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# Euro Credit strategy

## Political events takes the center stage in Europe

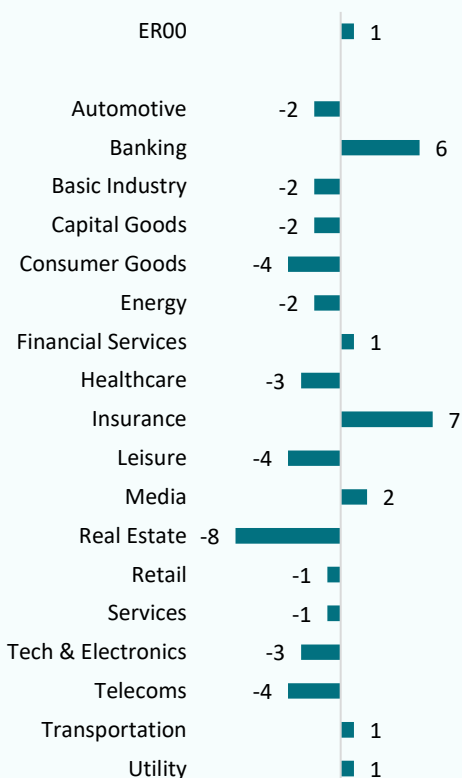
### What's happening?

- The month of June started on a positive footing supported by continuing inflows into the asset class and the activation of the well-telegraphed first 25bps rate cut from the ECB. As such, demand for high beta segments like hybrids, financial subordinated and real estate has continued. And even the S&P downgrade of France to AA-, on debt and deficit concerns, did not derail this positive move.
- One week later, France is once again under the spotlights after French president Emmanuel Macron's decision to call for a snap general election after a setback during the European election that saw his party largely overtaken by the far-right party National Rally (RN). The fears of higher populism with a potential upcoming financial instability have prevailed leading to the widening of the OAT-Bund spread to 80bps. In the credit markets, French banks underperformed aggressively with a widening between 15bps and 75bps for the most subordinated buckets. French non-financials also widened although the magnitude was less severe overall, except for some utilities. Finally, high beta sectors like Hybrids, High-Yield and subordinated debt have also been impacted in sympathy with a widening of 30bps during the second week of June.
- From mid-June, spreads have started to show some retracement as the market started to price that RN would emerge as the largest party but without an absolute majority. Also, the old fears of a Frexit or a Euro area breakup are no more on the agenda as the RN leaders suggest that they would work with the EU to bring deficits under control. These messages reassured the markets leading to better sentiment. As such, the ICE Euro credit all-maturity index widened in the first half of the month from 76bps to 81bps but retraced partly to 78bps as at end of June. Subordinated debt has underperformed with a widening of 12bps on average as well as financials senior (+6bps). Unsurprisingly, French banks were the main underperformers notably Société Générale and La Banque Postale, but also some peripheral institutions like BCP or Abanca, as well as high beta names like Deutsche Bank and Standard Chartered. In the corporates area, we have seen some French names underperforming like EDF and Engie, but the magnitude was much lower.
- There is still considerable uncertainty whether a party will be able to achieve an absolute majority after the second round of voting to be held on July 7th. Over the medium term though, the outcome is not positive as we may have a form of political paralysis in France with a stalling of the reform process over the next couple of years, while there is still some uncertainty on France deficits over the medium term.
- In this environment, issuance volumes were massively down to € 46bn issued during the month compared to € 85bn in the previous month and a monthly average of € 72bn YTD. Books were oversubscribed by 3.1x on average, with some outliers like Deutsche Bank and Commerzbank AT1 with books above 7x. Low beta names were the laggards with books below 2x like Nordea, Belfius and JP Morgan. In the high-yield market, issuance continued to be healthy with a total of € 11bn issued from various issuers like CMA CGM, Purmo, Picard, Ceconomy, Sunrise medical amongst others.

## Portfolio positioning and performance

- We have a **DTS above benchmark** at around 130% on average. We have an overweight position in spread duration versus benchmark.
- In **Financials**, we hold a positive outlook on the fundamental performance of European banks and we remain optimistic for the rest of 2024. Especially, we continue to be **overweight in Financial Subordinated** with a selective approach given tighter spreads.
- We have a preference for **Corporate Hybrids** compared to BB rated issuers, as they offer attractive carry and better risk-reward opportunities.
- In **Industrials**, we maintained our **overweight in Real Estate sector**, given the sector's attractive valuations and our focus on top-tier player in the Investment Grade universe.

### Asset Swap Spreads changes - MTD



Source: AXA IM, Bloomberg, as of 30/06/2024.  
 ER00 = ICE BofA Euro Corporate Index

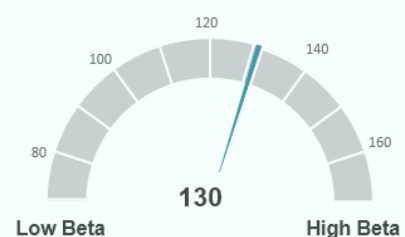
### Our Country Positioning

	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 130%

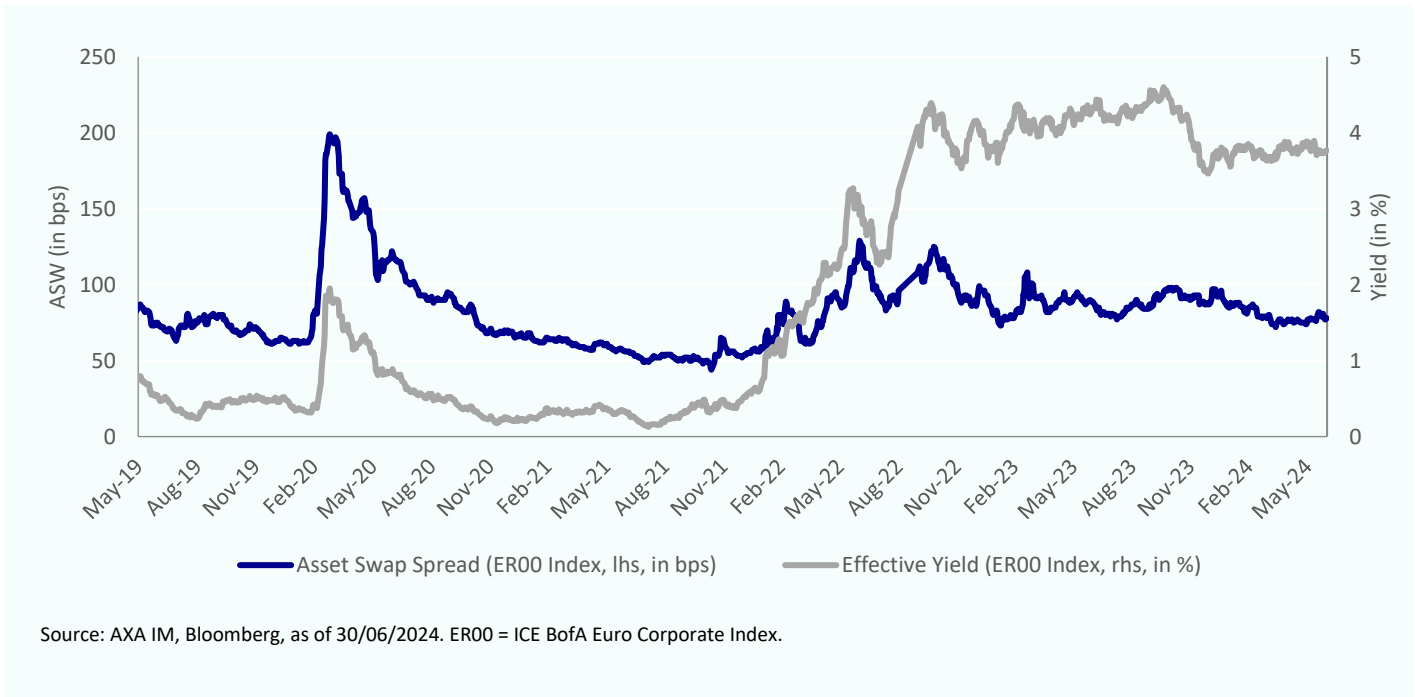


No assurance can be given that the Euro Credit will be successful. Investors can lose some or all of their capital invested. The Euro Credit strategy is subject to risks including Credit risk, Liquidity risk, Derivatives and leverage, High yield debt securities, Contingent convertible bonds.

## Outlook

- In the Euro credit market, we maintain a cautiously optimistic outlook. Despite mixed economic signals, the European Central Bank’s (ECB) commitment to a gradual normalization of monetary policy supports a stable credit environment.
- Technicals have remained favorable, underpinned by substantial inflows into both Investment Grade and High Yield segments. This sustained demand is indicative of investor confidence in the credit market's stability and potential for attractive returns.
- Valuations are attractive from an all-in-yield perspective, although less so from a spread perspective due to YTD tightening. The High Yield market also provides selective opportunities for investors with a higher risk tolerance.
- Looking ahead, we do not foresee significant catalysts for a broad-based widening of credit spreads. As such, our strategy emphasizes issuer selectivity, focusing on credit quality and fundamental strength to identify the most promising opportunities in the market.

## Euro Credit Market Valuation



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