For professional clients only
November 2024
Monthly Perspectives
Fixed Income

Euro Credit strategy

Euro Credit OAS at the tightest level since early 2022

What's happening?

- A bullish start for the Euro credit investment-grade after two months of "elevated" volatility as the market has taken positively the stimulus announcement in China, stronger economic data in the US and the easing cycle from central banks. Having said that, some softness started to slightly derail the market in the last week of October in both rates and spreads, with market participants in a wait and see mode heading into the US elections. The rate sell-off was also fueled by the UK budget after the announcement of additional spending only partially offset by higher taxes, but also by positive US growth data and higher Euro Area CPI print.

- In this context, the Euro credit index widened by 3bps to 91bps, with an outperformance of Financial subordinated debt (Raiffeisen Bank, Commerzbank, Mapfre, Generali and SG), real estate (Heimstaden and Aroundtown) and the automotive sector (Renault, Ford, and GM) to a lesser extent. The energy sector (Repsol and OMV) has also performed well helped by higher Brent prices in early October in the context of amplified geopolitical tensions in the Middle East. On the underperformers side, retail (led Kering ratings downgrade), telecoms (SES was the main underperformer with no specific fundamental reason) and healthcare underperformed the rest. Nevertheless, on an OAS basis, Euro Credit spreads are at the tightest level since early 2022 at 113bps.

- With more than half of the reporting season out, Q3'24 earnings are overall satisfactory, coming in better than expectations notably for financials and defensive sectors. US Corporates are once again performing better. Banks continue to report a solid set of revenues thanks to a mix of increased lending volumes, higher fees & commissions, and better investment banking activity. On the corporates side, earnings were overall satisfactory and in line with expectations except for the Autos and Luxury sectors. The latter already warned that profit should be impacted by softer demand notably from China.

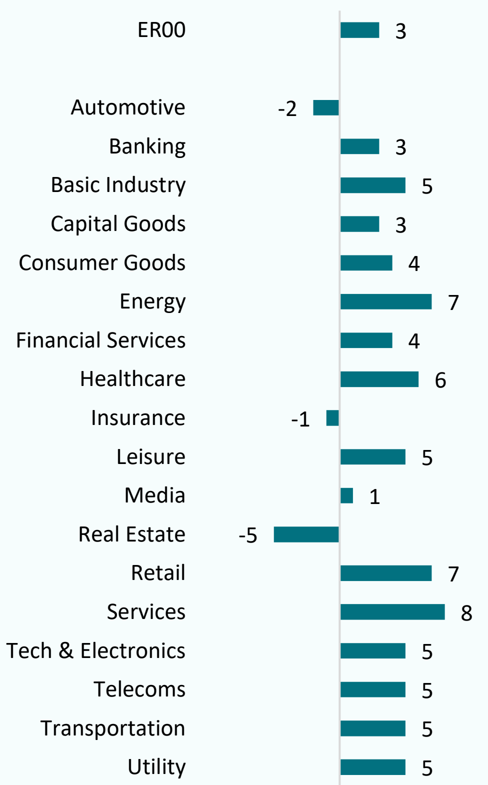
- Looking ahead, with global inflation on a downward trajectory, central banks will probably not deviate from a less restrictive stance. Also, global economy continues to show resilience supported by the US growth that continue to perform better than expectations, this should provide a support to credit spreads.

- Primary market has been relatively active in the first half of October with a total of € 39bn new issuance including a jumbo deal from DSV for a total of € 5bn issued to fund the acquisition of Schenker AG. Financials account for 38% of total issuance. Books were oversubscribed 3.5x (>4.0x for corporates) and average NIP was at 4bps. Supply has been lighter in the second half of the month due to the black-out period and the US elections expectations. The technical picture continues to be solid with positive inflows into the credit irrespective of spread moves and/or the upcoming presidential elections.

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 with Q2 earnings surprising to the upside. 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 31/10/2024.
ER00 = ICE BofA Euro Corporate Index

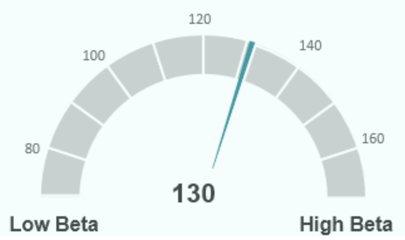
Our Country Positioning

	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.

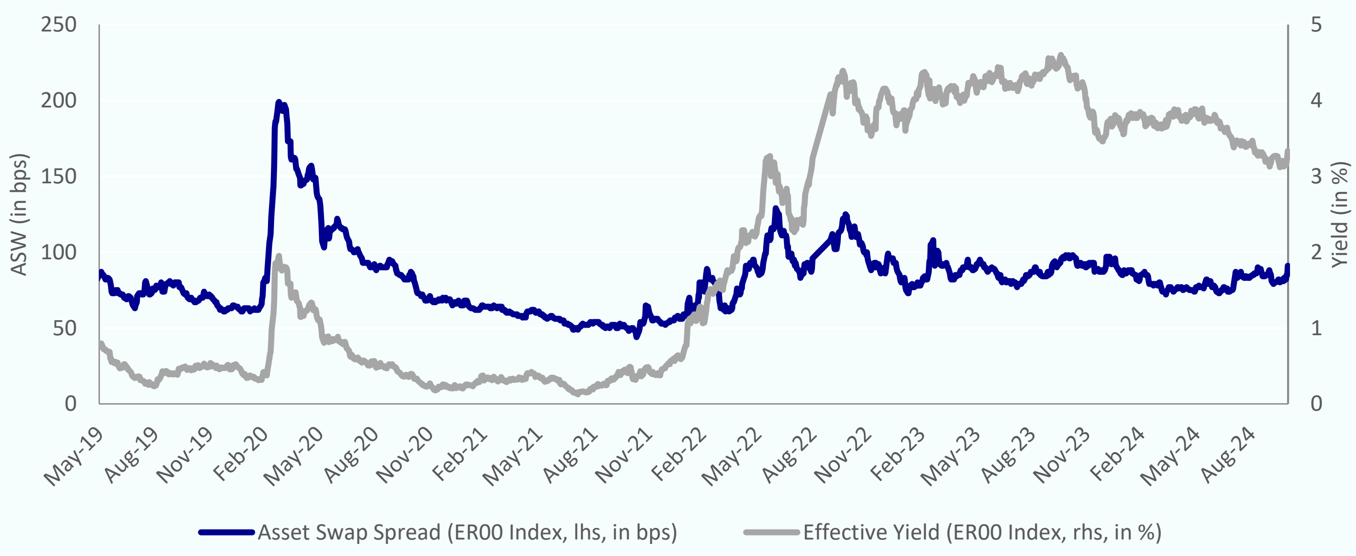
Outlook

- In October, Euro IG credit delivered a return of -0.4%. We have maintained an overweight position for some time, as spreads appeared attractive from a relative value perspective. Despite their currently tight levels, we anticipate spreads to remain well-supported, although range bound, driven by strong market demand fueled by high 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 sresult, we need to remain diligent in our sector allocation and issuer selection, recognising the challenges of selling bonds at very tight levels.

- Finally, Fundamentals, which remain healthy at the moment, could be affected as they could come under pressure going forward. In particular, wage growth could erode margins and European corporates may have to absorb some of the impact of potential tariffs.

Euro Credit Market Valuation



Source: AXA IM, Bloomberg, as of 31/10/2024. ER00 = ICE BofA Euro Corporate Index.