# Euro IG Credit Outlook

## Q4 2025: Keeping cool as rate cuts resume and flows are strong

Fixed Income


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October 2025



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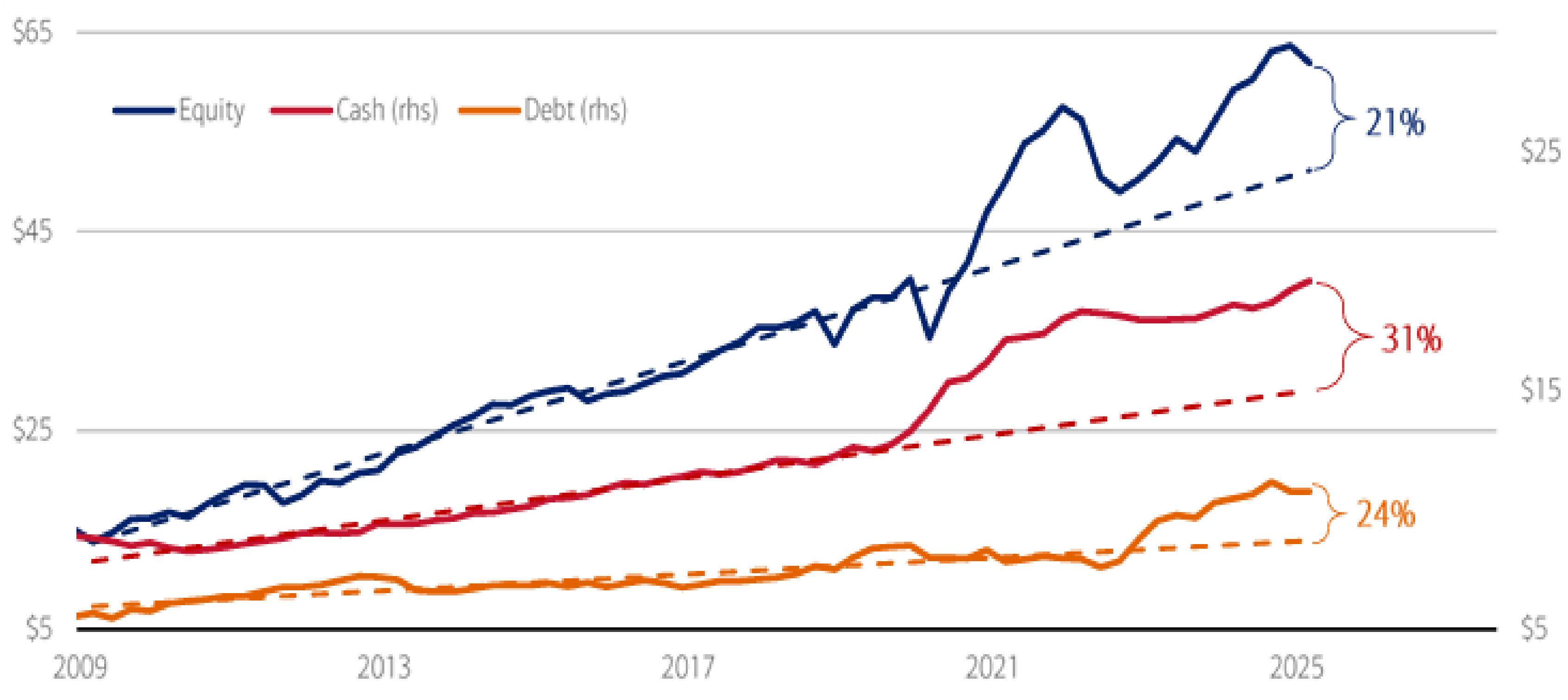
# Quarterly topic: Follow the flows

## Cash holdings: much higher when compared to pre-covid trends




- Cash-like assets are 31% higher than historical trends would suggest in the US at around USD 19 Trillion
- They increased lots post covid given the hikes and as the highest yields on short term securities appeared since the end of the dot-com era
- As US rates now decrease again, a good proportion of these assets will transit back to traditional classes and should also help support our Euro area corporate credit market

→ **Riskier markets should generally benefit through continued strong flows and technical demand.**

Source: Federal Reserve Flow of Funds, Bank of America Institute, August 2025.

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# Euro IG Corporate Bond Roadmap for Q4 2025

**Assessment of key drivers:**

| | KEY THINGS TO WATCH | CHECK? | COMMENT |
|---|---|---|---|
| MACRO | 1 Inflation | WATCHLIST | Inflation at around the 2% ECB medium term target whilst US core inflation is bit higher but not too high. |
| MACRO | 2 Employment | WATCHLIST | US signaling growing employment downside risks with a Fed embarking in back-to-back cuts till the end of the year. |
| MACRO | 3 Economy | WATCHLIST | Powell seems willing to let the economy run a little hot as he fears sharply higher lay offs; “jobs in a curious kind of balance”. EU fiscal spending in focus. |
| MACRO | 4 Productivity | ✓ | Higher productivity through AI, supporting margins. |
| MACRO | 5 Interest rates | ✓ | Priced in Fed cuts (4 in total) warranted; EU nearly there as defense/ fiscal spend only fully kicks in during 26/27. |
| MICRO | 6 Credit quality | ✓ | Solid credit metrics sustained (fins & non-fins) with no broad re-leveraging. |
| VALUATION | 7 All-in yields | ✓ | All-in yields attractive. Yield narrative robust, attracting coupon re-investments & additional buyers. |
| SENTIMENT | 8 Sentiment | WATCHLIST | There is lots to come to make overall sentiment and positioning better from tariffs, French uncertainty: turning data, more Fed cuts, stronger money flows. |

Forecasts provided herein are subject to change and may include projections or other forward-looking statements regarding future events or future financial performance of countries, markets and/or investments. Actual events or results may differ materially.
Source: Vontobel, as of 22.09.2025.

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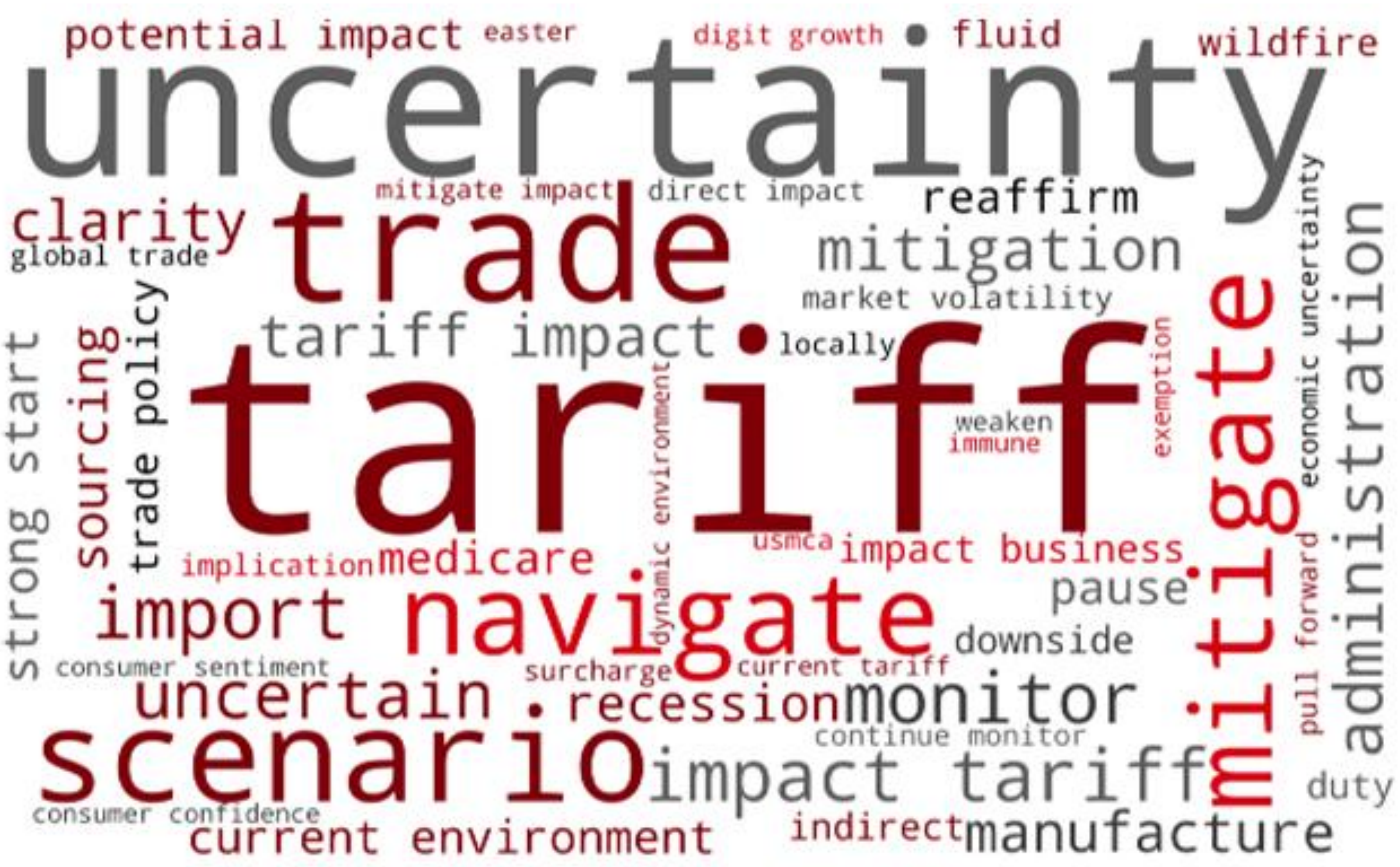
# Uncertainty and tariffs have kept markets busy in 2025 so far…continuing to present good (carry) opportunities



# Federal Circuit rules Trump's emergency tariffs unlawful

## What happened?

- The U.S. Court of Appeals for the Federal Circuit ruled 7–4 that tariffs under the International Emergency Economic Powers Act exceed presidential authority.
- Industry-specific tariffs under Section 301 and Section 232, including steel, aluminum, and auto tariffs, are unaffected.
- Tariffs remain in effect until October 14 while the government appeals, and Supreme Court review is expected. The administration requested fast-track review,
- Importers must continue paying tariffs for now. If the Supreme Court ultimately strikes down the tariffs, importers could seek refunds, though it is unclear whether relief would apply only to plaintiffs or broadly.
- The Trump administration argues it will be difficult for the Supreme Court to rule against them given the financial stakes, (tariff revenue and foreign investment).

Source: Vontobel.

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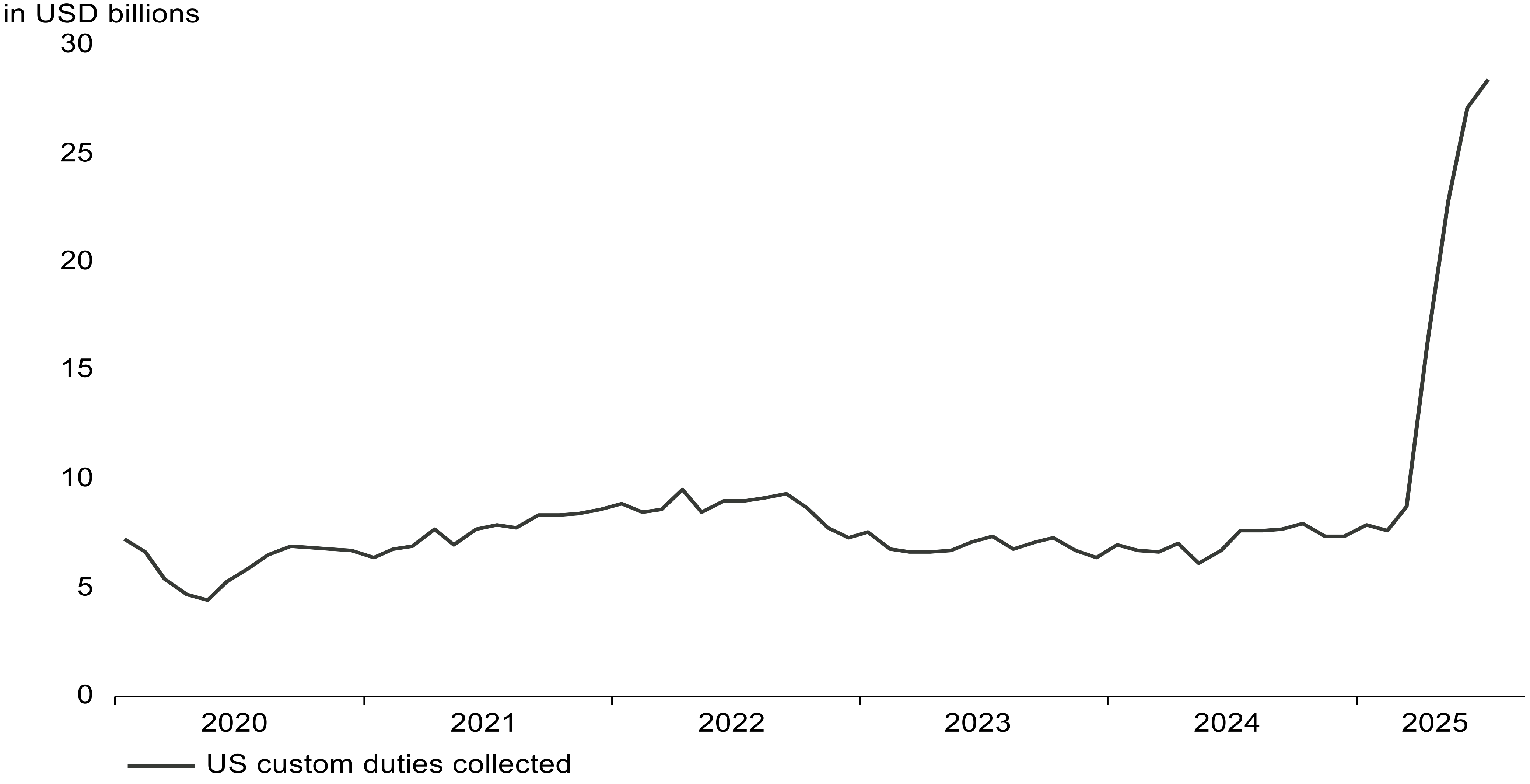
# Refunding collected tariffs could inject substantial fiscal support and in turn bolster markets, too

Macro




Source: LSEG, Vontobel, as of 21.08.2025.

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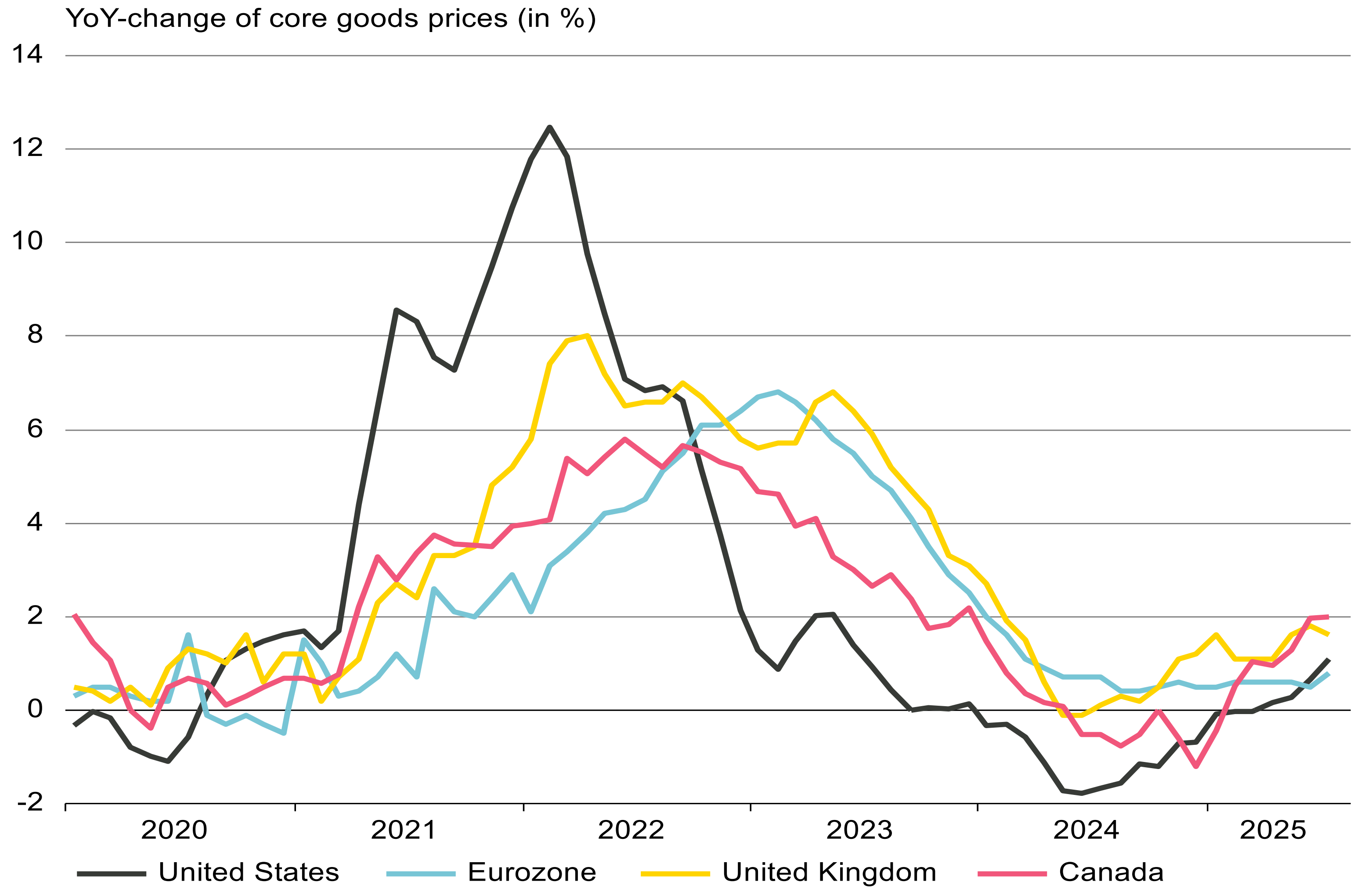
# Inflation: a little higher but not too high

Macro




→ **Core goods inflation is not higher in the US than in Europe or Canada, both of which have not introduced tariffs**

Source: LSEG, Vontobel, as of 21.08.2025.

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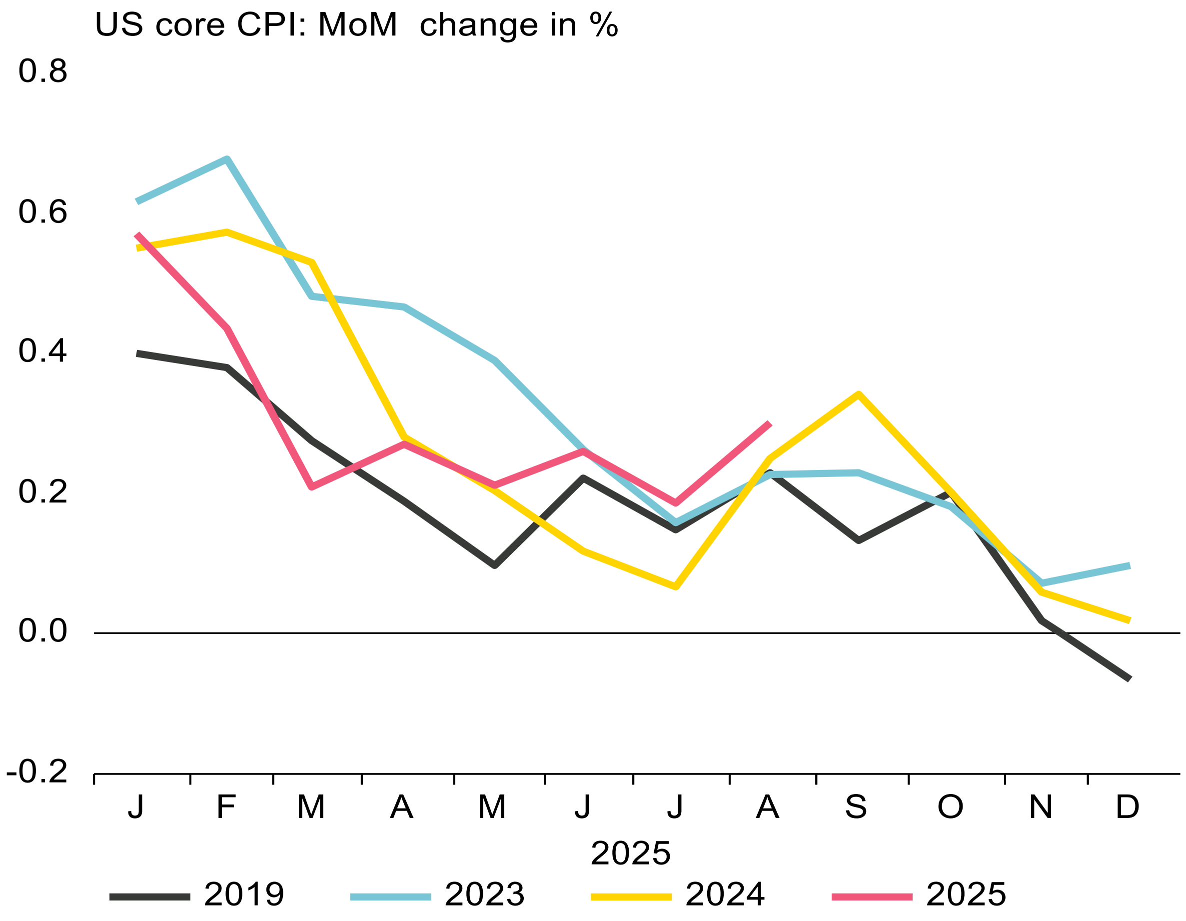
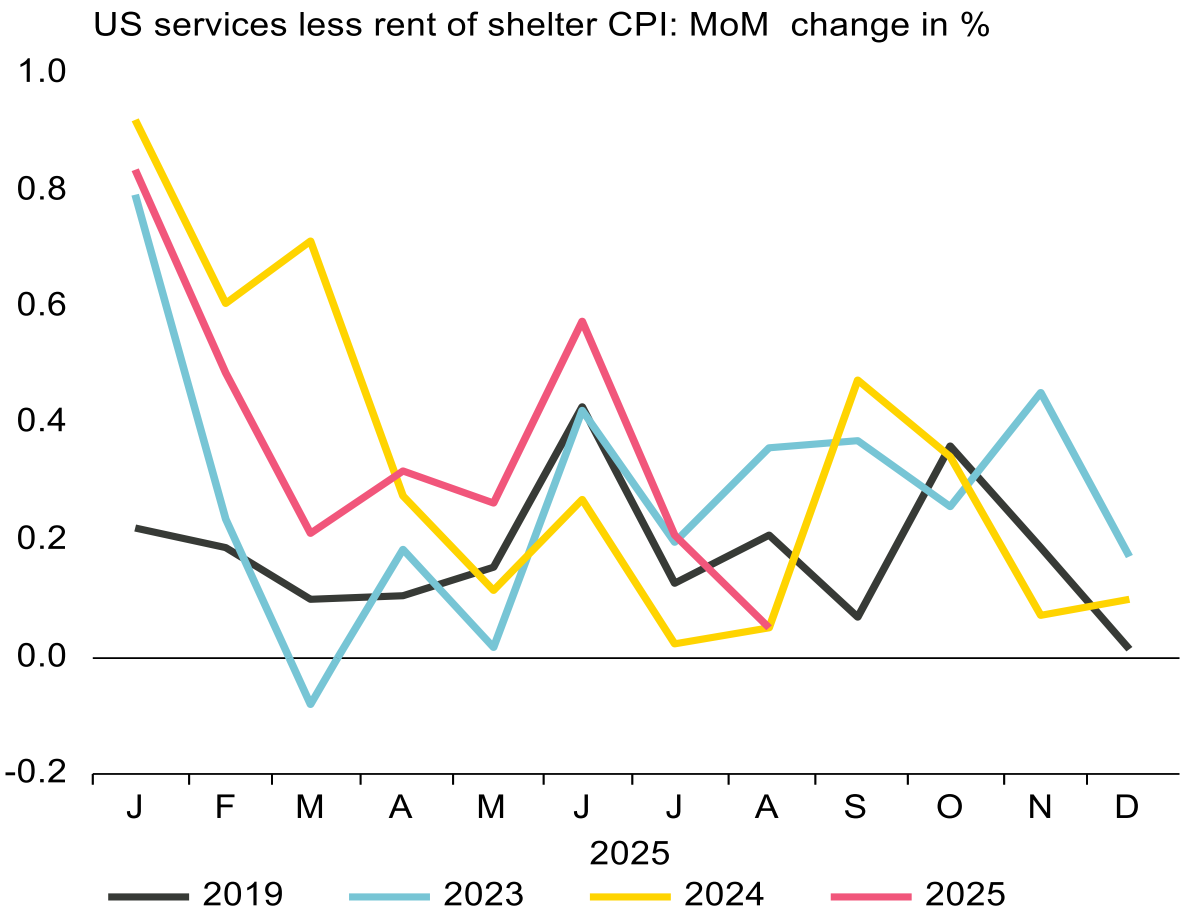
# Another way to look at "core inflation"

Macro

## Overall core inflation: A bit high but in line with expectations




## "Supercore" inflation: Looking very tame




Source: LSEG, Vontobel, as of 21.08.2025.

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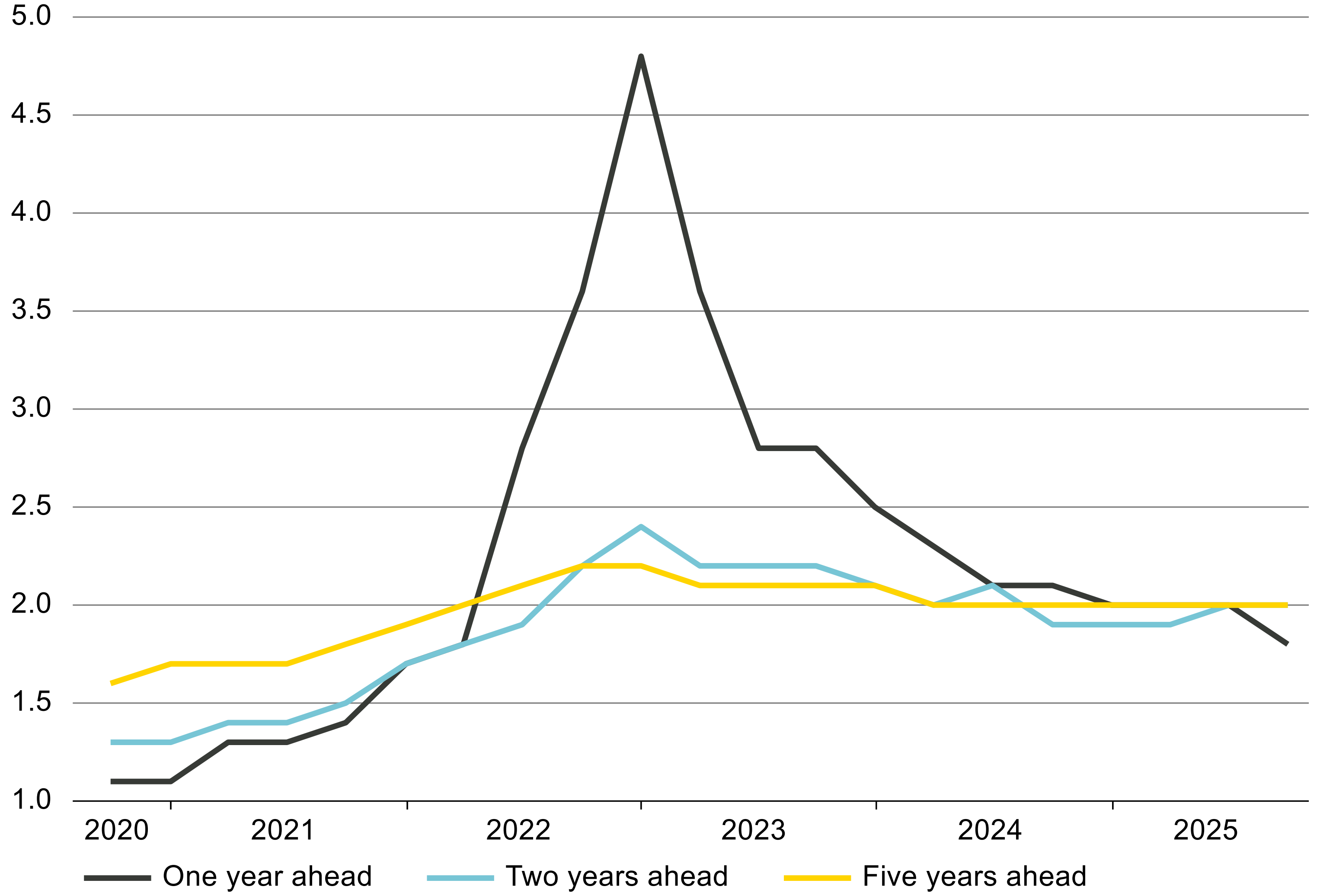
# Inflation: EU inflation expectations (ECB survey) on target

Macro

ECB Survey of Professional Forecasters
Inflation forecasts, year-on-year percentage change




Source: LSEG, Vontobel, as of 21.08.2025.

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# US labor market: what's worrying?

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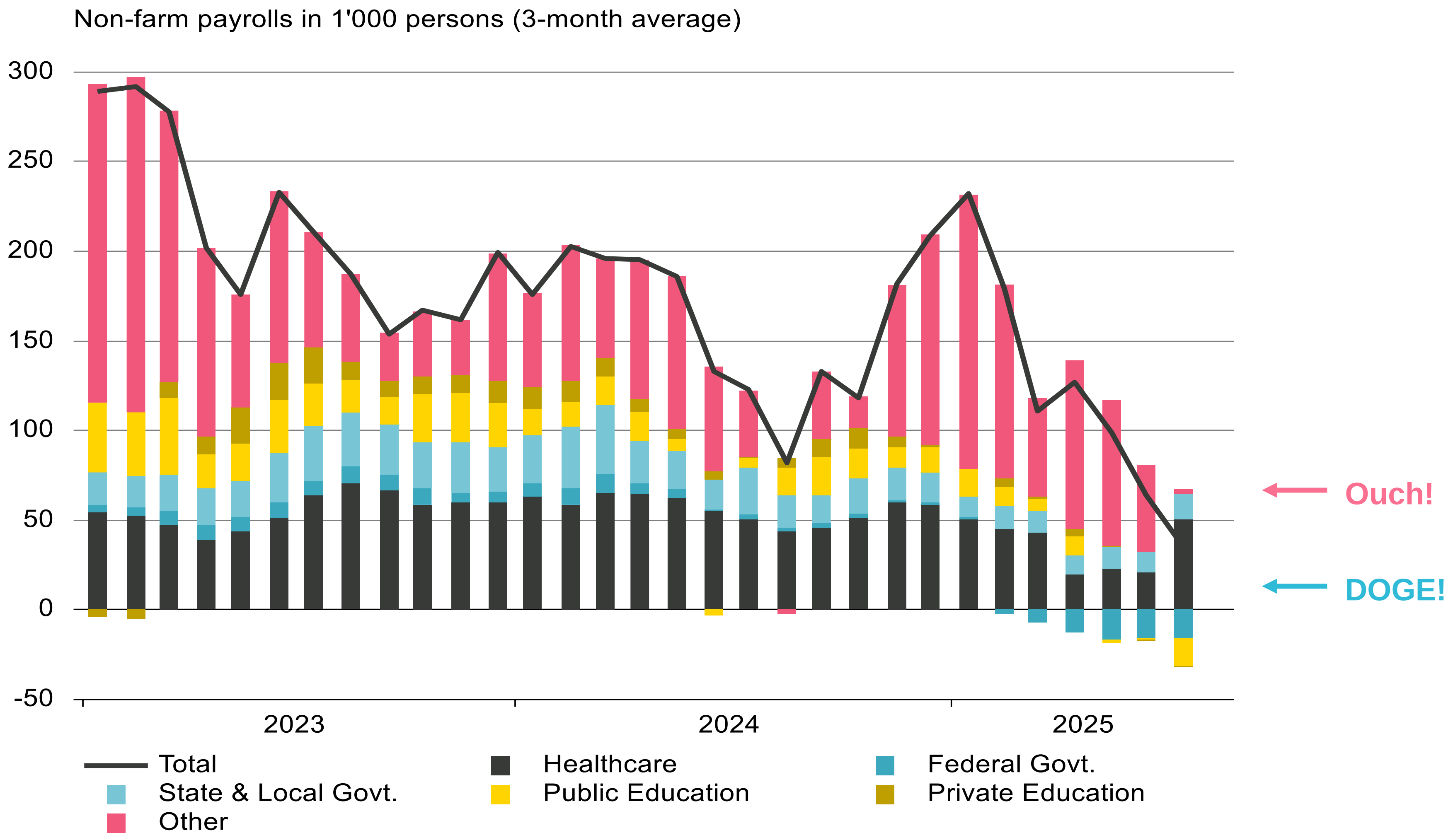


→ **Over the last quarter, job growth was flat outside the healthcare and state government sectors.**

Note: DOGE = Department of Government Efficiency.
Source: LSEG, Vontobel, as of 21.08.2025.

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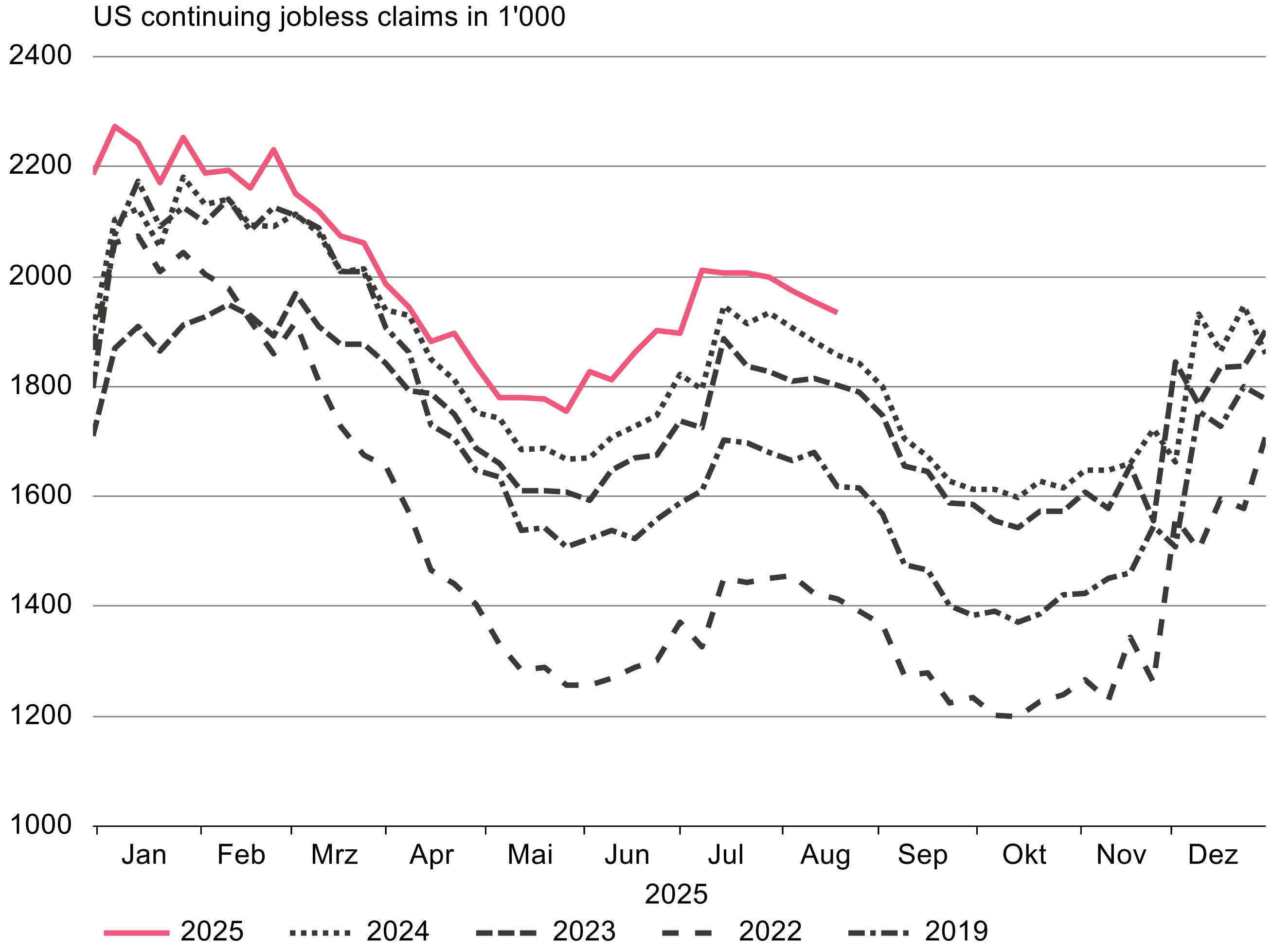
# US labor market: Little hiring

Macro

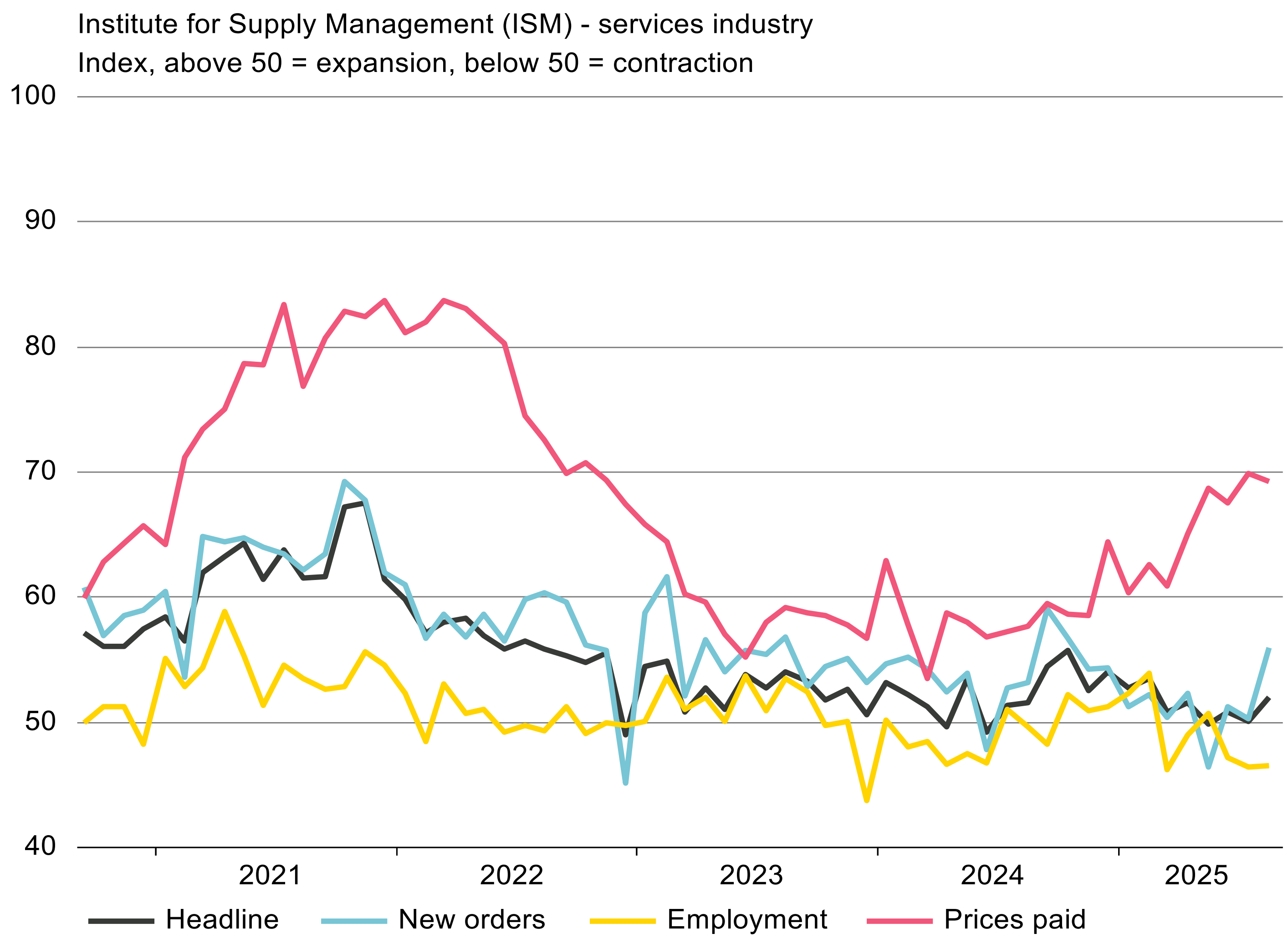



→ **Slightly elevated jobless claims show that once you lost you job, it’s challenging to find one.**

Source: LSEG, Vontobel, as of 21.08.2025.

# But the US services industry does better than expected…

Macro




**→ New orders drive the headline index further into growth territory, though employment remains weak.**

Source: LSEG, Vontobel, as of 08.09.2025.

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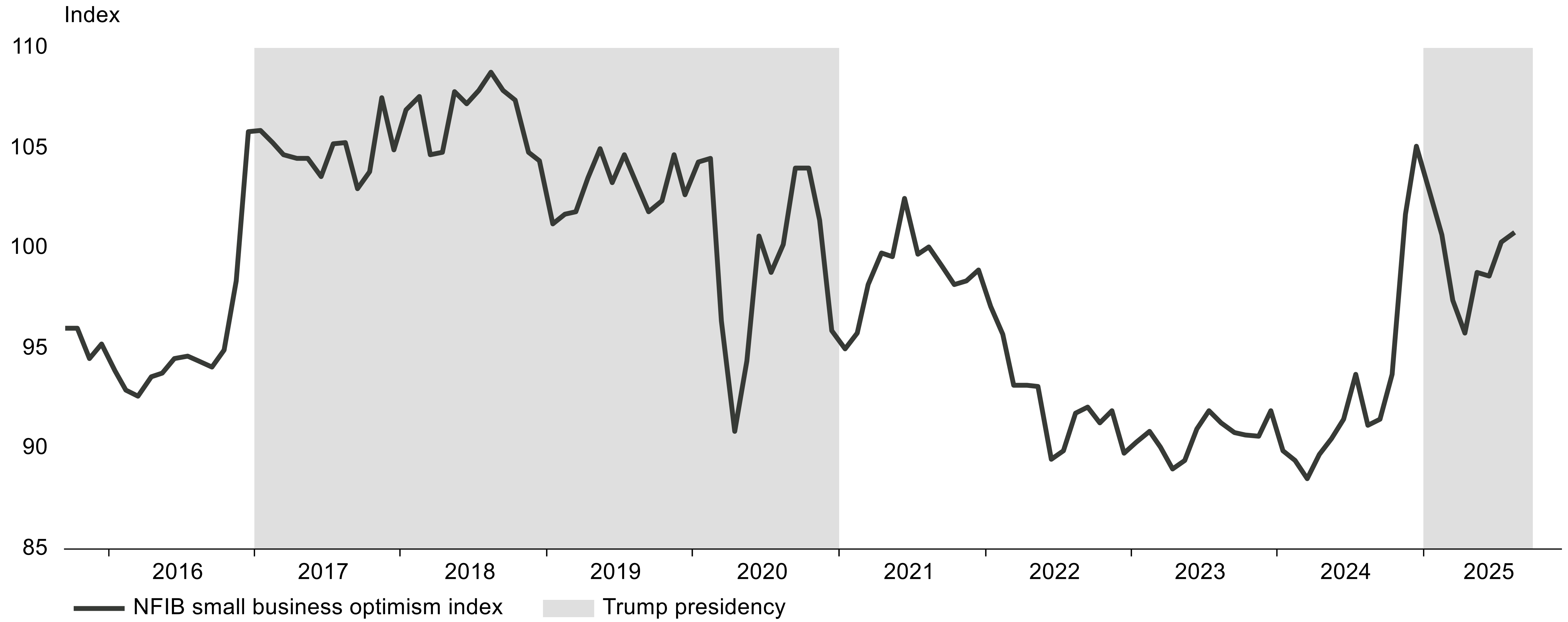
# And US small business sentiment improved again this summer

Macro



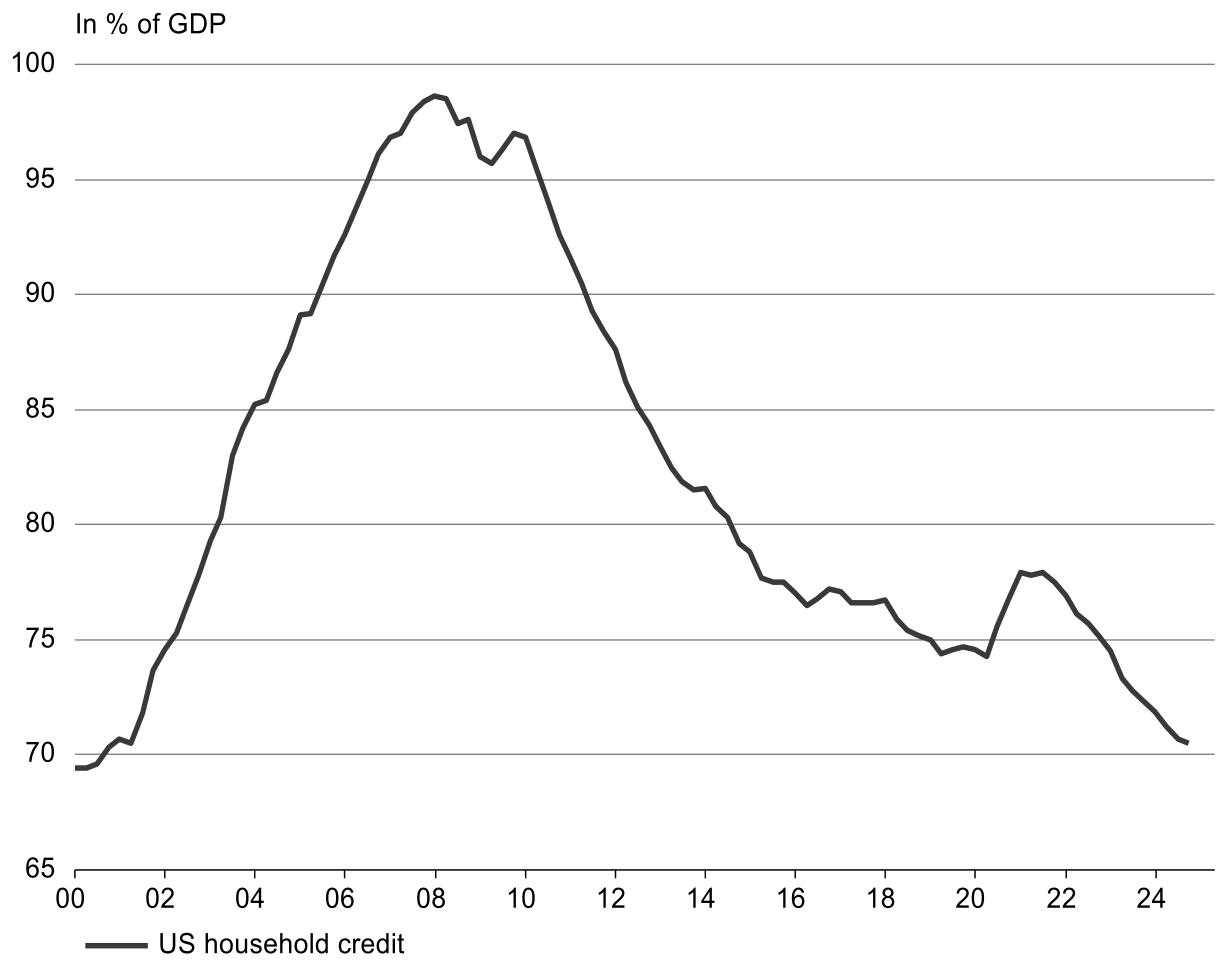

→ **Small business confidence in the US improved slightly in August (+0.5 points), continuing its upward trend.**

Source: LSEG, Vontobel, as of 15.09.2025.

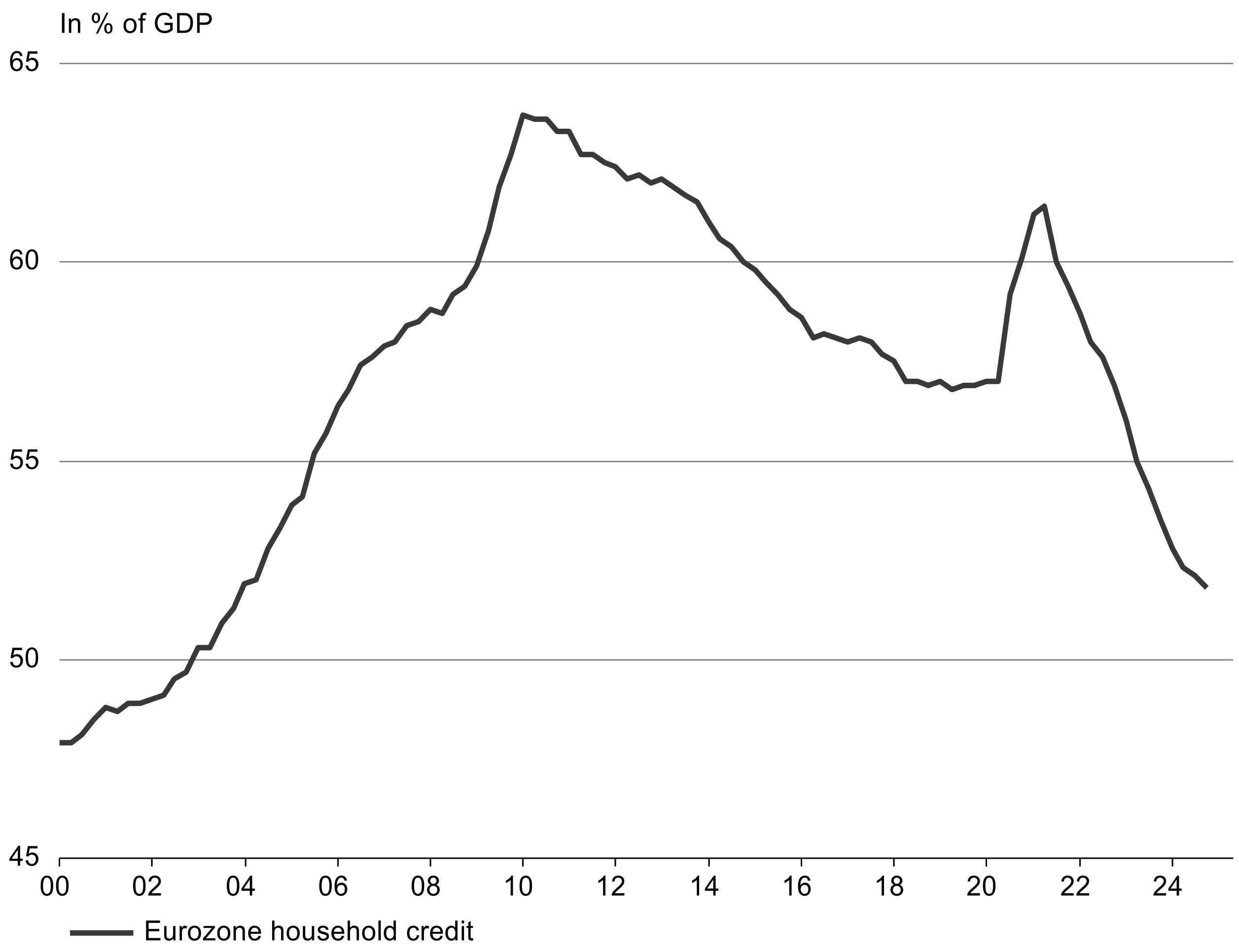
# Bottom line: the consumer keeps supporting the economies

Macro

## US households in good shape…




## …just as European ones




Source: LSEG, Vontobel, as of 15.09.2025.

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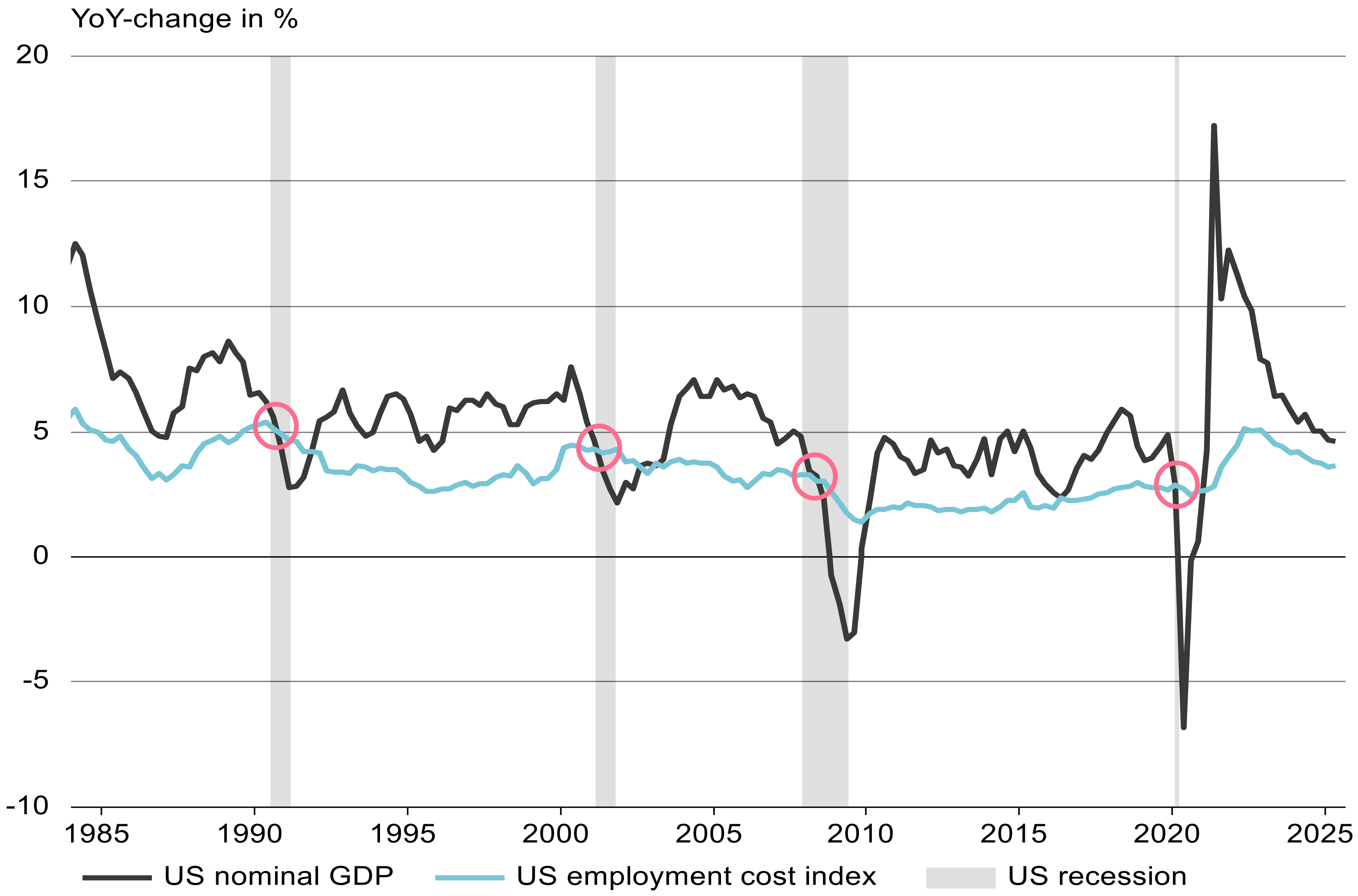
# As long as corporate profit margins remain healthy, firms will not be forced to lay off people

Macro




Source: LSEG, Vontobel, as of 15.09.2025.

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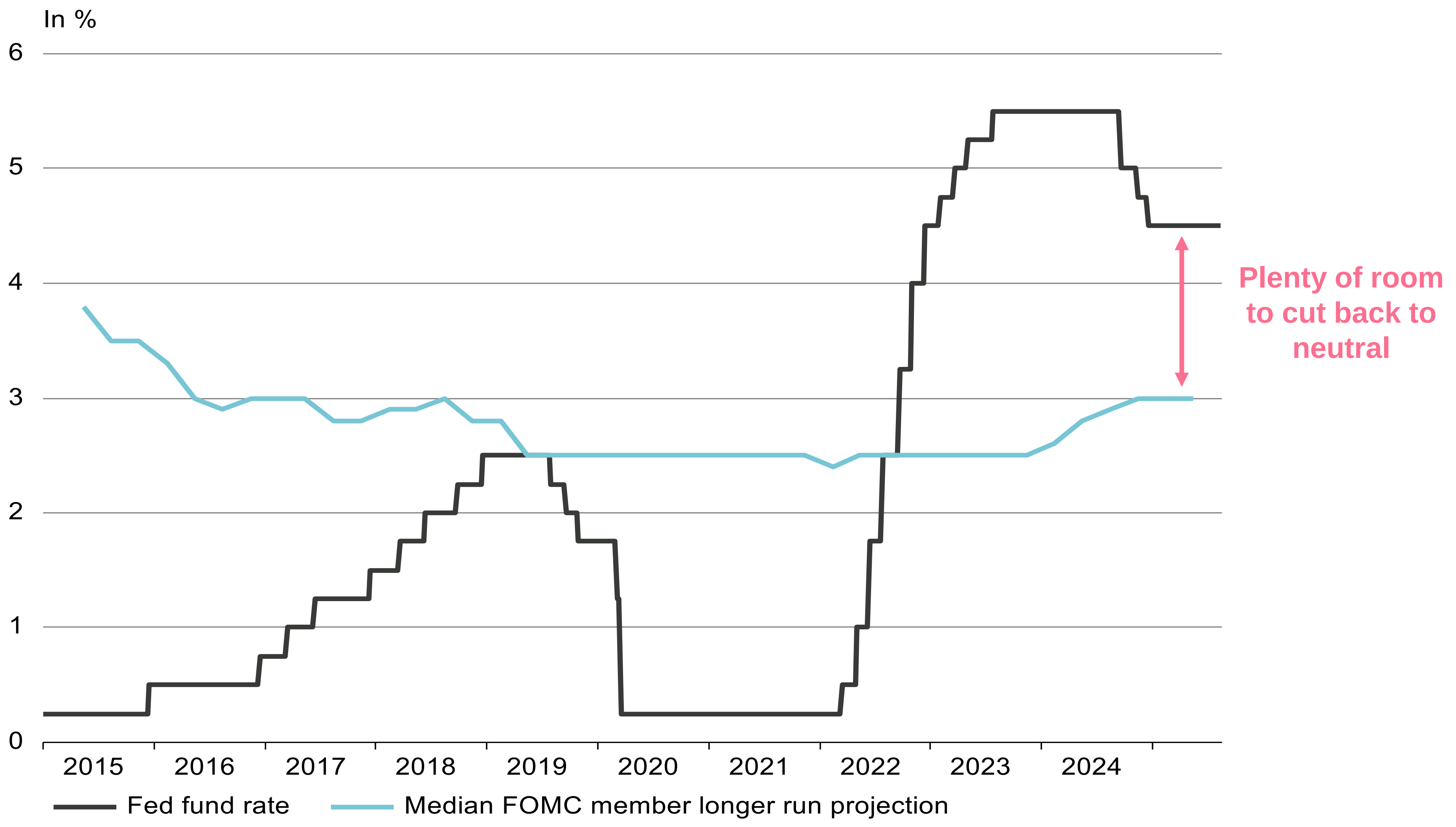
# Monetary policy: Fed will likely resume cutting back to neutral

Macro




→ **According to the FOMC, the neutral Fed policy rate is estimated to be at 3%.**

Source: LSEG, Vontobel, as of 31.08.2025.

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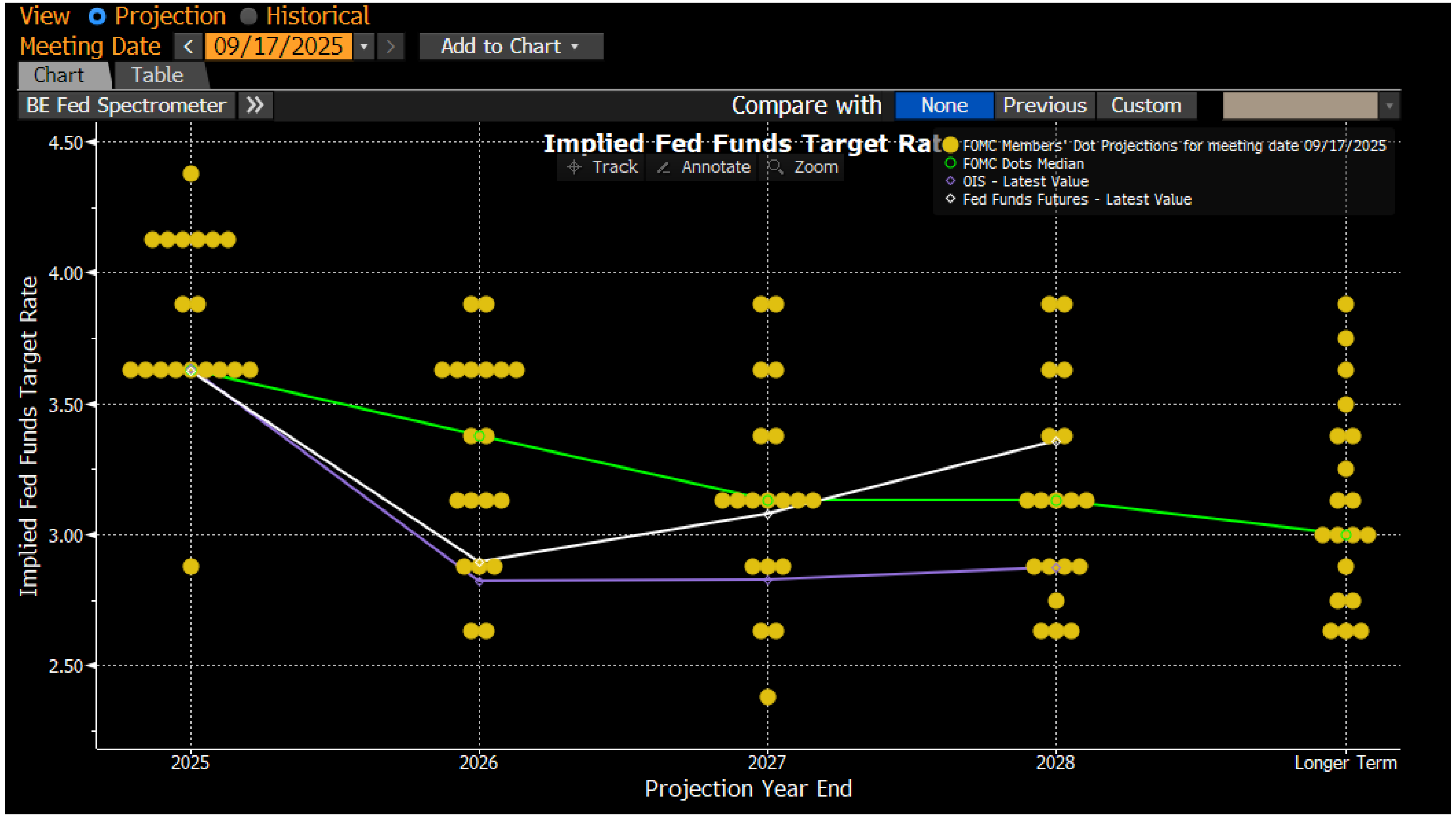
# Two Fed cuts still on the agenda in 2025 after the September one

Macro




→ **The Fed is demonstrating greater tolerance for a temporary rise in its inflation forecast, given the risk of continued weakening in the labor market (i.e. risk management to support the economy), as highlighted at Jackson Hole. This risk could materialize quickly, underscoring the need for further rate cuts, as indicated.**


Source: Bloomberg, Vontobel, as of 22.09.2025.

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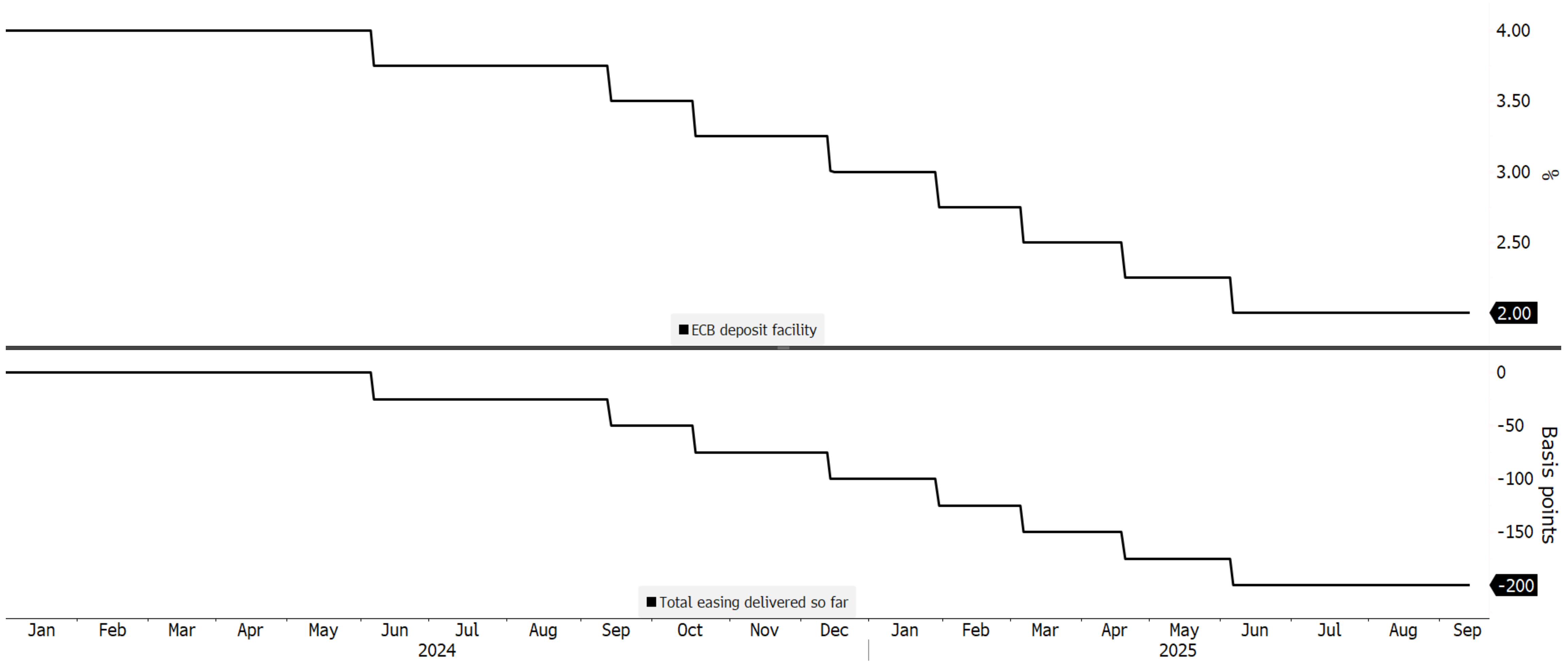
# The ECB's deposit facility rate is now closer its final destination

Macro




→ **Rate cuts total 200 basis points in this easing cycle so far, supporting the Euro area economies.**

Source: Bloomberg, Vontobel, as of 19.09.2025.

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# Meanwhile forecasts remain moderately optimistic

Macro

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

| | | Actual | Forecast | | |
|---|---|---|---|---|---|
| | | 2024 | 2025 | 2026 | 2027 |
| **Real GDP growth rate** | USA | 2.5 | 1.4% | 1.7% | 1.8% |
| | Eurozone | 0.8 | 1.2% | 1.0% | 1.3% |
| **Unemployment rate** | USA | 4.2 | 4.6% | 4.5% | 4.4% |
| | Eurozone | - | - | - | - |
| **Inflation data** | USA (Core PCE) | 2.8% | 3.1% | 2.3% | 2.0% |
| | Eurozone (CPI) | 2.4% | 2.1% | 1.7% | 1.9% |
| **Key interest rates** | USA (Fed Funds Rate) | 4.4% | 3.6% | 3.4% | 3.1% |
| | Eurozone (ECB Deposit Rate) | 3.6% | 2.0% | 1.8% | 2.2% |

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

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Source: UBS, Société Générale, Central Banks revisions, as of 19.09.2025.

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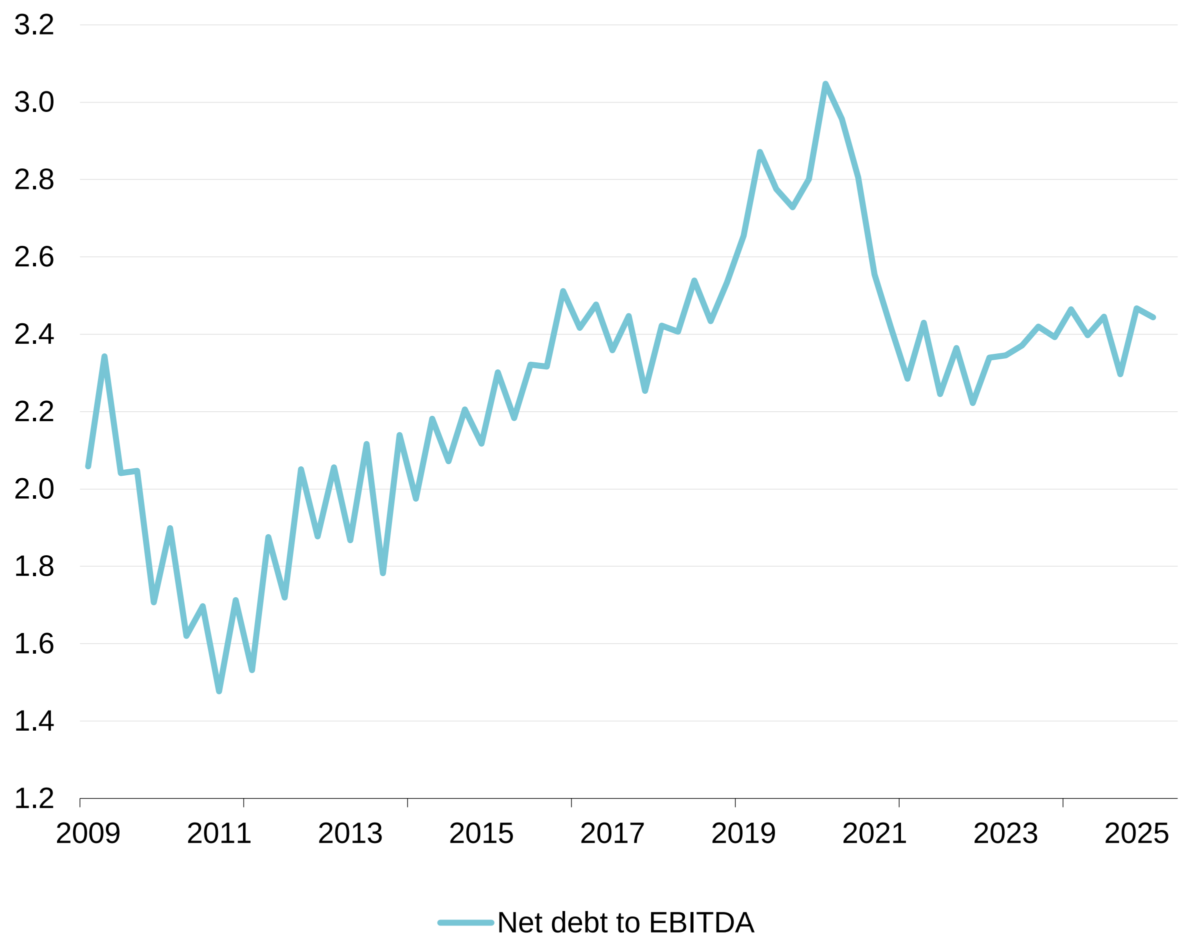
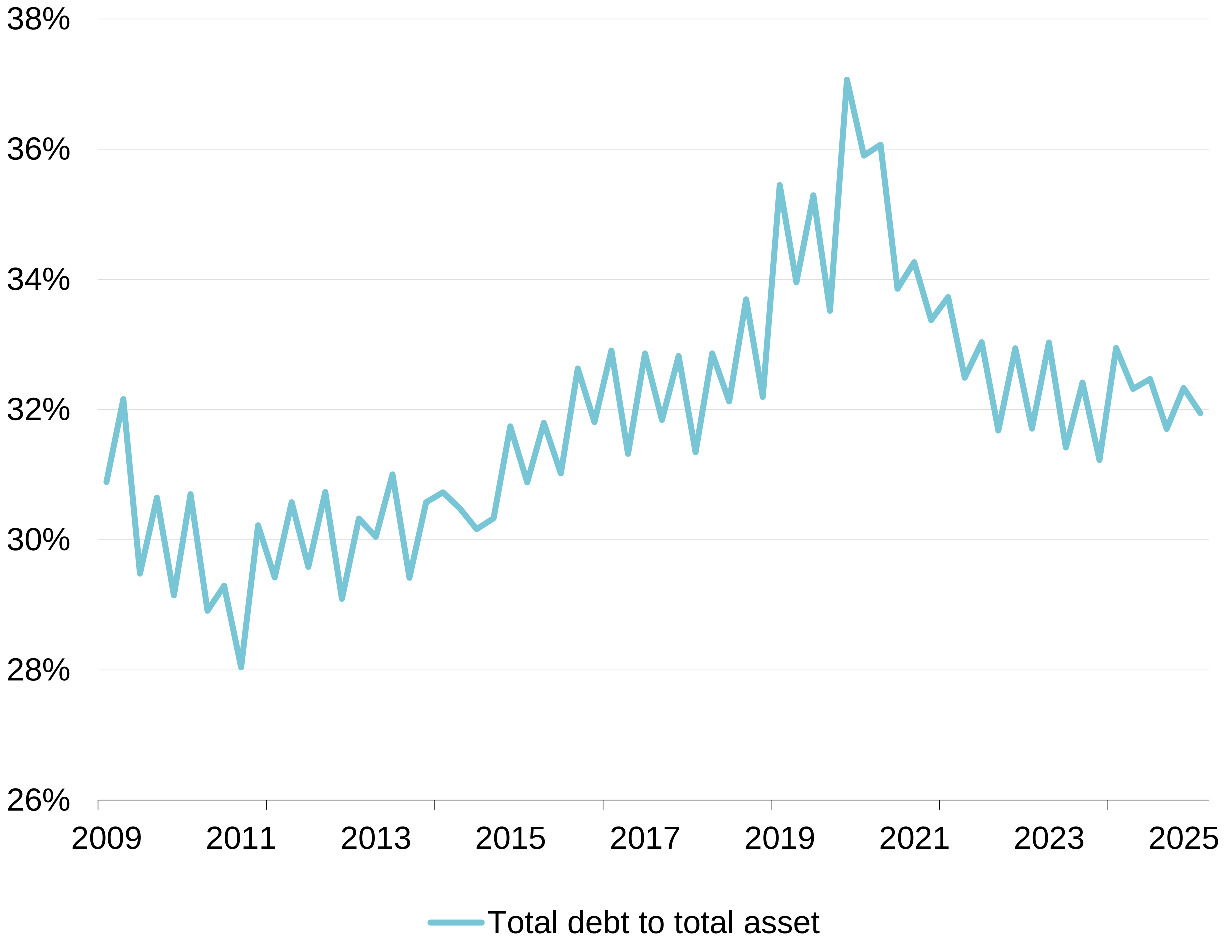
# Corporate fundamentals remain solid with no broad re-leveraging

Micro

## Corporate leverage levels remain stable in Europe (vs. earnings and asset base)




Source: SG Cross Asset Research/Credit, as of 31.06.2025.

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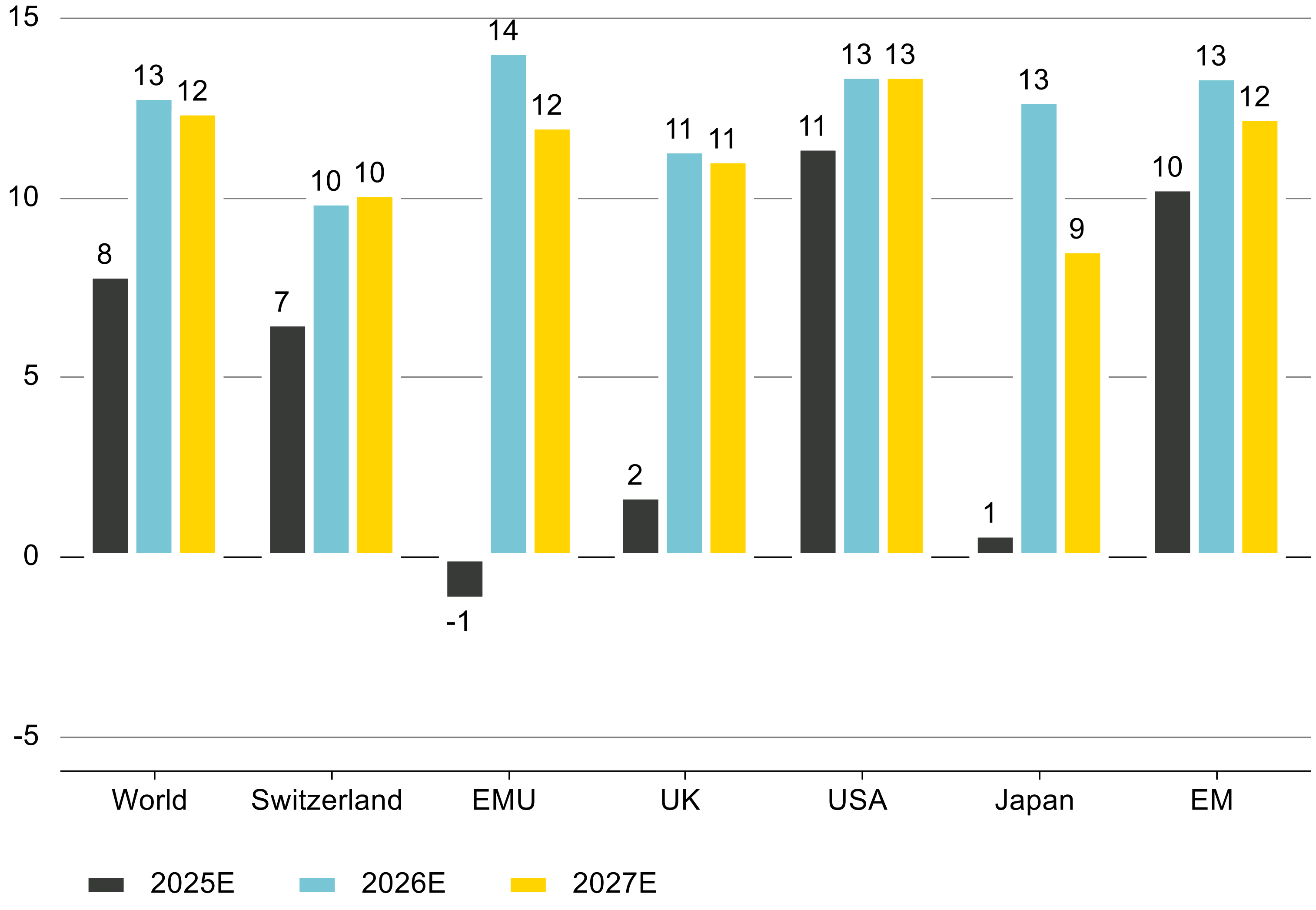
# 2026 earnings growth expectations forecast to be strong for both Europe and the US

Micro

EPS Growth Expectations in %




Source: LSEG, Vontobel, as of 31.08.2025.

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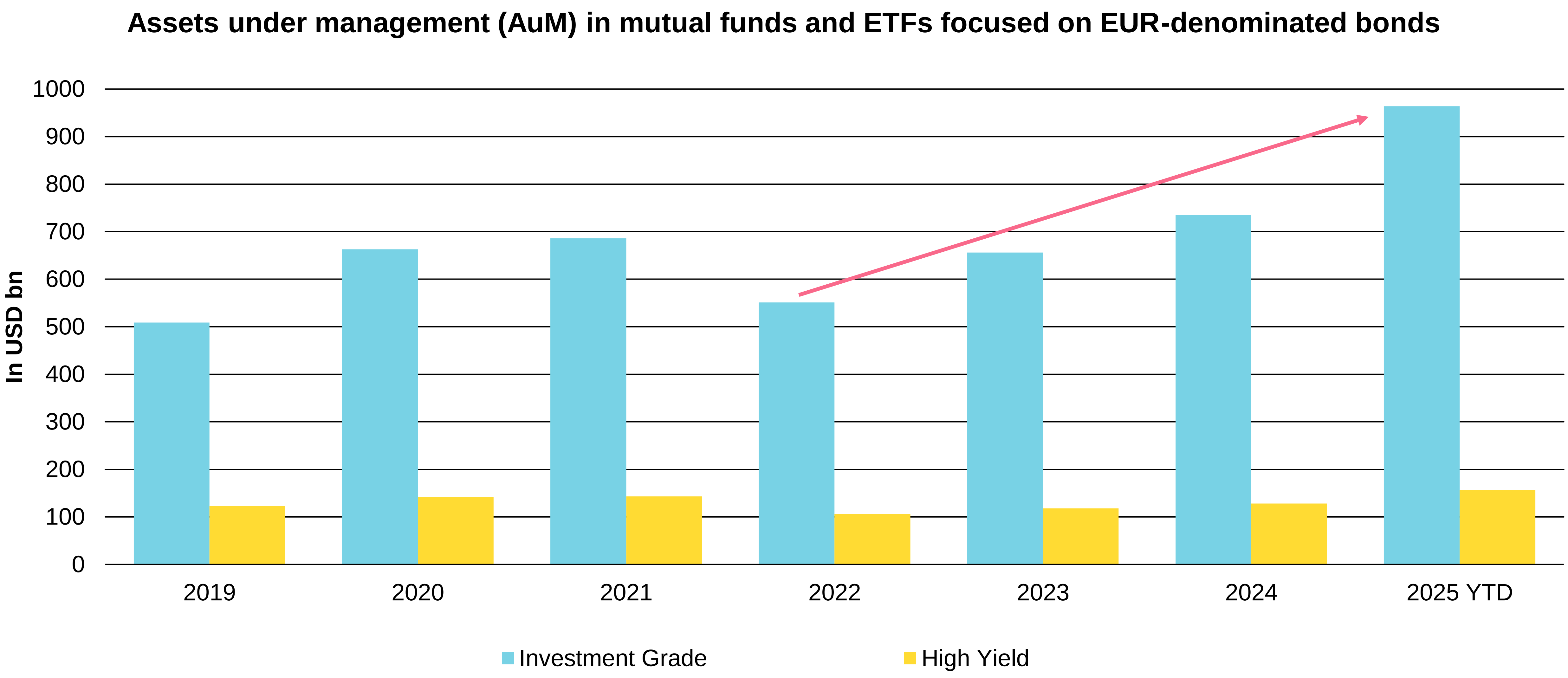
# Demand for Euro area investment grade bonds continues to be supported by strong institutional investors flows

Technicals




Source: Goldman Sachs, EPFR, as of 19.09.2025.

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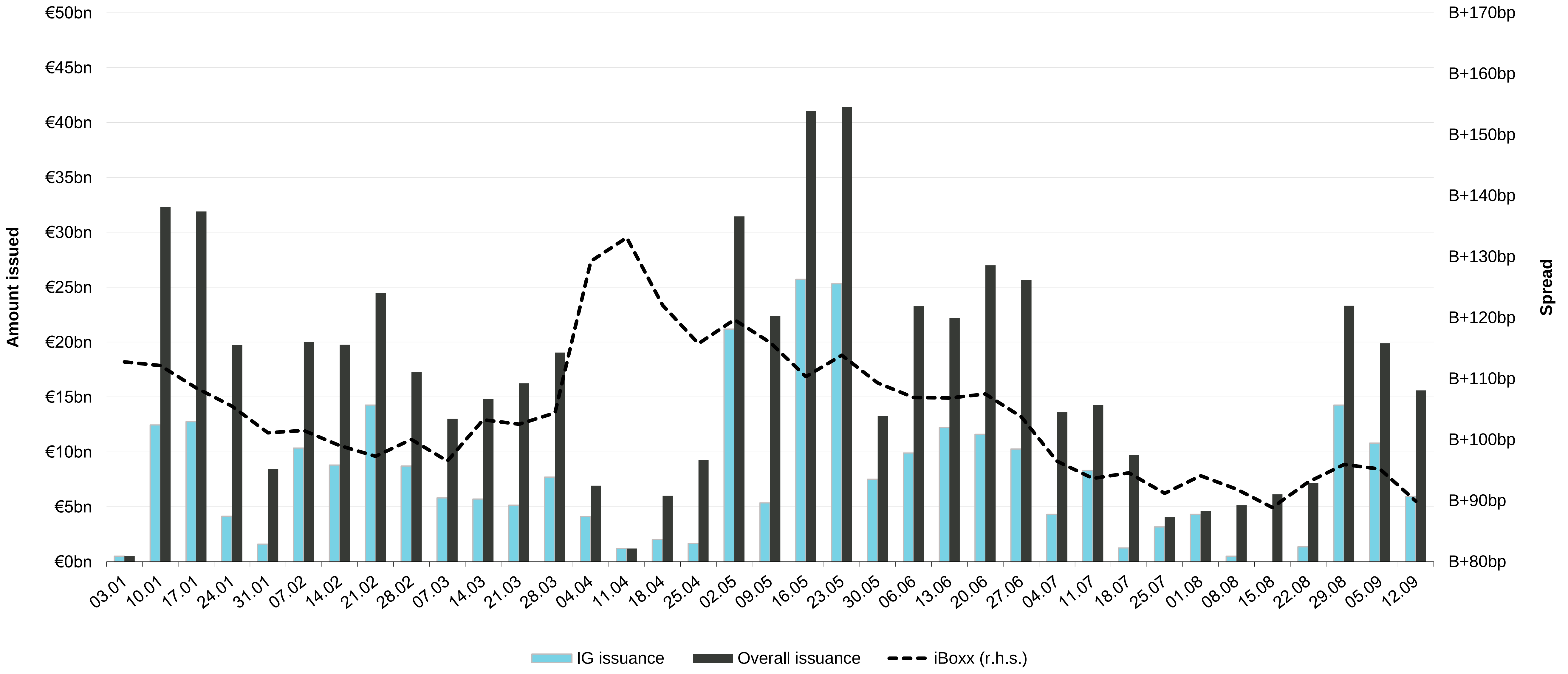
# Back to school record issuance easily absorbed and secondary market even tightened thanks to strong technical demand

Technicals




Source: SG Credit Research, as of 12.09.2025.

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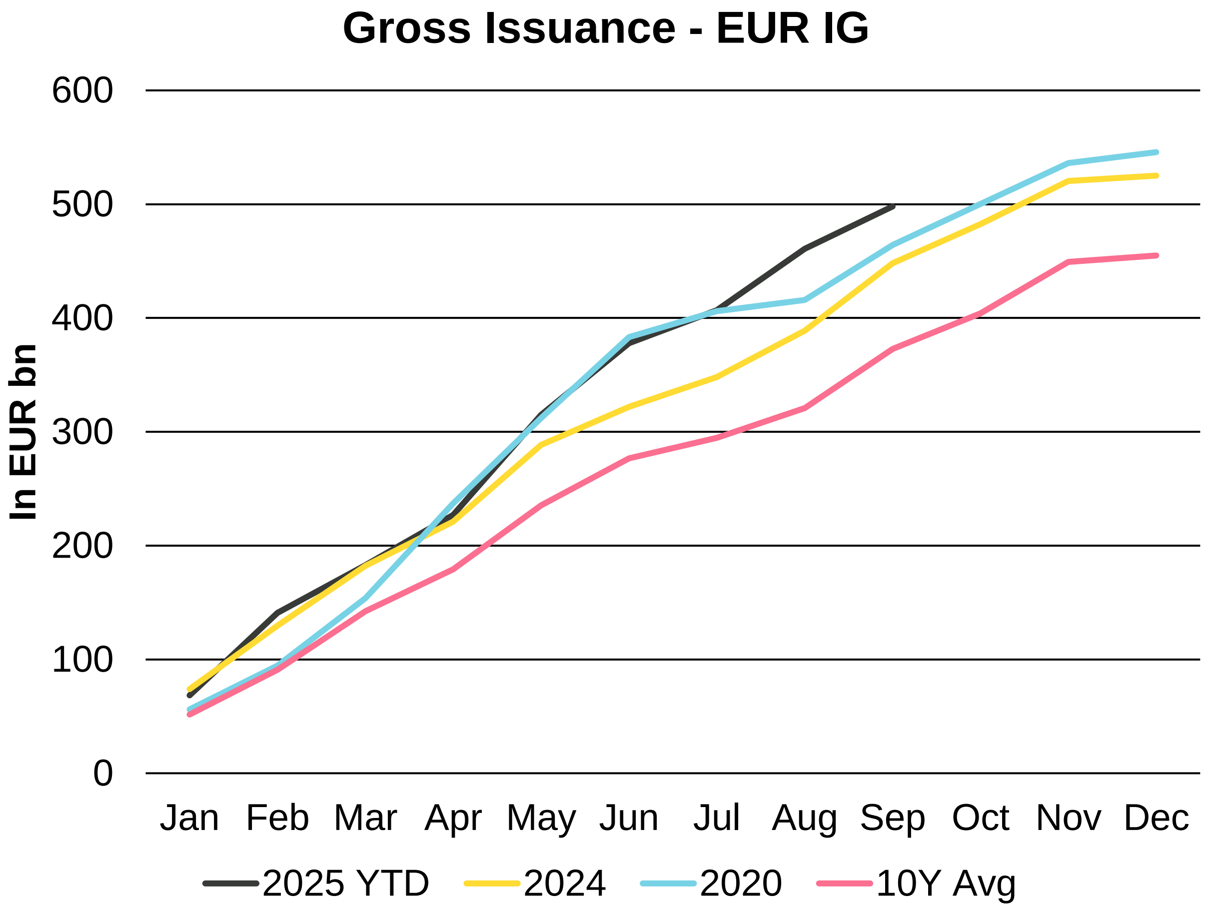
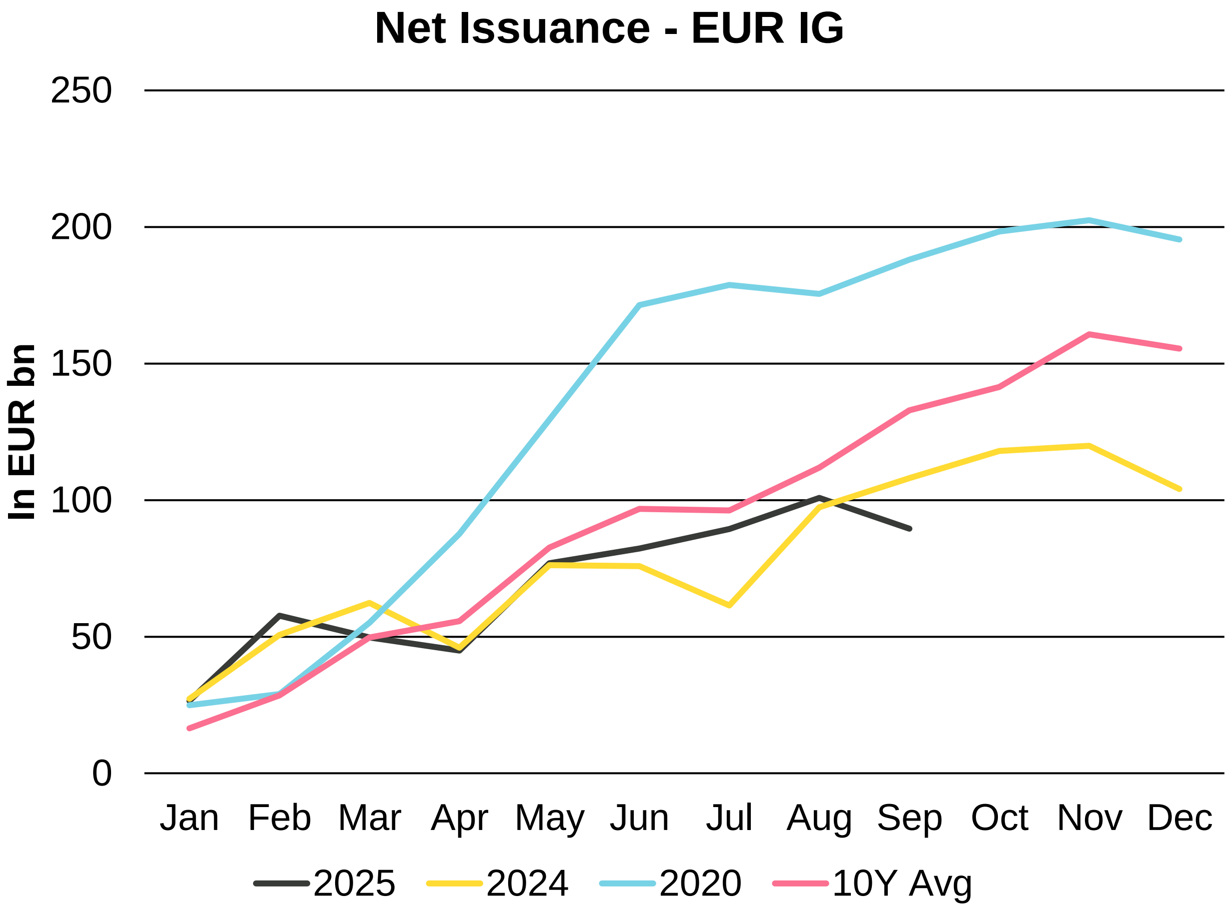
# Net issuance is below the historical average further supporting technicals

Technicals

## Gross issuance is expected to reach a historic high…




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




Source: Citi Research, as of 19.09.2025.

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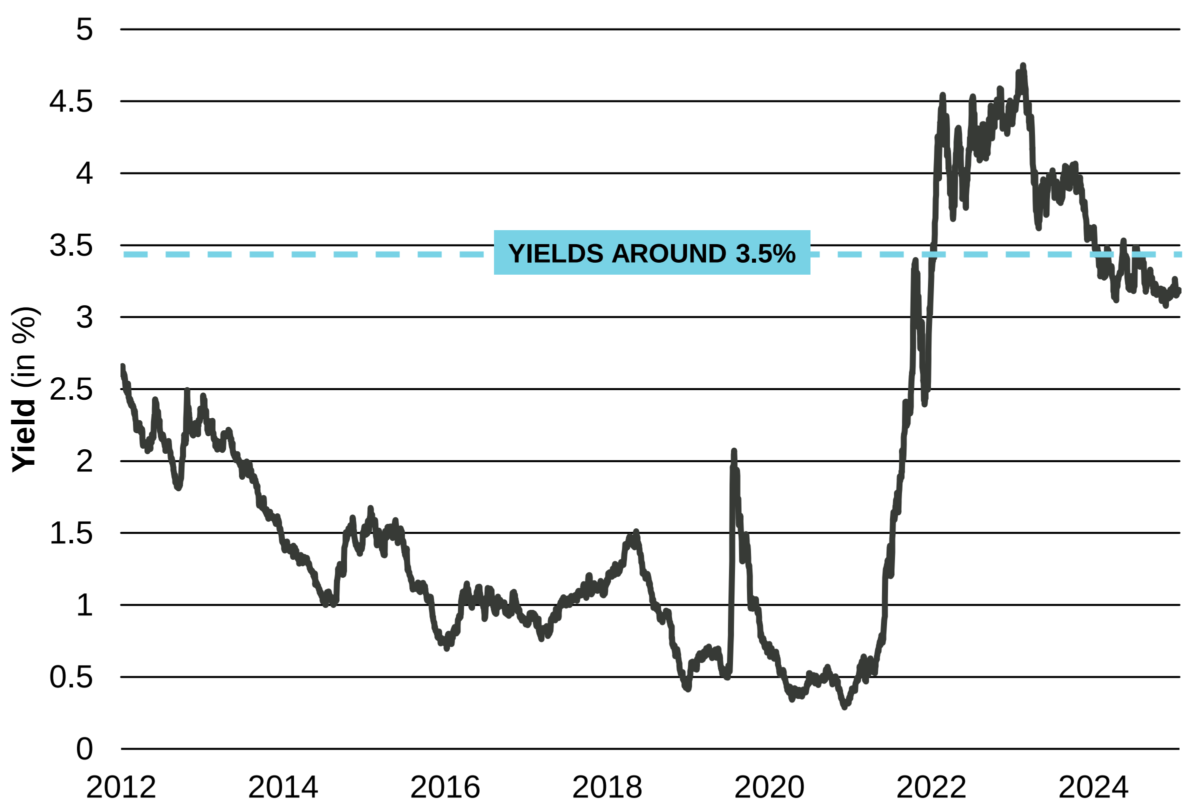
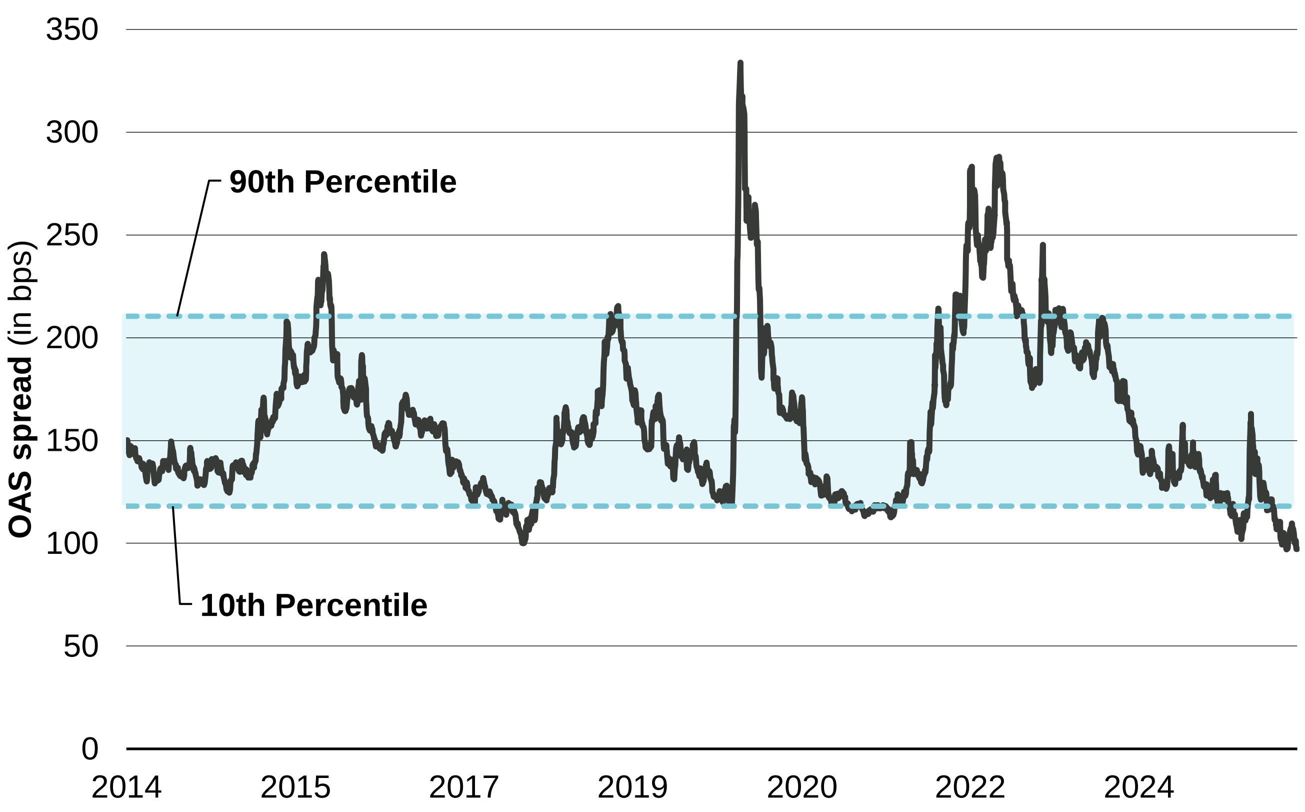
# Expected returns remain attractive, however, the yield peak has passed

Valuation

### Yield evolution of ICE BofA A-BBB Euro Corporate Index (ERC0 Index)




### Spread evolution based on 80% ICE BofA A-BBB Euro Corporate Index (ERC0 Index) and 20% ICE BofA BB Euro High Yield Index (HE10 Index)




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

**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 22.09.2025.

# Our preferences for Q4 2025

## *Likes*

**Sectors:**
Banking, Insurance (SUB), Telecom & Utility (SUBs), Transportation, Real Estate (high quality only), auto-parts (selectively)

**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)


Source: Vontobel, as of October 2025.

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