

1

00:00:06,360 --> 00:00:10,400

Credit markets entered 2026 with a constructive momentum driven

2

00:00:10,400 --> 00:00:13,840

by positive economic growth, decelerating inflation,

3

00:00:13,840 --> 00:00:18,520

positive fiscal backdrops in both Germany and the US, alongside

4

00:00:18,520 --> 00:00:22,680

accommodative central bank policy, notably the US Federal Reserve.

5

00:00:22,680 --> 00:00:26,440

However, since February, credit markets have been under pressure

6

00:00:26,440 --> 00:00:30,440

due to two main factors: AI-related disruption to business

7

00:00:30,440 --> 00:00:35,320

models in sectors such as technology, IT services and media.

8

00:00:35,320 --> 00:00:37,920

This pressure in the software sector spilled

9

00:00:37,920 --> 00:00:41,360

over into private credit markets, as the asset class

10

00:00:41,360 --> 00:00:45,400

has significant exposure to software and technology issuers.

11

00:00:45,400 --> 00:00:49,920

Then further stress emerged when the
Business Development Companies (BDCs)

12

00:00:49,920 --> 00:00:53,080
restricted withdrawals
from their private credit funds.

13

00:00:53,080 --> 00:00:56,560
This triggered a wave of redemptions
across BDCs

14

00:00:56,560 --> 00:00:59,840
as investors' confidence in
the asset class waned.

15

00:01:03,400 --> 00:01:06,240
Meanwhile, the Iran conflict and its broader

16

00:01:06,240 --> 00:01:10,360
macroeconomic implications
dominated markets this quarter.

17

00:01:10,360 --> 00:01:14,600
The situation in the Middle East, coupled
with the surge in energy and commodity

18

00:01:14,600 --> 00:01:19,480
prices, and in supply chain restrictions,
shifted investor expectations

19

00:01:19,480 --> 00:01:23,520
regarding growth, inflation
and future central bank policy.

20

00:01:23,520 --> 00:01:27,280
The prospects of prolonged
higher oil prices and disrupted

21

00:01:27,280 --> 00:01:32,480
supply chains raised fears of stagflation,
prompting a sharp sell-off in rates,

22

00:01:32,480 --> 00:01:36,240
with a notable underperformance
in the short part of the curve,

23

00:01:36,240 --> 00:01:38,640
echoing memories from 2022.

24

00:01:38,640 --> 00:01:41,320
In contrast,
credit markets experienced

25

00:01:41,320 --> 00:01:46,000
more limited moves. Investment grade
and high yield euro credit spreads widened

26

00:01:46,000 --> 00:01:51,400
by 10 and 55 basis points, respectively,
during March, compared to a much sharper

27

00:01:51,400 --> 00:01:57,200
widening of 25 and 105 basis points
during last year's "Liberation Day" episode.

28

00:01:57,200 --> 00:01:57,240
The rate selloff
improved the overall yield environment,

29

00:01:57,240 --> 00:02:00,240
The rate sell-off
improved the overall yield environment,

30

00:02:00,240 --> 00:02:03,400
prompting some aggressive
buying from insurance firms

31

00:02:03,400 --> 00:02:06,840
but also from investors
in fixed maturity products.

32

00:02:06,840 --> 00:02:11,560
The IG credit index widened by 10 basis

points, with notable underperformance

33

00:02:11,560 --> 00:02:16,320

in sectors like real estate,
automotive and subordinated debt.

34

00:02:16,320 --> 00:02:19,920

Defensive sectors
like utilities, consumers and telecom

35

00:02:19,920 --> 00:02:21,560

were much more resilient.

36

00:02:21,560 --> 00:02:26,720

The high yield segment cheapened as well,
with spreads widening by 55 basis points

37

00:02:26,720 --> 00:02:30,880

with significant underperformance
of single Bs and CCCs.

38

00:02:34,440 --> 00:02:37,920

Despite these headwinds,
the market remains very active,

39

00:02:37,920 --> 00:02:42,520

with €225 billion of new issuance
in the market during the quarter,

40

00:02:42,520 --> 00:02:46,960

broadly in line with the trend
seen in the first quarter of 2025.

41

00:02:46,960 --> 00:02:47,040

What was striking,
though, is that demand remained

42

00:02:47,040 --> 00:02:49,720

What was striking,
though, is that demand remained

43

00:02:49,720 --> 00:02:53,640
robust even during March,
reflecting investors' appetite

44

00:02:53,640 --> 00:02:55,240
and available cash.

45

00:02:55,240 --> 00:02:57,600
Flow dynamics have
been mixed, particularly

46

00:02:57,600 --> 00:03:01,680
in high yield, where we have seen
some outflows. In IG inflows

47

00:03:01,680 --> 00:03:05,760
have slowed, though overall year
to date flows remain positive.

48

00:03:05,760 --> 00:03:09,960
The biggest short-term risk is
clearly a shift in recession expectations,

49

00:03:09,960 --> 00:03:13,160
leading to outflows from
the credit asset class.

50

00:03:16,800 --> 00:03:20,560
Overall, we are in an environment
where credit spreads have widened.

51

00:03:20,560 --> 00:03:22,760
All-in yields have materially improved.

52

00:03:22,760 --> 00:03:25,680
Concessions
in the primary markets are rising

53

00:03:25,680 --> 00:03:28,920
and investors are becoming more selective.

54

00:03:28,920 --> 00:03:31,640

We think that fundamentals
are largely resilient,

55

00:03:31,640 --> 00:03:34,560

with leverage and credit metrics
still decent.

56

00:03:34,560 --> 00:03:39,200

In the coming weeks, the oil and growth shocks
are likely to continue influencing

57

00:03:39,200 --> 00:03:43,200

credit risk sentiment,
but the AI-disruption and private credit

58

00:03:43,200 --> 00:03:46,640

market stress could re-emerge
as dominant themes.

59

00:03:46,640 --> 00:03:51,760

For now, markets are not experiencing
disorderly widening or panic.

60

00:03:51,760 --> 00:03:54,560

However, caution and discipline are warranted

61

00:03:54,560 --> 00:03:57,120

because technicals can move very quickly.

62

00:03:57,120 --> 00:03:58,760

Despite solid fundamentals,

63

00:03:58,760 --> 00:04:02,720

we have adopted a more cautious stance
in our positioning

64

00:04:02,720 --> 00:04:06,640

and have maintained our current exposure
to the high yield segment.

65

00:04:06,640 --> 00:04:11,040

The rate sell-off led to bond yields rising to attractive levels,

66

00:04:11,040 --> 00:04:15,720

so we have taken this opportunity to add exposure to bonds that have widened

67

00:04:15,720 --> 00:04:19,160

in the senior space, but also subordinated bonds with short

68

00:04:19,160 --> 00:04:21,680

dated call and high results.

69

00:04:21,680 --> 00:04:25,320

On duration, while ECB hikes cannot be ruled out,

70

00:04:25,320 --> 00:04:29,120

the sell-off in the front-end is likely overdone in our view,

71

00:04:29,120 --> 00:04:31,760

and we will continue to manage duration actively.

72

00:04:31,760 --> 00:04:34,440

Thank you for watching this video and see you soon.