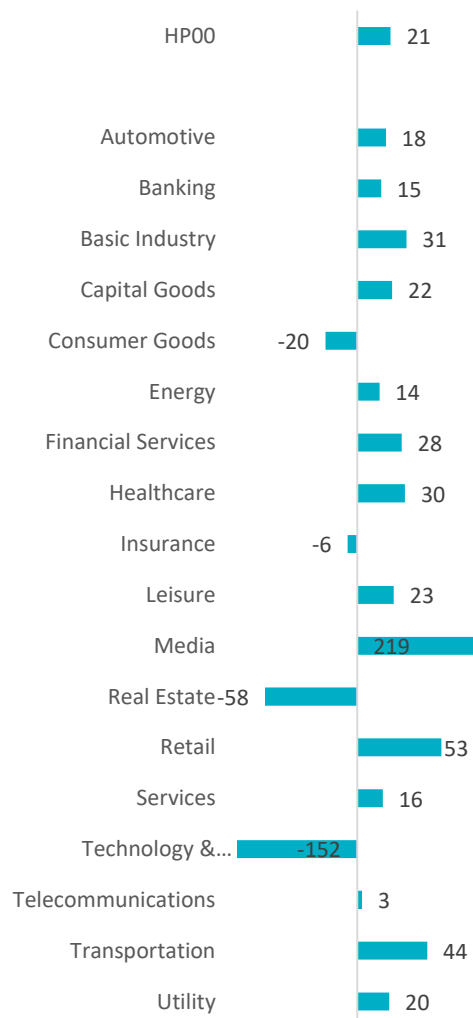


Not for Retail distribution: this document is intended exclusively for Professional, Institutional, Qualified or Wholesale Investors / Clients, as defined by applicable local laws and regulation. Circulation must be restricted accordingly

European High Yield

Our market has a serene start to the summer as politics heats up

What's happening



- Stepping into June, and as had been widely expected, the ECB delivered its first rate cut since the pandemic – investors hope this marks the start of a cycle. Such optimism was given further succour by a surprisingly soft US CPI print for May. It came in at +0.0%, the lowest mark since August 2021. However, for government bonds, politics swiftly became the dominant story of the month in Europe. The snap French election caused yields on the French and Italian sovereign to rise – indeed, the spread between the former curve and its German counterpart rose to levels not seen since the depths of the Eurozone crisis in 2011.
- Unsurprisingly, this prompted a divergence in performance for risk assets on the two sides of the Atlantic. The S&P500 posted another strong month of gains +3.6%, whilst the Eurostoxx 600 fell -1.1%, its worst monthly figure this year. Banks, which lost -4.3%, were the weakest part of this, though the CAC40 fared even worse – it dropped over -6.0%.
- European high yield actually had a solid enough month, returning +0.6%. But the political ructions meant our market lagged its US equivalent, which rose +1.0%. Over here, CCCs led the way, gaining +2.0% - ahead of Bs (+0.7%) and BBs (+0.4%).
- High yield primary markets were much less politically sensitive than their IG counterparts (where banking issuance in particular was almost non-existent). Though our volumes were lower than the very strong figures for April and May, they were still robust. At over €40bn year-to-date, gross supply continues to lag only 2021 in the last 7 years. And even the net amount is now more than €10bn (sources: Deutsche Bank). This month, issuers included Picard (Retail), Eircom (Telecommunications) and CMA CGM (Transportation).

Source: Asset Swap Spreads changes MTD, Bloomberg, BofA AXA IM, 30/06/2024.¹Shown for illustrative purposes only and should not be considered as an advice or a recommendation for an investment strategy

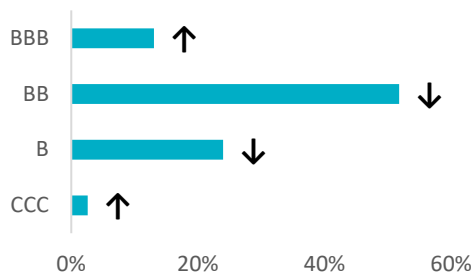
(Sources: all Bloomberg)

Short duration strategy characteristics

Yield	5.92%
Spread	295
Duration	1.57
Average rating	BB
ESG score	6.4

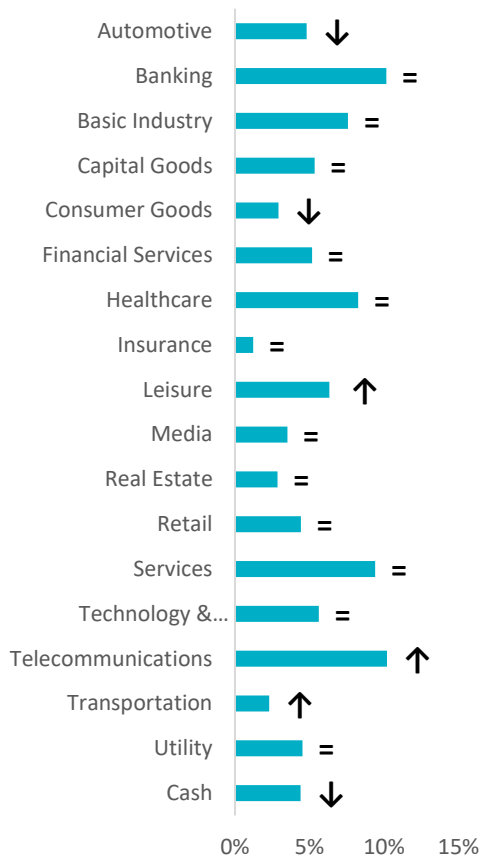
Source: AXA IM as of 30 June 2024

Our Rating Positioning



Source: AXA IM as of 30 June 2024

Our Sector Positioning



Source: AXA IM as of 30 June 2024

Short duration strategy positioning and performance

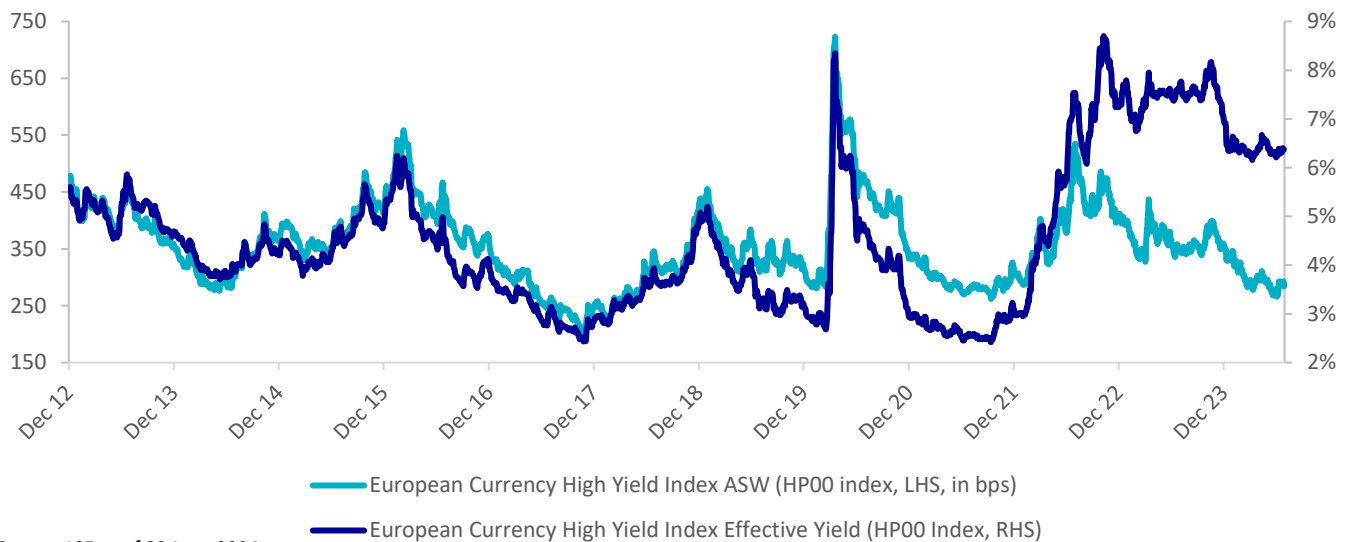
- Despite the snap French election rocking markets in Europe, our strategy posted its 21st consecutive month of positive returns, +0.4% (A EUR Gross). And while we underperformed the wider European High Yield Market (HP00) true to our objective of delivering attractive risk adjusted returns our strategy exhibited considerably less volatility than the market through June, 0.8% vs 1.8%.
- Bonds issued by Ford (Autos) matured. We also fully exited from our position in DoValue (Financial Services). Bonds had been weak for most of this year after disappointing operating performance, though we thought it likely its upcoming refinancing could be managed via a merger with a competitor. This did indeed take place, and so, on the back of the good news, we sold our bonds just below par.
- Elsewhere, we added some risk by moving from a called Nationwide Tier 2 bond into a longer Unicredit one (both Banking). We also moved down the capital structure of Virgin Media (Telecommunications). That name continues to do very well, and we are happy to pick-up yield in its more junior debt tranche.

One theme we've been watching



- For at least a year, we have talked about the **very favourable technical** backdrop in European high yield. Put simply, our market has been shrinking.
- However, there are signs that this may be fading a little: **net supply** of new bonds has risen to its fastest pace since 2021, while tight spreads have meant that inflows into our asset class seem to have slowed down.
- Still, while technicals may not be quite as strong, we don't expect them to reverse.
- Firstly, the benign economic environment means fundamentals are likely to support net **rising stars** again this year. And the current wave of issuance may just precede a **summer slowdown** - as was the case in 2023.

European High Yield Market Valuation



Source: ICE as of 30 June 2024

Outlook

As we come to the end of June, it's natural to look back and review the first half of the year. And indeed, what is striking about this period is just how benignly things have played out - in European high yield at least. That's not to say there haven't been bouts of volatility: the expected path of interest rates has dramatically repriced since January; in the space of a fortnight in March, three large, established issuers surprised markets by announcing that they had hired restructuring advisors; and just this month, French (and other peripheral) assets were jolted by the snap election.

But at the start of the year, we laid out our base-case of a soft landing for the economy. And we said that we expected a "carry" type of year, if that were the case, both of these things it seems, have come to pass. Despite markets not expecting rate cuts of the magnitude that they were in January, all indications now are that inflation and growth are moving exactly in the direction that policy makers would like. And if we break down the overall return of 3.2% for European high yield, we see that this is almost entirely made up of the income component - rates and spreads having nicely offset each other.

That said, this is clearly not a time for complacency. Though yields in the asset class remain attractive, spreads are generally tight. In fact, it is now only in the weakest parts of the market, B- and CCC rated-companies, where these aren't near their historic lows. We continue to think there are opportunities here – issuer fundamentals are still sound, and primary markets are more and more open to these kinds of names. But as more and more credits are rolling onto the new regime of higher interest rates, we remain vigilant for companies that won't be able to cope - after all, the key to making the most of healthy yields is not giving it away via defaults and distress.

Our expectations for the rest of 2024, therefore, are fairly unchanged: inflation that continues to fall, combined with weak (but still positive) economic growth. Both of these translate into a supportive environment for high yield. Of course, we will inevitably encounter some pockets of stress – though we expect these to be very well contained. Hopefully, come December, we will still be talking about a "carry" type 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.