

Euro Credit Market Views transcript

Gonzague Hachette, Investment Specialist

What has been happening in the euro credit market?

The era of quantitative easing, near zero rates and volatility suppression by central banks appears to be over. And in this context, we have a bias towards high quality, more liquid investments. Investment grade corporate bonds have experienced strong returns year to date despite a huge rise in central bank rates. The ICE BofA Euro Credit index rose by 3.23% this year, supported by the resilience of company results and, more broadly, of the European economy.

With a 4.28% yields, valuations remain a key factor, fueling optimism for investors in the European credit markets. Over the course of 2023, the asset class has seen more than €6 billion in inflows. We expect this trend to continue given the attractiveness of the asset class in more risk adverse environments. Corporate spreads, on the other hand, have remained range-bound in 2023 between 80 and 95 basis points, if we adjust for the volatility events.

They have held stable throughout the year because of a mix of positive news with quarterly earnings surprising on the upside and negative news around market sentiments and fear on future growth.

What are the main themes going forward?

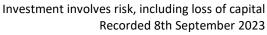
So there are essentially three themes that will play a role in the coming quarters. First of all, the paths for economic growth remain uncertain. We believe the risk for a mild recession in developed markets has increased due to tighter credit conditions, geopolitical tensions and uncertainties with major economies like China and the US. Data is already showing an increasing, but still limited, number of bankruptcies in the first half of 2023 due to interest rate expenses, stricter lending conditions and capital access limitations. However, this should remain limited within the high-quality segment of the fixed income markets. Second, inflation is expected to decelerate gradually, and this should impact central banks' policies. Even though disinflation is a feature in most economies, it has proven more persistent than expected. Mindful of the 2022 inflation shock, we sense that central banks will not want to ease rates too soon for fear of inflation returning. This should support a scenario where yields will continue to remain at attractive level for a prolonged period of time.

And third, the consumer resilience will be crucial to support the economy. Despite the bleak economic outlook, consumer spending seems resilient on the back of strong employment. So far, this has helped companies to pass on higher costs to consumers. Should this fade away, this could impact economic growth and company earnings.

What could this mean for investors?

As we expect the markets to remain challenging for the foreseeable future, we believe the best approach is to remain active. Yield levels for high quality bonds are now close to the long term average for equity real returns, yet potentially with significantly less volatility and more downside protection than equities. Overall, this may help investors to construct prudent, resilient portfolios with potentially attractive returns.

Source: AXA IM as of September 2023



Fixed Income / Euro Credit



Disclaimer

This video is for informational purposes only and does not constitute investment research or financial analysis relating to transactions in financial instruments as per MIF Directive (2014/65/EU), nor does it constitute on the part of AXA Investment Managers or its affiliated companies an offer to buy or sell any investments, products or services, and should not be considered as solicitation or investment, legal or tax advice, a recommendation for an investment strategy or a personalized recommendation to buy or sell securities.

Due to its simplification, this document is partial and opinions, estimates and forecasts herein are subjective and subject to change without notice. There is no guarantee forecasts made will come to pass. Data, figures, declarations, analysis, predictions and other information in this document is provided based on our state of knowledge at the time of creation of this document. Whilst every care is taken, no representation or warranty (including liability towards third parties), express or implied, is made as to the accuracy, reliability or completeness of the information contained herein. Reliance upon information in this material is at the sole discretion of the recipient. This material does not contain sufficient information to support an investment decision.

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

In other jurisdictions, this document is issued by AXA Investment Managers SA's affiliates in those countries.