Marketing communication. Investment involves risk, including loss of capital
Recorded 24 June 2025

Fixed Income

# Euro Credit Market Update


## Boutain Deixonne, Head of Euro IG & HY Credit


What's been happening in this market?

Welcome to our quarterly video.
With almost 2% total return for investment-grade and nearly 2.6% for high yield, the credit asset class delivered on expectations for the first half of the year.[1] However, from a spread perspective,this masks some diverging trends as the first two months were marked by a significant tightening, followed by a gradual widening trend starting at the end of February and reaching a high record level of over 100bps for investment grade and over 370bps for high yield, following the US tariffs announcement in early April. This move wasthen reversed by a strong squeeze driven by the easing of trade tensions between the United States and the rest of the world.

How can we explain this move?
One can argue that fundamentals have been solid, and that macro data has been resilient. This is valid, but importantly technicals have been again an impressive support to spreads.

What is our outlook?
Well, the ability of spreads to tighten in the face of expensive valuations and relatively high levels of macro uncertainty seems limited. Our base case scenario is for a global economic slowdown, decelerating inflation, notably in Europe, and weaker consumer sentiment. The average effective US tariff rate is more likely to rise from current levels and we expect it to reach a steady state of 15-18%.
Still, from a micro perspective, a review of credit metrics in the first quarter of the year indicates that credit risk remains modest which is positive for credit investors.Revenue and EBITDA growth rates remain healthy,  while debt growth and shareholder returns are not excessive. Higher yields are contributing to higher interest expense but also to slower debt growth.

The BBB cohort has remained more conservative as their balance sheet lags.Having said that,we should keep in mind that Q1 data has benefited from front-loading,so we expect Q2 earnings to be interesting to see how these trends will evolve from here, what will be the impact of higher tariffs and lower front-loading.

Looking ahead to 2026, European growth prospects may improve, benefiting from the German fiscal plan. Valuations are looking rich over Bunds, but still look reasonable from an all-in yields perspective offering over 3% for investment grade and over 5% for high yield.[2]

[1] Source: AXA IM, Bloomberg as of 20 June 2025

[2] Source: AXA IM, Bloomberg as of 20 June 2025

Another positive factor is the technical that remain supportive despite a record high supply. At this stage, we do not see a short-term catalyst that would derail those market technicals. Although we think valuations spreads are not overly attractive from a spread angle, the bar is relatively high to overcome such a robust backdrop, unless we see a visible turn in the economy, higher volatility in the rates, or weaker Q2 earnings.

The Treasuries market may see higher rates due to increased supply from fiscal positions, which might impact the rates market in Europe. Modestly higher rates would be positive for spreads, but substantial moves higher or erratic moves would not be.

Overall, we expect a more challenging second-half of the year as trade negotiations come to an end,and the economy may suffer payback from the front-loading of activity ahead of tariff hikes.

## Our positioning

While trade concerns are not in the market focus list today, it is set to return early July after the 90 days pause in "reciprocal" tariffs expires. Geopolitical tensions may also weaken market sentiment, but also consumer and business confidence.

In this uncertain environment,we think investors are not being well compensated for buying cyclicals. As such we favour financials and defensive sectors in our portfolios.

We would also favour extending duration in the high-rated credits. In terms of maturity, we would favour the belly of the curve the carry roll down appears the most attractive notably in the subordinated debt.

Thank you for watching this video.

Source: AXA IM as of June 2025



Issued in the UK by AXA Investment Managers UK Limited, which is authorised and regulated by the Financial Conduct Authority in the UK. Registered in England and Wales No: 01431068. Registered Office: 22 Bishopsgate London EC2N 4BQ