00:00:10:02 - 00:00:11:17
Since the beginning of the year,

00:00:11:17 - 00:00:14:21
credit markets have faced several challenges, including concerns

00:00:14:21 - 00:00:18:00
over AI disruption, private credit spillovers,

00:00:18:00 - 00:00:22:09
as well as energy shocks and supply chain uncertainty due to the Iran war.

00:00:22:09 - 00:00:27:19
This has resulted in a dramatic shift in expectations regarding central bank action,

00:00:27:19 - 00:00:30:21
causing significant volatility in interest rates.

00:00:30:21 - 00:00:35:04
Despite this uncertain environment, credit markets have demonstrated

00:00:35:04 - 00:00:39:20
remarkable resilience to headline risks, with spreads returning to their early-year

00:00:39:20 - 00:00:43:10
levels across both investment-grade and high yield segments.

00:00:43:10 - 00:00:46:22
This resilience is supported by attractive all-in-yields,

00:00:46:22 - 00:00:50:11
strong demand for credit and still-solid fundamentals.

00:00:54:03 - 00:00:56:20
From the end of March 2026,

00:00:56:20 - 00:01:00:20
a progressive de-escalation between the US and Iran eased tensions,

00:01:00:20 - 00:01:05:12
leading to a significant spread tightening by nearly 18 basis points

00:01:05:12 - 00:01:10:06
in investment grade and by 65 basis points in the high-yield market.

00:01:10:06 - 00:01:14:24
Indeed, hopes for an end to the war reassured market participants,

00:01:14:24 - 00:01:19:22
while strong overall corporate earnings have allowed the market to continue its rally.

00:01:19:22 - 00:01:22:20
Looking ahead, spreads could reprise in the event

00:01:22:20 - 00:01:26:21
of any difficulties during negotiations between the US and Iran.

00:01:26:21 - 00:01:30:23
Additionally, themes such as AI-related disruption,

00:01:30:23 - 00:01:36:09
tensions in the private credit segment, second quarter results or upcoming elections

00:01:36:09 - 00:01:40:00
could regain importance and trigger market volatility.

00:01:40:00 - 00:01:46:06
Remarkably, primary issuance has been dynamic, with over €230 billion gross debt issued

00:01:46:06 - 00:01:51:05
in investment grade and around €46 billion in high yield during the second quarter.

00:01:51:05 - 00:01:55:00
May was one of the busiest months, with a record high

00:01:55:00 - 00:01:58:13
of €110 billion of new investment grade debt.

00:01:58:13 - 00:02:02:04
Primary issuance has been absorbed despite the rates volatility

00:02:02:04 - 00:02:04:02
and the uncertain environment,

00:02:04:02 - 00:02:07:22
although we have noticed recently more selective participation

00:02:07:22 - 00:02:12:18
from investors given current spread levels and modest new issue premiums.

00:02:16:10 - 00:02:19:16
In our baseline scenario, which features lower growth

00:02:19:16 - 00:02:23:16
and higher inflation than our initial expectations,

00:02:23:16 - 00:02:26:09
we believe credit spreads are likely to remain

00:02:26:09 - 00:02:30:01
within a fairly narrow range in the second half of the year.

00:02:30:01 - 00:02:32:22
We do not see catalysts for spread compression,

00:02:32:22 - 00:02:36:07
but we struggle to see a catalyst for a major widening.

00:02:36:07 - 00:02:40:09
We therefore maintain a constructive view on the credit asset class,

00:02:40:09 - 00:02:42:16
both investment grade and high yield,

00:02:42:16 - 00:02:46:08
given decent fundamentals, modest default rates,

00:02:46:08 - 00:02:50:10
and still attractive yield levels which should continue to support flows.

00:02:50:10 - 00:02:53:18
We continue to favour financial institutions across

00:02:53:18 - 00:02:58:15
all seniority levels, from senior preferred to Additional Tier 1 bonds.

00:02:58:15 - 00:03:01:08
We prefer issuers with solid balance sheets

00:03:01:08 - 00:03:05:12
and defensive profiles, like utilities and telecoms.

00:03:05:12 - 00:03:09:11
We also like exposure to hybrid debt, which offers an attractive

00:03:09:11 - 00:03:10:22
risk-reward profile.

00:03:10:22 - 00:03:14:01
We are more cautious on cyclical sectors, particularly

00:03:14:01 - 00:03:18:03
those offering a low premium relative to the rest of the universe.

00:03:18:03 - 00:03:21:24
Finally, our exposure to high yield remains stable.

00:03:21:24 - 00:03:25:08
We think high yield could remain supported by high coupons,

00:03:25:08 - 00:03:28:10
low duration and a benign default backdrop.

00:03:28:10 - 00:03:34:23
We maintain a focus on the BB segments and selective opportunities in bonds rated single B,

00:03:34:23 - 00:03:38:14
where carry is attractive relative to default risk.

00:03:38:14 - 00:03:40:02
Thank you for watching this video,

00:03:40:02 - 00:03:43:02
wishing you a pleasant summer and we look forward to seeing you

00:03:43:02 - 00:03:44:12
in our next edition.