Euro Credit strategy

Credit hold firm amid political relief, earnings strength, and solid technicals

What's happening?

- October began on a constructive note, buoyed by the survival of the French Lecornu government. Although long-term risks remain unaddressed and structural reforms have yet to progress, the immediate threat of political instability was alleviated. Consequently, the OAT-Bund spread tightened by 8bps, reaching a mid-month low of 76bps. The unexpected S&P downgrade had only a marginal impact on spreads, while risk sentiment was further supported by growing optimism around potential monetary easing from the Federal Reserve.

- With over half of earnings season completed in both Europe and the US, corporate results have largely acted as a tailwind. Market sentiment was lifted by a strong start from US banks whose solid results were underpinned by investment banking activity. These reports also reinforced the broader theme of consumer resilience, echoed by robust performance from US consumer companies. In Europe, earnings were positive though less striking. European banks delivered solid figures across fee growth, asset quality, and capitalisation. Defensive sectors continued to outperform, with consumer names like LVMH exceeding expectations. A surprise return to positive sales growth in Q3 sparked hopes of a stabilising demand environment, fueling a luxury rebound led by Richemont and Hermès. Technology maintained strong momentum, driven AI-related momumtm. Autos and media recovered from recent lows, while real estate credits improved across key metrics, prompting positive rating actions. In contrast, basic industry names continued to underperform.

- However, mid-October saw sentiment deteriorates, with Euro investment-grade widening by 3bps and Euro High-Yield by over 30bps. The selloff was triggered by 1. Unexpected defaults from First Brands and Tricolor 2. Concerns over US private credit asset quality, 3. Fraudulent loan disclosures at Zion and Western Alliance Bancorp, 4. Escalating trade tensions with China. This volatility proved short-lived, as improved US-China developments and softer CPI data helped restore confidence.

- Central banks remained in focus. The Fed delivered a 25bps rate cut as expectated, but Powell's remarks "a December cut is not a foregone conclusion, far from it" was seen as hawkish, raising the risk of a pause. The ECB held its deposit rate at 2%, also in line with expectations. Without a major shock, further easing seems unlikely. This hawkish tone pushed risk-free rates higher, with the Bund ending the month at 2.63%.Credit markets were largely unmoved, as these outcomes were well anticipated.

- Despite a more subdued environment, flows remained strong, supporting technicals. October saw €49bn in primary issuance, easily absorbed with average book oversubscription of 3.8x, and several deals oversubscribed by more than 7x. Concessions to secondary markets stayed low, averaging just 2bps, with some deals offering negative concessions. Issuance was evenly split between Financials and Non-Financials, with Corporates led by Utilities, Consumer, and Real Estate sectors.

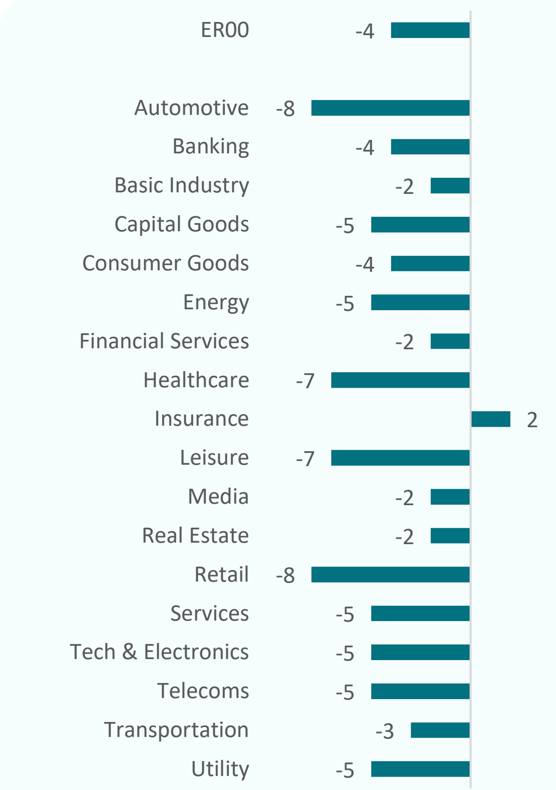
Portfolio positioning and performance

- 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 maintain a preference for Corporate Hybrids, particularly those with call dates within five years.

Asset Swap Spreads changes - MTD



Source: AXA IM, Bloomberg, as of 31/10/2025.
ER00 = ICE BofA Euro Corporate Index

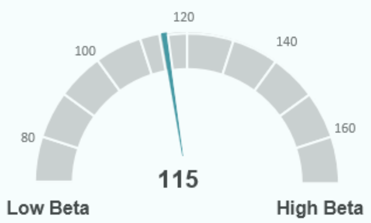
Our Country Positioning

	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%

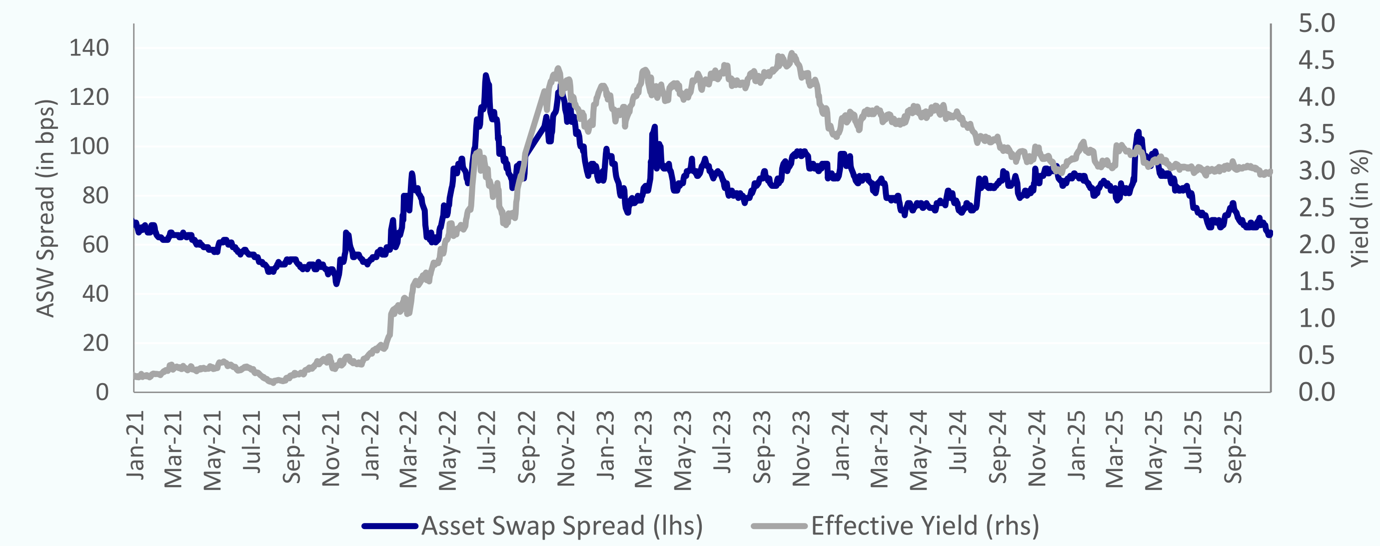


No assurance can be given that the Euro Credit will be successful. Investors can lose some or all of their capital invested. The Euro Credit strategy is subject to risks including Credit risk, Liquidity risk, Derivatives and leverage, High yield debt securities, Contingent convertible bonds.

Outlook

- Carry remains the primary driver of Euro credit total returns. While sector/issuer dispersion remains low, we believe that a low recession risk combined with decent yield and easing in monetary policy should remain a tailwind for credit markets. However, risks are not all gone with still some uncertainty persisting on inflation and growth notably in the US. We have built a more defensive positioning since the summer, and we would be inclined to keep the same level of risk in our portfolios. We still hold a slightly higher carry than the benchmark, with a focus on subordinated debt with intermediate calls as well as a constructive view on BB-rated bucket.

Euro Credit Market : Euro Corporate index (ER00)



Source: AXA IM, Bloomberg, as of 31/10/2025. ER00 = ICE BofA Euro Corporate Index.

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