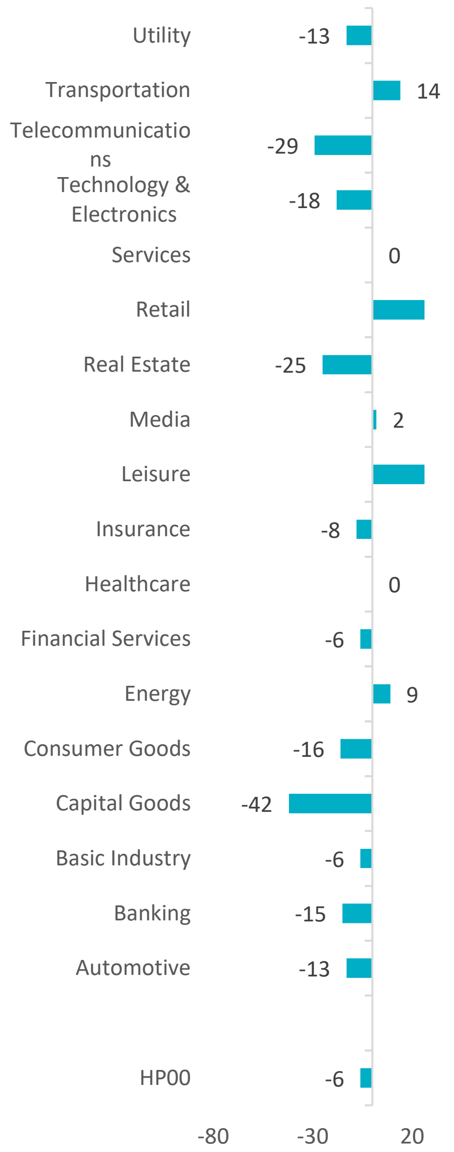
European High Yield

Hot markets show no sign of letting up for summer

What's happening



Source: Asset Swap Spreads changes MTD, Bloomberg, BofA AXA IM, 30 June 2025. Shown for illustrative purposes only and should not be considered as an advice or a recommendation for an investment strategy.

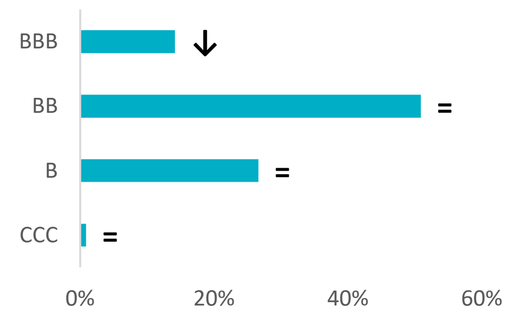
- As June rounded off a particularly memorable quarter, it's extraordinary how far markets have come since the very start of April. To recap some of the records which were set then: the worst day for the S&P500 since March 2020, as well as the best day since October 2008; the VIX (US equity volatility) index closing above 50 for only the third time this century; and the biggest weekly widening in the spread between 10-year Treasuries and Bunds since German reunification. But after two very strong months since, this has all faded into the distance. Indeed, the S&P500 ended the quarter at a new all time high and 10-year US Treasuries were yielding +4.2% - exactly where they started.
- Much of the support this month was given by the macroeconomic data. It continued to defy expectations that even the (so far) more limited trade war would have an impact on global growth and US inflation. Investors appear to be taking a fairly sanguine view about the ultimate effects, even as President Trump's theoretical July 9th deadline for new trade deals approaches. This relaxed attitude also extended to the month's geopolitical headlines. Despite significant volatility in oil prices, and an initial sell-off after Israel and the US launched attacks on Iran's nuclear facilities, risky assets very quickly resumed their march upwards.
- This included European high yield, which posted a +0.5% return during June. Though excess returns were similar, the falls in the yields on Treasuries meant US high yield was even stronger, rising +1.9% overall. Despite all of the noise, the two markets, Europe and the US, both posted very solid respective gains of +2.1% and +3.6% for the second quarter as a whole. These extend to +2.8% and +4.6% year-to-date.

(All sources: Bloomberg)

Short duration strategy characteristics	
Yield	4.28%
Spread	219
Duration	1.27
Average rating	BB-
ESG score	6.5

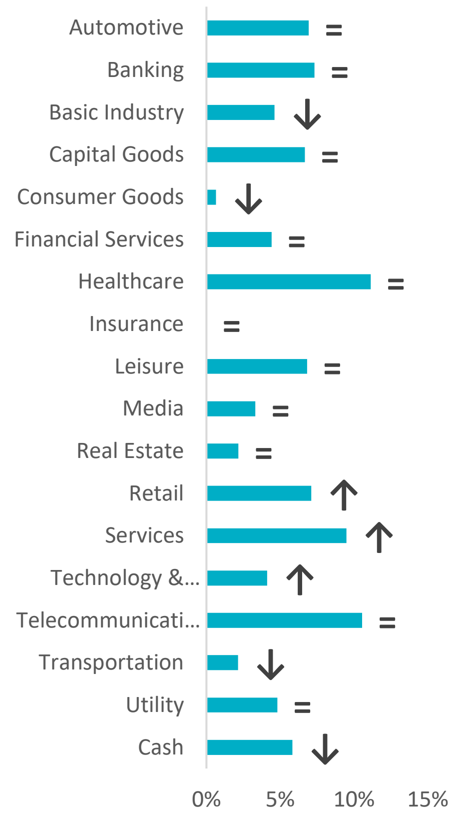
Source: AXA IM as of 30 June 2025

Our Rating Positioning



Source: AXA IM as of 30 June 2025

Our Sector Positioning



Source: AXA IM as of 30 June 2025

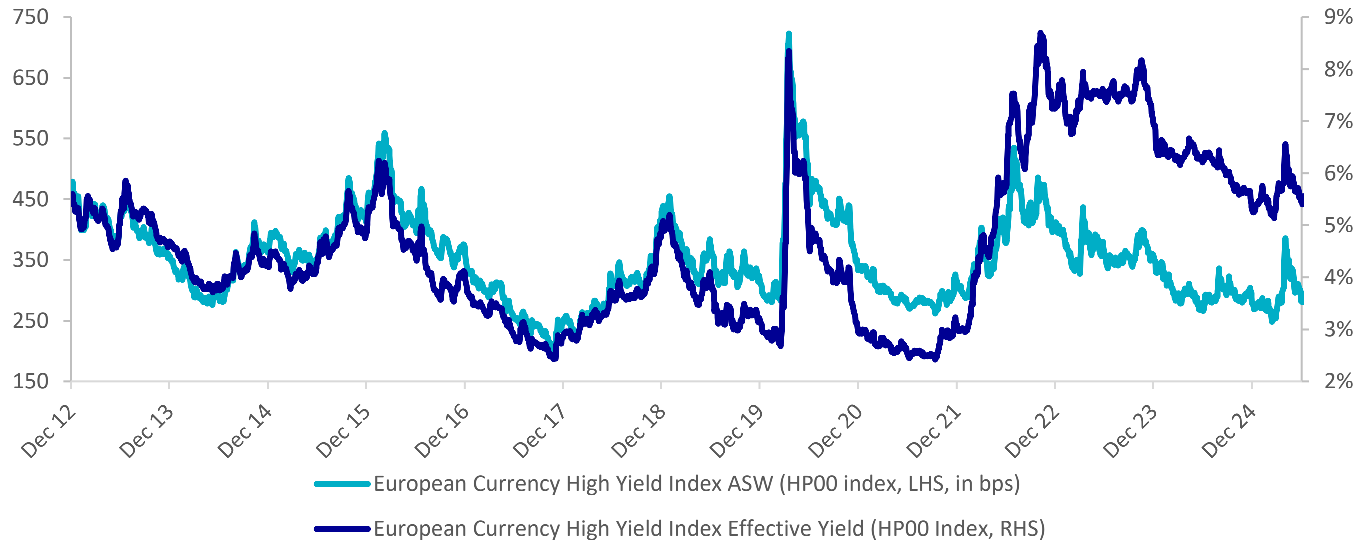
Short duration strategy positioning and performance

- As mentioned above our market has achieved a very respectable +2.8% (*Euro Hedged*) total return year-to-date. Our fund which concentrates on only the short end of the market has produced an equally respectable +2.6% total return for the same period, equating to an impressive upside capture ration of 92%.
- June proved to be a very busy month for primary markets – and as is often the case, also a busy time for redemptions. For example, deals from eDreams and Darling included calls of bonds held in the fund. Conversely, longer bonds issued by well-liked credits such as Birkenstock and Goldstory (both Retail) and Asmodee (Media) now fall within the fund's investment horizon – we therefore began to build positions in these three names.

One theme we've been watching

- Solid returns inevitably beget active primary markets – and June was a **blockbuster**
- Such numbers inevitably beget active primary markets. By some accounts it was the busiest month on record, with almost **€25bn of new European high yield issuance**
- Both gross and net supply figures for the first six months have surged to be in-line with **2021**, a year which saw a huge number of new deals during the post-Covid bump
- Whilst clearly a challenge for the very strong technical in our market, continued healthy inflows mean that there have so far been few signs of **indigestion**
- The biggest threat is likely to come from these flows - a sustained period of **market volatility** could dampen investor interest in the asset class. We thus avoid placing too much reliance on technical factors, focusing instead on the **fundamentals**

European High Yield Market Valuation



Source: ICE as of 30 June 2025

Outlook.

We wrote last month about how, despite the volatility seen at various points since January, our base case was still for a 2025 total return dominated by income. Now we're through the first half of the year, we can see that this thesis has indeed held up so far. European high yield returns of +2.8% equate to almost exactly half of the starting yield of 5.8%. Clearly, the fact that spreads have ultimately ended up unchanged from their level in January has a lot to do with this; when they shot c. 100bps wider in the aftermath of "Liberation Day," the story was quite different. Still, it's a helpful reminder, once again, of the power of carry – even if this sometimes is a little noisy.

Our positioning for the second half of the year very much reflects this expected outcome of "noisy carry." It's an uncontroversial view that valuations of risky assets are not terribly attractive… indeed, as mentioned above, US equities have shrugged off all that happened in April to again surpass their previous high watermarks. In such markets, we rarely think the riskiest names offer sufficient value and so we prefer a high allocation to defensive BBs (and investment grade credits). With investors now assuming that President Trump's tariff threats are unlikely to ever progress much beyond that stage, the odds of a more serious recession are very much not priced – despite, you would assume, the chances of a financial accident (deliberate or otherwise) being significantly higher than they were before his inauguration.

That said, we're not sure the converse scenario is necessarily fully accounted for either. That is, of a calmer second half of the year – less noise and more carry, if you like. With technicals that, despite two months of heavy issuance, remain strong, and the possibility of some positive news for markets (US tax cuts; Fed rate cuts; amicable tariff resolutions, to name but three), we want to ensure our income is as high as is comfortable. We therefore continue to look for high conviction bonds in the lower rated parts of the credit spectrum which help us to boost the Fund's yield – and to maximise our risk-adjusted returns, whatever the outcome through the second half of the year.

Past performance is not a guide to current or future performance, and any performance or return data displayed does not take into account commissions and costs.

This document is for informational purposes only and does not constitute investment research or financial analysis relating to transactions in financial instruments as per MIF Directive (2014/65/EU), nor does it constitute on the part of AXA Investment Managers or its affiliated companies an offer to buy or sell any investments, products or services, and should not be considered as solicitation or investment, legal or tax advice, a recommendation for an investment strategy or a personalized recommendation to buy or sell securities.

The products or strategies discussed in this document may not be registered nor available in your jurisdiction. Please check the countries of registration with the asset manager, or on the web site https://www.axa-im.com/en/registration-map, where a fund registration map is available. Please note that the management company reserves the right, at any time, to no longer market the product(s) mentioned in this communication in an European Union country by notification to its authority of supervision in accordance with European passport rules.

In the event of dissatisfaction with the products or services, you have the right to make a complaint either with the marketer or directly with the management company (more information on our complaints policy available in English here). You also have the right to take legal or extra-judicial action at any time if you reside in one of the countries of the European Union. The European online dispute resolution platform allows you to enter a complaint form (by clicking here) and informs you, depending on your jurisdiction, about your means of redress (by clicking here).

Due to its simplification, this document is partial and opinions, estimates and forecasts herein are subjective and subject to change without notice. There is no guarantee forecasts made will come to pass. Data, figures, declarations, analysis, predictions and other information in this document is provided based on our state of knowledge at the time of creation of this document. Whilst every care is taken, no representation or warranty (including liability towards third parties), express or implied, is made as to the accuracy, reliability or completeness of the information contained herein. Reliance upon information in this material is at the sole discretion of the recipient. This material does not contain sufficient information to support an investment decision.

Issued by AXA INVESTMENT MANAGERS PARIS, a company incorporated under the laws of France, having its registered office located at Tour Majunga, 6 place de la Pyramide, 92800 Puteaux, registered with the Nanterre Trade and Companies Register under number 353 534 506, and a Portfolio Management Company, holder of AMF approval no. GP 92-08, issued on 7 April 1992. In other jurisdictions, this document is issued by AXA Investment Managers SA's affiliates in those countries.

In Hong Kong, this document is issued by AXA Investment Managers Asia Limited (SFC License No. AAP809), which is authorized and regulated by Securities and Futures Commission. This document is to be used only by persons defined as "professional investor" under Part 1 of Schedule 1 to the Securities and Futures Ordinance (SFO) and other regulations, rules, guidelines or circulars which reference "professional investor" as defined under Part 1 of Schedule 1 to the SFO. This document must not be relied upon by retail investors. Circulation must be restricted accordingly.

In Singapore, this document is issued by AXA Investment Managers Asia (Singapore) Ltd. (Registration No. 199001714W) and is intended for the use of Institutional Investors only as defined in Section 4A of the Securities and Futures Act (Cap. 289) and must not be relied upon by retail investors. Circulation must be restricted accordingly

For Japanese clients: AXA Investment Managers Japan Ltd., whose registered office and principal place of business is at NBF Platinum Tower 14F 1-17-3 Shirokane, Minato-ku, Tokyo 108-0072, Japan, which is registered with the Financial Services Agency of Japan under the number KANTOZAIMUKYOKUCHO (KINSHO) 16, and is a member of Japan Securities Dealers Association, Type II Financial Instrument Firms Association, Investment Trust Association of Japan and Japan Investment Advisors Association to carry out the regulated activity of Financial Instrument Business under the Financial Instrument Exchange Law of Japan. In Japan, none of the funds mentioned in this document are registered under the Financial Instrument Exchange Law of Japan or Act on Investment Trusts and Investment Corporations. This document is purely for the information purpose for use by Qualified Institutional Investors defined by the Financial Instrument Exchange Law of Japan.

In Taiwan, this document is issued by AXA Investment Managers Asia Limited (SFC License No. AAP809), which is authorized and regulated by Securities and Futures Commission. This document and the information contained herein are intended for the use of professional or institutional investors and should not be relied upon by retail investors. They have been prepared and issued for private informational and educational purposes only at the sole request of the specified recipients, and not intended for general circulation. They are strictly confidential, and must not be reproduced, circulated, distributed, redistributed or otherwise used, in whole or in part, in any way without the prior written consent of AXA IM Asia. They are not intended for distribution to any persons or in any jurisdictions for which it is prohibited.

If any fund is highlighted in this communication (the "Fund"), its offering document or prospectus contains important information on selling restrictions and risk factors, you should read them carefully before entering into any transaction. It is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction. AXA IM Asia does not intend to offer any Fund in any country where such offering is prohibited.

The offer, distribution, sale or re-sale of fund units/shares in Taiwan requires approval from and/or registration with Taiwanese regulatory authorities. To the extent that any units/shares of the Funds are not so licensed or registered, such units/shares are made available in Taiwan on a private placement basis only to banks, bills houses, trust enterprises, financial holding companies and other qualified entities or institutions (collectively, "Qualified Institutions") and other entities and individuals meeting specific criteria ("Other Qualified Investors") pursuant to the private placement provisions of the Rules Governing Offshore Funds. No other offer or sale of such units/shares in Taiwan is permitted. Taiwanese purchasers of such units/shares may not sell or otherwise dispose of their holdings except by redemption, transfer to a Qualified Institution or Other Qualified Investor, transfer by operation of law or other means approved by the Taiwan Financial Supervisory Commission.

For Malaysian investors: As the recognition by the Malaysian Securities Commission pursuant to Section 212 of the Malaysian Capital Markets and Services Act 2007 has not been / will not be obtained nor will this document be lodged or registered with the Malaysian Securities Commission, the shares referred to hereunder (if any) are not being and will not be deemed to be issued, made available, offered for subscription or purchase in Malaysia and neither this document nor any other document or other material in connection therewith should be distributed, caused to be distributed or circulated in Malaysia.

For Thailand investors: Nothing in this document shall constitute in any manner whatsoever a proposal to make available, offer for subscription or purchase or to issue an invitation to purchase or subscribe for any securities in Thailand or a proposal to implement any of the foregoing in Thailand nor has this document been approved by or registered with the Securities and Exchange Commission of Thailand ("SEC"). No person receiving a copy of this document may treat the same as constituting an invitation or offer to him in Thailand and such person shall not distribute or make available this document in Thailand. The issuer of this document shall not be liable in any manner whatsoever in the event this document is distributed or made available to any person in Thailand receiving a copy of this document. Since no application for approval has been or will be made to the SEC for the offering of the securities, or for the registration of this document, the securities shall not be offered for subscription or purchased or made available, whether directly or indirectly, in Thailand. It is the sole responsibility of recipients wishing to take any action upon this document to satisfy themselves as to the full observance of the laws of Thailand, to comply with all relevant government and regulatory approvals, and to comply with all applicable laws, including but not limited to exchange control laws.

For Investors in People's Republic of China (PRC): This document does not constitute a public offer of the product., whether by sale or subscription in the PRC. The product is not being offered or sold directly or indirectly in the PRC to or for the benefit of, legal or natural persons of the PRC. Further, no legal or natural persons of the PRC may directly or indirectly purchase any of the product or any beneficial interest herein without obtaining all prior PRC's governmental approvals that are required, whether statutorily or otherwise. Persons who come into possession of this document are required by the issuer and its representatives to observe these restrictions.

In Korea, AXA Investment Managers Asia (Singapore) Ltd is a registered Cross Border Investment Advisor/Discretionary Investment Management Company under the Financial Investment Services and Capital Markets Act (the "Act"). The activities referenced under the Act are 5-2-2 Investment Advisory Business and 6-2-2 Discretionary Investment Management Business, respectively. Its financial services are available in Korea only to Professional Investors within the meaning of Article 10 of Enforcement Decree of the Financial Investment Services and Capital Markets Act.

To the extent that any fund is mentioned in this document, neither the fund nor AXA IM Asia is making any representation with respect to the eligibility of any recipients of this document to acquire the units/shares in the fund under the laws of Korea, including but without limitation the Foreign Exchange Transaction Act and Regulations thereunder. The units/shares have not been registered under the Financial Investment Services and Capital Markets Act of Korea, and none of the units/shares may be offered, sold or delivered, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except pursuant to applicable laws and regulations of Korea.