclear if that's due to a flight to quality or budding economic fears. Nevertheless, we believe lower yields seem more likely than higher yields going forward.
- **Credit:** Credit spreads have remained well behaved with very little movement since the conflict began. Spreads are tight in a historical context, but many investors seem to be viewing credit as fairly healthy—and, in some respects, a way to avoid the problems in sovereign bond markets.
- **Oil:** Crude oil prices spiked by more than 10% at the onset of the latest events in the Iran conflict, but they've fallen sharply on the prospect of a truce between Israel and Iran.
- **U.S. dollar:** While the U.S. dollar is at the bottom end of its year-to-date range, it's showing limited support despite an upsurge in the geopolitical conflict. In our view, the U.S. dollar could fall further as global flows rebalance following the U.S. tariff announcements. However, de-dollarization is *not* inevitable. It's true that many global investors are overweight U.S. dollar assets, including bonds, and the U.S. currency is still overvalued relative to other currencies. As such, a rebalance may be warranted but will take time. Wholesale selling of U.S. dollar assets is *not* a given. Instead, marginal demand for non-U.S. dollar exposure may grow faster than demand for U.S. dollars, but U.S. dollar assets should continue to grow if demand for U.S. dollar credit-related strategies remains robust as we expect.

Despite all the problems and concerns, the U.S. bond market has remained the largest, deepest, and most liquid market in the world, underpinned by an economy that has continued to grow faster than nearly all other developed nations.

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