Euro Credit strategy

Credit Spreads flatten amid geopolitical and political risks

What's happening?

- Rates moved lower on November reaching one of the tightest levels year-to-date to 2.08 % on the 10Y German Bund driven by a combination of lower-than-expected Eurozone CPI, dovish ECB comments higher political and geopolitical risks and a general risk-off sentiment in the market. On the credit side, after a strong rally post the rather fast conclusion of the US elections, credit spreads went wider and finished the month flat at 91bps over asset swap. The focus during the second part of the month was on higher geopolitical headlines around the escalation in the Middle East and in the Russia-Ukraine war, but also on higher political risks with the collapse of the German coalition and importantly uncertainties around the French budget and the potential fall of the current government. The latter has led to an OAT-Bund spread widening to almost 88bps, the highest level since the European sovereign debt crisis in 2012. This had indeed a direct, but rather manageable, impact on French banks and corporates that underperformed in sympathy. By sector, Financial subordinated debt (mostly insurance), Corporate Hybrids and Automotive have underperformed the rest. Defensive sectors such as Consumer goods and Transportation but also Real Estate were the outperformer. On a name-by-name basis, Celanese was one of the underperformers this month following the downgrade by rating agencies.

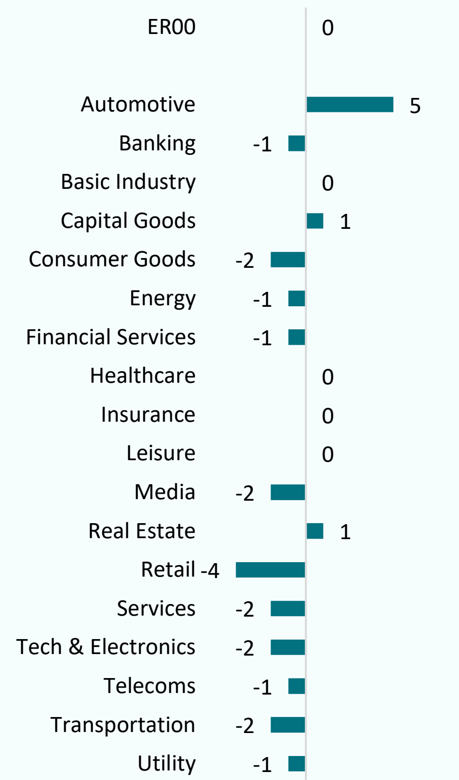
- The earnings season almost finished and results were a mixed bag with earnings in line or even exceeding expectations for defensive sectors and Financials, while the weak momentum continues for the cyclical industries. The Automotive sector continues to suffer on the back of a combination of structural and cyclical issues including increasing competition from Chinese manufacturers, lower consumer demand, tough regulation in Europe, lower EV subsidies but also a slew of autos primary deals. On the top of that, the prospects of US tariffs will not help neither. During the month, the sector has underperformed (+5bps) notably Renault, Volkswagen, and BMW. Financials continue to report solid Q3'24 results with strong margins, adequate asset quality, but the most dominant theme has been M&A, with Unicredit recent acquisition of a stake in Commerzbank and an offer to buy Banco BPM, but also Santander considering the acquisition of the Portuguese bank Novo Banco.

- After the election-driven dip in volumes in early November, issuance picked up but has declined again given negative sentiment in the market and the typical slowdown during the Thanksgiving period. Total issuance was at € 46bn dominated by non-financials (~65%) including Automotive, Utilities and the real estate sector with few issuers tapping the market including WPC and CTP, and the much-awaited Heimstaden Bostad Hybrid bond, the first property company to sell a hybrid debt since 2021.

Portfolio positioning and performance

- We have a **DTS above benchmark** at around 130% on average. We have an overweight position in spread duration versus benchmark.
- In **Financials**, we hold a positive outlook on the fundamental performance of European banks. Especially, we continue to be **overweight in Financial Subordinated** with a selective approach given tighter **spreads.**
- We continue to like **Corporate Hybrids** which brings some positive carry in the portfolio for IG-rated issuers.
- **In Industrials**, we maintained our **overweight in Real Estate sector**, with a preference for Logistics and Residentials sub-segments and a focus on top-tier player in the Investment Grade universe.

Asset Swap Spreads changes - MTD



Source: AXA IM, Bloomberg, as of 30/11/2024.
ER00 = ICE BofA Euro Corporate Index

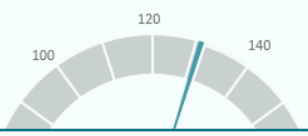
Our Country Positioning

	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 130%



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.

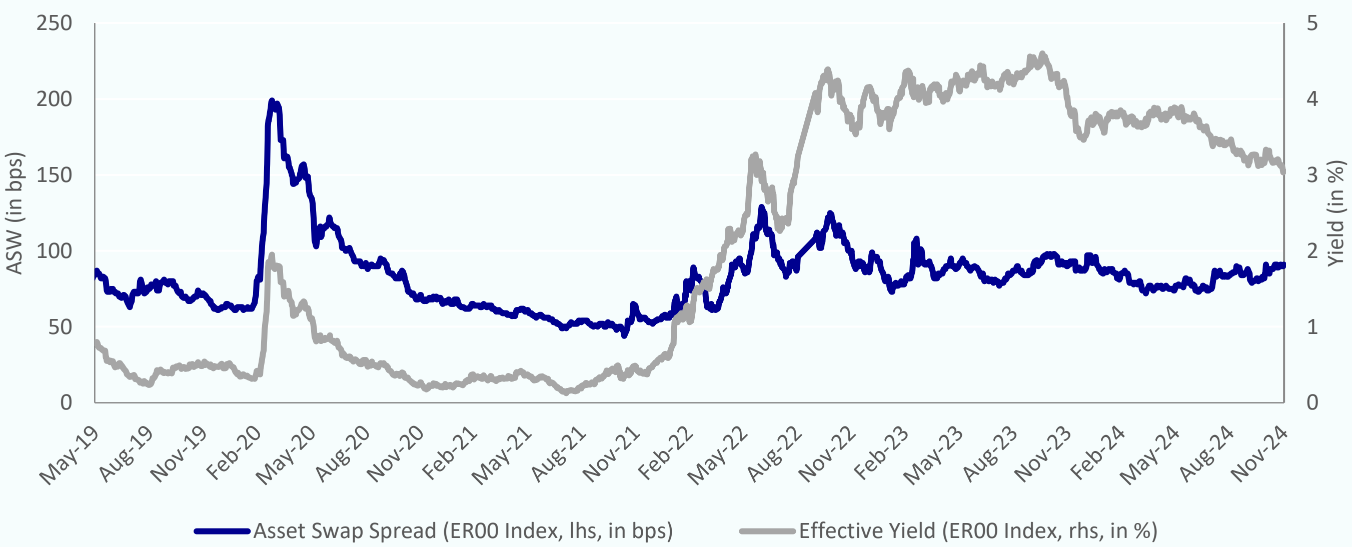
Outlook

- In November, Euro IG credit index delivered a strong total return of 1.65%. We continue to believe in the soft landing scenario with corporate metrics expected to plateau and resilient fundamentals on Banks and defensive sectors. Despite their currently tight levels, we anticipate spreads to remain well-supported, although range bound, driven by strong market demand fueled by a still solid all-in yields, which continue to provide a positive technical backdrop.

- Nevertheless, current spread tightness may at some point in time impact demand in the coming months. As a result, we need to remain diligent in our sector allocation and issuer selection, recognising the challenges of selling bonds at very tight levels.

- Sentiment remains mixed amid macro deceleration and geopolitical tensions. The risk of U.S. tariffs could further impede confidence, heightening the need for fiscal support to buoy growth in Europe's largest economy. We would be keen to add credit risk if spreads move wider

Euro Credit Market Valuation



Source: AXA IM, Bloomberg, as of 30/11/2024. ER00 = ICE BofA Euro Corporate Index.

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