Euro Credit strategy

Resilient Euro Credit IG markets despite volatile rate environment

What's happening?

- The month of January has been a busy month marked by several significant events including fiscal concerns in the UK, unexpectedly strong US jobs, the inauguration of President Trump, escalating fears of a trade war and encouraging European PMI and inflation data.

- The rates sell-off that began in the wake of the hawkish December Federal Reserve (Fed) meeting has continued apace at the start of 2025, with rates exceeding the highest levels seen over the last couple of years with the UK 10 Year gilt hitting 4.84%. The US 10 Year yield and 10 Year bund exceeded 4.75%, and 2.6% levels respectively. Positively, in mid-January, lower UK and US CPI data came as a relief for the market putting a brake on the rates sell-off.

- Despite this volatility, credit markets were surprisingly resilient with spreads 8 basis points (bps) and 11bps tighter for investment-grade (IG) and high-yield respectively. Within IG, all sectors have performed well, and the usual high-beta sectors outperformed again. Subordinated financials and Corporate Hybrids tightened by 17bps, while Medias and Real Estate performed the least with "only" 3bps tightening. Indeed, the real estate sector has been impacted by fears about the impact of higher rates on their funding cost structure. More surprisingly, the Automotive sector was one of the best performers within corporates, tightening by 18bps led by Ford, Renault, Volkswagen, and Continental on the back of renewed optimism around the implementation of tariffs. Within the high-yield segment, automotive, retail and real estate sectors also performed well.

- On earnings, US banks posted exceptional figures especially in the Investment Bank which should read well for the earnings season in Europe. 4Q24 reporting season is starting slowly for European banks and corporates.

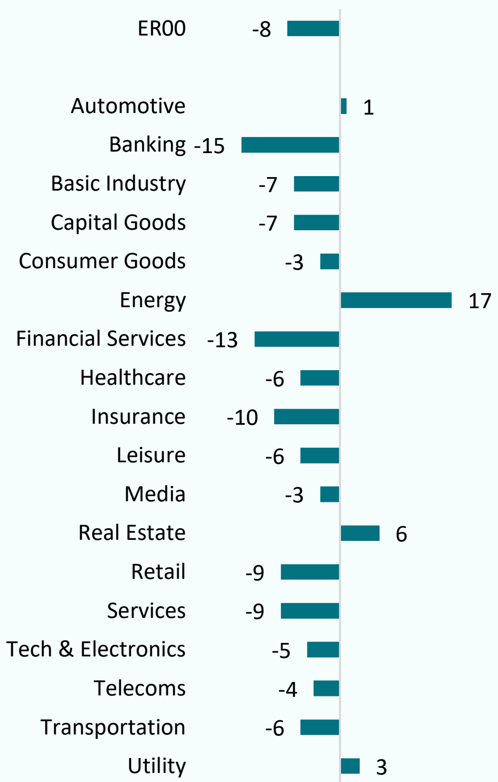
- The divergence between central banks is becoming more pronounced. Indeed, the ECB delivered a 25bp rate cut and maintained its meeting by meeting, data dependent approach to monetary policy, in line with expectations. Rates were still characterized as restrictive, suggesting that more rate cuts lie ahead. We expect another 25bp cut in March, April and June to reach 2%.

- In this context, €88bn was issued this month, or a 5% decline compared to the same period last year. European Financials dominated the primary market with 62% of issuance led by French, US and German banks notably Unicredit, BNP, Société Générale and Goldman Sachs. Within Non-Financials, Automotive and Utilities were the main issuers. Supply has been well received demonstrating again the credit fund inflow trends as well as the level of cash, providing a boost to credit technicals this month. New issue concessions are almost nil as order books are still multiple times covered (3.5x on average).

Portfolio positioning and performance

- We have a **DTS above benchmark** at around 130% on average, as we keep a constructive view on Euro Credit IG.
- We maintain a positive outlook on the fundamental performance of European banks within **Financials**. In particular, we remain overweight in **Financial Subordinated**, adopting a selective approach due to tighter spreads.
- **Corporate Hybrids** remain an attractive option, offering positive carry within the portfolio for investment-grade issuers.
- Within **Industrials**, we continue to overweight the **Real Estate sector**, although we have slightly reduced the exposure, favoring the Logistics and Residential sub-segments while focusing on top-tier investment-grade players.

Asset Swap Spreads changes - MTD



Source: AXA IM, Bloomberg, as of 31/01/2025.
ER00 = ICE BofA Euro Corporate Index

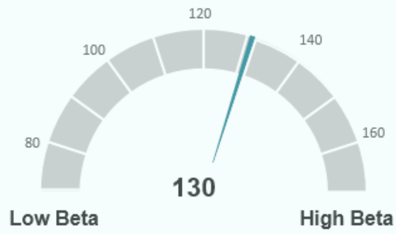
Our Country Positioning

	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 130%

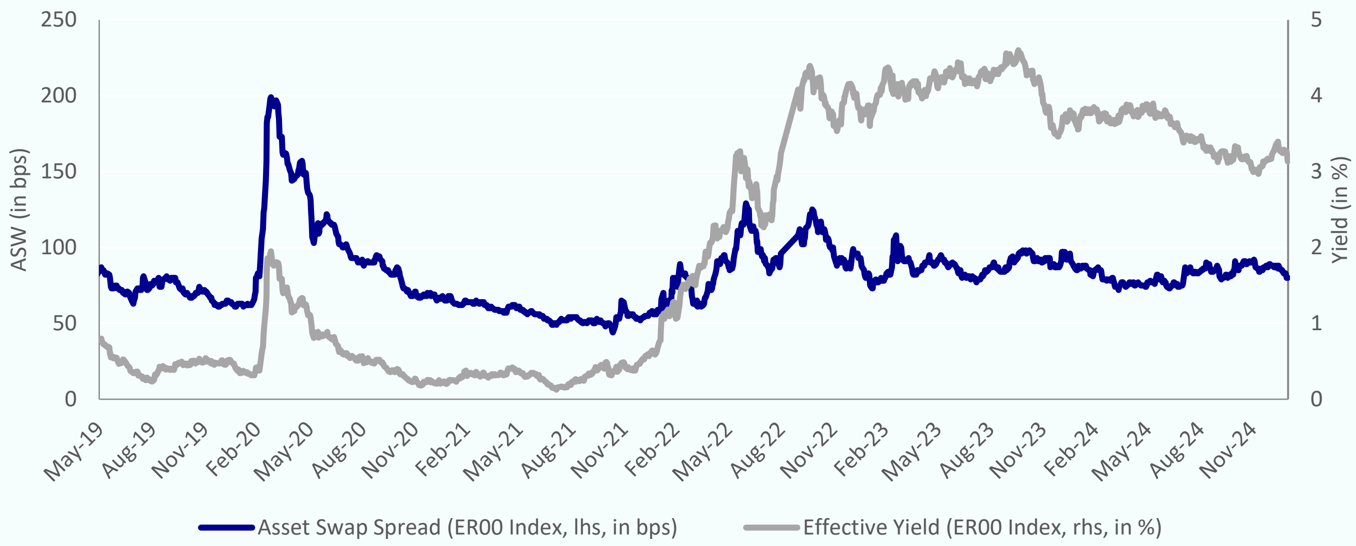


No assurance can be given that the Euro Credit will be successful. Investors can lose some or all of their capital invested. The Euro Credit strategy is subject to risks including Credit risk, Liquidity risk, Derivatives and leverage, High yield debt securities, Contingent convertible bonds.

Outlook

- The big theme of central bank divergence will no doubt be tested multiple times this year. But we see a high bar for the European Central Bank to stop easing and continue to think that the Euro IG market still offers value from a total return perspective. Yet we doubt this year will be free of challenges. These include high valuations, potential impacts of Trump's tariff policies, and the Fed's challenge in managing inflation as it moves back towards its target. All these factors could put pressure on spreads over the course of the year. We expect spreads to remain rangebound over the year, and this will require a more agile and dynamic approach to our positioning.

Euro Credit Market Valuation



Source: AXA IM, Bloomberg, as of 31/01/2025. ER00 = ICE BofA Euro Corporate Index.

If any fund is highlighted in this communication (the "Fund"), its offering document or prospectus contains important information on selling restrictions and risk factors, you should read them carefully before entering into any transaction. It is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction. AXA IM Asia does not intend to offer any Fund in any country where such offering is prohibited.

The offer, distribution, sale or re-sale of fund units/shares in Taiwan requires approval from and/or registration with Taiwanese regulatory authorities. To the extent that any units/shares of the Funds are not so licensed or registered, such units/shares are made available in Taiwan on a private placement basis only to banks, bills houses, trust enterprises, financial holding companies and other qualified entities or institutions (collectively, "Qualified Institutions") and other entities and individuals meeting specific criteria ("Other Qualified Investors") pursuant to the private placement provisions of the Rules Governing Offshore Funds. No other offer or sale of such units/shares in Taiwan is permitted. Taiwanese purchasers of such units/shares may not sell or otherwise dispose of their holdings except by redemption, transfer to a Qualified Institution or Other Qualified Investor, transfer by operation of law or other means approved by the Taiwan Financial Supervisory Commission.

For Malaysian investors: As the recognition by the Malaysian Securities Commission pursuant to Section 212 of the Malaysian Capital Markets and Services Act 2007 has not been / will not be obtained nor will this document be lodged or registered with the Malaysian Securities Commission, the shares referred to hereunder (if any) are not being and will not be deemed to be issued, made available, offered for subscription or purchase in Malaysia and neither this document nor any other document or other material in connection therewith should be distributed, caused to be distributed or circulated in Malaysia.

For Thailand investors: Nothing in this document shall constitute in any manner whatsoever a proposal to make available, offer for subscription or purchase or to issue an invitation to purchase or subscribe for any securities in Thailand or a proposal to implement any of the foregoing in Thailand nor has this document been approved by or registered with the Securities and Exchange Commission of Thailand ("SEC"). No person receiving a copy of this document may treat the same as constituting an invitation or offer to him in Thailand and such person shall not distribute or make available this document in Thailand. The issuer of this document shall not be liable in any manner whatsoever in the event this document is distributed or made available to any person in Thailand receiving a copy of this document. Since no application for approval has been or will be made to the SEC for the offering of the securities, or for the registration of this document, the securities shall not be offered for subscription or purchased or made available, whether directly or indirectly, in Thailand. It is the sole responsibility of recipients wishing to take any action upon this document to satisfy themselves as to the full observance of the laws of Thailand, to comply with all relevant government and regulatory approvals, and to comply with all applicable laws, including but not limited to exchange control laws.

For Investors in People's Republic of China (PRC): This document does not constitute a public offer of the product., whether by sale or subscription in the PRC. The product is not being offered or sold directly or indirectly in the PRC to or for the benefit of, legal or natural persons of the PRC. Further, no legal or natural persons of the PRC may directly or indirectly purchase any of the product or any beneficial interest herein without obtaining all prior PRC's governmental approvals that are required, whether statutorily or otherwise. Persons who come into possession of this document are required by the issuer and its representatives to observe these restrictions.

In Korea, AXA Investment Managers Asia (Singapore) Ltd is a registered Cross Border Investment Advisor/Discretionary Investment Management Company under the Financial Investment Services and Capital Markets Act (the "Act"). The activities referenced under the Act are 5-2-2 Investment Advisory Business and 6-2-2 Discretionary Investment Management Business, respectively. Its financial services are available in Korea only to Professional Investors within the meaning of Article 10 of Enforcement Decree of the Financial Investment Services and Capital Markets Act.

To the extent that any fund is mentioned in this document, neither the fund nor AXA IM Asia is making any representation with respect to the eligibility of any recipients of this document to acquire the units/shares in the fund under the laws of Korea, including but without limitation the Foreign Exchange Transaction Act and Regulations thereunder. The units/shares have not been registered under the Financial Investment Services and Capital Markets Act of Korea, and none of the units/shares may be offered, sold or delivered, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except pursuant to applicable laws and regulations of Korea.