Euro Credit strategy

Credit Resilience amid Political Tensions

What's happening?

- Political tensions remained in focus this month. The collapse of the French government initially triggered spread widening, particularly in French financials, as OAT volatility weighed on sentiment. However, this move partially reversed, supported by opportunistic supply from French banks that was well received. As a result, French risk rallied back toward the tights, despite ongoing political uncertainty, buoyed by strong demand from European investors. The sovereign downgrade by Fitch had only a marginal impact on credit spreads.

- Risk sentiment was further supported by a relatively dovish FOMC statement. Chair Powell signaled the possibility of additional rate cuts by year-end. While reaffirming the Fed's commitment to its inflation mandate, the focus has clearly shifted toward risk management, particularly in safeguarding the labor market. Despite mixed macroeconomic data, the tone remained constructive. Notably, Q2 GDP was revised upward from 3.3% to 3.8%, driven by resilient consumer services and stronger business investment.

- Technical conditions also remained supportive, contributing to lower volatility and tighter spreads across markets. As such, all investment-grade markets performed well: USD and GBP credit tightened by an average of 7bps, while Euro IG tightened by 6bps to 69bps (among the tightest levels since H1 2022). By sector, the Subordinated financials outperformed (-11bps), as did corporate hybrids (-21bps). Low-beta sectors underperformed, particularly capital goods, senior insurance, and utilities. Autos softened in the final week, impacted by some profit warnings. Finally, the Euro high-yield market also delivered solid performance, tightening by 11bps to 245bps.

- Primary issuance was relatively modest at €75bn, below last year's €80bn and short of investor expectations. Corporates led the way, accounting for two-thirds of supply, with notable deals from the Services sector (Capgemini, SGS) as well as Consumer Goods (Reckitt, Heineken, Diageo). Hybrids were successfully issued notably by EDF and Alliander. Financials made up the remaining third, though most banks have already completed nearly 80% of their FY issuance across all formats (and over 85% excl. preferred senior). We expect a pause until the late October/November window, when pre-funding for FY26 begins.

- Despite tight pricing, the market absorbed supply well, books were oversubscribed 4.1x on average, with standout demand for RCI AT1 (8x), Sampo AT1 (12x), Abanca AT1 (8x) and Generali AT1 (9x). With Q3 earnings season approaching, issuance is expected to slow in the near term.

Company examples are for explanatory/illustrative purposes only. They should not be considered as recommendation or solicitation to buy or sell any particular security, do not represent all of the securities purchased, sold or recommended for any particular advisory client, and in the aggregate may represent only a small percentage of an account's portfolio holdings.

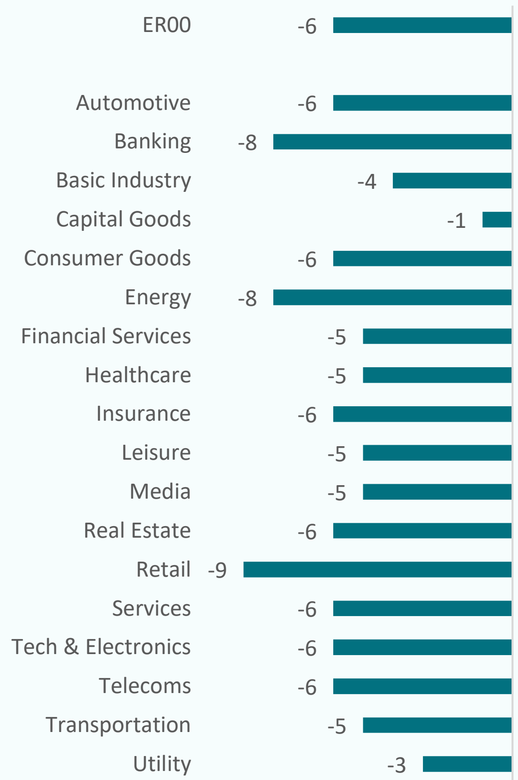
Portfolio positioning and performance

- We have a **DTS above benchmark** at around 115% on average, reflecting a moderately defensive positioning with reduced portfolio risk and enhanced credit quality. That said, we remain opportunistic and ready to increase risk exposure should spreads widen in the coming months.

- We hold a constructive view on Financials, with a selective allocation to subordinated debt. In our view, spreads in Financials Subordinated continue to offer relative value compared to other sectors.

- We favor exposure in the 5 to 10-year segment, notably within Banks, Utilities, Telecoms, and Transportation. We remain underweight Cyclicals due to persistent structural challenges and limited upside potential. We also maitain a preference for Corporate Hybrids, particularly those with call dates within five years.

Asset Swap Spreads changes - MTD



Source: AXA IM, Bloomberg, as of 30/09/2025.
ER00 = ICE BofA Euro Corporate Index

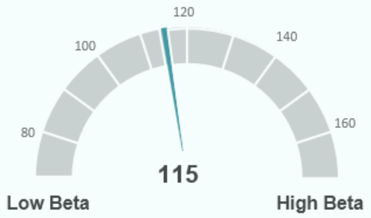
Our Country Positioning

	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 115%

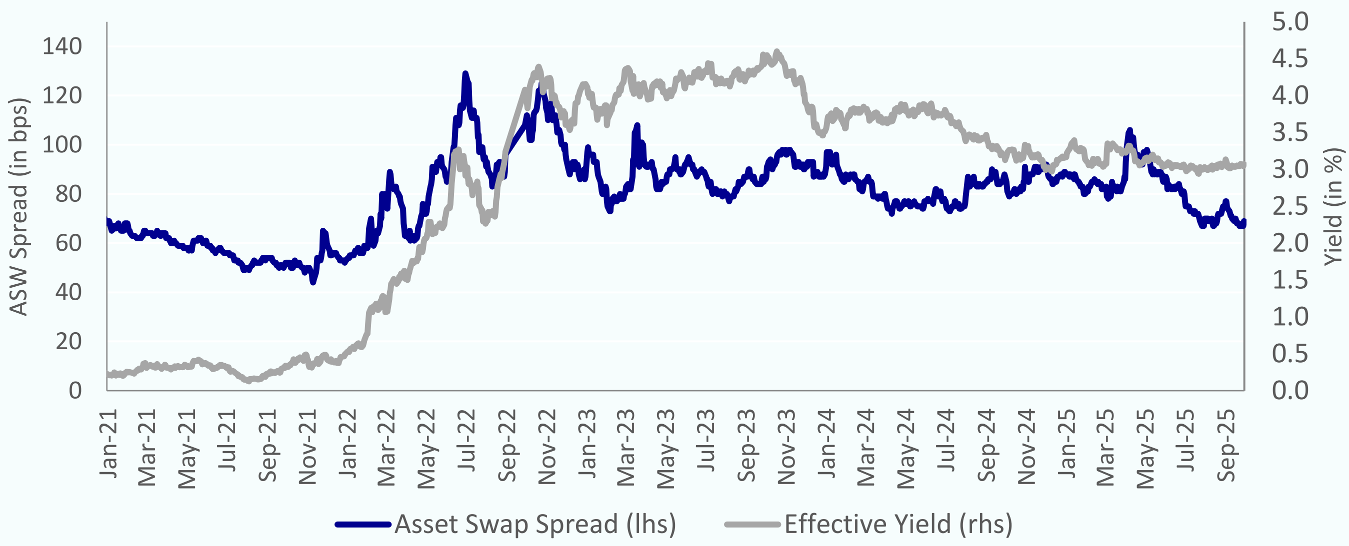


No assurance can be given that the Euro Credit will be successful. Investors can lose some or all of their capital invested. The Euro Credit strategy is subject to risks including Credit risk, Liquidity risk, Derivatives and leverage, High yield debt securities, Contingent convertible bonds.

Outlook

- European bond markets continue to offer attractive income, and demand is likely to remain strong as investors seek to lock in yields. Credit fundamentals remain solid, providing a buffer against potential economic headwinds. However, macroeconomic uncertainties persist, including US tariffs impact, a weakening US labor market and slower-than-expected global growth. In this context, a prudent and selective approach to risk positioning remains essential.

Euro Credit Market : Euro Corporate index (ER00)



Source: AXA IM, Bloomberg, as of 30/09/2025. ER00 = ICE BofA Euro Corporate Index.

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