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Euro Credit strategy

Resilient Performance Amid Geopolitical Tensions

What's happening?

- Despite ongoing geopolitical tensions and trade uncertainties, risky assets delivered a strong and resilient performance in June. This was underpinned by growing optimism around a potential EU–US agreement, expectations of renewed Fed rate cuts, and a diminishing likelihood of a recession. Solid macroeconomic fundamentals and robust corporate earnings further supported market sentiment.

- The Euro IG index outperformed its US counterpart once again, tightening by 7bps to 79bps. Subordinated debt led the gains, with financials tightening by 13bps and corporate hybrids by 15bps on average. Energy and Real Estate sectors also performed well, particularly among lower-rated issuers such as Var Energy, Neste, Repsol, Heimstaden, Aroundtown, and Blackstone Property.

- Only a few names widened during the month, notably Kering and Carrefour, likely due to uncertainties surrounding their strategic direction. Overall, Euro IG delivered a total return of +0.25% and an excess return of 0.38%. On a spread basis, BBB and A-rated credits tightened by 5bps, while AA-rated names remained flat.

- Euro HY spreads narrowed by 9bps to 280bps, reaching their tightest levels since March 2025. While BB and B-rated segments were relatively stable, the CCC bucket drove performance with a notable 40bps tightening. Despite some idiosyncratic weakness (e.g., Kemone and Telecolombus), HY posted a monthly total return of 0.45%, bringing the year-to-date return to 2.75%.

- Middle East developments had little impact on market flows or primary issuance. Euro IG supply surged to over €80bn in June—nearly double the average of the past four Junes (~€45bn). This suggests continued front-loading into July, where issuance could exceed last year's €35bn high, well above the typical €25bn average. Current market conditions—tight spreads and attractive yields—are favorable for borrowers. Corporates accounted for 60% of issuance, with financials making up the remaining 40%. Key sectors included Automotive (10%), Utilities (8%), and Real Estate (6%). Books were oversubscribed by an average of 3.5x, especially for attractively priced deals such as Bankinter, RWE, Hyundai, Deutsche Bank, and SES.

- The HY primary market was particularly active, with issuance exceeding €18bn—one of the highest monthly volumes in the past year. Most new issues performed well, though a few, such as Techem and Maxam, underperformed.

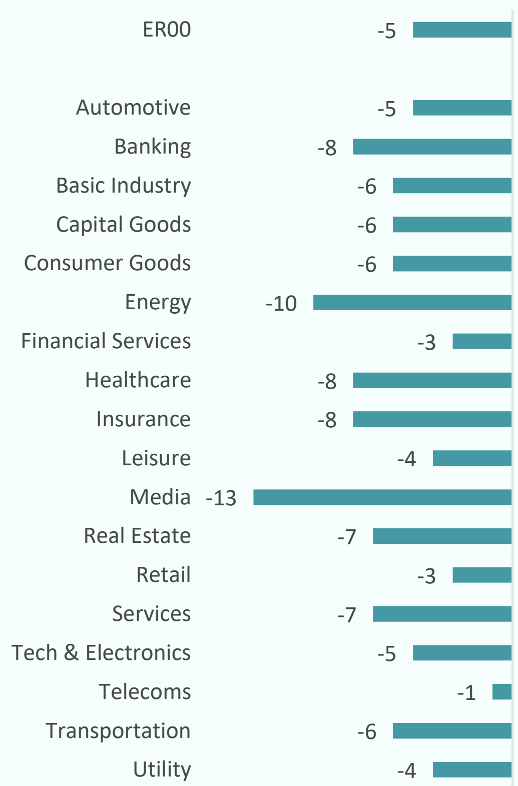
Portfolio positioning and performance

- We have a **DTS above benchmark** at around 120% on average, as we keep a constructive view on Euro Credit IG, although current valuations limit the upside.

- We maintain a constructive view on Financials, although current valuations limit the scope for significant outperformance versus Corporates. We also continue to favour Corporate Hybrids, particularly those with call dates under five years, which offer an 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 30/06/2025.
ER00 = ICE BofA Euro Corporate Index

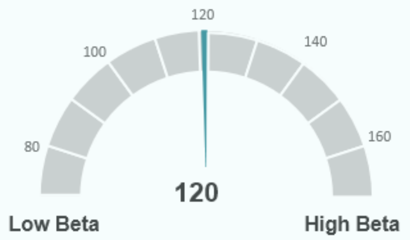
Our Country Positioning

	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 120%

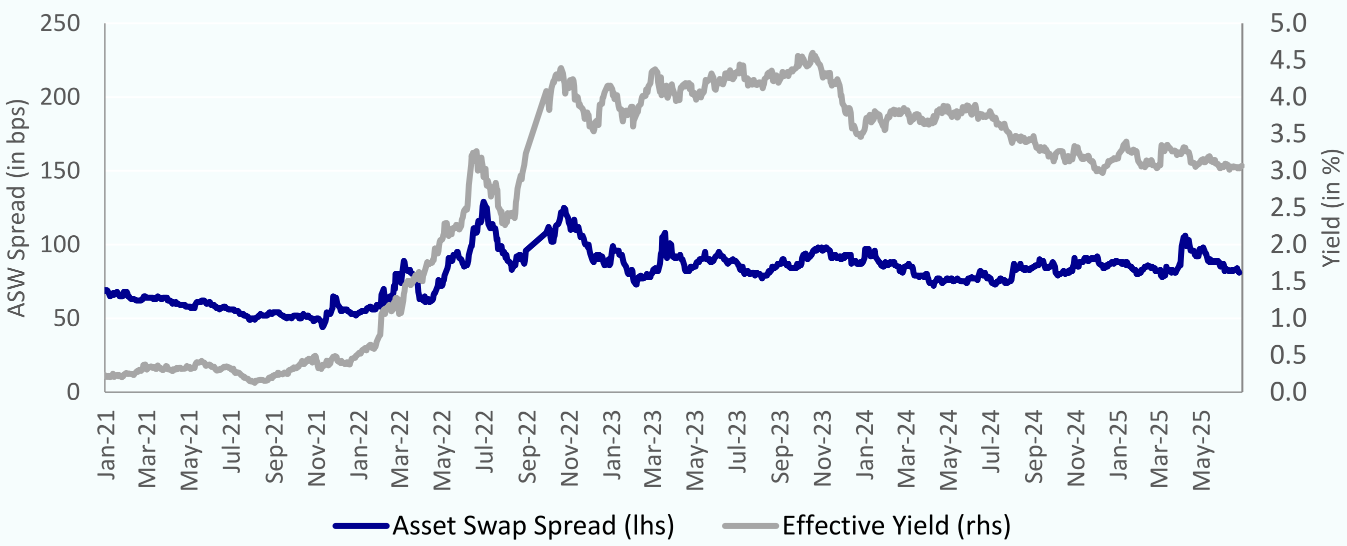


No assurance can be given that the Euro Credit will be successful. Investors can lose some or all of their capital invested. The Euro Credit strategy is subject to risks including Credit risk, Liquidity risk, Derivatives and leverage, High yield debt securities, Contingent convertible bonds.

Outlook

- Although we think valuations spreads are not overly attractive from a spread angle, the bar is relatively high to overcome such a robust backdrop, unless we see a visible turn in the economy, higher volatility in the rates market, or weaker Q2 earnings. Another positive factor is the technicals that remain supportive despite a record high supply. At this stage, we do not see a short-term catalyst that would derail credit markets technicals.

Euro Credit Market : Euro Corporate index (ER00)



Source: AXA IM, Bloomberg, as of 30/06/2025. ER00 = ICE BofA Euro Corporate Index.

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