Euro Credit strategy

Euro Credit Spreads Hit Multi-Years Lows

What's happening?

- The rally in the credit markets continued in July, with spreads reaching multi-year lows. The Euro Corporate Index (ER00) ended the month at 68 basis points (bps), 12 bps tighter than at the end of June and one of the tightest levels since 2022. This rally was supported by trade negotiations between the US and Europe, combined with solid inflows and decent Q2 earnings, making valuations in the credit asset class challenging. Real estate, banking subordinated debt and insurance subordinated debt performed well. The high-yield market also performed impressively, with the Euro High Yield Index (HE00) tightening by 36 bps to 244 bps in July.

- This momentum stalled on the last day of the month, when weaker-than-expected NFP figures were released alongside a sharp revision to last month's numbers. This fuelled fears of a stagflation scenario in the US, but also raised hopes of further interest rate cuts by the Fed. Concerns about a weaker US economy pushed spreads wider, with the Itraxx Main and Xover moving 2 bps and 12 bps wider, respectively, on that single day.

- In terms of earnings, the performance of non-financials has been rather mixed, as in the previous quarter. Cyclical sectors have continued to show weaker trends, which have weighed on overall earnings, with some profit warnings in sectors such as automotive, paper and packaging, and capital goods, as well as in consumer sectors. Nevertheless, the performance of some cyclical sectors, notably the automotive sector, has been strong on a year-to-date basis (~25 bps tighter).

- On the Financials side, the earnings season has been strong so far. Indeed, the two-thirds of our banks' coverage have published their results and figures continue to be rock solid with 84% beats on profit before tax according to our methodology. Profitability remains sound despite a lower rate environment, risk provisioning is higher on average, but cost of risk remains benign. Capitalisation remained solid as confirmed by the stress tests published end of July demonstrating the resilience and strength of European banks in the face of an extreme scenario.

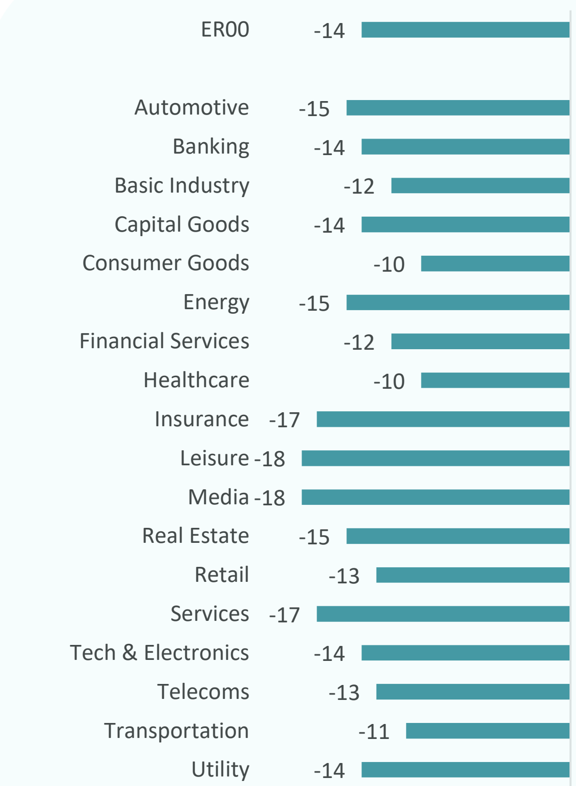
- Volatility persisted in the rates market during July, driven by a series of macroeconomic developments. These included speculation surrounding the future of Federal Reserve Chair Jerome Powell; stronger-than-expected Q2 GDP growth in the Eurozone; a relatively hawkish stance from both the ECB and the Fed; rising inflation in some European countries; and upbeat US data, including robust headline Q2 GDP and higher ADP employment figures. As such, the 10Y Bund finished the month at nearly 2.7% after reaching 2.73% during the second week of July and 2.58% on July 22nd.

- The IG primary market slowed in July, with a modest figure of €26 billion, split 50/50 between financials and corporates. Despite the summer lull, flows remained solid, with short-term funds benefiting from the bulk of the inflows. Notably, July has been one of the strongest months in terms of inflows across IG and HY funds in the past two decades.

Portfolio positioning and performance

- We have a **DTS above benchmark** at around 115% on average, as we have reduced the overall portfolio risk and improved credit quality.
- We hold a cautiously positive view on Financials, though current valuations may constrain potential for meaningful outperformance relative to Corporates. We also maintain a preference for Corporate Hybrids, particularly those with call dates under five years, which we believe may offer a relatively attractive risk-return profile.
- We continue to hold an Underweight position in most cyclical and defensive sectors. We see limited upside potential in these sectors due to a combination of structural challenges.

Asset Swap Spreads changes - MTD



Source: AXA IM, Bloomberg, as of 31/07/2025.
ER00 = ICE BofA Euro Corporate Index

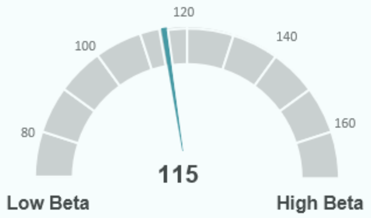
Our Country Positioning

	UW	N	OW
Core	●		
Semi-Core			●
Peripherals			●
United States	●		
United Kingdom	●		

Our Sector Positioning

	UW	N	OW
Financial Senior			●
Financial Subordinated			●
Corporate Hybrids			●
Defensive Senior	●		
Cyclical Senior	●		

Our targeted DTS is around 115%

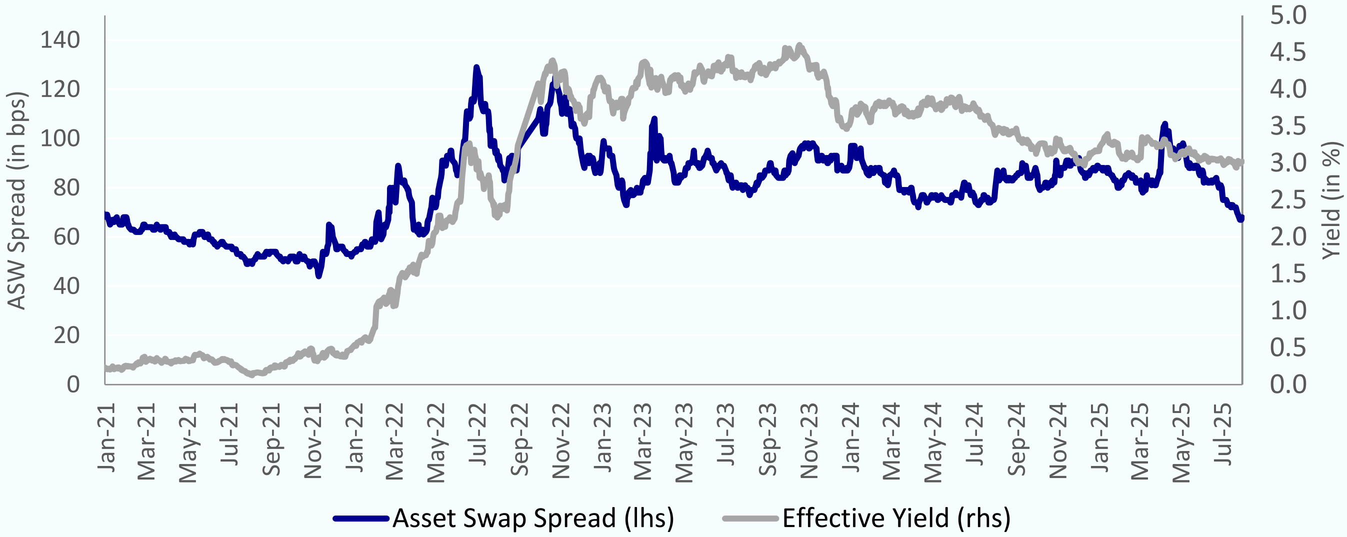


No assurance can be given that the Euro Credit will be successful. Investors can lose some or all of their capital invested. The Euro Credit strategy is subject to risks including Credit risk, Liquidity risk, Derivatives and leverage, High yield debt securities, Contingent convertible bonds.

Outlook

- Against the backdrop of a continuously evolving geopolitical landscape and economic uncertainties, tight spreads and low volatility suggest that investors remain comfortable, provided recession risks remains contained. While fundamentals and technicals remain supportive, valuations appear increasingly stretched, with limited dispersion across sectors and issuers. In this context, it makes sense to protect performance through strategic hedging, given that CDS hedges are still relatively inexpensive. We also reiterate our recommendation to reduce the overall portfolio risk and improve credit quality, while continuing to deliver a carry above the benchmark.

Euro Credit Market : Euro Corporate index (ER00)



Source: AXA IM, Bloomberg, as of 31/07/2025. ER00 = ICE BofA Euro Corporate Index.

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