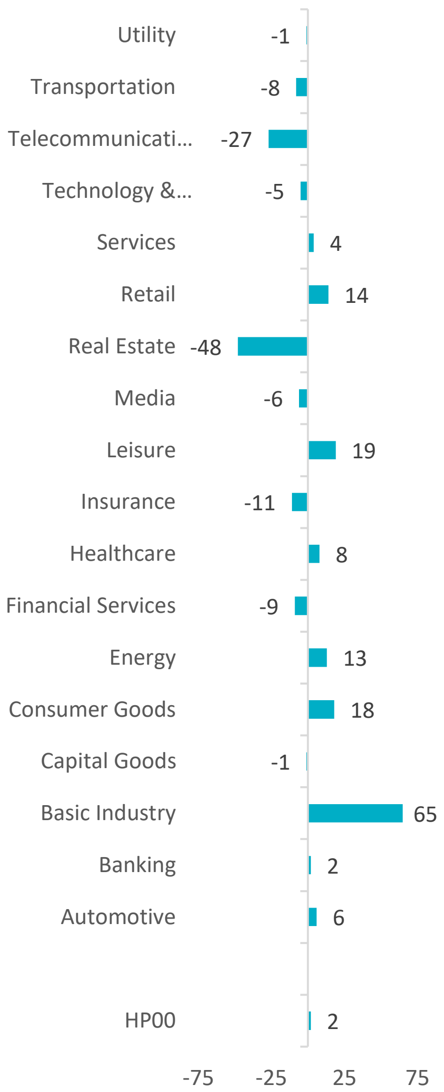
European High Yield

Despite dispersion fireworks remain limited

What's happening?



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

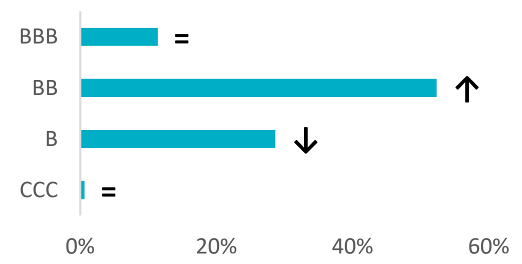
- The headline figures suggest that October was another month of plain sailing in markets: the S&P500 and Eurostoxx600 rose +2.3% and +2.6% respectively; at 4.1%, the 10yr US Treasury saw its lowest monthly closing yield in over a year (the 10yr German Bund yield fell even more); and credit markets across the board saw positive total returns.
- But such figures disguise a number of headlines, as well as a broader market sentiment, that felt much less positive. Though both situations had seemingly resolved themselves by month-end, a resurrection of both the US-China trade dispute and French political instability induced some volatility during the month. There were also renewed fears around a possible AI-bubble and, perhaps of most interest to us as high yield investors, concerns about the state of the private credit market after a number of high-profile bankruptcies. So whilst risky assets did swiftly recover from all of these, some pockets did so more strongly than others.
- Such dispersion was certainly the theme of the month within credit markets. Even though European high yield (just) eked out a positive return of +0.2%, this was only by virtue of a rally in the second half of the period. Our asset class actually lagged the equivalent investment grade index, which rose +0.7%. And within our market, this preference for higher quality paper was clear to see – BBs gained +0.5%, well ahead of CCCs (-3.9%) and even Bs (-0.2%). US high yield performed similarly, with an overall local-currency return of +0.5%.
- A combination of seasonality and some of the market jitters mentioned above meant that primary markets were certainly cooler than earlier in the year. Though there were a couple of debut issuers, such as Gruppo San Donato (Healthcare), the vast majority of new bonds were refinancings. This included deals from Digi (Telecommunications), PPC (Utilities) and Verisure (Services).

(All sources: Bloomberg)

Short duration strategy characteristics	
Yield	4.06%
Spread	186
Duration	1.42
Average rating	BB-
ESG score	6.4

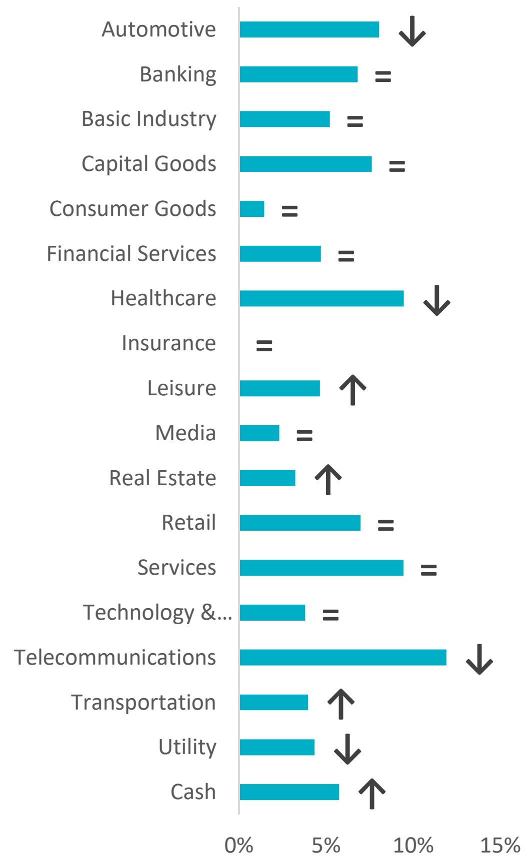
Source: AXA IM as of 31 October 2025

Our Rating Positioning



Source: AXA IM as of 31 October 2025

Our Sector Positioning



Source: AXA IM as of 31 October 2025

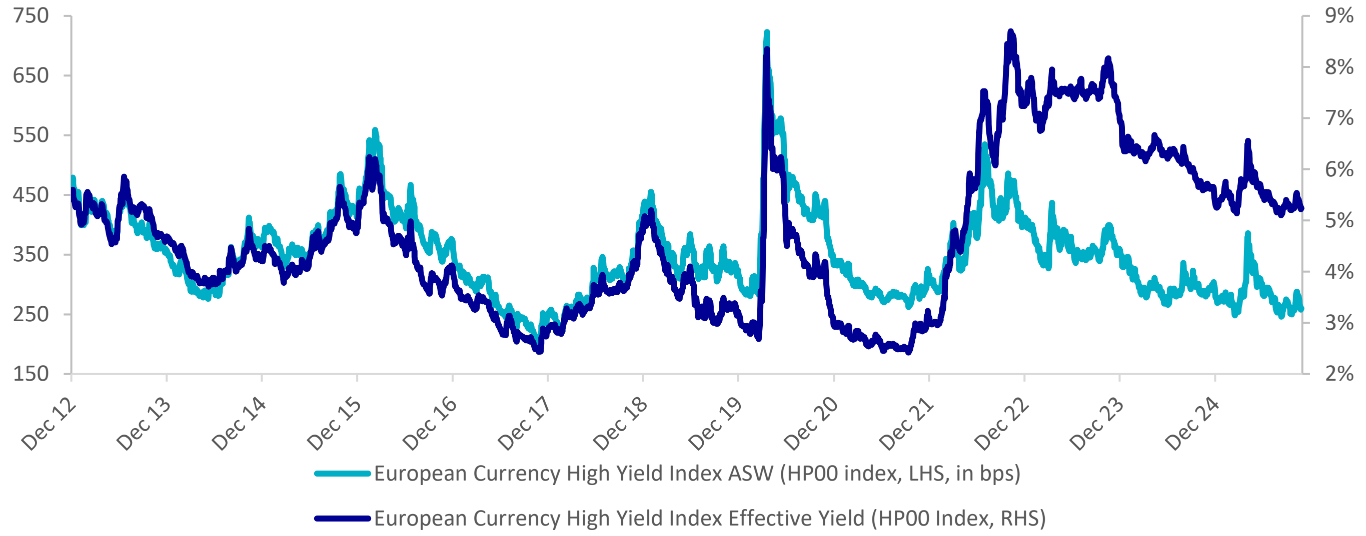
Short duration strategy positioning and performance

- Our strategy achieved a total return of +0.24% (A EUR Gross) during October, representing strong relative outperformance vs the market. Our focus on quality and downside protection means we tend to outperform during periods of market stress. Although not a negative month for market returns, weaknesses in lower-rating cohorts, idiosyncratic risk, and an overall 7bps widening contributed to a volatile and weaker moth for our asset class.
- Maturing bonds included those issued by Digi (Telecommunications), Verisure and PPC. We rolled our exposure to the latter into the new bonds mentioned above, though the first two companies chose to issue further out on the curve. In secondary markets, we continue to invest with a high-quality bias, reaching down the ratings spectrum only when we have high fundamental conviction.

One theme we've been watching

- Like many market participants, we read with interest about the recent bankruptcies of First Brands and Tricolor in the US
- Both companies had received significant backing from private credit, a reflection of the huge boom in that asset class in the last few years
- The cases also involved allegations of fraud, a charge HPS Investment Partners, a private credit firm bought by Blackrock earlier this year, is now also levelling in one of its investments
- Investor attention has begun to focus on other parts of the leveraged finance universe, particularly after Jamie Dimon (CEO and President of JP Morgan) suggested more "cockroaches" might emerge
- We don't believe any great structural deficiencies are lurking within high yield, despite the recent poor performance of the weakest-rated parts of our universe
- Rather, these credits are facing a predictable set of cyclical headwinds: rates which remain significantly higher than they were for the decade up to 2022; a volatile macroeconomic outlook; and over levered balance sheets
- None of these factors are particularly novel and, as such, a default-rate cycle in line with its historic average feels both realistic and manageable
- In contrast, private credit remains relatively untested through market peaks and troughs. It also isn't surprising that lending standards may have been loosened during a period of such rapid growth
- So whilst our market may not be immune to further tremors elsewhere, we see no reason for more deep-rooted concerns

European High Yield Market Valuation



Source: AXA IM as of 31 October 2025

Outlook

We wrote last month about how, for the final quarter of the year, we expected a continuation of the steady progress shown by European high yield since the initial Liberation Day sell-off in April. This had included six straight months of positive returns. Unfortunately, we were almost immediately proved wrong! Our market fell over 50bps in the first two weeks of October – not a major correction, clearly, but a noticeable wobble nonetheless. The price action was even more severe at the lowest-rated end – as mentioned above, CCCs still remain at an almost 4% drawdown from the start of the month and now have a negative total return year-to-date.

We do think it was the idiosyncrasies of these cohorts of weaker credits which was the dominant driver of the moves. Whilst the First Brands and Tricolor private credit bankruptcies in the US may have served to remind investors that, at this late-stage of the cycle, cracks can begin appearing, we think stories closer to home were more relevant. To focus on one sector, by way of example: Basic Industries continues to trade very poorly. Expectations around the timing of a recovery in Chemicals in particular keep being pushed out – a situation not helped by US tariffs, which have resulted in Chinese producers flooding Europe instead. There has been increased focus in the market on some of the smaller names in this space (and the larger ones too, in fact), and whether they have sufficient liquidity to keep operating at the bottom of the cycle. October felt like a month when some of these capital structures began to be seriously questioned.

Still, all is not doom-and-gloom. From mid-month onwards, the overall quality of our asset class began to assert itself. BBs comprise 70% of the broader European high yield index and contribute, just on their own, around 25bps of income each month. They also have a spread duration of a little over 3 years. It's therefore quite difficult to fight against this relentless carry, and limited sensitivity to spreads, without a more fundamental shift in the broader environment… and thus far, we see little evidence for it. That's not to say idiosyncratic stories can't begin to become more structural - even high quality paper is not immune when holders face persistent losses elsewhere in their portfolios. But either way, we continue to think that the best strategy in an environment of distinct but definite landmines is to remain positioned as we have been: that is, up in quality, short in duration, and highly selective in our credits.

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