Euro Credit Market Update, October transcript

Where do we stand?

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Both ECB & Fed have started their cutting cycle. What is the impact on euro credit?

As the rates cycle shifts towards a more accommodative stance, we believe euro credit is becoming an increasingly attractive asset class. With yields compressing rapidly amid rates cuts, returning to levels last seen in late 2022, the search for yield has resurfaced.

Investors are now looking for diversified, liquid, and well-rated assets that offers a yield pick-up over lower-risk alternative assets such as government bonds or cash instruments. We expect strong demand for Euro credit to persist as long as this accommodative rate cycle continues, provided the macroeconomic outlook remains supportive.

The combination of yield compression, favourable liquidity, and solid risk-return dynamics positions Euro credit favourably in the current environment.

How might the euro credit market behave for the rest of the year?

After the first ECB (European Central Bank) cut last June, the Federal Reserve started its own rate-cutting cycle in mid-September without fueling fears about the health of the US economy. Despite initial worries, the US economy has shown resilience, with GDP growth remaining slow but steady and central banks are proactively supporting growth and employment, while inflation is expected to align with targets in the coming quarters.
This should create a favourable environment for both Investment-Grade (IG) and High Yield (HY) markets, potentially positioning them in a “sweet spot” for the remainder of the year. So the scene is set and all the ingredients are here for the credit asset class to perform and deliver a solid total return for the rest of the year.

Within IG, we have a preference for Financials, BBBs bonds and the belly of the curve. Within HY, we extremely are selective with a preference for BB-rates bonds as well as some high conviction in B/CCCs in Healthcare & Basic Industries.

How are you positioned for the rest of the year?

We are constructive on the Euro credit asset class and we believe it is still an opportune time to invest in credit. Nonetheless, macro data will be just as important as central bank actions for the direction of Euro credit over the remainder of the year.

Market participants will be closely watching the upcoming data points to signal if the economy and employment picture remain robust. The US elections may also be another source of volatility given its binary nature, and sentiment

may switch fast in the coming weeks. This reinforces the importance of an active, conviction-based management style in navigating this uncertain environment.
At AXA IM, we believe that we have the ability to understand client needs with our extensive experience in managing a wide range of credit strategies. Recognising that one size does not fit all, we offer tailored solutions to meet with client requirements, ranging from total return strategy, a genuine success story in terms of performance and inflows over the past two years, to our flagships Euro IG short-duration and Core Plus strategies – both of which have proven successful, with large assets under management for each strategy. All managed with the same DNA: a fundamentally driven process, focused bond selection, agility, and strong conviction.

Thank you for watching this video, and see you soon!

Source: AXA IM as of September 2024