



Euro IG Credit Outlook

Q3 2025: Stay cool this summer as economic growth persists and normalcy resumes

Fixed Income

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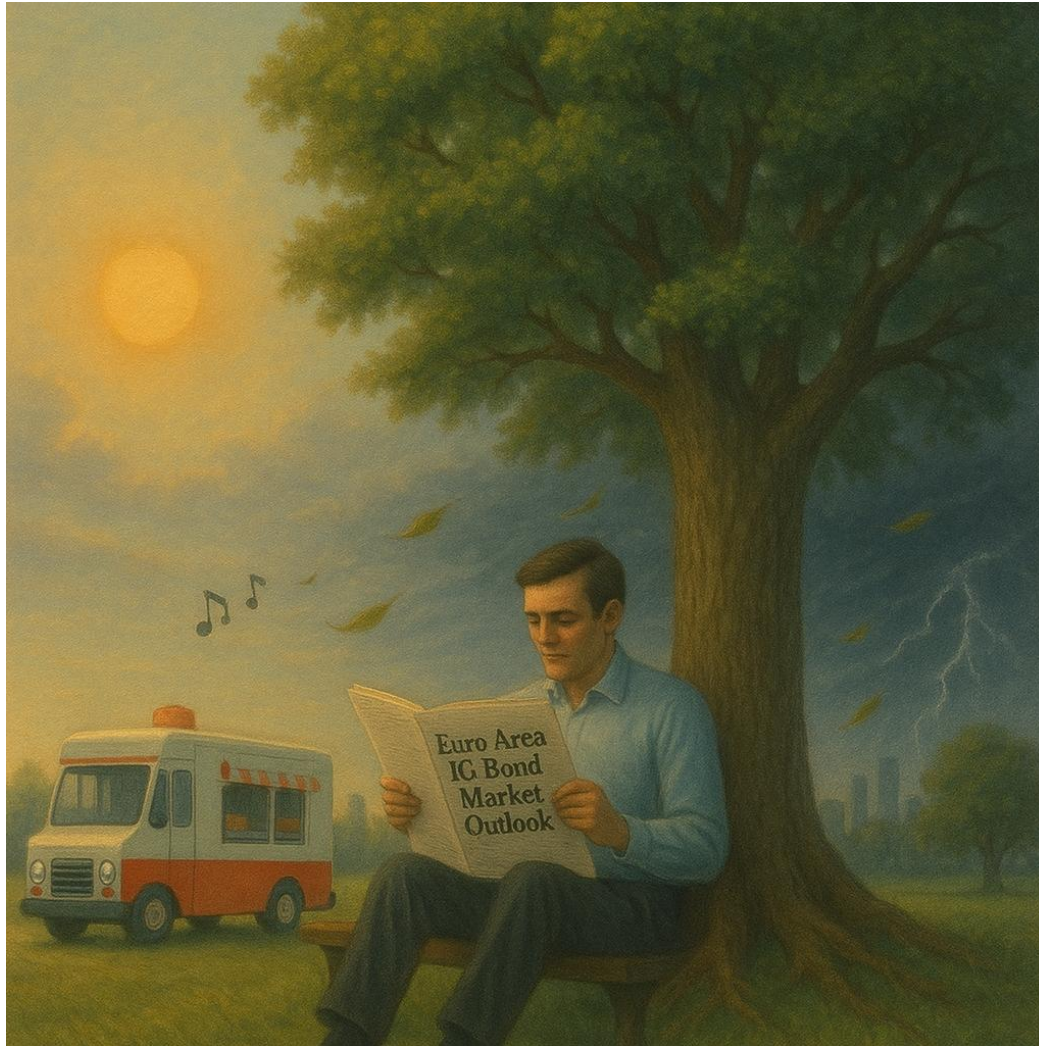
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Corporate Credit: Staying Cool in a Shifting Climate



“Think of the Euro Area Investment Grade bond market as a long summer day. **Credit fundamentals** are your shade - steady, reliable, and essential for comfort. **Central banks** act like a cooling breeze - subtle, sometimes unexpected, but capable of shifting the mood dramatically. **Supply** is the background hum - like the jingle of an ice cream truck: occasionally loud, often predictable, but always part of the scene. As we head into summer, the climate is warming—and not just in the literal sense. Volatility is rising, and cloud cover may roll in fast. But with strong fundamentals still in place and monetary policy gradually adjusting in the second half of the year, there’s reason to stay calm. For those positioned well, the market offers opportunities to stay cool, ride out the heat, and enjoy the season - even with a few surprise gusts of winds along the way.”

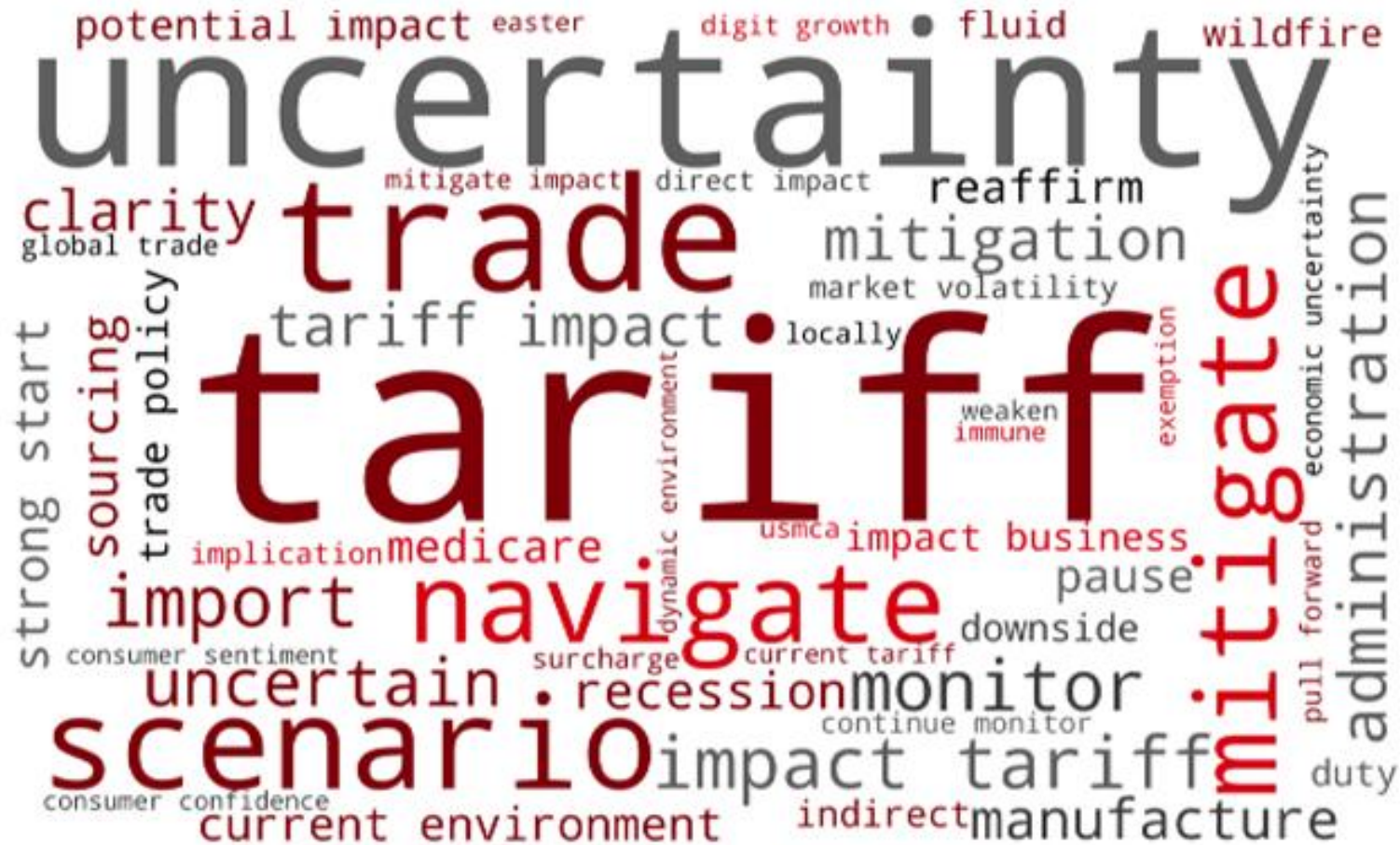
Euro Corporate Roadmap 2025

Assessment of key drivers:

	KEY THINGS TO WATCH	CHECK?	COMMENT
MACRO 	1 Inflation	WATCHLIST	Core disinflation progressing well in EU, as is the US NY Fed 1 & 3yr inflation expectations.
	2 Employment	WATCHLIST	Slowing in an orderly manner with the Fed now being more sympathetic to defending employment.
	3 Economy	WATCHLIST	Soft landing on track. Powell confirms the economy is very large and reasonably sustainable. EU fiscal spending in focus.
	4 Productivity	✓	Higher productivity through AI, supporting margins.
	5 Interest rates	✓	Cutting cycle continues in 2H; defense & fiscal spending in EU only fully kicks in in 26/27.
MICRO 	6 Credit quality	✓	Solid credit metrics sustained (fins & non-fins).
VALUATION 	7 All-in yields	✓	All-in yields attractive. Yield narrative robust, attracting re-investments & additional buyers.
SENTIMENT 	8 Sentiment	WATCHLIST	Overall sentiment and positioning still softer given tariffs & uncertainty; this should represent a bullish signal given tentative signs of turning.

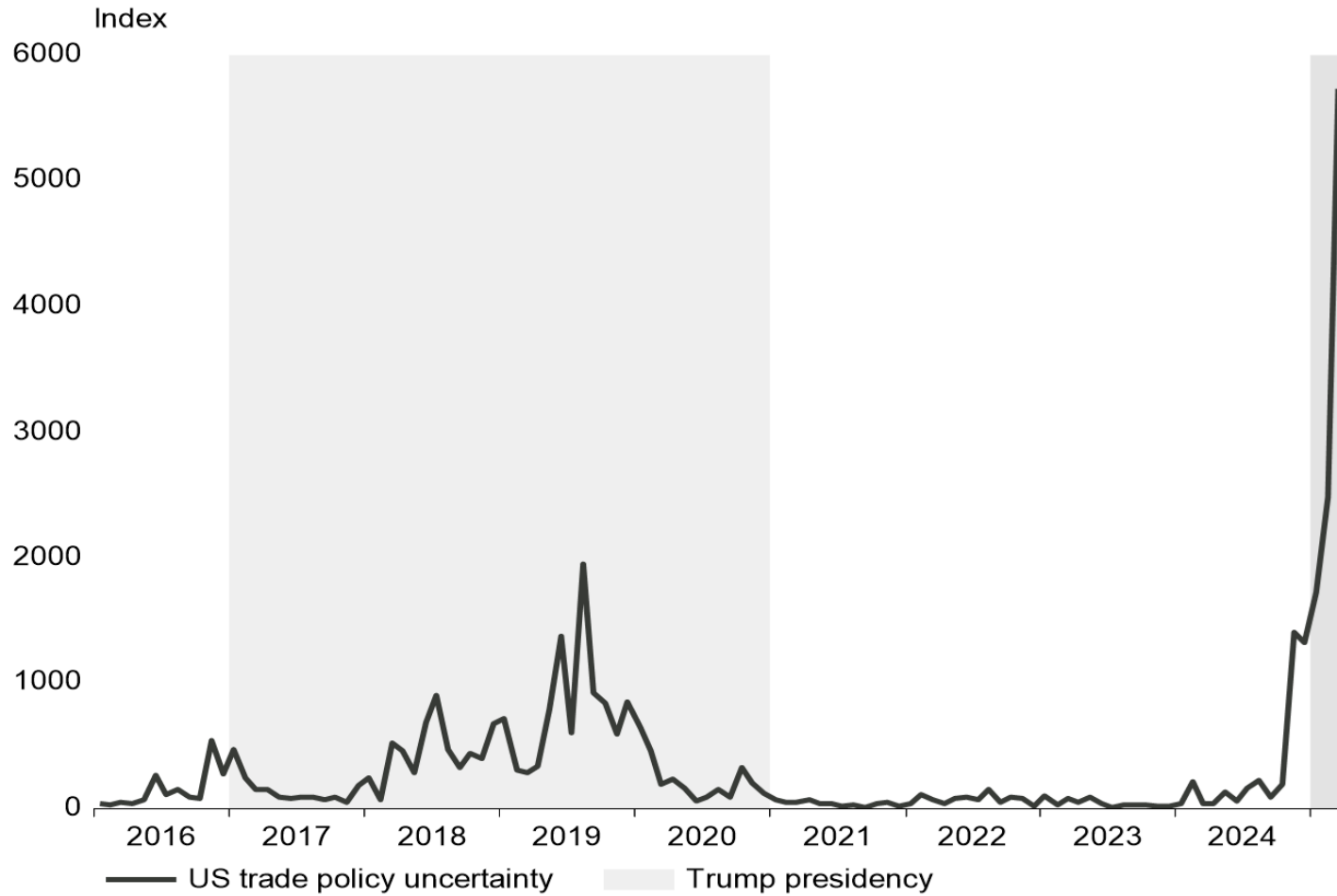
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 Source: Vontobel, as of 18.06.2025.

Uncertainty and tariffs have kept markets busy YTD, presenting opportunities



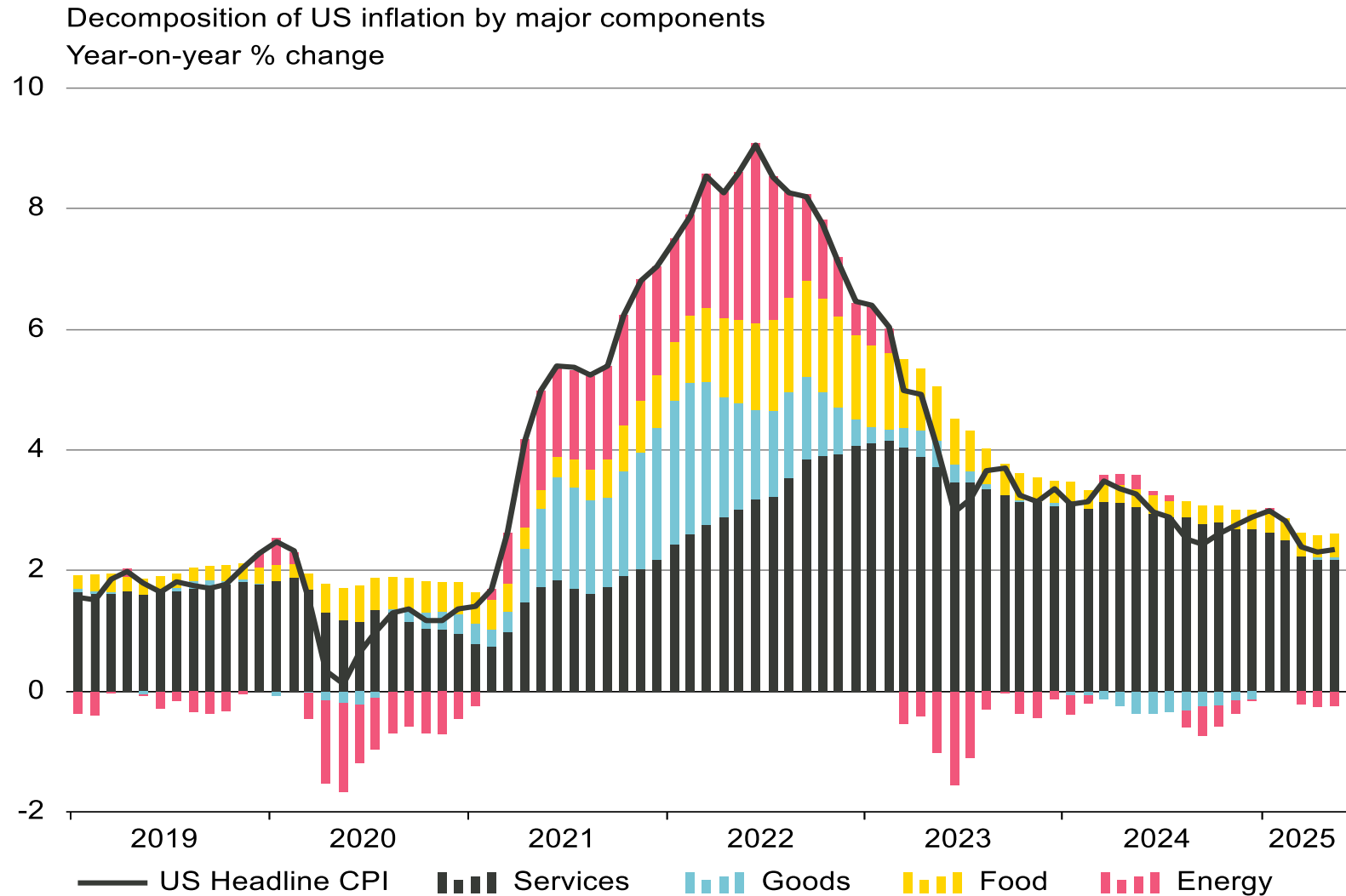
Peak of tariff uncertainty likely behind us

This is encouraging us to carry on as many macro metrics are normalising or showing tentative signs of improvement



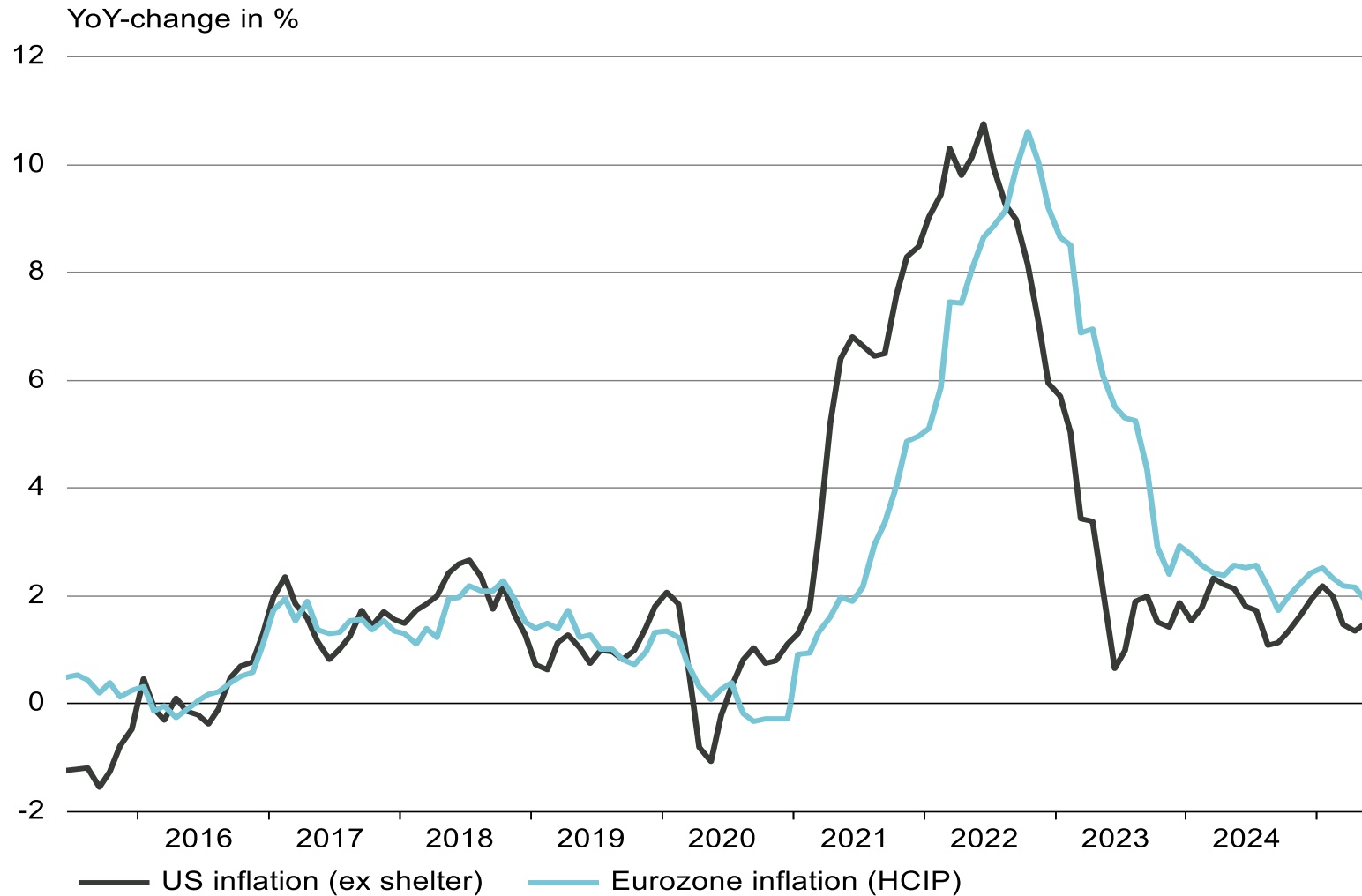
Inflation: Where do we stand?

US headline inflation moves to 2.4% (from 2.3%), but came in below expectations



Inflation: Where do we stand? (cont.)

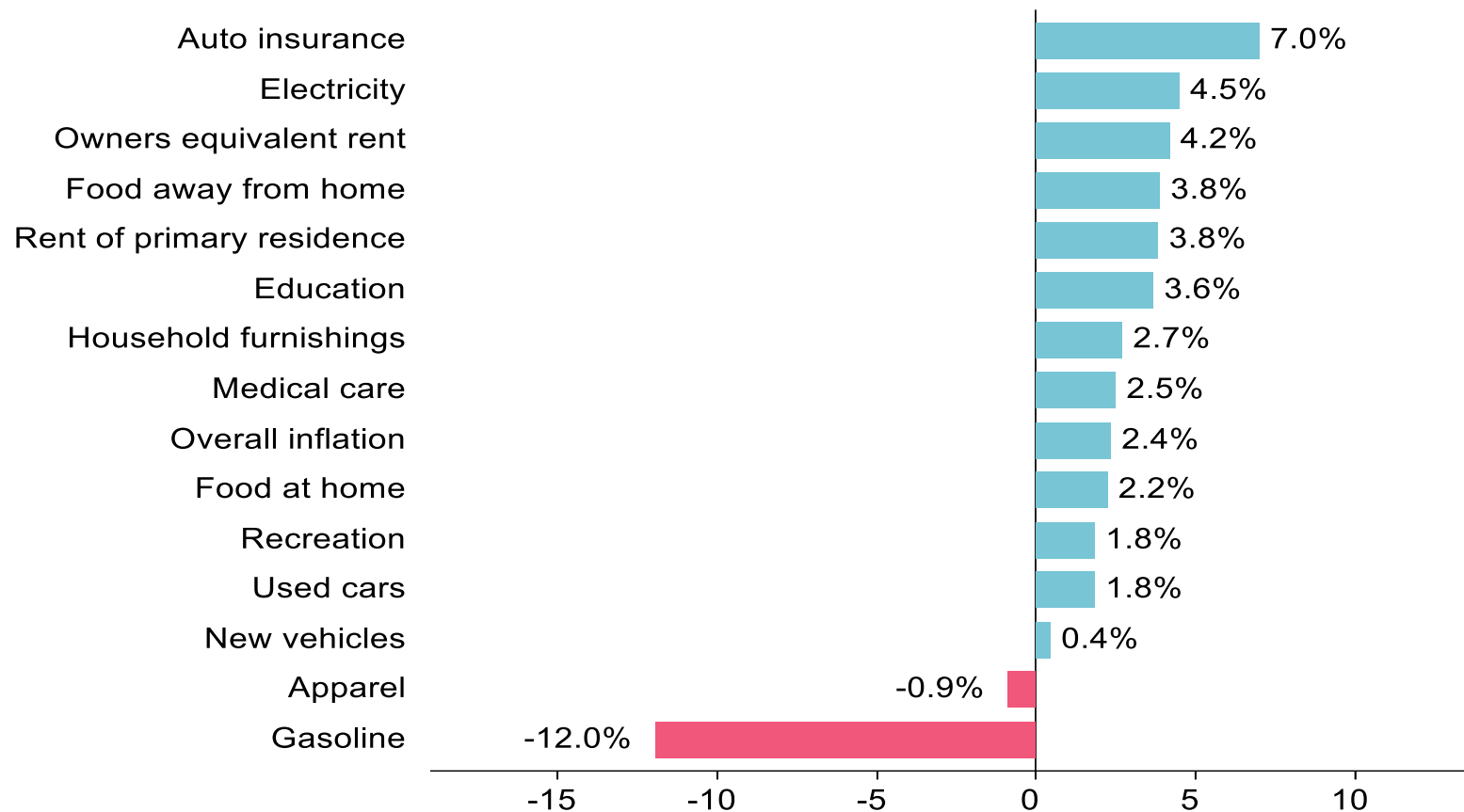
Global inflation has largely normalized, which is also true for the United States excluding housing



Taking a closer look at the different components, including oil

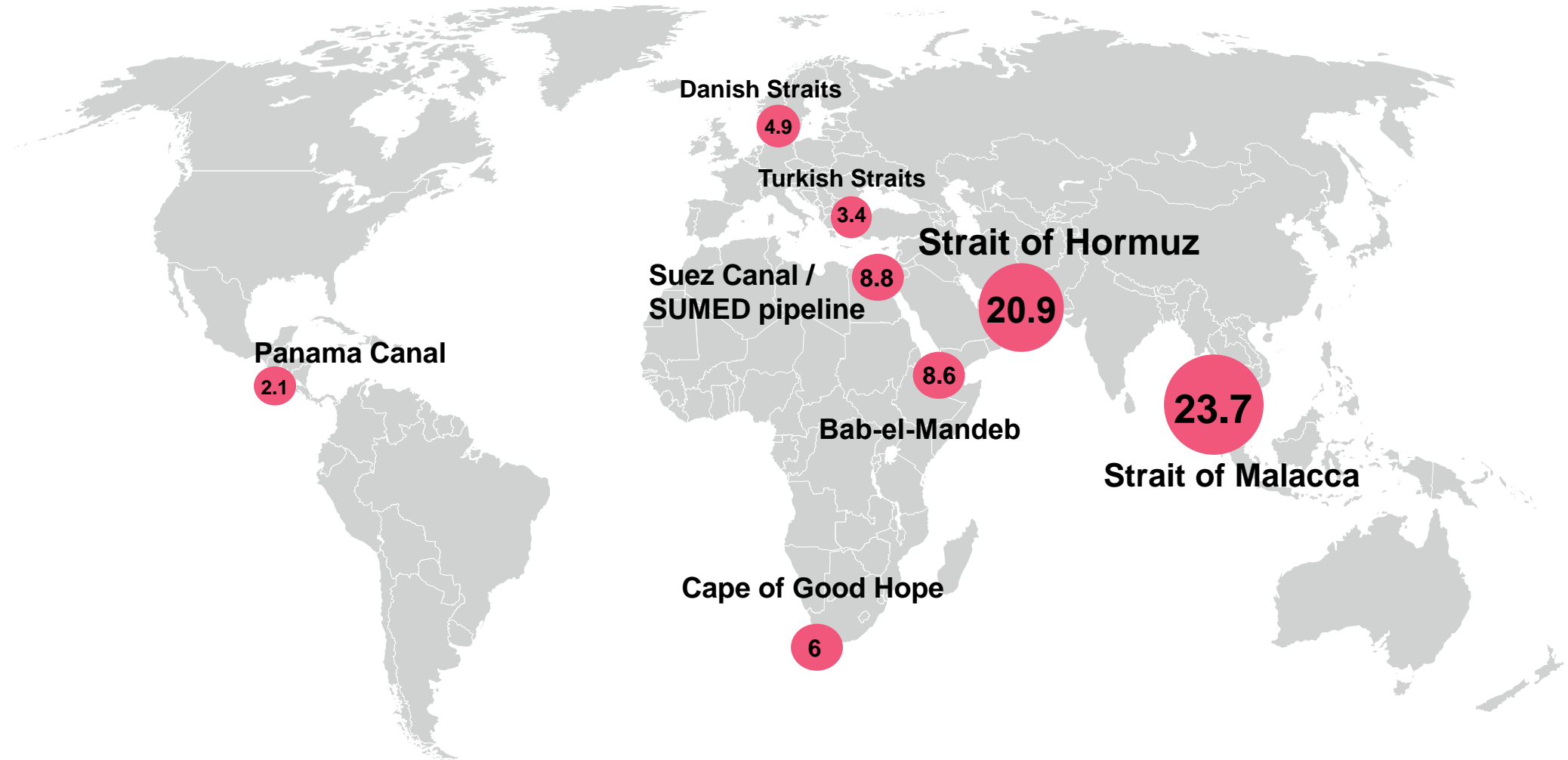
We got a lot of support from one volatile component as anticipated. Whilst it is rearing its head again, this should only prove temporary

Selected US inflation components: Year-on-year change in %



The Strait of Hormuz has never been fully closed

The Strait of Hormuz* as a crucial oil chokepoint: ~20% of the world's petroleum liquids supply flow through it**



Source: Energy Information Administration (2023), Vortexa tanker tracking and Panama Canal Authority data, last updated June 25, 2024. Numbers in million barrels per day.

*The Strait of Hormuz links the Persian Gulf with the Gulf of Oman and the Arabian Sea and separates Iran (north) from the Arabian Peninsula (south).

**Flows through the Strait of Hormuz in 2023 made up more than one-quarter of total global seaborne traded oil. In addition, around one-fifth of global liquefied natural gas (LNG) trade also transited the Strait of Hormuz in 2023.

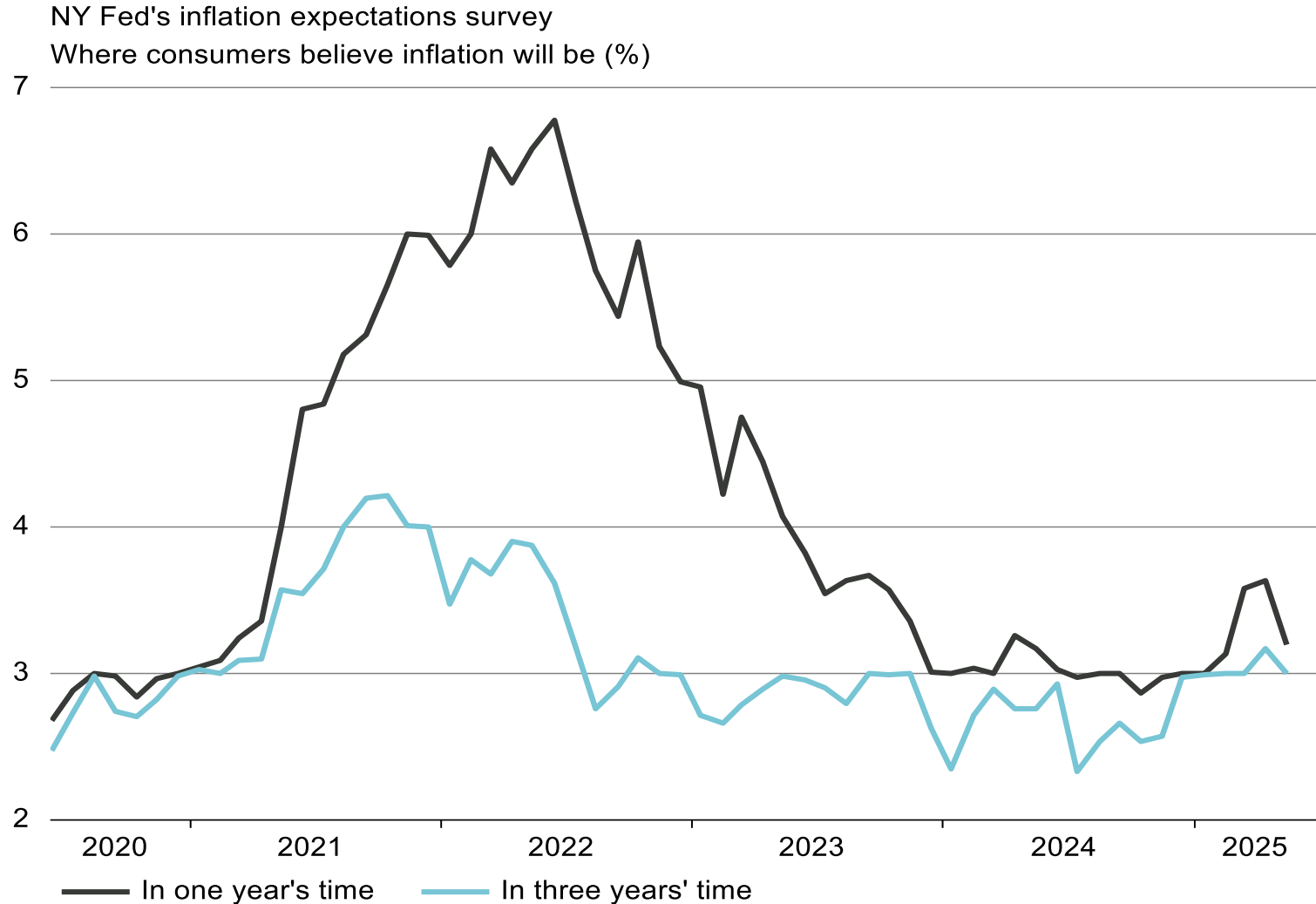
The Strait of Hormuz has never been fully closed

While the Strait of Hormuz has never been fully closed, there have been some incidents

PAST INCIDENTS INVOLVING THE STRAIT OF HORMUZ	WHAT HAPPENED?	WHAT WAS THE IMPACT?
1981 – 1988 Tanker War (Iran-Iraq War)	<ul style="list-style-type: none"> – Iran and Iraq attacked each other's oil tankers in and around the Strait to destroy each other's oil exports and economy. – The US launched Operation Earnest Will, reflagging Kuwaiti tankers and escorting them. – The Tanker War ultimately ended with a ceasefire between Iran and Iraq, brokered by the UN. 	<ul style="list-style-type: none"> – No full closure, but oil prices surged due to supply fears. – Insurance premiums and shipping costs spiked.
2011 – 2012 tensions (dispute between a coalition of countries and Iran)	<ul style="list-style-type: none"> – Iranian Vice President Rahimi threatened to close the Strait in response to Western sanctions. – The US and its allies increased naval patrols. 	<ul style="list-style-type: none"> – No closure occurred, but oil prices rose around 15% over the period on fears of conflict.
2019 tanker attacks (US-Iran tensions)	<ul style="list-style-type: none"> – Iran was blamed for attacking tankers transiting the Gulf of Oman (near Hormuz) and downing a US surveillance drone. – The US formed a maritime security coalition. 	<ul style="list-style-type: none"> – Oil prices spiked briefly; but no long-term disruption.

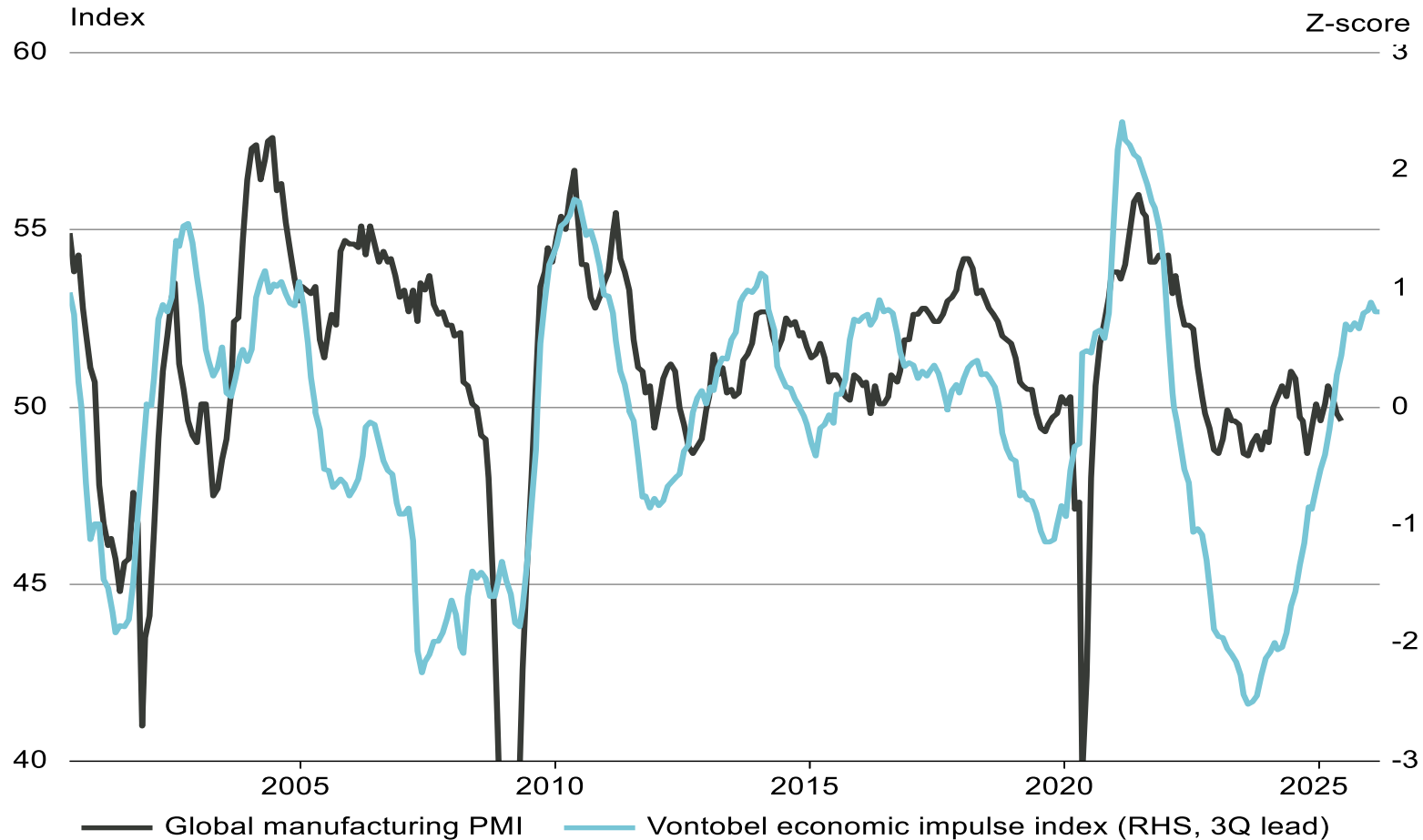
Trade truce sparks optimism

Surveys (e.g., New York Federal Reserve survey) also point to easing inflation expectations



Leading indicators keep rising; underlying growth intact

Macro

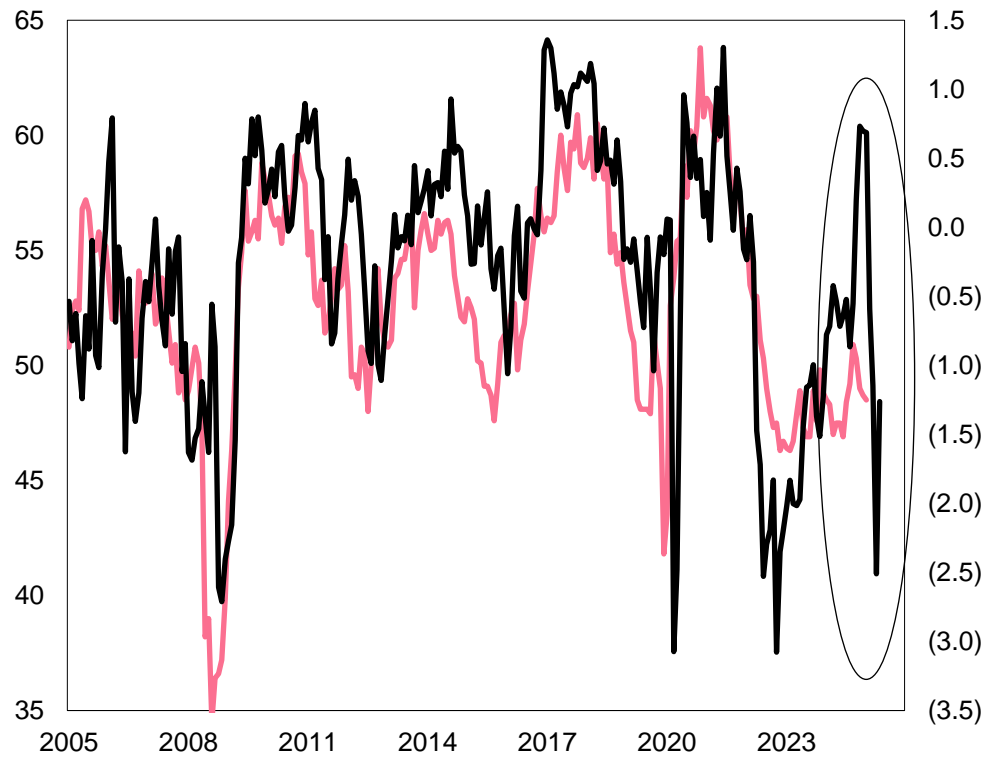


→ Some data are likely “too good to be true” (frontloading in anticipation of tariffs)

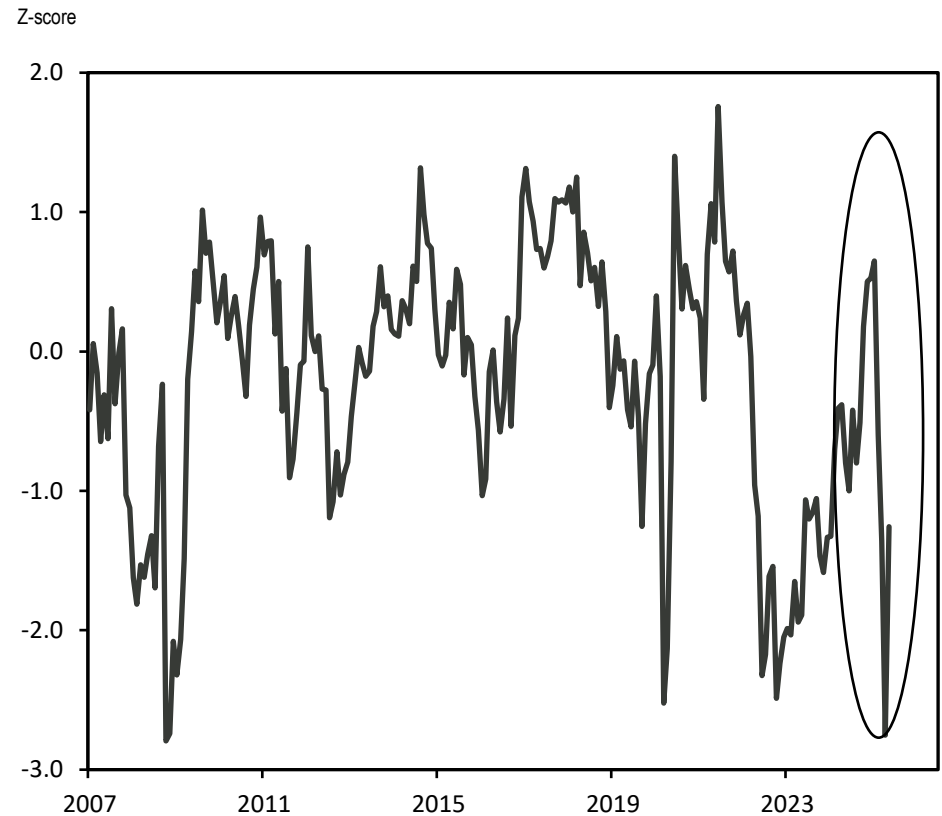
Our Vontobel global economic impulse index reflects the current stance of most important macro variables that lead the economic cycle compared to their long term history
Source: LSEG, Vontobel, as of June 2025.

Growth: some signs of rebounding in soft data

Upticks in new orders and shipments...



— ISM manufacturing
 — Regional Fed surveys new orders outlook (4m lead, RHS)



— Regional Fed surveys, shipments, expectations

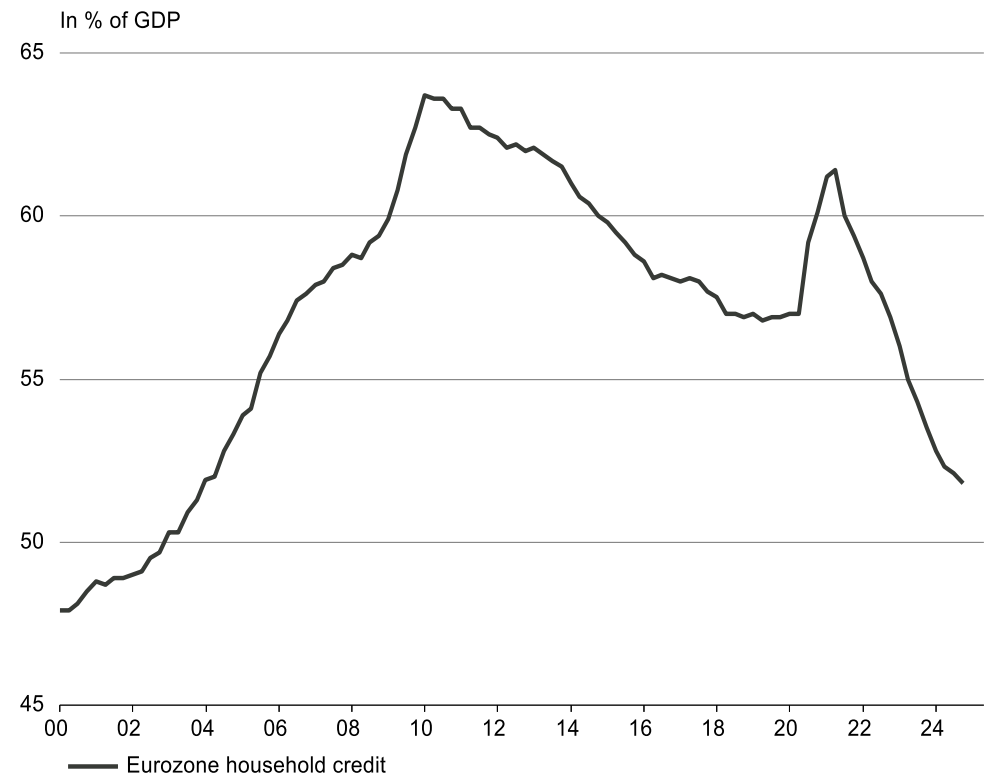
→ ...could it lend support to the US economy and cyclical assets over the summer?

Growth: the consumer keeps supporting the economy

US-households in good shape...



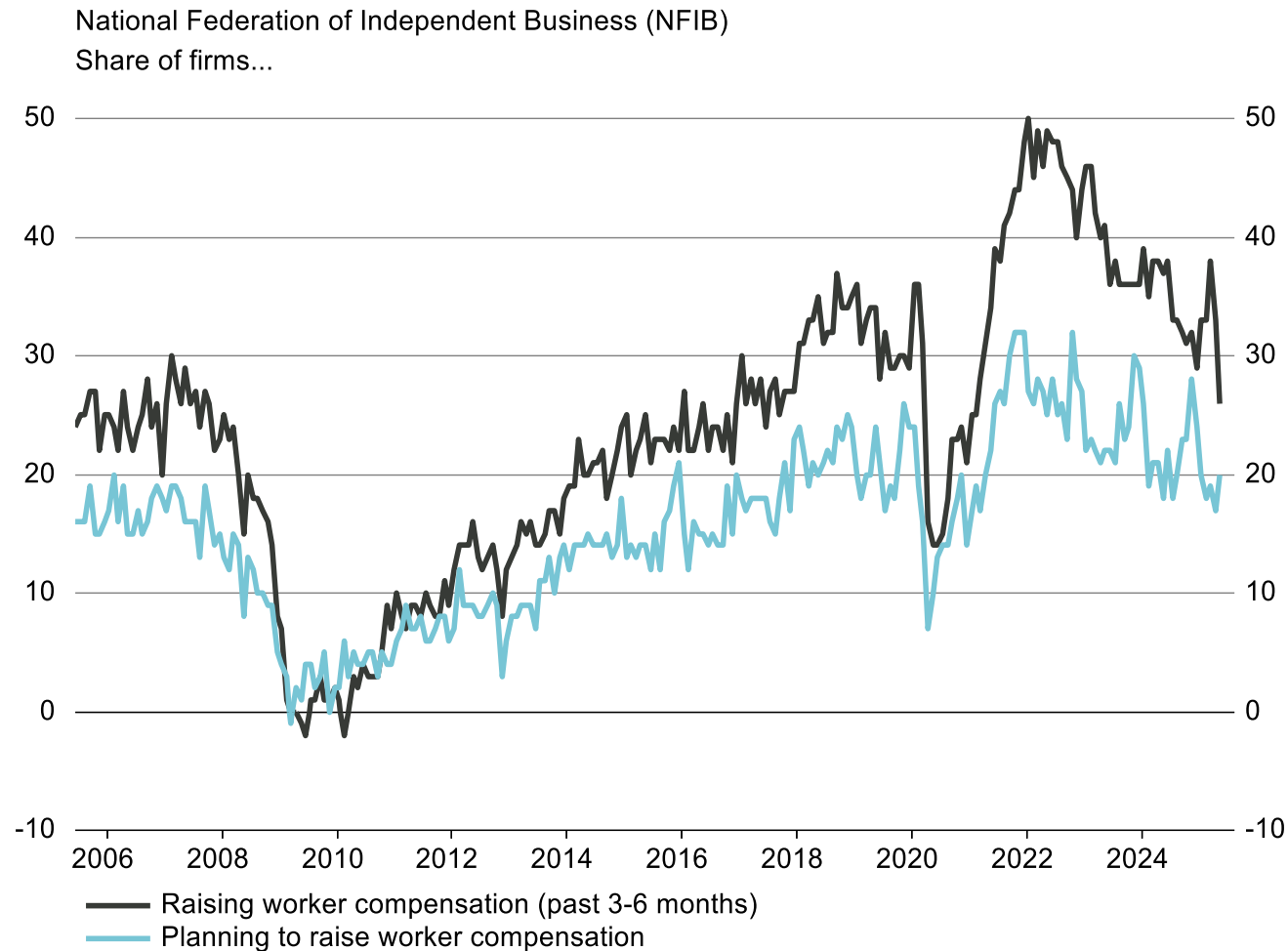
...just as European ones



Source: LSEG, Vontobel, as of 07.05.2025.

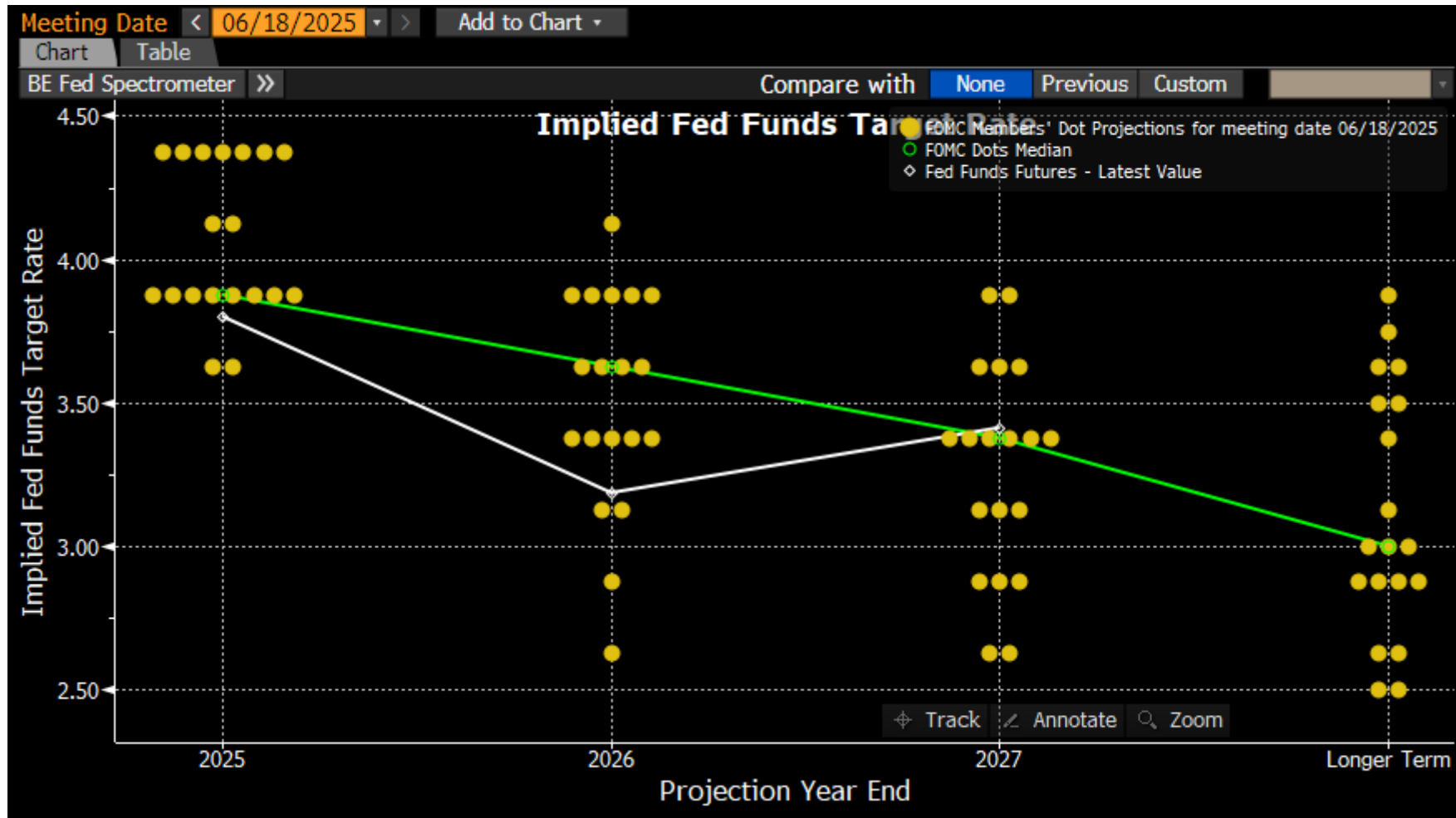
Increasing signs that the US labor market is slowing although in an orderly manner

The share of businesses raising compensation dropped to its lowest point since early 2021. The Fed is increasingly sympathetic to sustaining employment



Two Fed cuts are still on the agenda

Macro

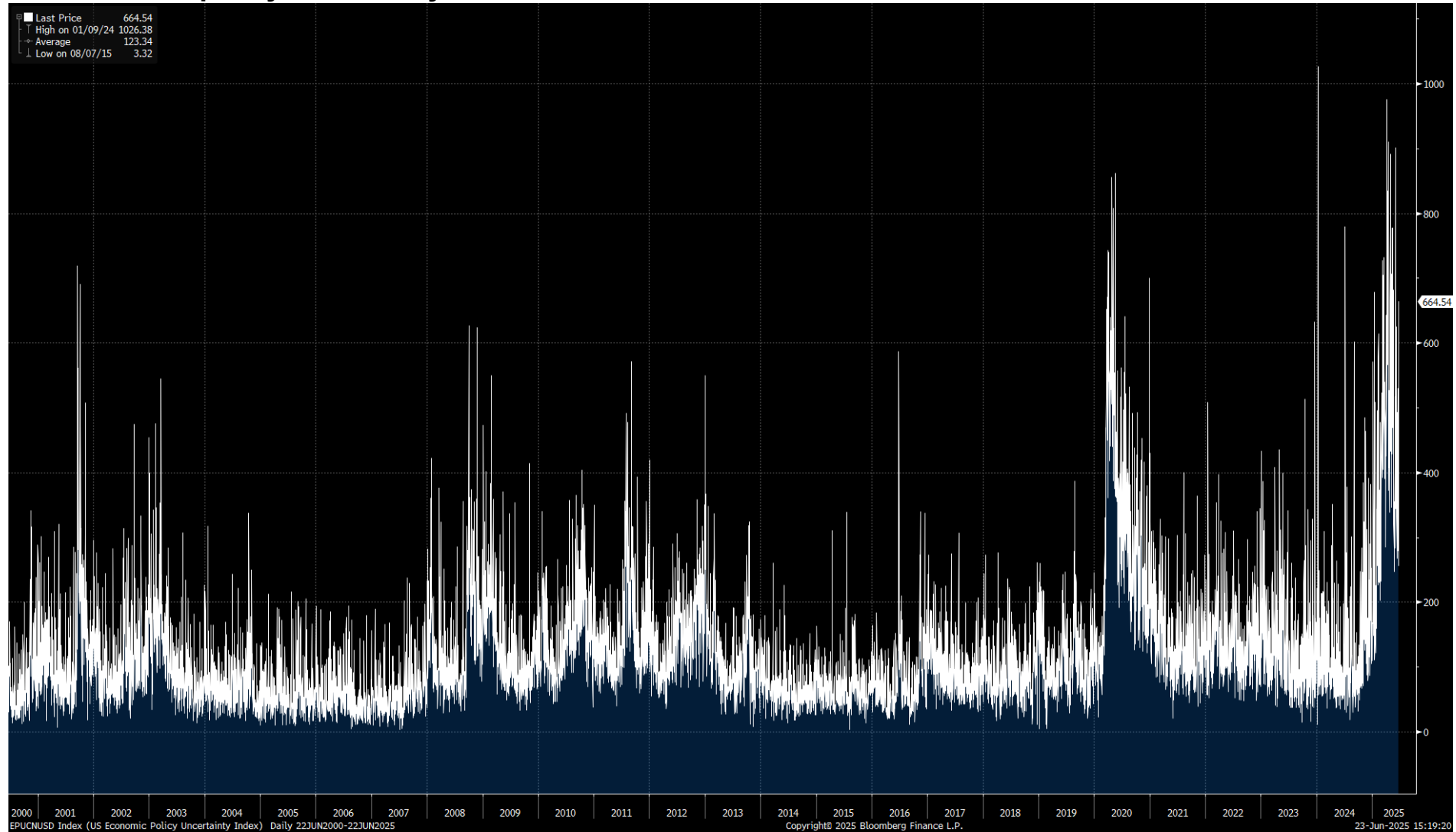


→ The Fed is also showing more tolerance towards the temporary rise in their inflation forecast and more sympathy in defending employment as per their latest Summary of Economic Projections (SEP)

Economic Uncertainty at its peak

Macro

US economic policy uncertainty index



Source: Vontobel, Bloomberg, as of 23.06.2025.

Forward performance of asset classes after uncertainty spikes

Macro

1-Month Forward Performance	SPX	10y UST (yield)	US Equities over Treasuries	USD IG OAS	USD HY OAS	EMD OAS	EM LCD	DXY	Gold
Average	1.4%	3	2.7%	-11	-33	-11	0.8%	0.1%	1.9%
Median	3.6%	9	2.6%	-6	-38	-14	1.5%	0.1%	2.2%
Std. Dev.	5.3%	28	5.1%	22	60	24	4.9%	1.9%	4.2%
Return/Risk	0.27	-	0.32	-	-	-	0.17	0.07	0.44
Hit Ratio	64%	36%	64%	64%	64%	73%	78%	55%	73%
3-Month Forward Performance	SPX	10y UST (yield)	US Equities over Treasuries	USD IG OAS	USD HY OAS	EMD OAS	EM LCD	DXY	Gold
Average	2.9%	15	3.4%	-13	-61	-40	1.4%	0.4%	1.8%
Median	7.5%	20	4.0%	-20	75	-56	2.0%	0.9%	2.0%
Std. Dev.	7.4%	46	7.4%	22	83	60	5.2%	2.9%	4.3%
Return/Risk	0.40	-	0.46	-	-	-	0.28	0.15	0.41
Hit Ratio	55%	36%	73%	73%	82%	73%	67%	55%	64%

Past performance is not a reliable indicator of current or future performance.

Source: HSBC, Bloomberg, as of 11.06.2025.

Forecasts remain moderately optimistic

Economists' forecasts are not as negative as market surveys might indicate

		Actual	Forecast		
		2024	2025	2026	2027
Real GDP growth rate	USA	2.5	0.9%	1.5%	1.8%
	Eurozone	0.8	0.9%	0.9%	1.2%
Unemployment rate	USA	4.2	4.6%	4.9%	4.6%
	Eurozone	-	-	-	-
Inflation data	USA (Core PCE)	2.8%	3.6%	2.9%	2.4%
	Eurozone (CPI)	2.4%	2.0%	1.6%	2.1%
Key interest rates	USA (Fed Funds Rate)	4.4%	3.4%	2.6%	2.6%
	Eurozone (ECB Deposit Rate)	3.6%	2.0%	1.8%	2.2%

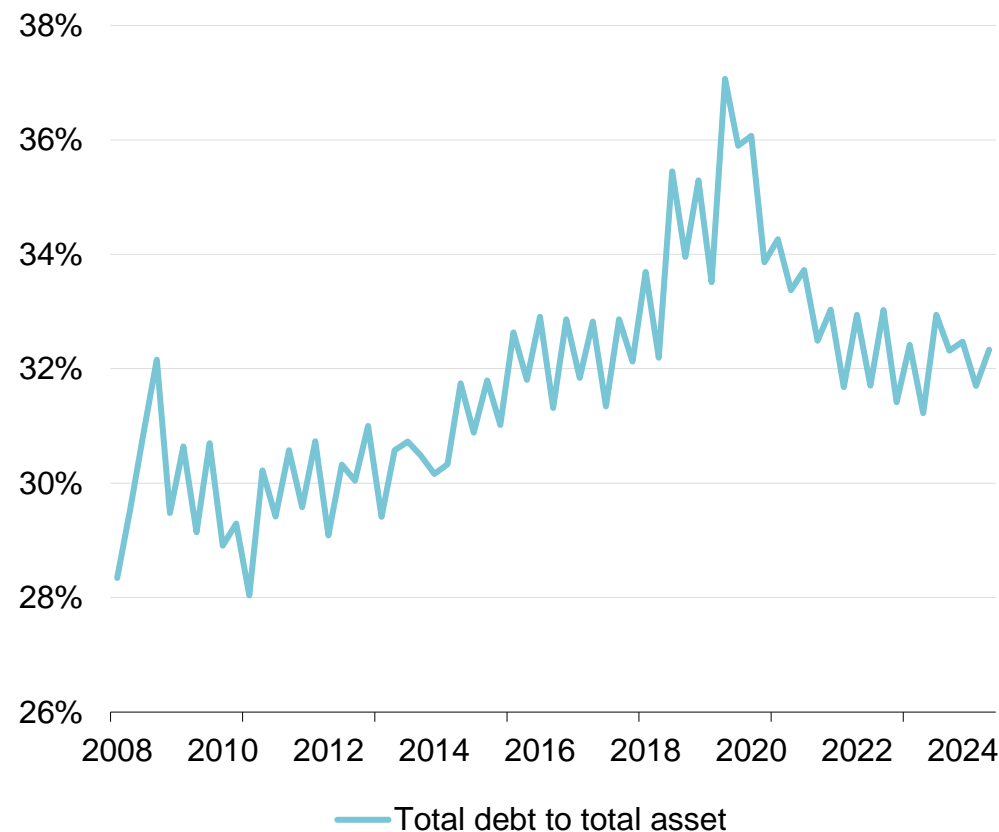
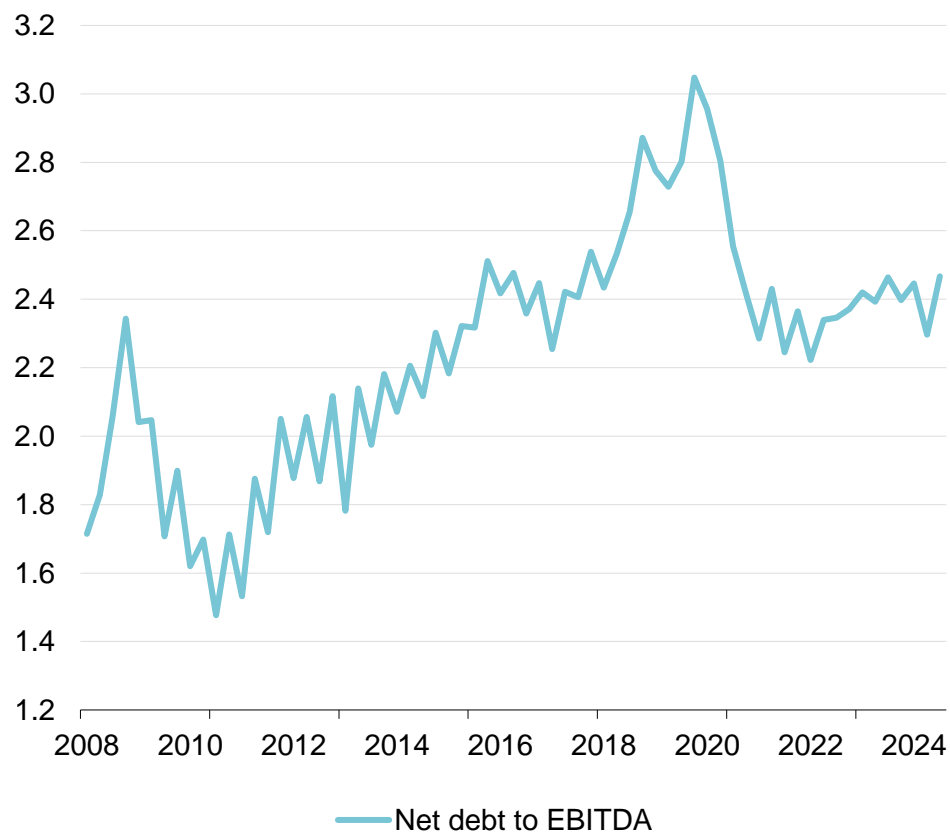
→ **Economic growth is expected to remain in positive territory, while central banks support the labor market through interest rate cuts.**

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Source: UBS, Société Générale, as of May 2025.

Corporate Fundamentals remain solid

Micro

Leverage levels remain stable



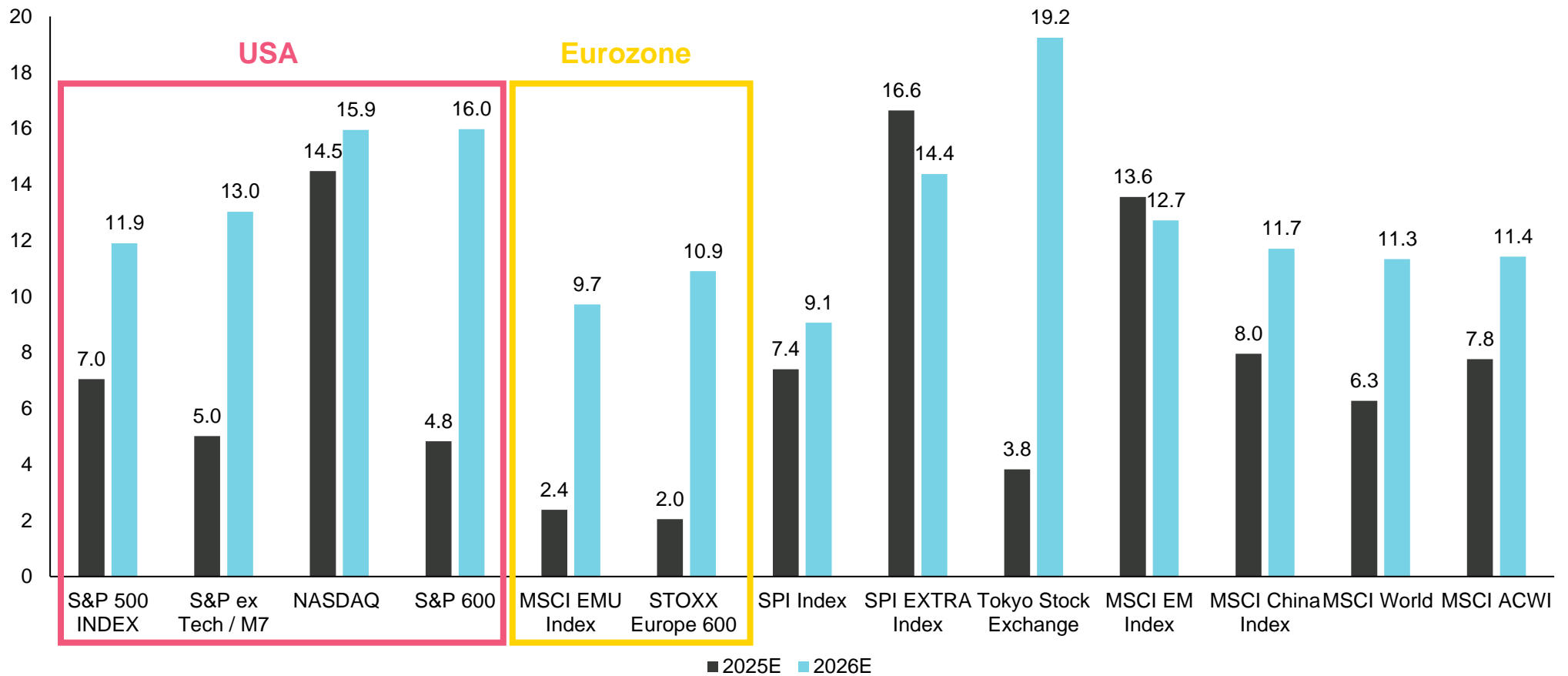
Source: SG Cross Asset Research/Credit, as of 31.03.2025.

Projected EPS growth for 2025–26E is holding up

Micro

Muted growth expected in the Eurozone, similar to the S&P 500 excluding the strong growth in the technology sector

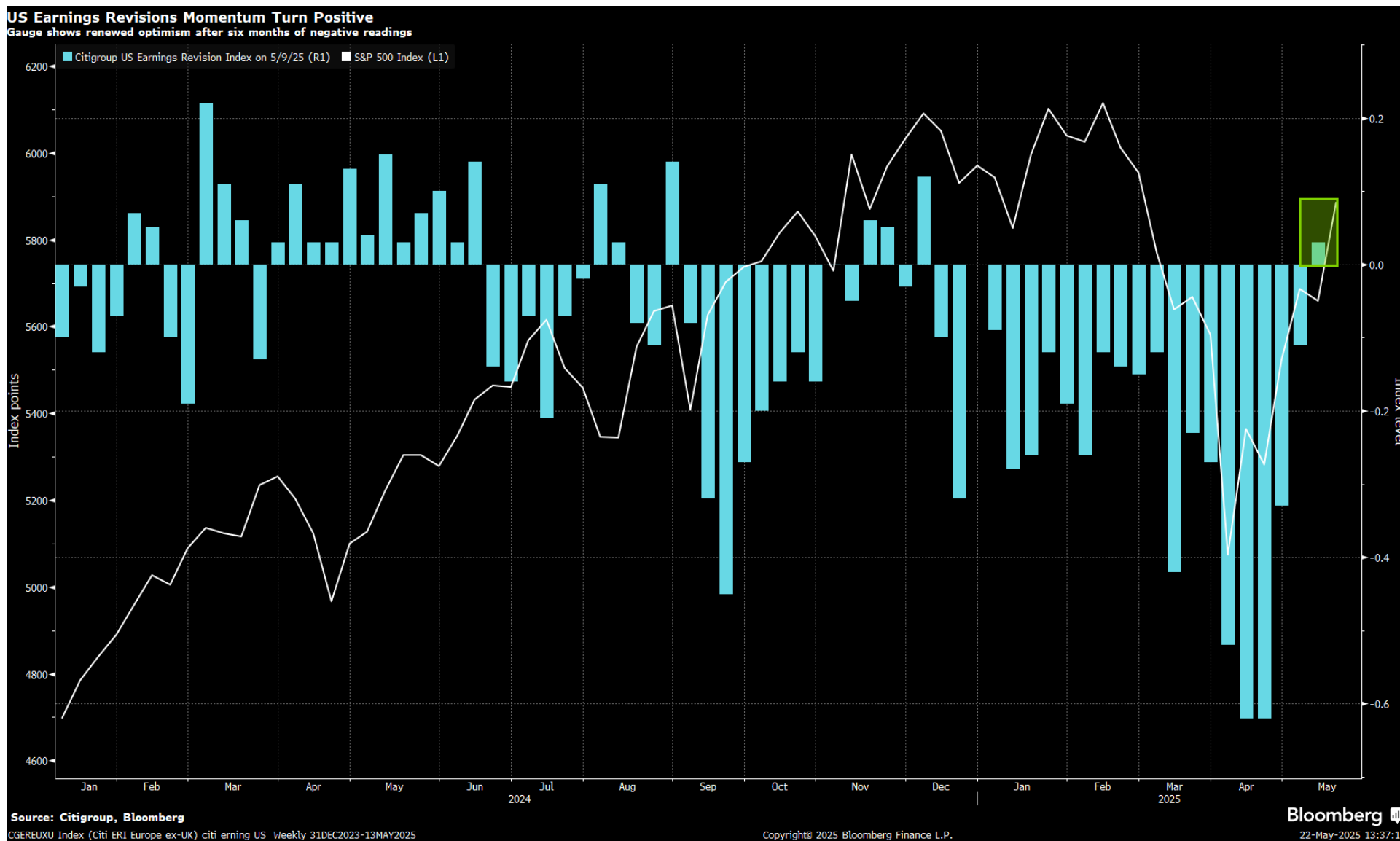
EPS growth 2025E/2026E (local FX, YoY%)



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 Source: LSEG, Vontobel, Bloomberg, as of May 2025.

US Earnings Revisions Momentum turns positive

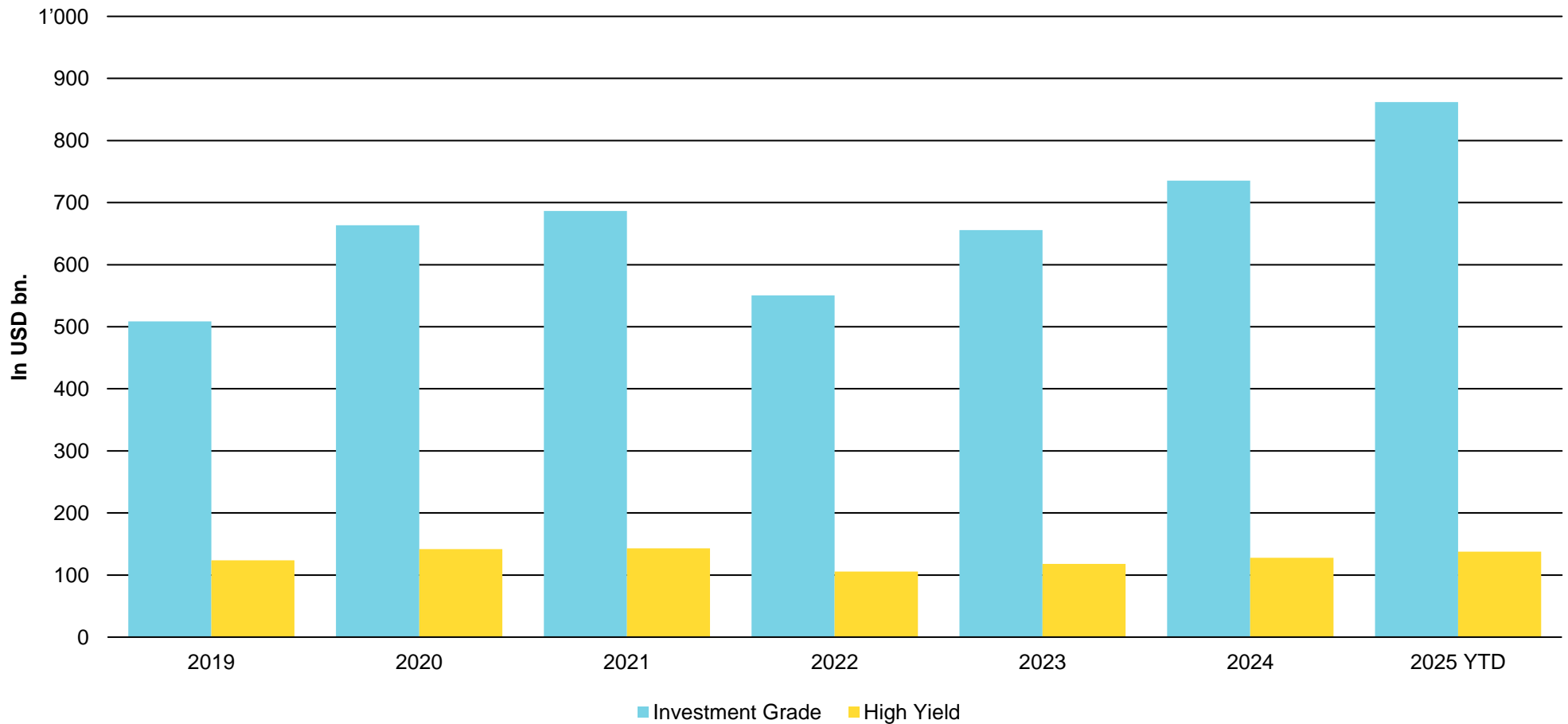
Micro



Demand for IG bonds continues to be supported by institutional investors

Technicals

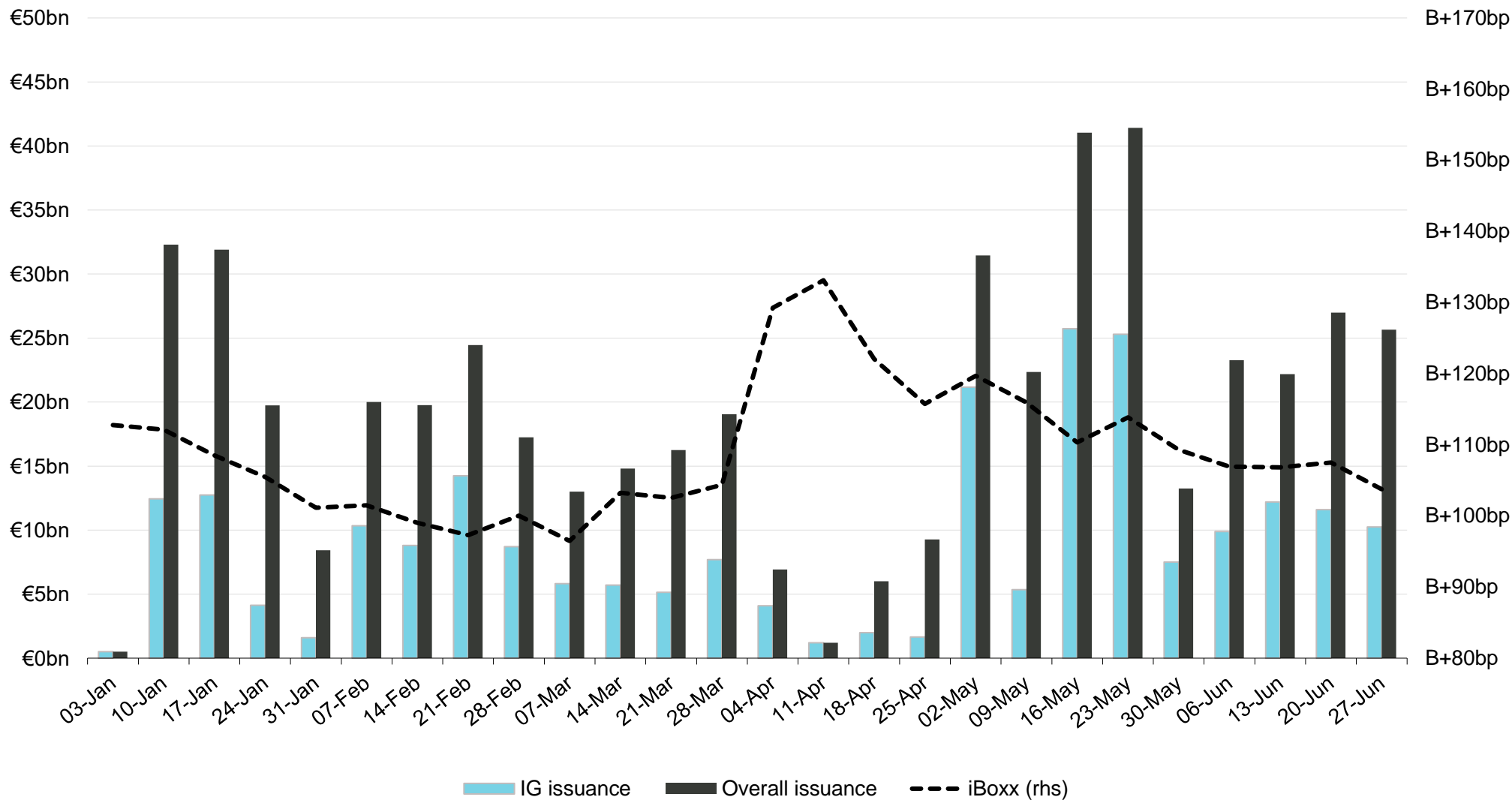
Assets under management (AuM) in mutual funds and ETFs focused on EUR-denominated bonds



Source: Goldman Sachs, EPFR, as of May 2025.

May's record issuance was easily absorbed and secondary market even tightened

Technicals

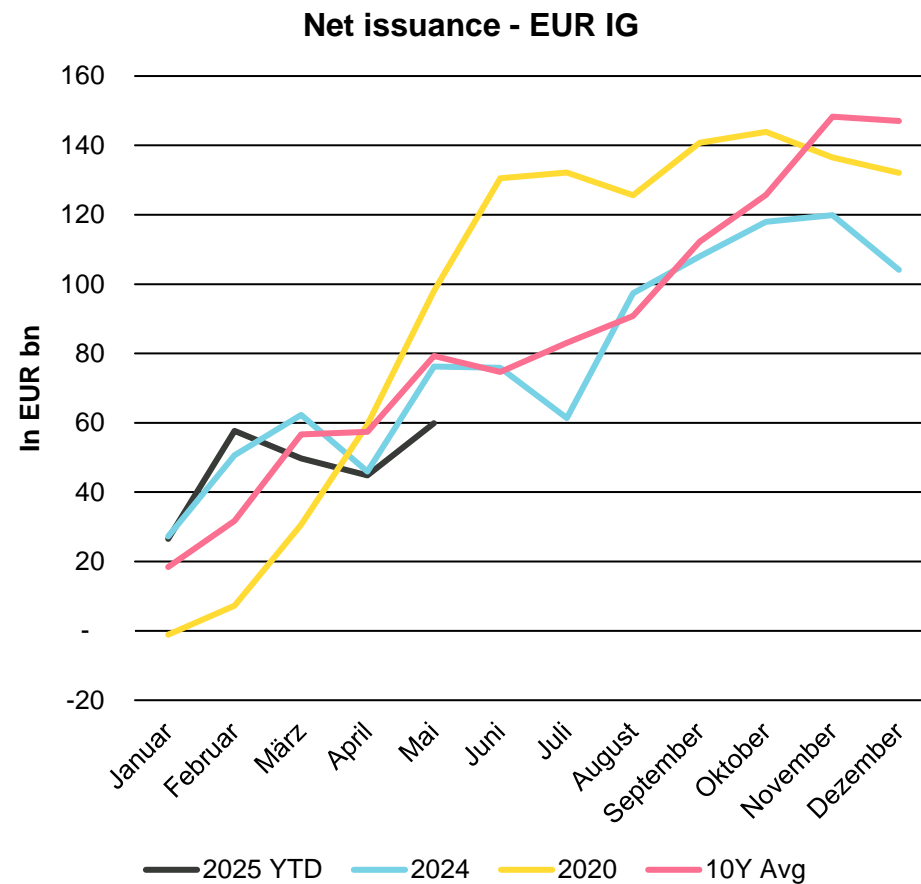
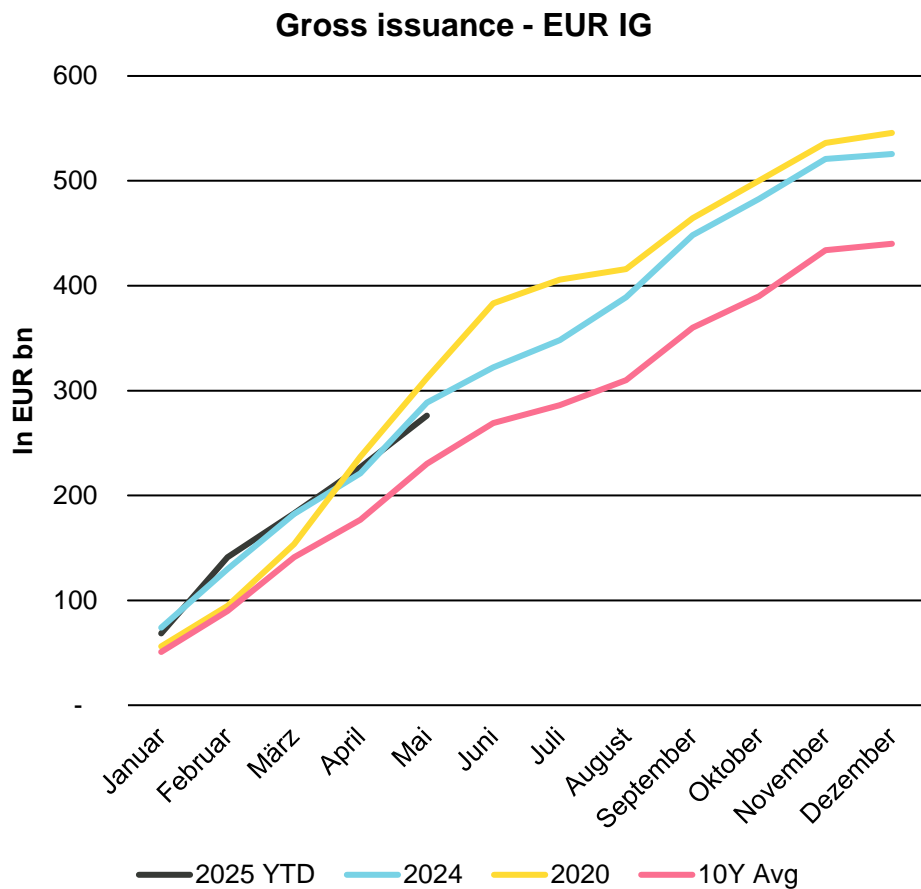


Source: SG Credit Research, as of June 2025.

Net issuance is below the historical average

Gross issuance is expected to reach a historic high...

...while net issuance remains at a relatively low level



Source: Citi Research, as of May 2025.

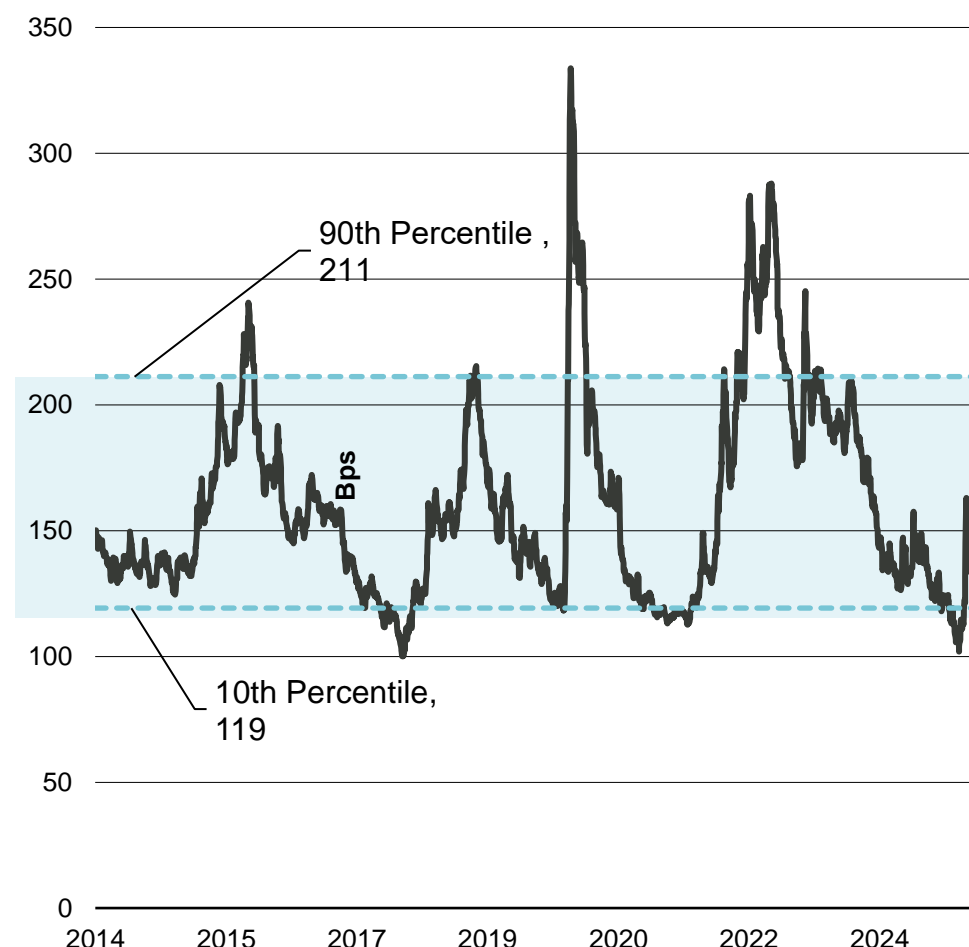
Total Returns remain attractive – however, the peak has passed

Valuation

ICE BofA A-BBB Euro Corporate Index – ERC0 Index



Composite 80% ERC0 Index, 20% HE10 Index



→ Spreads could continue to trade sideways for some time, and with further rate cuts in sight, total returns should remain positive.

Past performance is not a reliable indicator of current or future performance.

Source: ICE BofA A-BBB Euro Corporate Index – ERC0 Index (l.h.s. chart), Composite 80% ERC0 Index, 20% HE10 Index (r.h.s. chart), as of 17.06.2025.

Our likes and dislikes for the second half of 2025



Likes

Sectors:

Banking, Insurance (SUB), Telecom & Utility (SUBs),
Transportation, Real Estate (high quality only)

Regions:

Peripheral National Champions

Maturity:

Focus on 6 - 10 years bucket (roll down)



Dislikes

Sectors:

Automotives, Consumer Goods, Energy, Insurance
(SEN), Cyclical Industrials

Regions:

Germany (valuation)

Maturity:

Front-end (reinvestment-risk);
long-end (steepening risk)

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