Euro Credit strategy

Resilience or Repricing? Credit Markets Respond to Rising Tensions

What's happening?

- The increasing uncertainty surrounding tariffs has impacted market sentiment this month, marked by sporadic volatility spikes that contributed to a rally in rates and wider spreads in recent sessions. The 10-year German bund concluded the month at 2.7%, down from a peak of 3% following the unexpected announcement of a German spending plan. The Itraxx Xover widened by 35 basis points to finish at 325bps, while the Itraxx Main increased by 10 basis points to 63bps, reaching its highest level in the past six months.

- On the cash side, investment-grade spread movements remained relatively stable, with the BofA Merrill Lynch all-maturities index ending March at 85bps, reflecting a 4bps widening. Amid heightened risk aversion, the Real Estate and Subordinated Debt sectors underperformed, each cheapening by an average of 10bps. In contrast, defensive sectors such as Telecoms, Consumer, and Utilities showed minimal movement during this period. Notably, the Automotive sector remained largely unchanged at 100bps. The high-yield segment was more reactive, widening by 38bps to 294bps, driven by underperformance in cyclical sectors, including Basics, Automotive, and Capital Goods.

- Despite those challenges, the Euro investment-grade credit market has outperformed its USD and GBP counterparts, narrowing by 7bps year-to-date, while both USD and GBP markets have widened by 7bps during the same period. In the USD credit market, spreads widened particularly in the Automotive, Leisure, and Real Estate sectors.

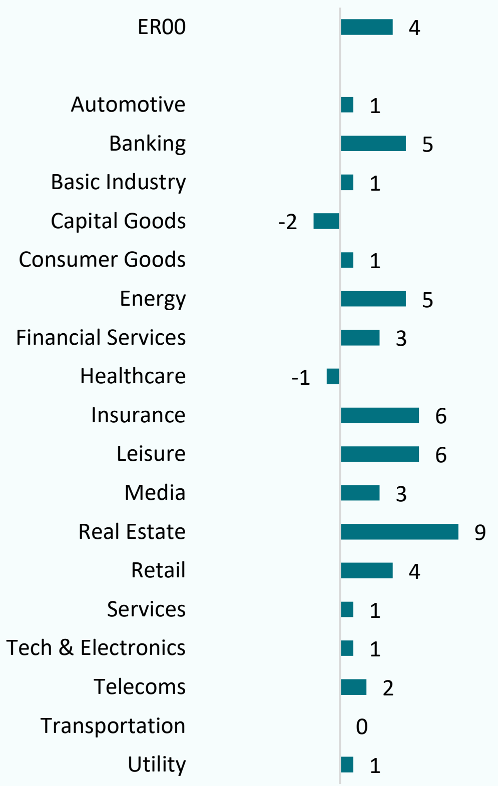
- Concerns about US stagflation have intensified, fueled by disappointing economic data. Core PCE inflation in the US has risen for the third consecutive month, increasing by 0.4% month-over-month, surpassing expectations of 0.3%. Additionally, the Michigan survey indicates growing inflation expectations. Additionally, US private consumption reported a modest increase of just 0.1%, suggesting potential weaknesses in future growth. This combination of persistent inflation and signs of slowing growth has rekindled fears of stagflation, resulting in wider credit spreads.

- In this volatile environment, the primary market has experienced a slowdown compared to the previous month, totaling €56 billion in new issuance, nearly evenly distributed between Financials and Corporates. Demand for new issues has been reasonable, averaging 3.2x overall; however, demand for Financials was lower at 2.5x. US issuers represented nearly 20% of the primary market in March, consistent with recent trends. However, demand has been decelerating in the wake of interest rate volatility, as investors have shown a growing preference for government debt. In terms of maturity, short-term funds continued to attract healthy inflows, while long-term and intermediate funds recorded modest outflows.

Portfolio positioning and performance

- We have a **DTS above benchmark** at around 130% on average, as we keep a constructive view on Euro Credit IG.
- In terms of sector allocation, we maintain a favorable view on Banks and Insurance, given their solid fundamentals and immunity to tariff-related noise.
- We are also Overweight on Telecoms and Utilities. Conversely, we continue to hold an Underweight position in most cyclical sectors, including Automotive, which is trading only a few basis points above historical averages. We see limited upside potential in this sector due to a combination of cyclical and structural challenges.

Asset Swap Spreads changes - MTD



Source: AXA IM, Bloomberg, as of 31/03/2025.
ER00 = ICE BofA Euro Corporate Index

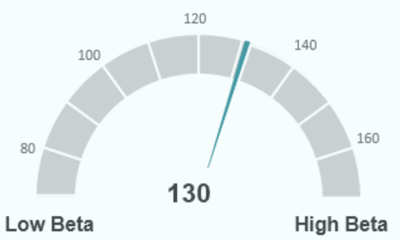
Our Country Positioning

	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 130%



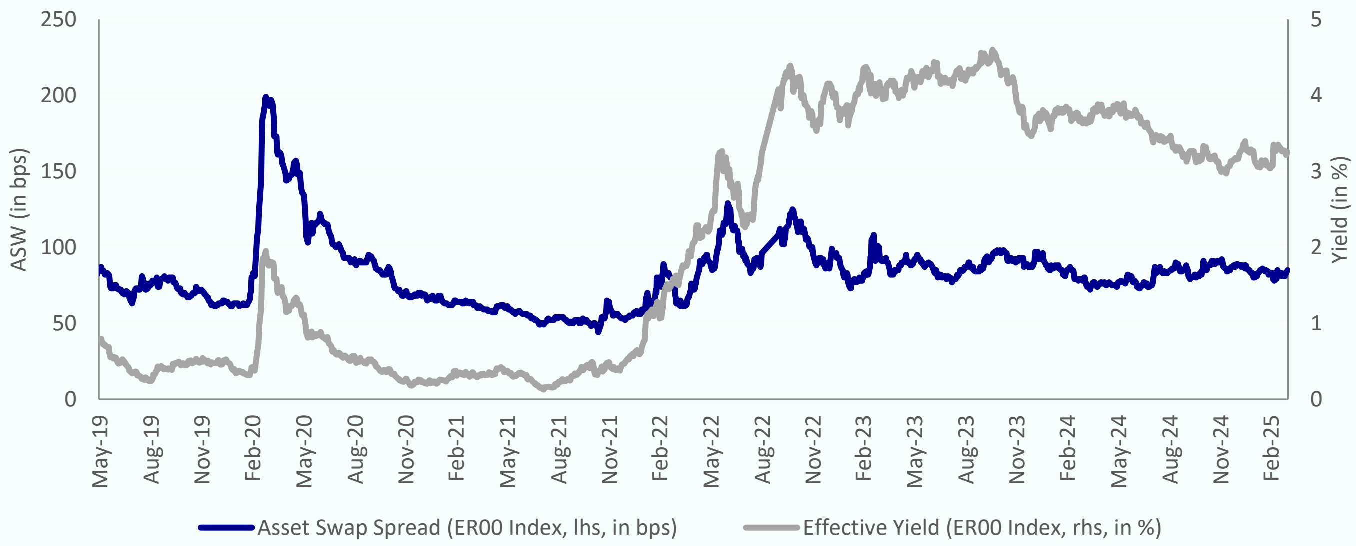
No assurance can be given that the Euro Credit will be successful. Investors can lose some or all of their capital invested. The Euro Credit strategy is subject to risks including Credit risk, Liquidity risk, Derivatives and leverage, High yield debt securities, Contingent convertible bonds.

Outlook

- Trade tensions have been a dominant theme in recent weeks and are expected to persist in the coming months. We believe that the current widening in investment-grade spreads remains relatively narrow and does not fully account for the potential risks of a more damaging outcome or a significant escalation in trade tensions, compounded by a challenging inflationary environment. As a result, we anticipate that volatility will remain elevated, exerting pressure on spreads and leading to increased decompression and underperformance in high-beta segments such as subordinated debt and high-yield in the short term.

- However, looking at the medium term, we expect that easing policies from the ECB, reduced uncertainty surrounding tariffs, and an improved economic outlook in Europe could create a more favorable environment for spreads from mid-2025 onward. While recent macroeconomic news has not been encouraging, micro fundamentals remain strong, characterized by healthy liquidity and robust balance sheets across both investment-grade and high-yield sectors. Consequently, our outlook is positive for total returns in European credit markets in 2025, and we would consider selectively buying risk if spreads continue to widen.

Euro Credit Market Valuation



Source: AXA IM, Bloomberg, as of 31/03/2025. ER00 = ICE BofA Euro Corporate Index.

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