Euro Credit strategy

Euro Investment Grade hit by rates volatility

What's happening?

- Volatility, in both rates and to a lesser extent in credit markets, surged this month on the back of a strong US inflation print, good macroeconomic data in the US combined with hawkish tone from central banks. This has triggered a wave of volatility and pushed rated higher with Bund and 10Y UST rising to 2,63% and 4.7% respectively. Indeed, we had a strong market reaction toward another upside surprise from US inflation in March (the third time in a row), so investors are starting to reassess the disinflation story and hence the rate cuts expectations for this year. As a result of this evidence of price stickiness mainly in the US, market participants have revised down their monetary markets expectations and are now pricing less than two rather than three rate cuts in 2024 and have turned less confident about a first action in June, now considering a push-back of the decision to July or even September. Unlike the US, the picture in Europe should allow the ECB to lower interest rates likely in June with the market now pricing slightly less than three cuts this year.

- Having said that, the preliminary results of the PMI surveys for April showed a stronger than expected rebound of economic growth in Europe. Also, Eurozone GDP growth came in at 0.3% qoq in Q1'2024, better than market expectations. It is probably early to declare victory, but this improving trends in European economic outlook along with some highly expected rate cuts this year provide Goldilocks' conditions for credit overall. The European Investment-Grade market tightened by 3bps during the month as the volatility in the credit market has been short lived

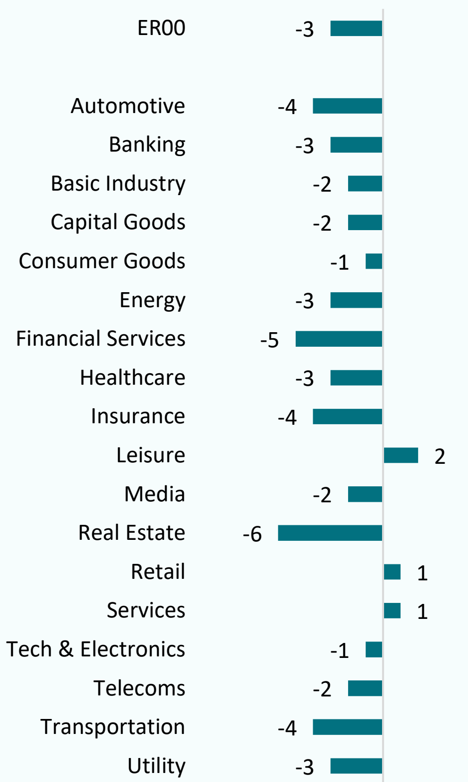
- The earnings season has started in both sides of the Atlantic and it has been broadly supportive. In the banking sector, we continue decent results from European banks thanks to lower costs, positive growth in fees and IB results, while asset quality is a touch softer. Heterogeneity continues between different countries, but capitalisation remains solid overall. On the non-financials, we have seen better trends for the chemicals while the tone is weaker in the automotive industry. Defensive sectors reported decent earnings. US companies continue to outperform, notably the IT/Technology sector. European figures were softer (only one third of Stoxx 600 companies reported), a narrow majority (54%) have exceeded consensus estimates on EPS, with blended earnings of -8% y/y surprising by +2%. Overall, credit metrics remain under control for the investment-grade and high quality high-yield issuers, but there is a risk for some small real-estate players and highly leveraged structures given high cost of funding.

- With the surge in volatility, primary market has been less dynamic with a "modest" € 55bn gross issuance this month, almost equal from Corporates and Financials. Within non-financials, automotive, chemicals, consumers and utilities have dominated the market. We have seen few Yankee issuers like T-Mobile USA (inaugural triple tranche), General Mills, General Motors and Procter & Gamble. Issuance of subordinated has been limited to few deals like AIB AT1, Achmea and Crelan Tier 2. In terms of flows, we continue to see inflows into European investment-grade credit funds, despite poor YTD total returns, while inflows into the asset class have decelerated in the High-Yield.

Portfolio positioning and performance

- We have a **DTS above benchmark** at around 120% on average. We have a neutral position in spread duration versus benchmark.
- **Financials Senior** are a good place to be thanks to solid fundamentals, despite a dynamic primary market.
- We continue to be **overweight on Financial Subordinated** with a selective approach given tighter spreads. We also have a preference for intermediate call dates given flat curves.
- We have a preference for **Corporate Hybrids** offering attractive carry and better risk-reward opportunities compared to BB rated issuers.
- In Industrials, we maintained **our overweight in Real Estate sector** which offers good valuations still, despite the recent rally over the past few months.

Asset Swap Spreads changes - MTD



Source: AXA IM, Bloomberg, as of 30/04/2024.
ER00 = ICE BofA Euro Corporate Index

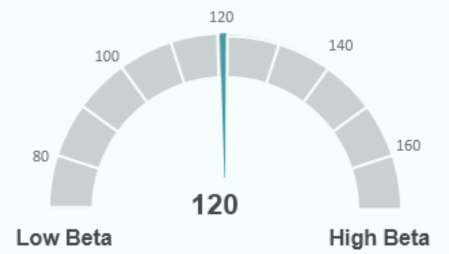
Our Country Positioning

	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 110%-120%



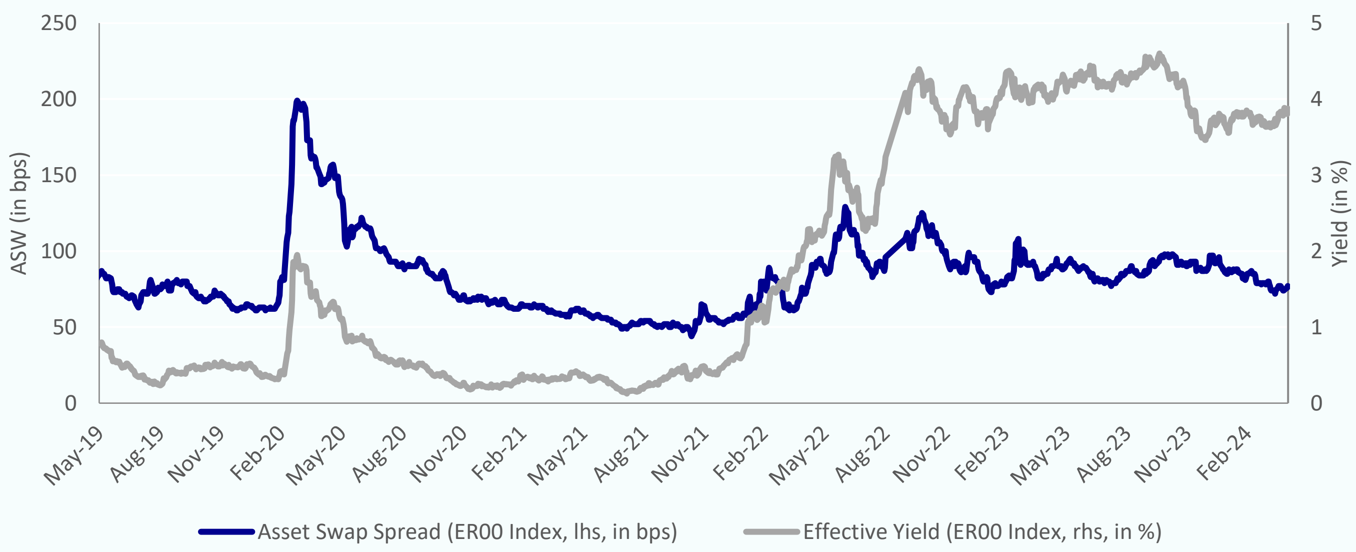
No assurance can be given that the Euro Credit will be successful. Investors can lose some or all of their capital invested. The Euro Credit strategy is subject to risks including Credit risk, Liquidity risk, Derivatives and leverage, High yield debt securities, Contingent convertible bonds.

Outlook

- In the prevailing environment of higher interest rates, the resilience of company fundamentals continues to be a reassuring factor, contributing to a general trend of low volatility observed across various sectors and issuers. This stability has resulted in tighter valuations on a spread basis across numerous sectors, indicating a favourable market sentiment. Despite this tightening, the prevailing level of yields in the market adds to the attractiveness of the asset class from a risk-reward perspective, further underlining its appeal to investors seeking a balanced and potentially rewarding investment opportunity.

- The ECB is expected to cut rate in June 2024, supported by inflation readings hovering slightly above target. If rates decline, high-quality fixed-income of intermediate duration has the potential to generate total returns greater than current yields. In past Central Banks tightening cycles, high-quality fixed income has outperformed short-term bonds and cash, suggesting that investors should consider extending their portfolio duration and locking in yields.

Euro Credit Market Valuation



Source: AXA IM, Bloomberg, as of 30/04/2024. ER00 = ICE BofA Euro Corporate Index.

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