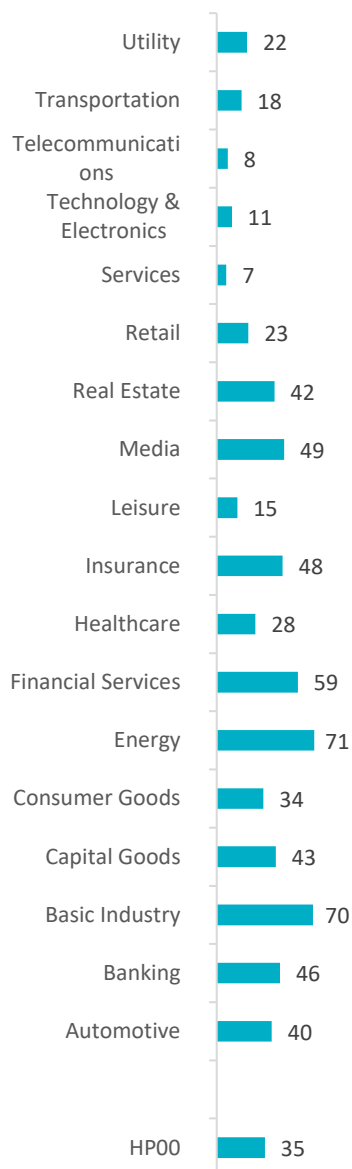


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European High Yield After the storm

What's happening



- Had you gone away at the end of March, and ignored markets entirely in April, the overall monthly performance figures would suggest that you hadn't actually missed much: the S&P500 and Eurostoxx600 were down -0.7% and -0.5% respectively; the yield on 10-year US Treasuries was practically unchanged; and our own European high yield was up +0.3%. But you don't need us to tell you how much those numbers fail to reflect what was a truly extraordinary month in markets. Some of the more eye-catching stats: 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.
- The catalyst for all of the above, of course, was President Trump's "Liberation Day." Documenting all of the twists and turns of reciprocal tariff rates, exemptions and temporary pauses would take longer than we have the time (and patience) for. A succinct summary might be that huge tariffs were initially announced, prompting a very negative reaction from almost all asset classes. As well as much greater fears of a US recession, it seemed like investors were becoming increasingly concerned about the US' role at the centre of the global financial system. Once it became clear that the weakness had spread from US equities to US Treasuries and the US Dollar (a very rare occurrence), it was announced that the initial tariff proposals were suspended for 90 days on all countries except China. This sparked a major rally that, by month-end, had taken most markets back to those deceptively unchanged levels.
- Unsurprisingly, the +0.3% return for European high yield masks similar volatility. Asset swap spreads began the month at 302bps, peaking at 386bps a little over a week later. They finished at 337bps. US high yield had an even wilder ride – it's monthly return was completely flat at 0.0%, but spreads there shot out from 332bps to 448bps in just 6 days, before returning to 384bps at the end of April.
- The conditions above were not conducive to active primary markets. Indeed, it took until the last week of April for us to see a new bond issue. We did then see a minor flurry, as all of the deals sidelined for the prior three weeks rushed to market – issuers included Lottomatica (Leisure), Ocado (Services) and Stada (Healthcare). But with most of these being refinancings, year-to-date net supply is practically zero.

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

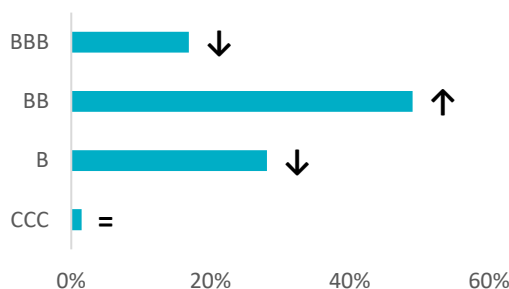
(All sources: Bloomberg)

Short duration strategy characteristics

Yield	4.79%
Spread	273
Duration	1.40
Average rating	BB-
ESG score	6.5

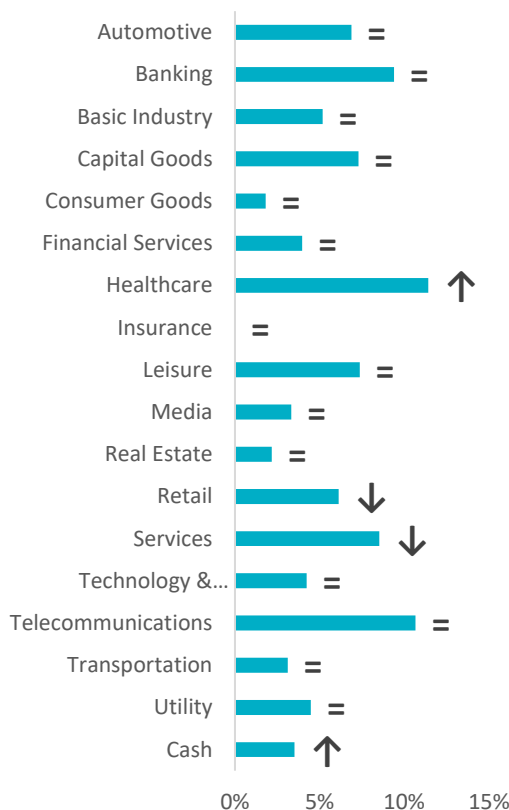
Source: AXA IM as of 30 April 2025

Our Rating Positioning



Source: AXA IM as of 30 April 2025

Our Sector Positioning



Source: AXA IM as of 30 April 2025

Short duration strategy positioning and performance

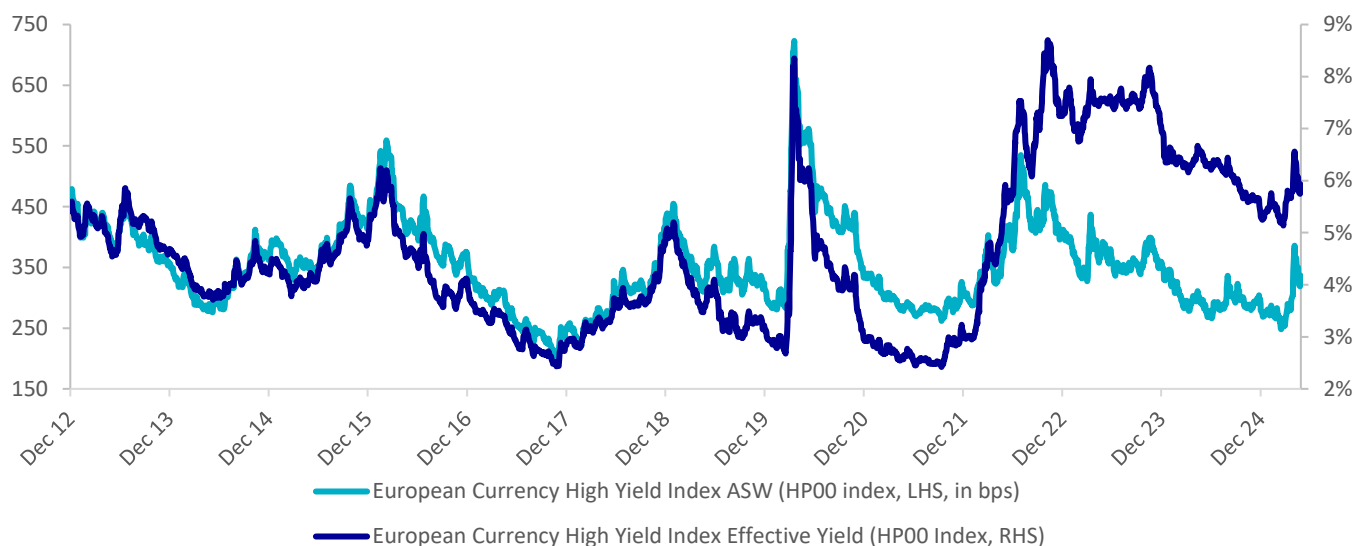
- Despite market volatility, our strategy achieved strong positive returns during the month, +0.53% (gross-of-fees, A share class), and outperformed the broader European High Yield market by approximately 20 bps. The strong performance was due to our defensive positioning, thus taking less spread risk, and the move lower in European Government Bond yields.
- April was a helpful reminder that, even in the most turbulent times, the wheels of finance keep on turning. The fund saw a number of maturities, including of bonds issued by TI Fluid Systems (Autos), Auchan (Retail) and Aramark (Services). Given what was going on elsewhere, we were happy to use this returned cash to bolster our defensive positioning.

One theme we've been watching



- As mentioned previously, there are very few European high yield issuers with direct exposure to (and possible upside from) **European defence spending**.
- One name that might benefit from a divergence between Europe and the US is **Eutelsat**, a satellite company which is partly owned by the French and British governments.
- The company was investment grade rated until 2022, since when it has been rapidly downgraded to its current B1/B position. This reflects the declining business profile - in particularly the challenges posed by alternative systems such as Elon Musk's **Starlink**.
- While the current geopolitical moment may well prove a tailwind for Eutelsat, we remain **cautious**. We prefer to place reliance on our credits' standalone metrics, without relying on possible government support.
- As such, we will wait for concrete signs of **business improvement** before taking exposure to the name.

European High Yield Market Valuation



Source: ICE as of 30 April 2025

Outlook

Another month, another bout of volatility to discuss... and yet the source (the White House) and our messaging remains the same. Though we did not necessarily anticipate the scale of some of the market moves seen in April, it is gratifying that our preferred strategy of defensive, short duration exposure continued to prove its worth. At the trough, European high yield had fallen a little over 2% in the week or so after Liberation Day – our fund less than half of that. And in both cases, the snap back was extremely rapid by historical standards.

Part of the reason for this, we think, is the strong technical support for the asset class. Crucially, this remained in place throughout the period. Muted net supply volumes are one key element of this equation - something which, paradoxically, the events of April are likely to even further entrench as M&A and LBO appetite dries up.

Another reason for which we took solace in early April, and still do as we look towards the next market-moving event, is the rates component of high yield – there is virtually nothing now to stand in the way of a continued ECB cutting cycle. Our economists last week lowered their forecasts and now expect the deposit rate to be just 1.0% by the end of the year. This is supportive both for pricing and for fundamentals.

That said, it's not like we could see too much wrong with the latter anyway. As investors with a philosophy centred on bottom-up credit selection, we look very closely at the resilience of the companies we own. And what we see does not generally concern us. Of course, US trade policy, whatever it ends up being, looks certain to have a negative impact on credit metrics globally. In the short-term, revenues and margins may fall. But European high yield corporates are stepping into this new environment in good shape: leverage ratios remain low (and trending lower) and interest coverage ratios remain high (and trending higher). So whilst the events of Liberation Day give us good reason for even more caution going forwards, we see no need to panic.

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