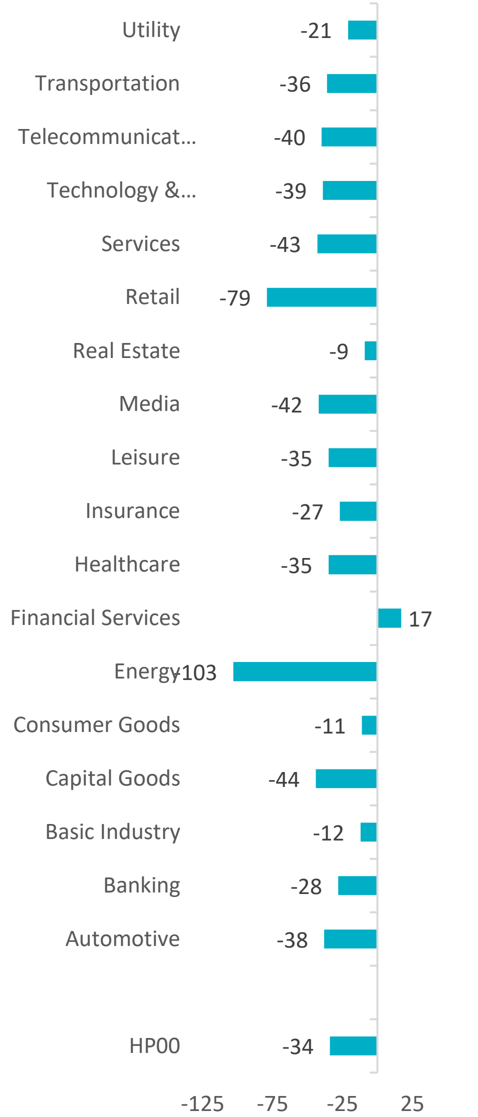
European High Yield

Markets in muscular shape as summer holidays begin

What's happening



Source: Asset Swap Spreads changes MTD, Bloomberg, BofA AXA IM, 31 July 2025. Shown for illustrative purposes only and should not be considered as an advice or a recommendation for an investment strategy.

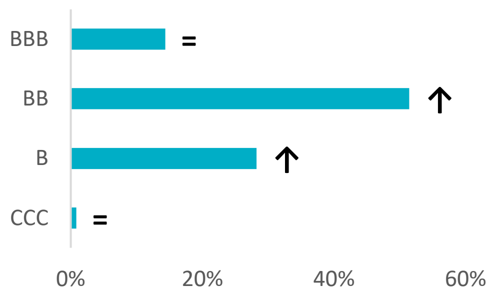
- As has largely been the case since April, July marked another month where the news flow was dominated by trade. The previous 9th July deadline for deals was again delayed – this time until the start of August – and so, in the last week of the month, the outlines of these agreements began to be released. 15% headline rates on European and Japanese imports were probably the highlights and, not wanting to go through all of the details here, it has so far been reasonable to say that markets are broadly happy about most of the rest.
- This prompted another decent monthly performance for risky assets – the S&P500 and Eurostoxx600 returned +1.0% and +2.2% respectively. Even better was the gain for the NASDAQ, where bumper US tech earnings spurred a +3.7% rise. Government bonds fared more poorly, however: 10 year Bund and Treasury yields increased by over 10bps as the ECB and Federal Reserve both held interest rates flat (and delivered hawkish messages) at their July meetings. Markets priced out some of the rate cuts that had been assumed for the rest of this year. In the US in particular, there are tentative signs that the inflationary impact of the tariffs are beginning to show up in the data.
- Despite this, spread tightening resulted in European high yield actually having one of its best months of the year, adding +1.2%. CCCs were particularly strong, returning +1.5%, though the +1.2% gain for both BBs and Bs meant the compression was broad-based. The US high yield market lagged somewhat, rising only +0.4%.
- Though slower than June, July remained a busy month for primary markets. There was around €10bn of gross supply (source: Deutsche Bank), from issuers including Nissan (Autos), Levi's and Boots (both Retail). Net supply volumes are still running slightly ahead of 2021 and, after the usual seasonal slowdown takes place in August, it will be interesting to see how the market picks up again September. As long as inflows and tight spreads continue, we would expect new issuance to remain buoyant – though it's worth noting that 2024 was also on track for a strong year before fading away after the summer.

(All sources: Bloomberg)

Short duration strategy characteristics	
Yield	4.60%
Spread	252
Duration	1.30
Average rating	BB-
ESG score	6.5

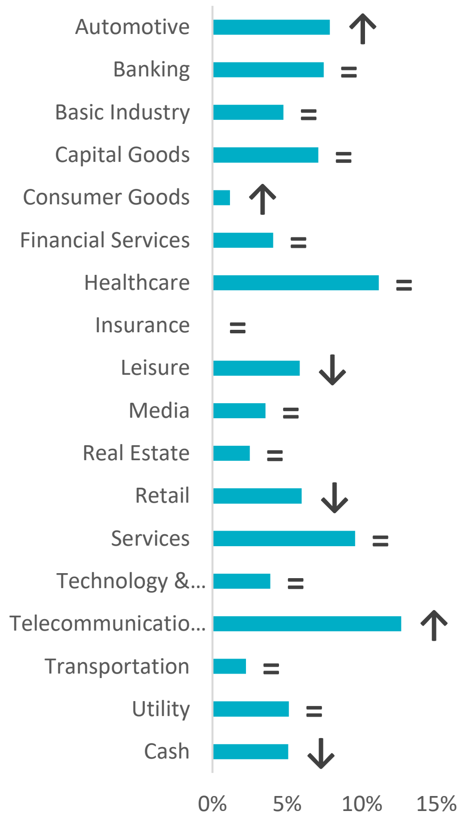
Source: AXA IM as of 31 July 2025

Our Rating Positioning



Source: AXA IM as of 31 July 2025

Our Sector Positioning



Source: AXA IM as of 31 July 2025

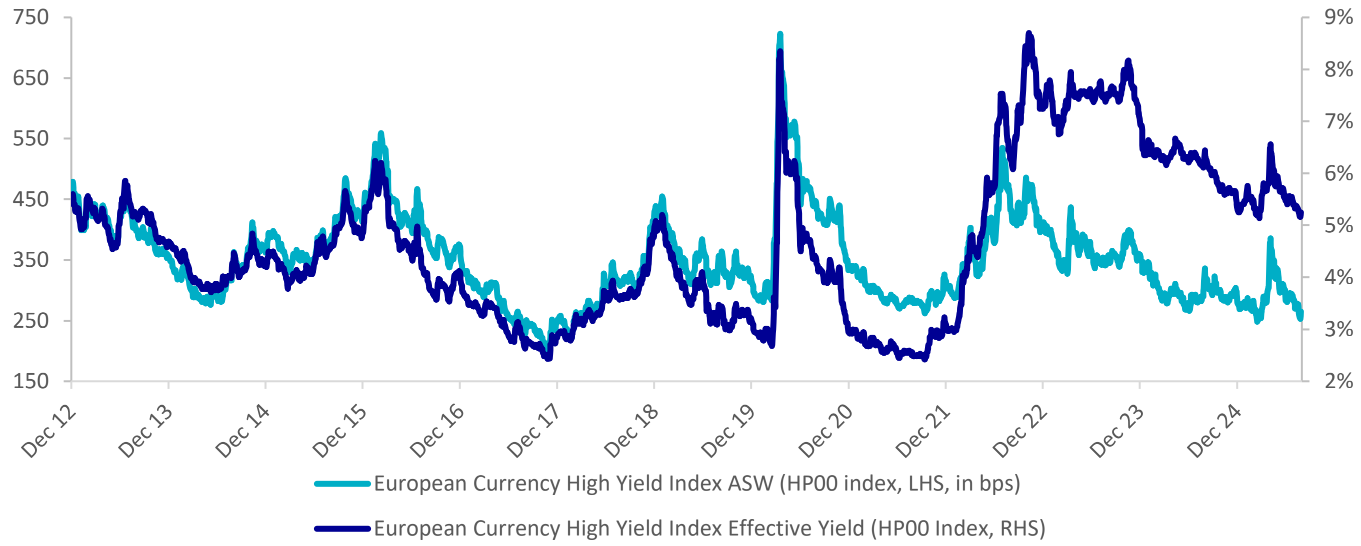
Short duration strategy positioning and performance

- With more clarity on trade agreements, July was a bumper month for European High Yield. This helped it catch up with US high yield and, on a EUR-hedged basis, our market has now outperformed its US counterpart year-to-date. It also translated into the best monthly return for our strategy since August 2024.
- Bond redemptions were numerous and varied during the month. Some of the credits with maturities included Nobian (Basic Industries), B&M (Retail) and NH Hotels (Leisure). We were also gratified to see Asda (Retail) call their unsecured notes. Though not due until 2027, the company had taken advantage of June's market conditions to move to an all-secured capital structure, taking these bonds out early in the process. This was the scenario we had envisaged when we began building a position last year, at a significant discount to par.
- As well as investing these redemption proceeds into secondary markets, we participated in the primary deals from Nissan and Levi's mentioned above.

One theme we've been watching

- As mentioned above, Japanese carmaker Nissan was among the names active in the primary market in July
- This included **relatively rare** 4-year paper - European high yield bonds typically being issued with a maturity of at least 5 years
- The company dropped down from investment grade in February this year. Rating agencies took a dim view of its recent history of **poor operating performance**, as well as the ongoing challenges (electrification, tariffs, ...) faced by the sector
- However, the company has now announced a **comprehensive turnaround plan**. It also has a very strong balance sheet, huge amounts of liquidity and, with these recent bond issues, limited upcoming debt maturities
- With pricing that situated these new notes at the wider-end of the sector, and at a significant discount to similarly-rated OEMs, we were more than **happy to participate in the deal.**

European High Yield Market Valuation



Source: ICE as of 31 July 2025

Outlook.

We write this as the flurry of announced trade "deals" between the US and the rest of the world are continuing to hit the tapes. The most significant, for us at least, was the 15% tariff that will be applied to goods imported from the EU. As mentioned above, markets have so far reacted fairly positively to the announced agreements (including the similar Japanese one). Despite these headline rates being significantly higher than they were at the start of the year – and significantly higher than the rate that will be applied the other way – it's clear that investors have found other sources of comfort. Namely, both the fact that the rates are lower than had been threatened, and the relative certainty that the deals do at least bring.

Clearly, it is not our place here to opine on the details, nor to speculate about the medium- and long-term effects on global macroeconomics and politics. Even if we were economists, such things are almost impossible to predict in real-time. Instead, what we can now focus on is the more concrete impact of these agreements on the credits in our portfolios. Again, this is not an exact science. But having spent the months since April 6th stress-testing and second-guessing various scenarios (which, given the nature of President Trump, often seemed to change daily…), much like the market we can at least take some comfort in being able to apply a definitive tariff rate to our thinking.

And a further source of comfort is provided by the fact that, overall, it all looks rather benign for European high yield. Barclays recently published research that suggested that just 14% of the revenue of companies in our asset class comes from the US – with 70% being domestic. Outside of the well-telegraphed pockets of tariff exposure, for example in autos, there's therefore little reason to think that the vast majority of our credits won't just shrug off these changes to the terms of trade. Of course, this doesn't account for the possibility of a deeper economic shock. But our broadly defensive positioning recognises this scenario and, in the absence of any clear signs that it is happening… it's hard to argue against the market and its calm acceptance of, what appears to be, the end of the trade war.

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