



EUROPEAN OUTLOOK CONFERENCE

LONDON

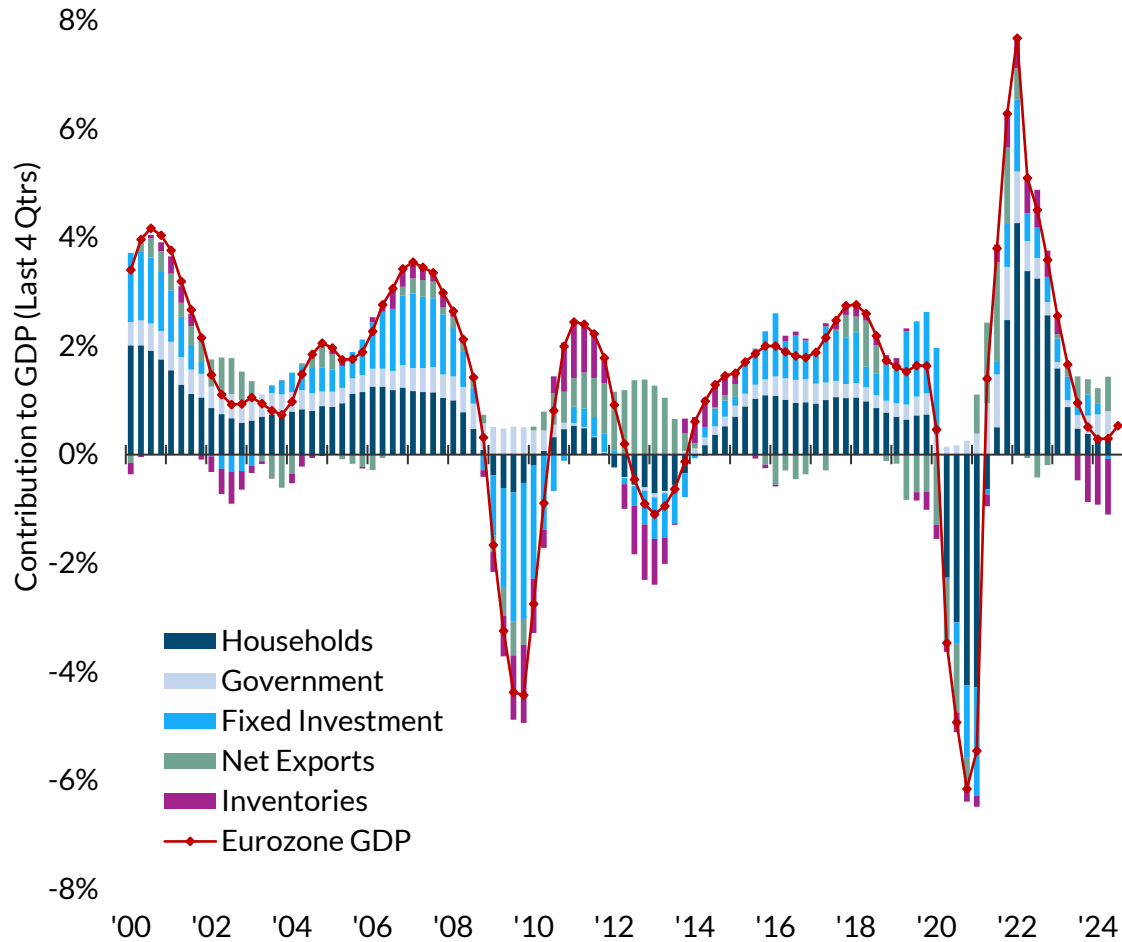
European Credit 2025 Outlook Long Is A Battlefield

Logan Miller, Head of European Strategy

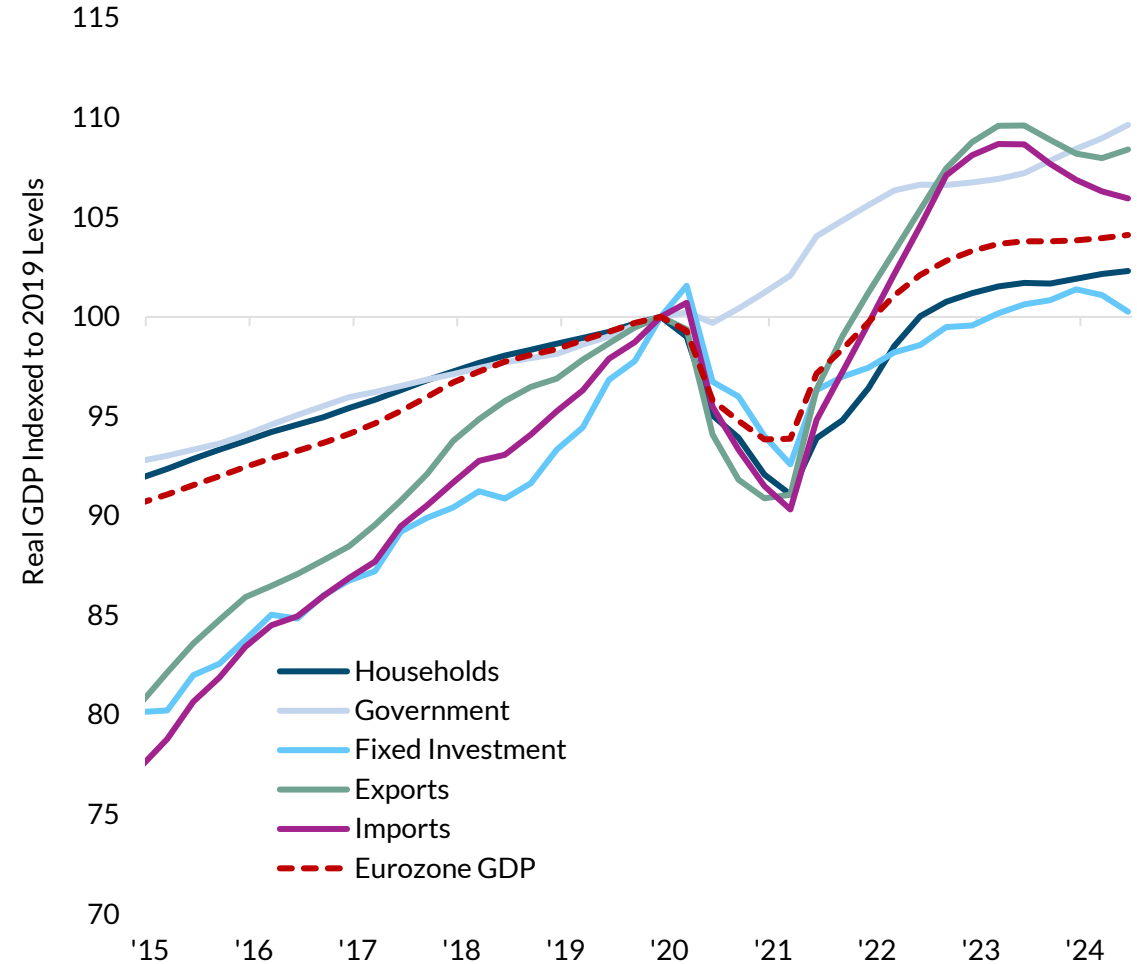
5 December 2024

Eurozone Economy Needs a Hero

Eurozone Growth Facing Mounting Challenges

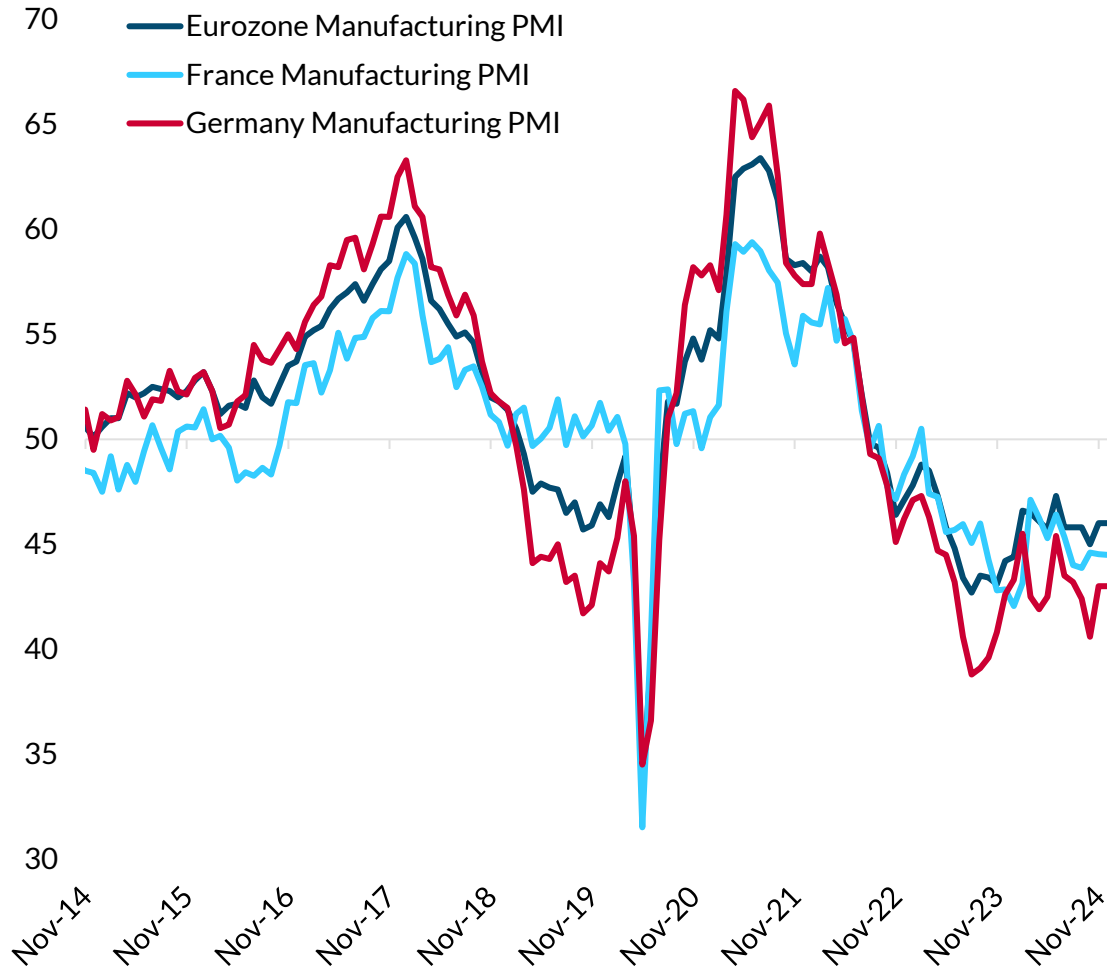


Recovery Stemmed from Gov't Spending + Exports

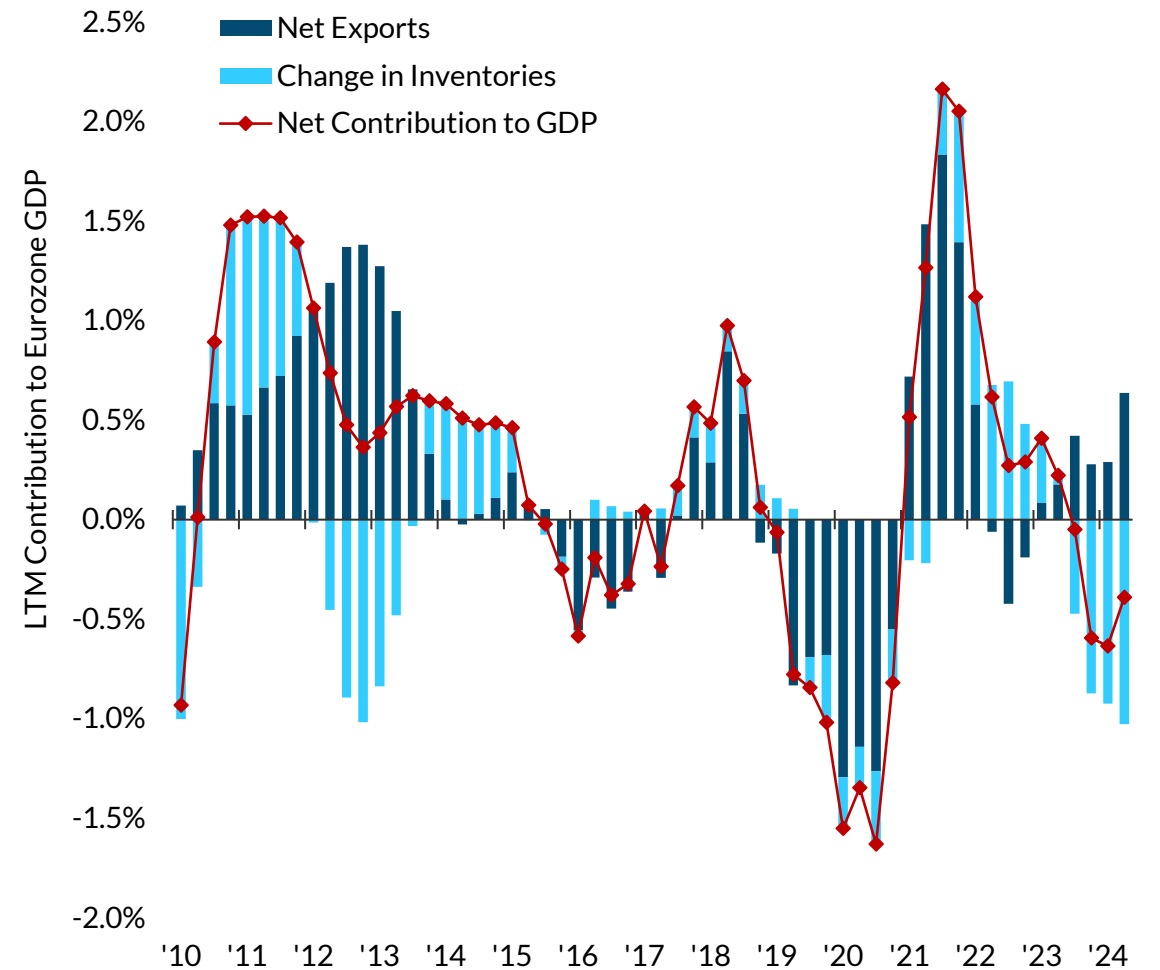


Industrial Downturn Becoming A Lot More Complicated

Manufacturing Contraction for Two Years Running

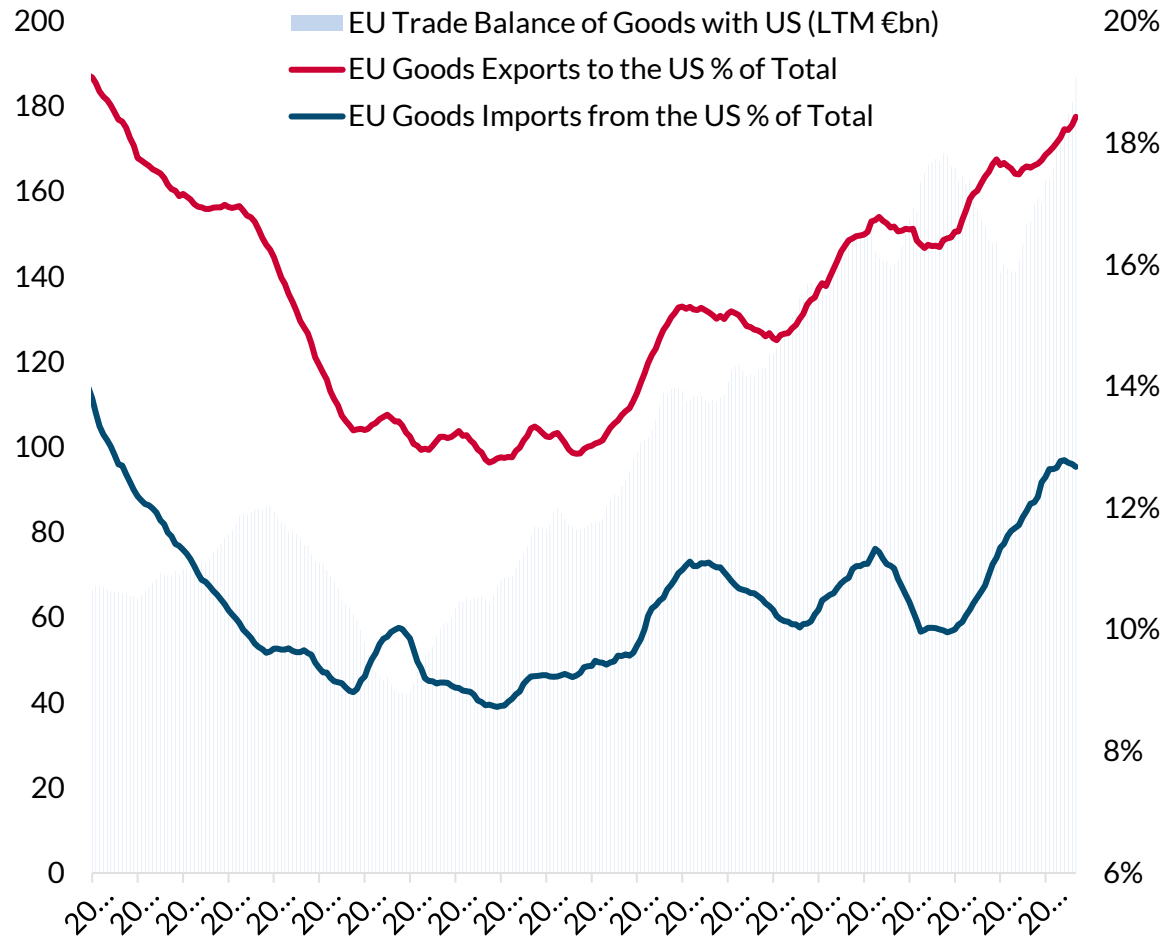


Trade Conflicts Could Compound the Inventory Drag

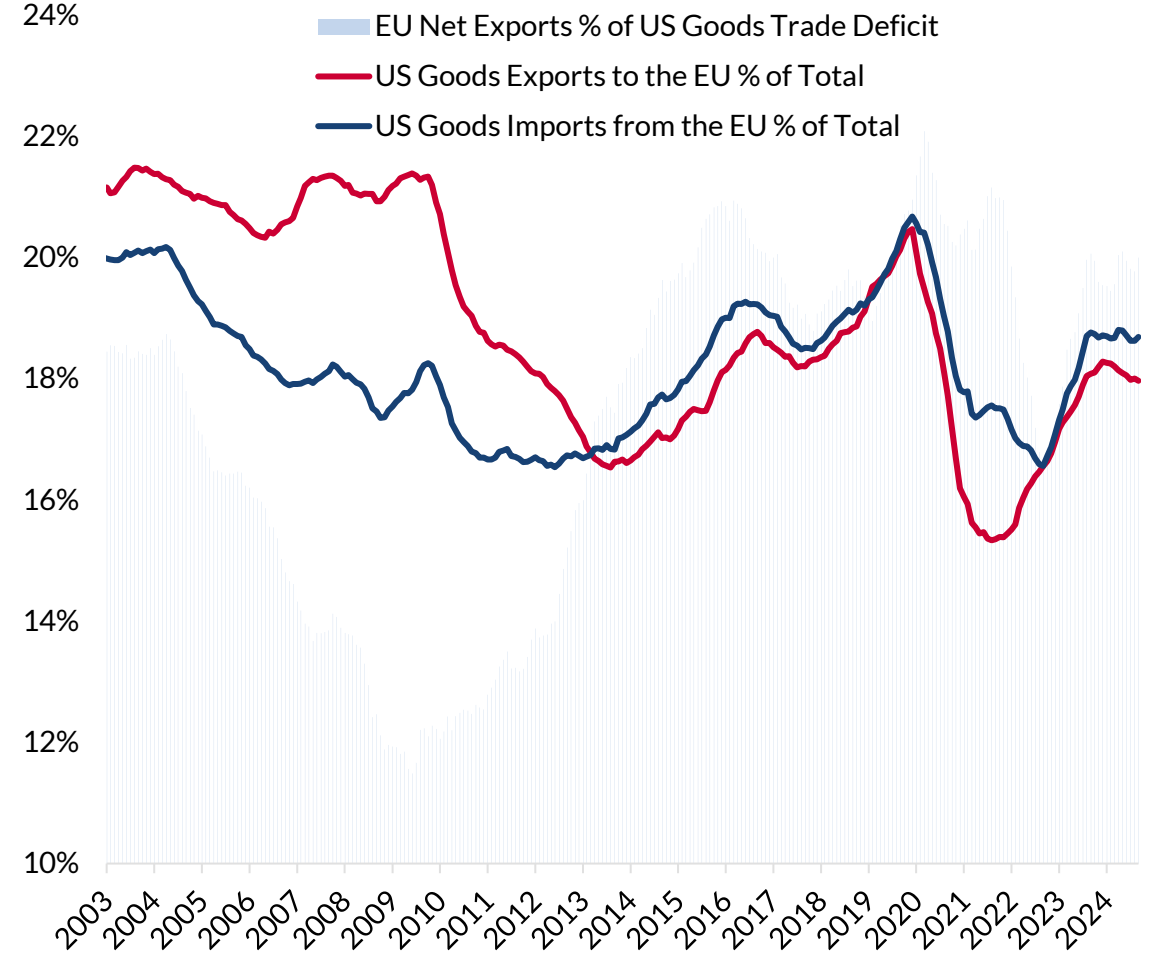


Tariff Headache Rather Than Heartbreak

EU Perspective: Net Exports to US at All-time Highs

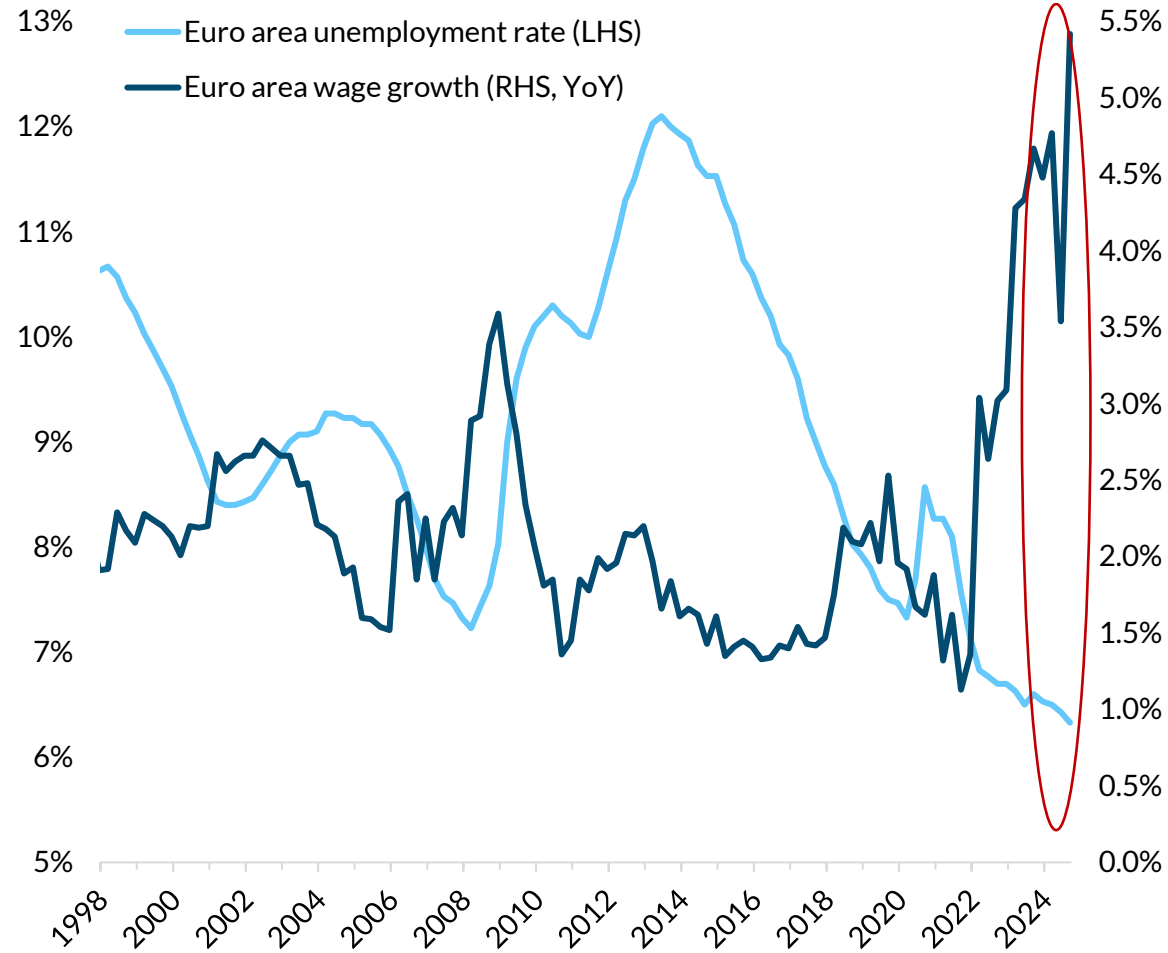


US Perspective: Dependent on EU Bilateral Trade

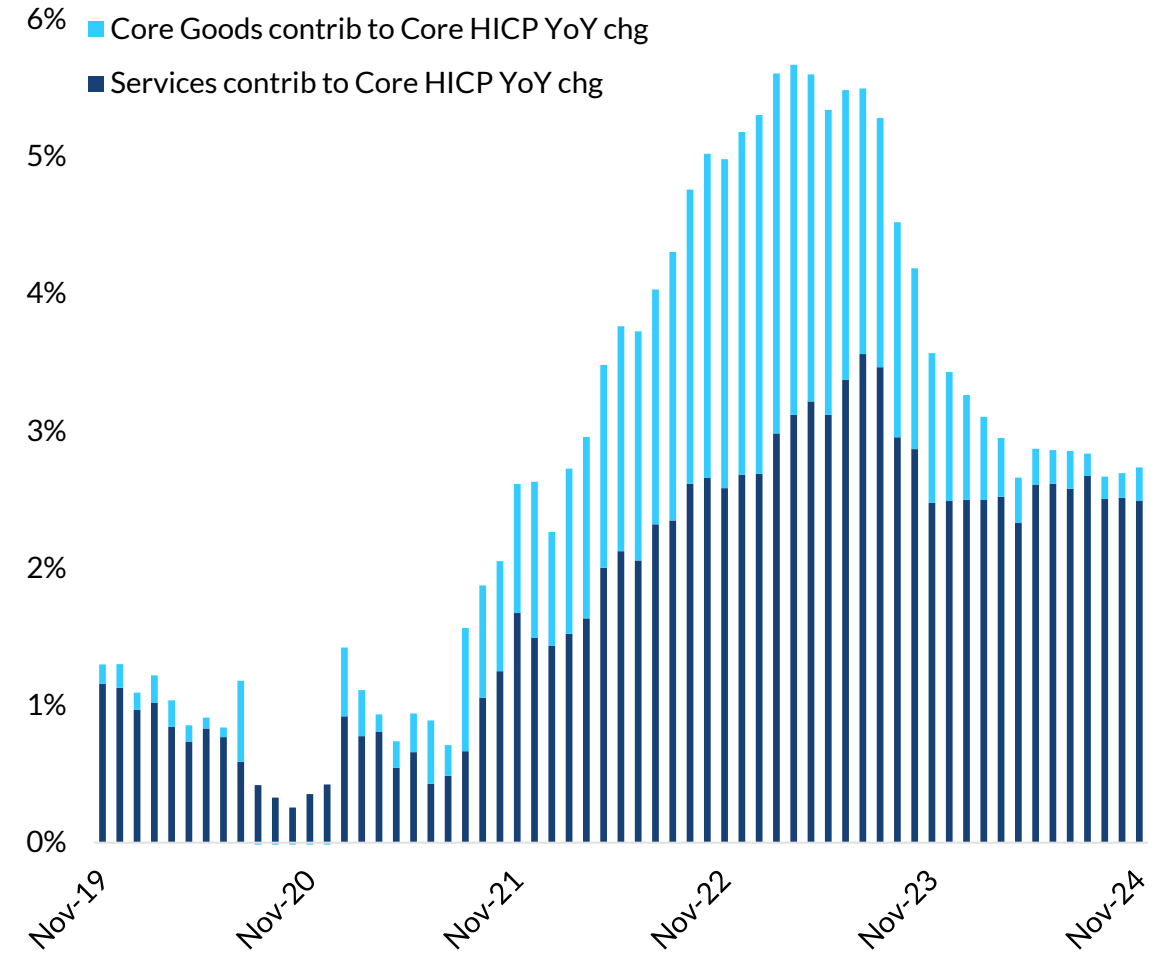


Inflation Reflects Structurally Tight Labor Markets

Tight Labor Market Is Fueling Wages and Inflation

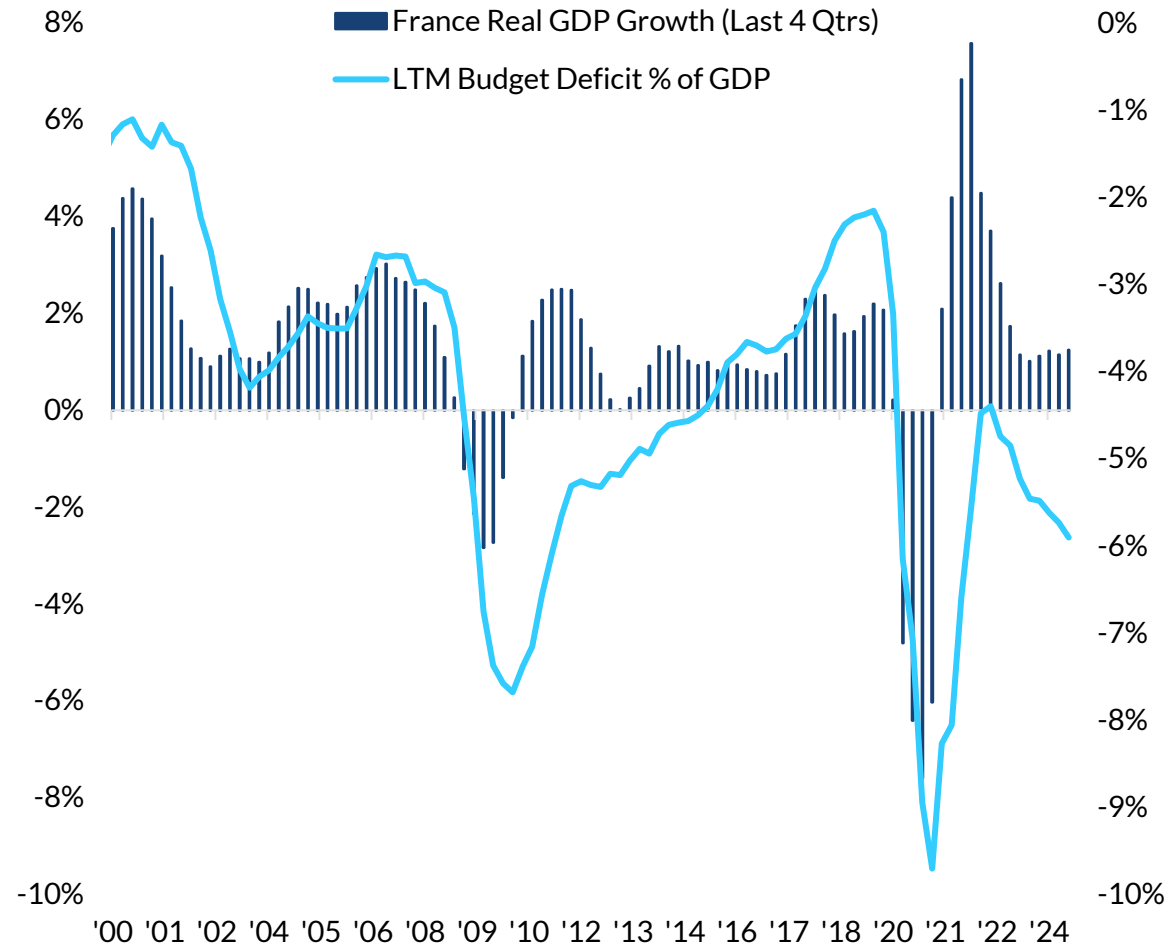


Core Services Inflation Has Barely Budgeted YTD

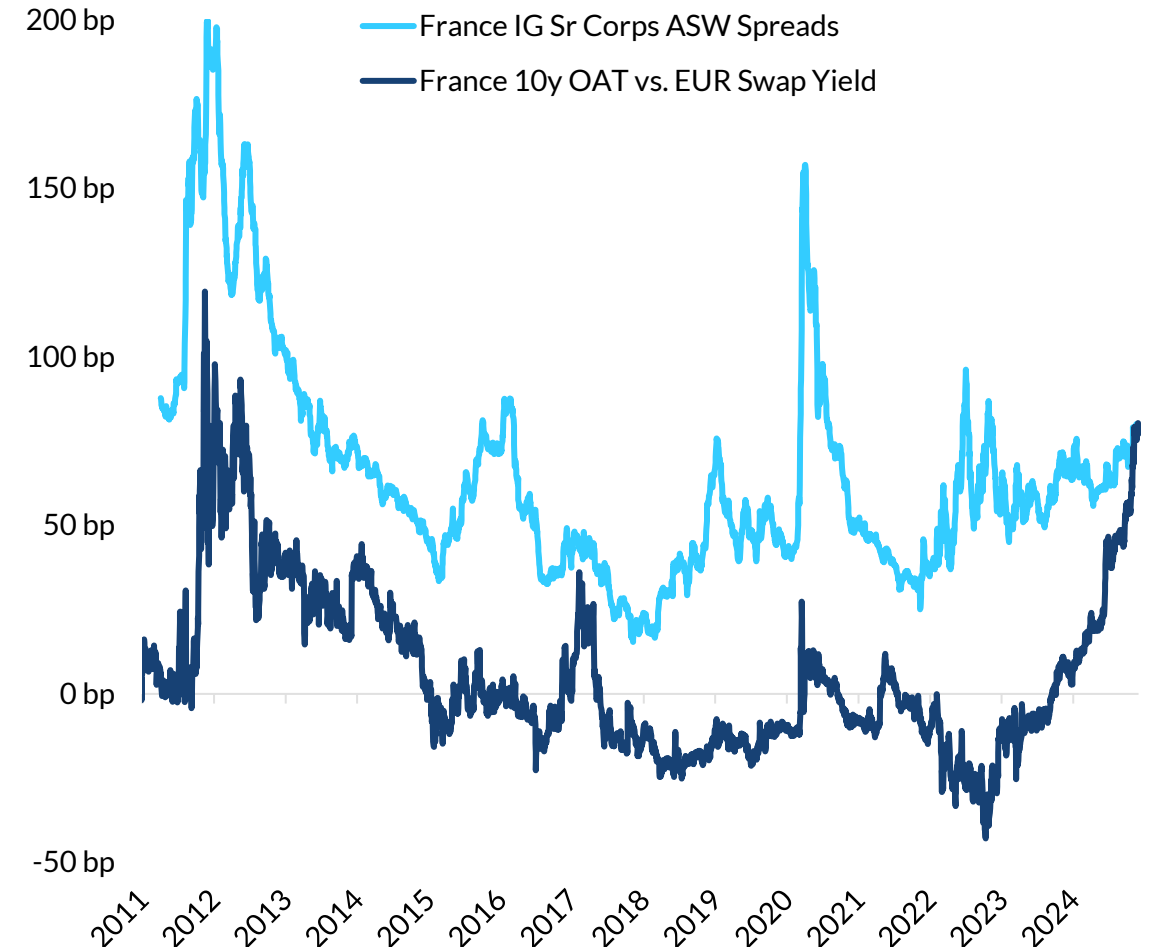


France Remains a Key Risk for Euro Credit Spreads

Low Growth Complicates France's Fiscal Woes

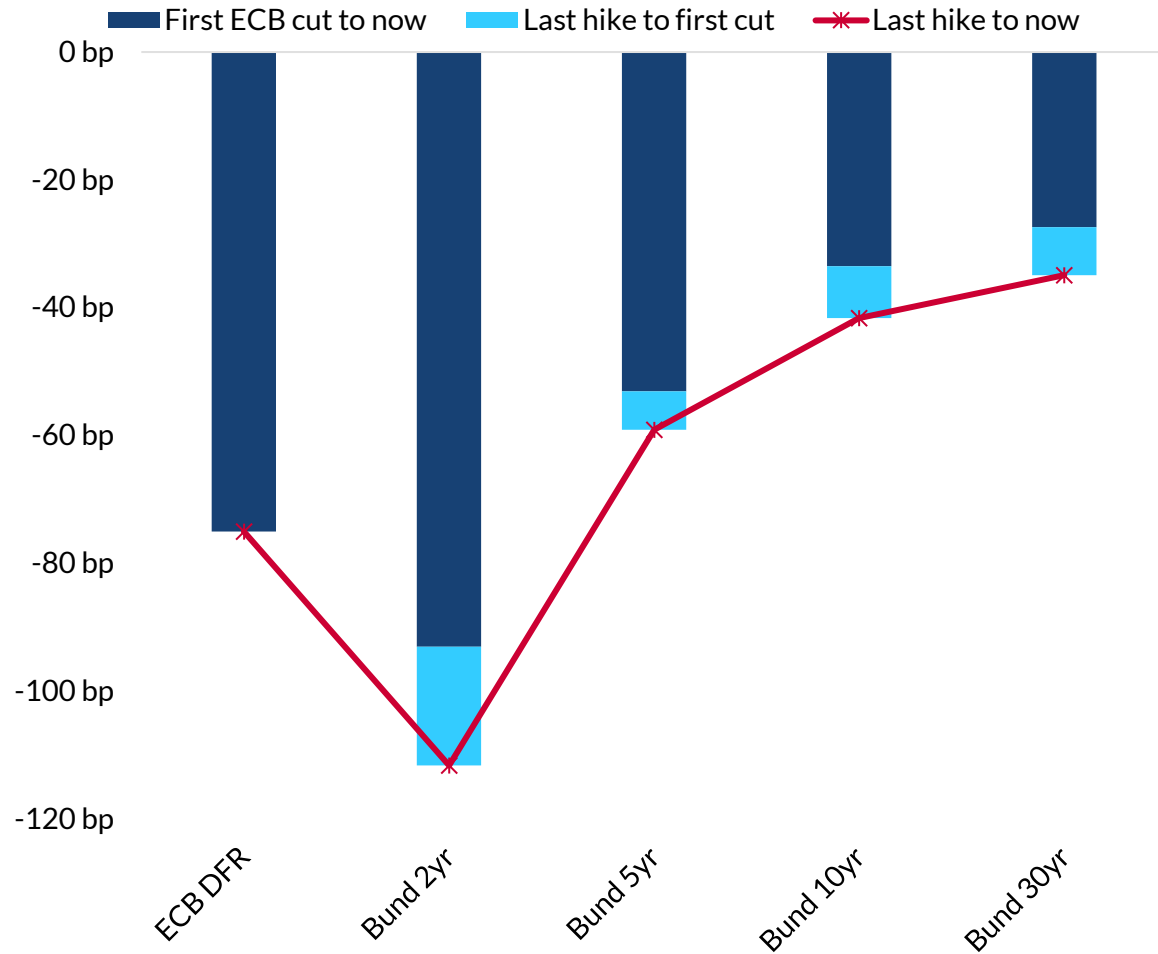


French OATs Pricing More Risk Than Credit Spreads

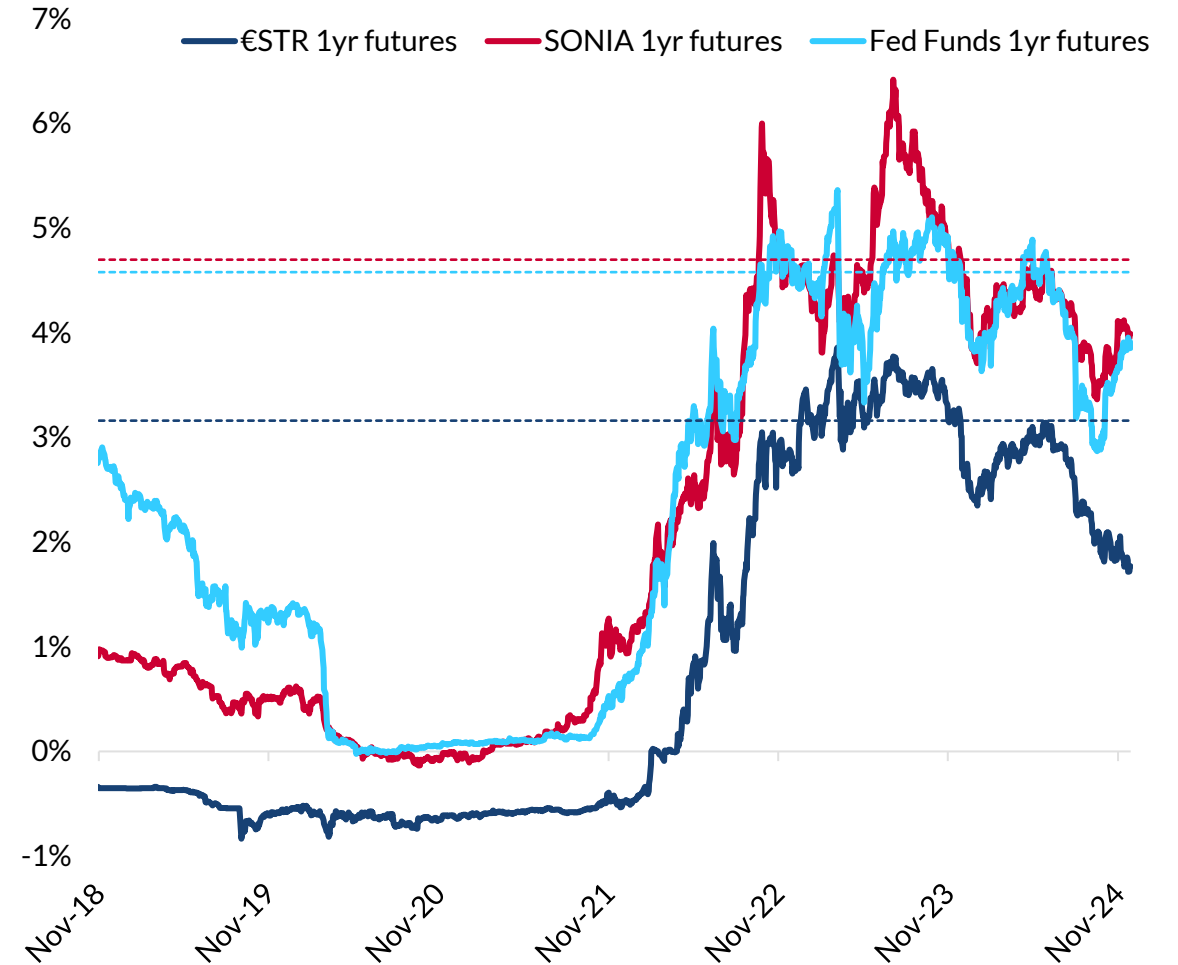


Central Bank Policy Expectations

ECB Market Pricing Implying Aggressive Easing Ahead



Central Bank Goalposts Are Shifting



European Credit Strategy 2025 Forecasts

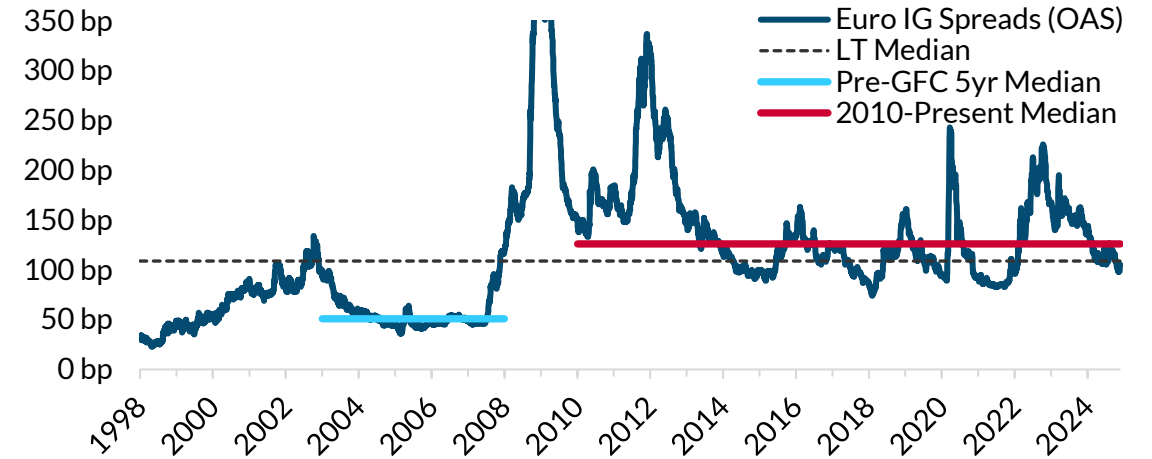
	YE 2023 Actual	YTD Actual 29 Nov	YE 2025 Forecasts			Probability Weighted
			Status Quo (Bull)	Tariff-Lite (Base)	Recession (Bear)	
Probability Weighting			25%	60%	15%	
Euro Investment Grade						
Spreads (OAS, bp)	135	106	80	130	200	130
Yields (YTW, %)	3.5	3.0	3.2	3.5	3.2	3.4
Excess Return (bp)	+365	+278	+225	0	-275	+15
Total Return (%)	+8.0	+5.1	+2.2	+1.2	+2.4	+1.6
Gross Issuance (€BN)	549	629	650	575	450	575
Euro High Yield						
Spreads (OAS, bp)	395	341	275	400	650	406
Yields (YTW, %)	6.3	5.7	5.5	6.6	8.2	6.6
Total Return (%)	+12.0	+7.9	+6.0	+4.0	0.0	+3.9
Default Rate (LTM % Issuers)	2.4	3.1	2.0	3.3	6.0	3.2
Gross Issuance (€BN)	54	104	130	110	75	110
Sterling Investment Grade						
Spreads (OAS, bp)	134	102	90	120	180	120
Yields (YTW, %)	5.1	5.3	4.7	5.4	4.5	5.1
Excess Return (bp)	+564	+287	+175	0	-300	0
Total Return (%)	+9.8	+2.7	+8.0	+4.5	+10.0	+6.2
Gross Issuance (£BN)	58	46	70	55	35	56
Policy Rates/Bond Yields						
ECB Deposit Facility (%)	4.00	3.25	2.50	2.00	1.00	2.00
Bund 2-Year Yield (%)	2.39	1.95	2.30	2.15	1.25	2.05
Bund 10-Year Yield (%)	2.02	2.09	2.70	2.30	1.25	2.25
BOE Bank Rate (%)	5.25	4.75	3.75	3.50	2.50	3.40
Gilt 2-Year Yield (%)	3.98	4.23	3.50	4.00	2.50	3.65
Gilt 10-Year Yield (%)	3.54	4.24	4.00	4.30	2.80	4.00

Euro IG Strategy for 2025

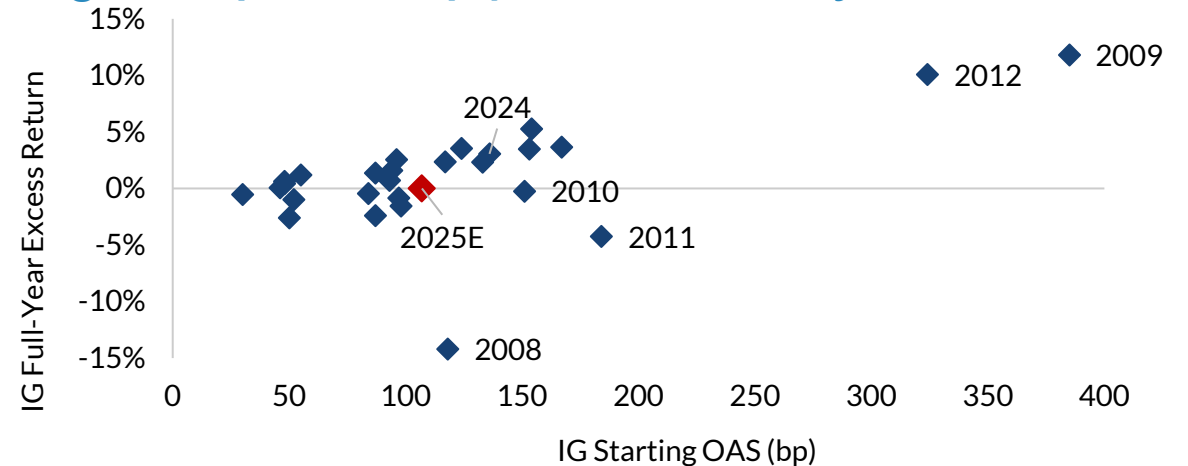
Key Expectations and Recommendations for 2025

- Underweight recommendation to Euro IG Credit, targeting 130 bp as a 'fair value' entry point.
- Increased volatility and decompression means the path for IG spreads will not be straight line and risk-adjusted excess returns will be lower in '25 vs. '24.
- Expect a handoff from technicals to fundamentals, with tepid growth prospects compounded by potential tariffs and political volatility.
- Close-to-home sector strategy with a focus on domestic issuers with stable leverage and strong cashflow generation.
- Prefer moving up-in-quality within sectors and shortening spread duration on credit curve steepening.
- Maintain selective exposure to corporate hybrids and financial subs to add incremental carry.

Euro IG Credit Spreads Tight by Post-GFC Standards



Tight IG Spreads Imply Lower Risk-Adjusted Returns

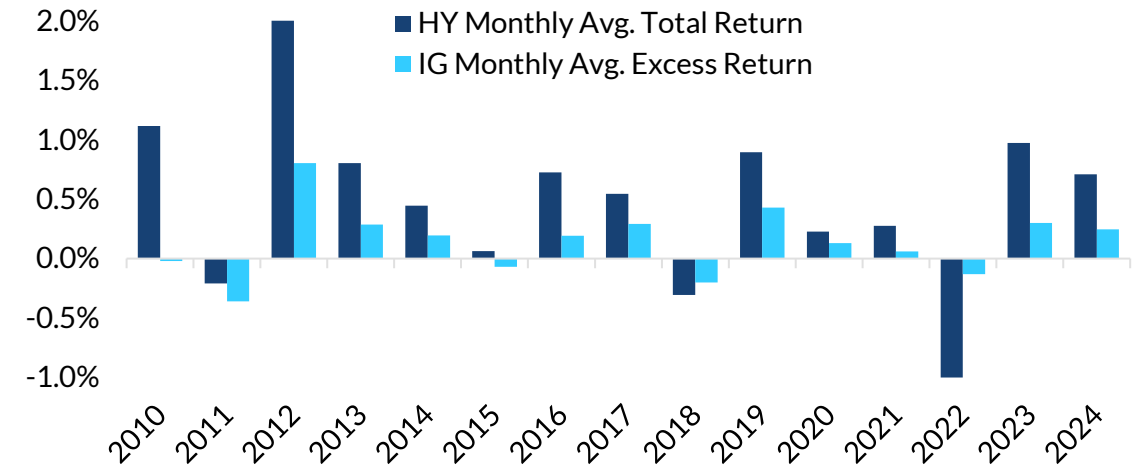


Euro HY Strategy for 2025

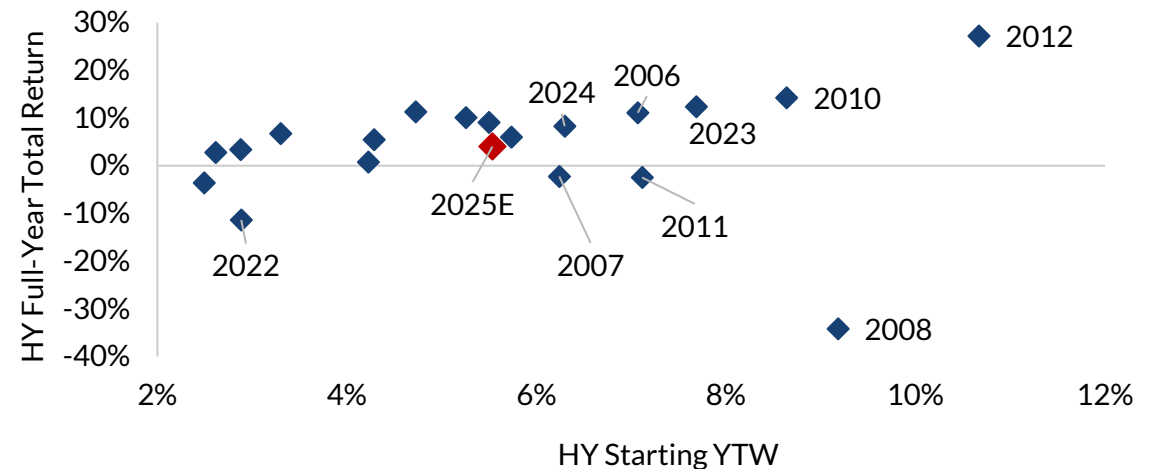
Key Expectations and Recommendations for 2025

- Market Weight recommendation to Euro HY credit, forecasting full-year total return of +4%.
- Expect elevated carry to offset spread widening, while the short-duration nature of the asset class helps HY better absorb rate volatility.
- Strong technicals amid limited net supply prospects and a shrinking pool of higher-yielding assets.
- Shorter duration, single-Bs look most compelling on a risk-adjusted basis. BB spreads look rich but remain a tactical opportunity for total return investors. Expect CCC valuations to remain decompressed.
- Expect HY default rates to hold steady within a 3.0%-3.5% range, as easing ECB policy rates and a terming out of near-term maturities keeps the default cycle contained.

Euro HY Average Monthly Total Return



Current Yields Are Consistent With Positive Return



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