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Euro Credit strategy

Volatile Market amid Investor Concerns

What's happening?

- Risk sentiment in November has been mixed, reflecting investor concerns around several themes: the sustainability of capex funding cycles, uncertainties over AI monetisation and cash-flow resilience, potential oversupply from hyperscalers in 2025, shifting expectations for Fed rate cuts, and lingering questions on US growth and inflation. Against this backdrop, credit spreads have been volatile.

- The temporary relief following the resolution of the US government shutdown quickly faded as renewed debate over a potential "AI bubble" resurfaced. Historically, large investment booms have preceded default cycles — telecom in 2002, homebuilders in 2009, and energy in 2016 — where high leverage combined with collapsing prices and weak demand triggered widespread defaults and systemic stress. We believe today's environment is different: most leading players maintain strong balance sheets and healthy cash-flow generation

- September's non-farm payrolls beat expectations, but sentiment was dampened by downward revisions of 33K for prior months. In this context, the Euro IG BofA Merrill Lynch index widened by 5bps to 70bps. The move was broad-based, with healthcare, capital goods, services, and media underperforming in the senior space. Corporate hybrids cheapened by 6bps vs. +3bps for financial subordinated debt. On a single-name basis, Deutsche Pfandbriefbank lagged after weak results and higher-than-expected risk provisions linked to European assets, following significant Q2 one-offs tied to its US exit plan. Lanxess and SES also underperformed on weak fundamentals, challenging market conditions, rising leverage, and increasing fallen-angel risk over the next 12 months. Conversely, Euro high-yield—relatively insulated from tech—held up better, widening only 8bps to 253bps.

- The next key catalyst is the December Fed meeting. Indeed, the Fed remains in a dovish stance, reinforced by NY Fed President Williams' recent comments, which pushed the probability of a December cut to 82%. Even if a cut is deferred, we expect the next easing to occur in early next year.

- Despite volatility, primary supply has been robust. The first week of November saw €45bn of Euro IG issuance—more than double the weekly average—with €20bn from US issuers such as Bristol Myers, Alphabet, and Morgan Stanley. Alphabet alone raised €6.5bn, stoking concerns about hyperscaler supply risk. USD IG also widened on heavy tech-led issuance, including Meta's $30bn deal. November closed with €100bn of Euro IG issuance, bringing YTD gross supply to €760bn. Books were oversubscribed 3.2x, slightly below the 3.5x yearly average. Demand was strong for inaugural and rare names (Canal+, Magnum, Banca Transilvania, Smurfit Kappa, Imerys), while more vanilla deals (Heineken, Novo Nordisk, Orange) saw softer interest. The positive momentum persists with steady inflows into the asset class notably in the short and intermediate duration funds, albeit slowing versus October.

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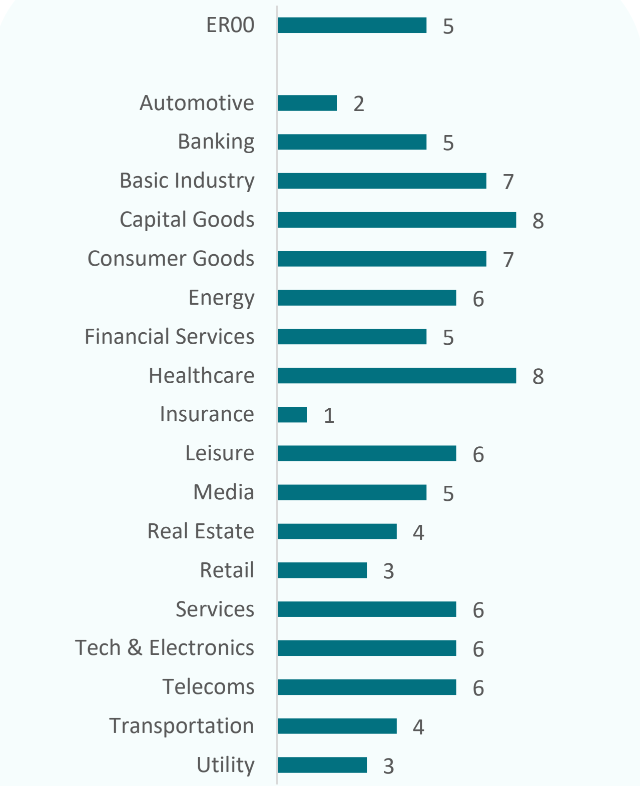
Portfolio positioning and performance

- We have a **DTS above benchmark** at around 115% on average, reflecting a moderately defensive positioning with reduced portfolio risk and enhanced credit quality.
- 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 30/11/2025.
ER00 = ICE BofA Euro Corporate Index

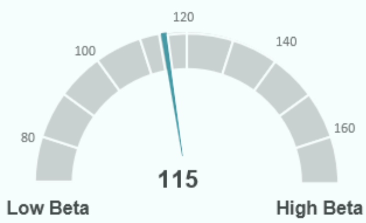
Our Country Positioning

	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%



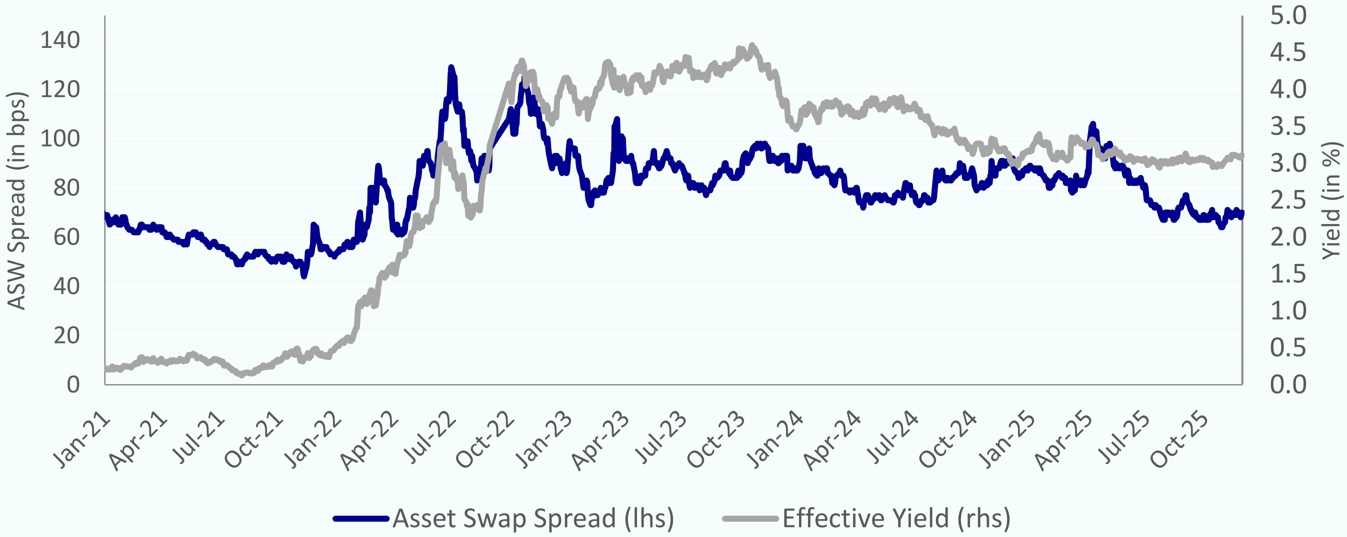
No assurance can be given that the Euro Credit will be successful. Investors can lose some or all of their capital invested. The Euro Credit strategy is subject to risks including Credit risk, Liquidity risk, Derivatives and leverage, High yield debt securities, Contingent convertible bonds.

Outlook

- We are heading into the December period with an average level of risk in the portfolios. December typically benefits from supportive technicals, with spreads tending to tighten. Looking ahead to 2026, despite some oversupply fears, the market appears well-positioned to absorb elevated gross issuance given substantial redemptions (at over € 500bn) and coupon flows (€ 90bn). While supply alone should not derail spreads materially, concentrated issuance could weigh on sentiment on a temporary basis.

- Current spreads remain slightly below their 10-year average, consistent with solid corporate fundamentals and reduced recession risk. We believe carry and quality will continue to dominate over spread beta in IG portfolios. Also, a steep curve should keep EUR IG attractive enough versus money market instruments.

Euro Credit Market : Euro Corporate index (ER00)



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