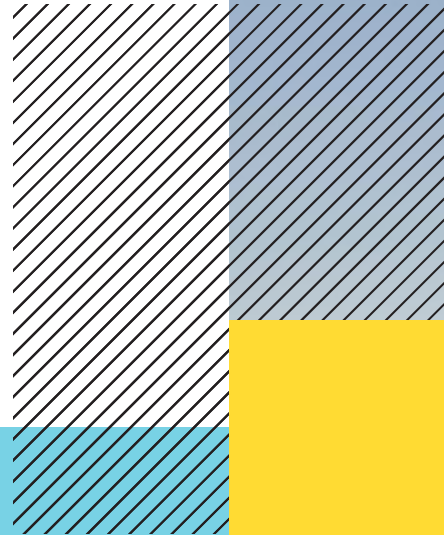


# Euro IG Credit Outlook

**Q1 2026: We are staying focused & carrying on; rate cuts to persist, cash is plentiful & a friendly growth impulse seems underway.**

Fixed Income



KEEP  
CALM  
AND  
CARRY  
ON

**Mondher Bettaieb Lorient**  
Portfolio Manager/Credit  
Analyst

**Claudia Fontanive-Wyss**  
Portfolio Manager/ Credit  
Analyst

January 2026

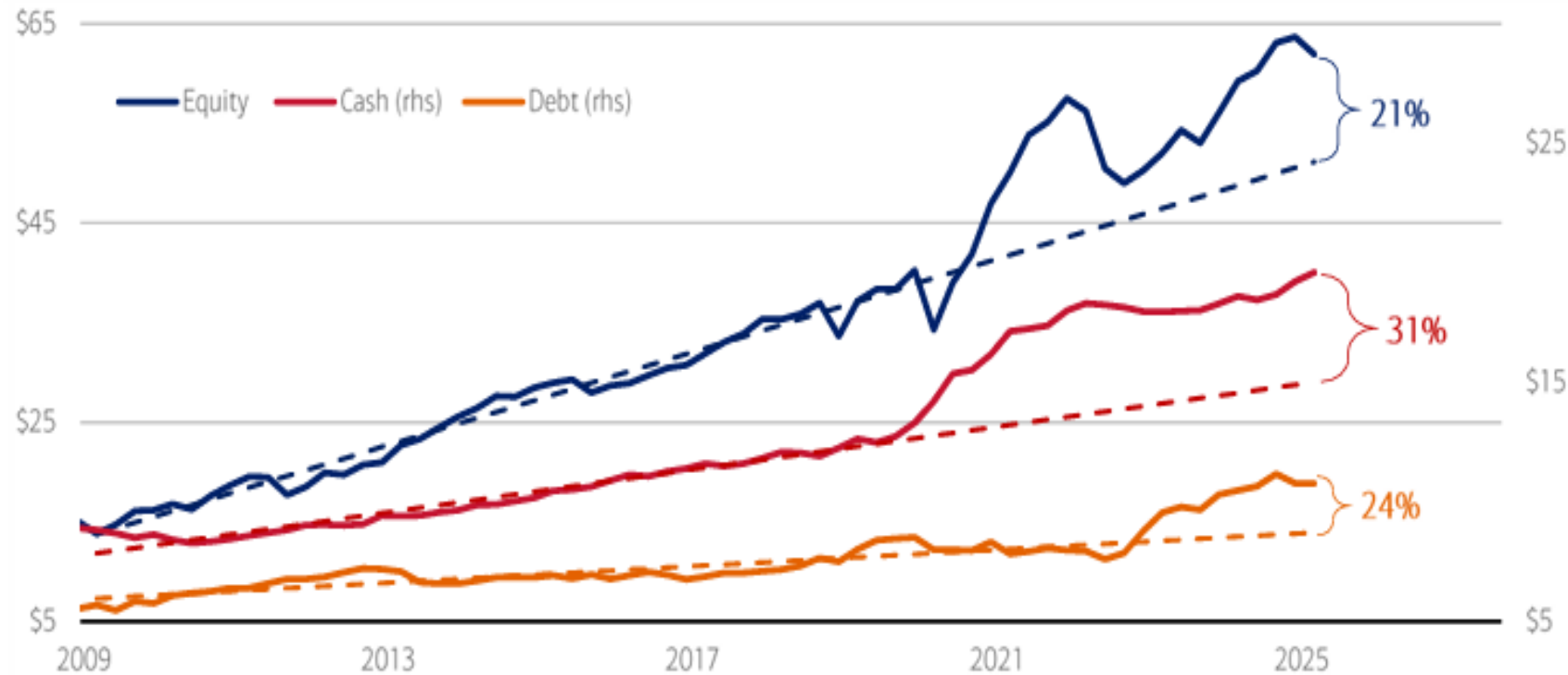
**Rrezart Rexhepi**  
Portfolio Manager/ Credit  
Analyst

For institutional investors only / not for public viewing or distribution

**Vontobel**

## There is too much cash or cash like assets still lying around

### 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 started descending again, a good proportion of these assets will transit back to traditional classes and should also help support our Euro area corporate credit market
- Anecdotally, Italian FMBaskets were the biggest buyers of AT1s in 25 in search of higher yielding alternatives to BTPs as the ECB kept cutting rates.

→ Riskier markets should generally benefit from continued strong flows and technical demand

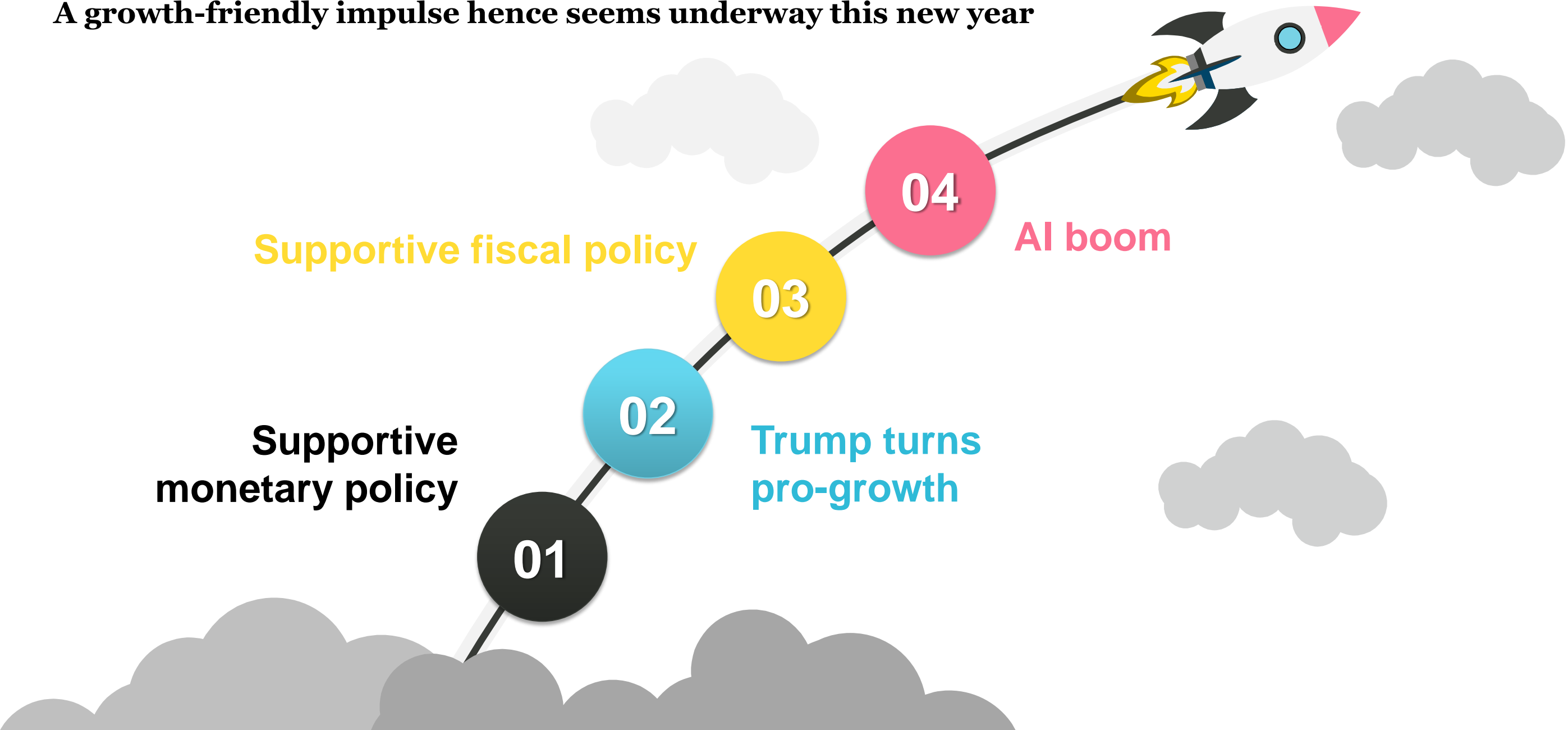
# Euro IG Corporate Bond Roadmap for Q1 2026

## Assessment of key drivers:

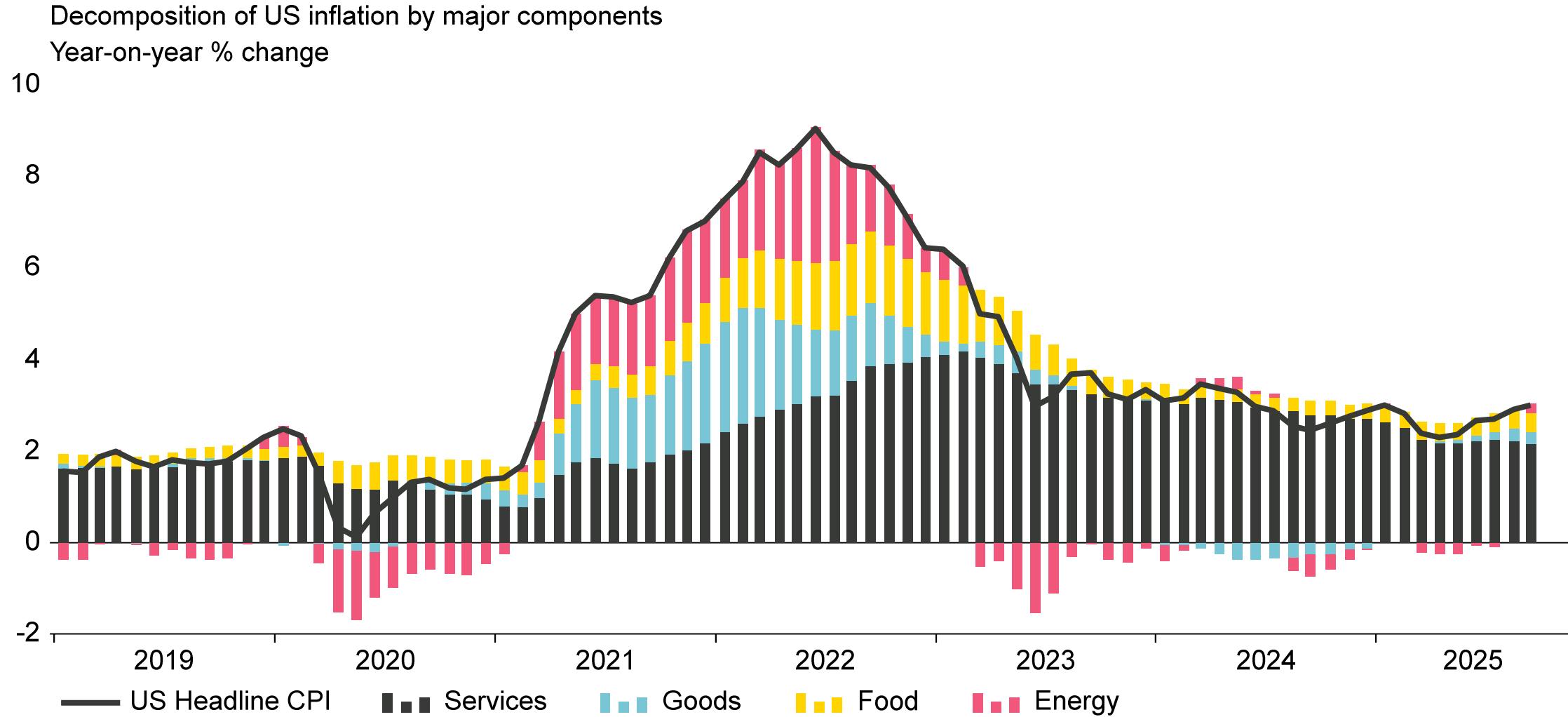
	KEY THINGS TO WATCH	CHECK?	COMMENT
MACRO 	1 Inflation	WATCHLIST	Inflation at the 2% ECB medium term target whilst US core inflation is a bit higher but not too high especially as the tariff impact should be temporary.
	2 Employment	WATCHLIST	Powell thinks that the labor market has significant downside risks still; & Fed Waller thinks there is room to bring rates to more neutral levels.
	3 Economy	WATCHLIST	EU defense & German fiscal spending, US OBBB tax reimbursements, the AI boom, lower borrowing rates should suggest a friendly growth impulse.
	4 Productivity	✓	Higher productivity: greater AI adoption in EU to restrain wage growth pressures.
	5 Interest rates	✓	Now not the time to stop cutting @ the Fed (Waller suggests 2 to 3 cuts still or -50 to -75 bp); EU @ nearly neutral as defense/ fiscal spend only fully kicks in during 26/27 and as productivity grows further?
MICRO 	6 Credit quality	✓	Solid credit metrics sustained (fins & non-fins) with No major re-leveraging in sight.
VALUATION 	7 All-in yields	✓	Spreads could narrow a bit further given healthy all in yield driven retail demand and the search for alternatives to money market instruments.
SENTIMENT 	8 Sentiment	WATCHLIST	There is lots to come in 2026 to sustain good sentiment and the positioning from OBBB tax reimbursements in the US, German fiscal expansion, AI spending and productivity boosts, lower borrowing costs and plentiful cash.



# A growth-friendly impulse hence seems underway this new year

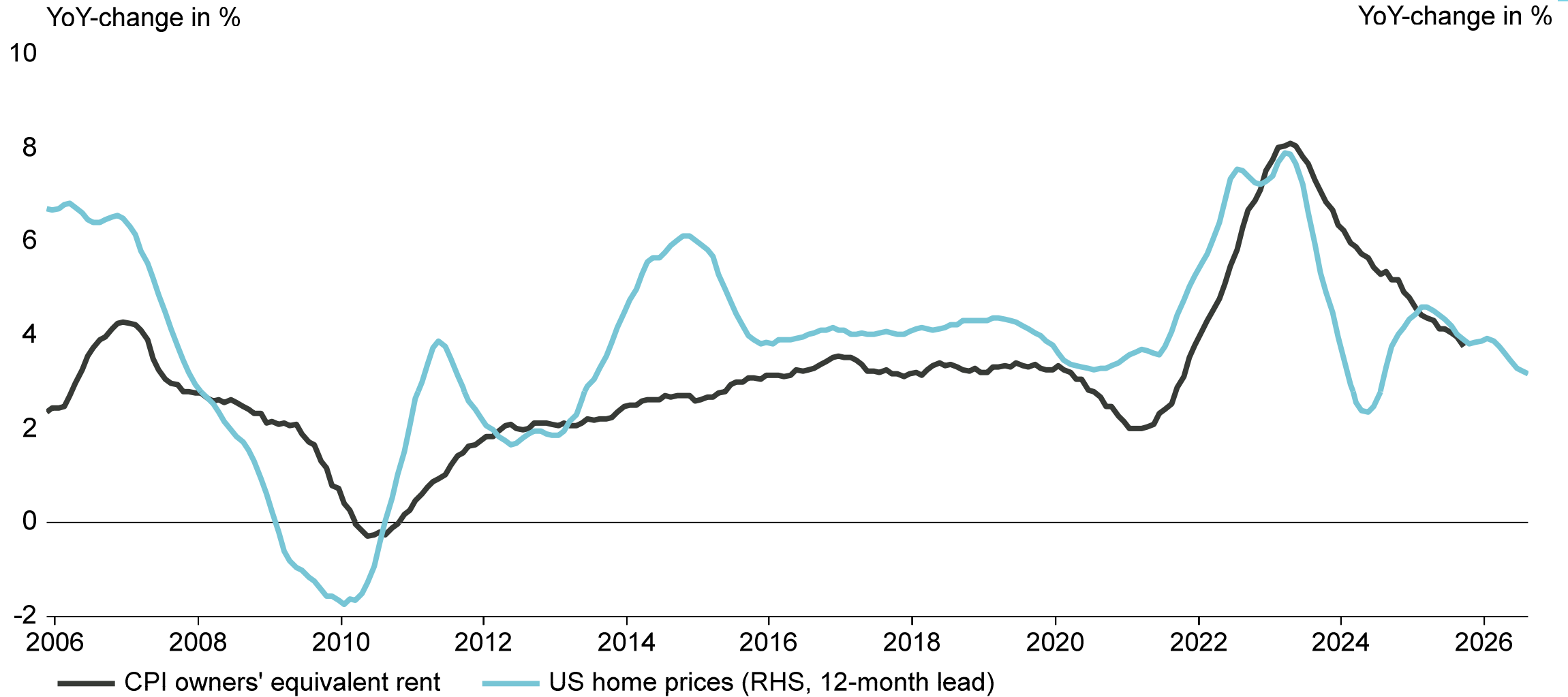


# Inflation: @ the year end US inflation had not yet completely normalized due to tariff effects and housing inflation



# Inflation...however housing disinflation continues

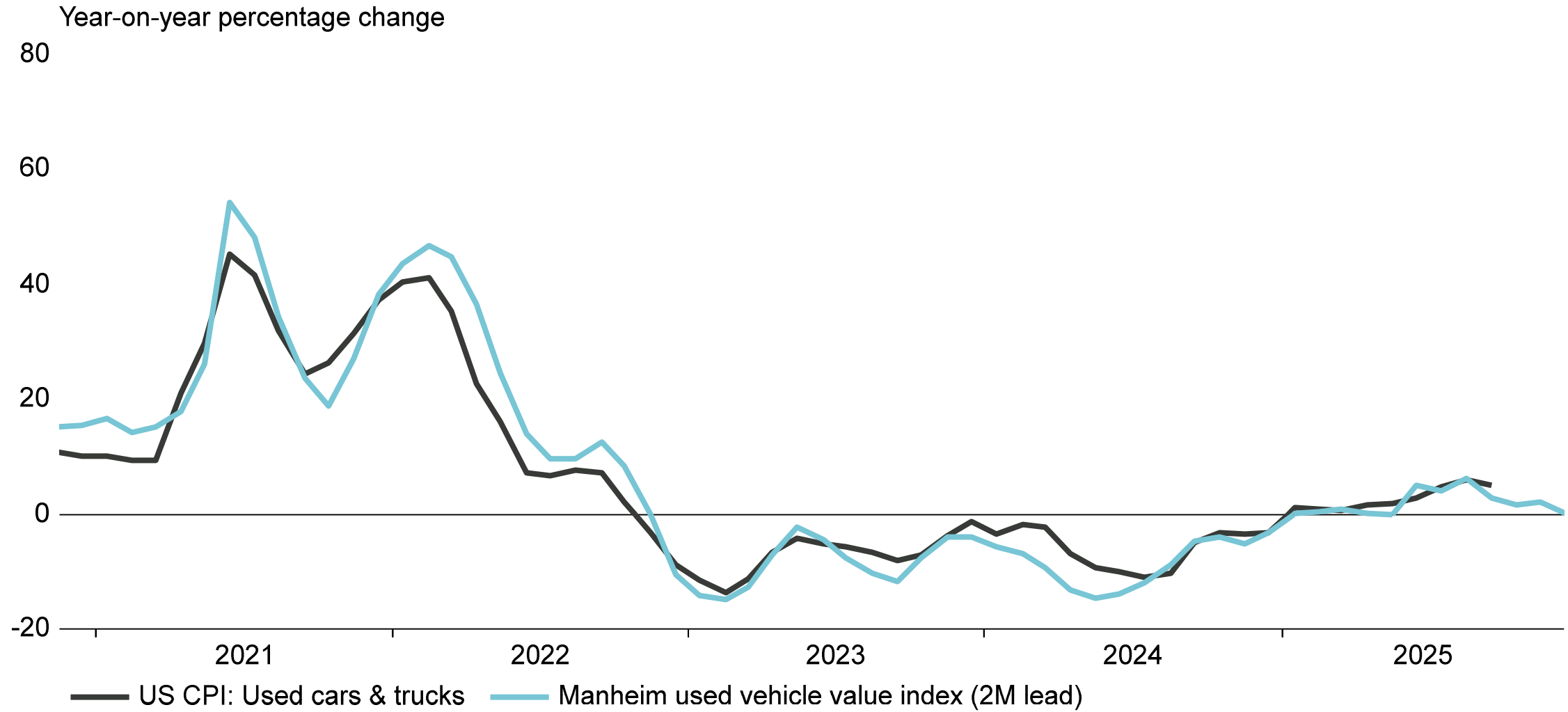
Macro



→ Contribution from shelter inflation to US headline inflation should continue to decline over the next months

# Inflation...and in the absence of public US data, private data indicates further inflation surprises to the downside

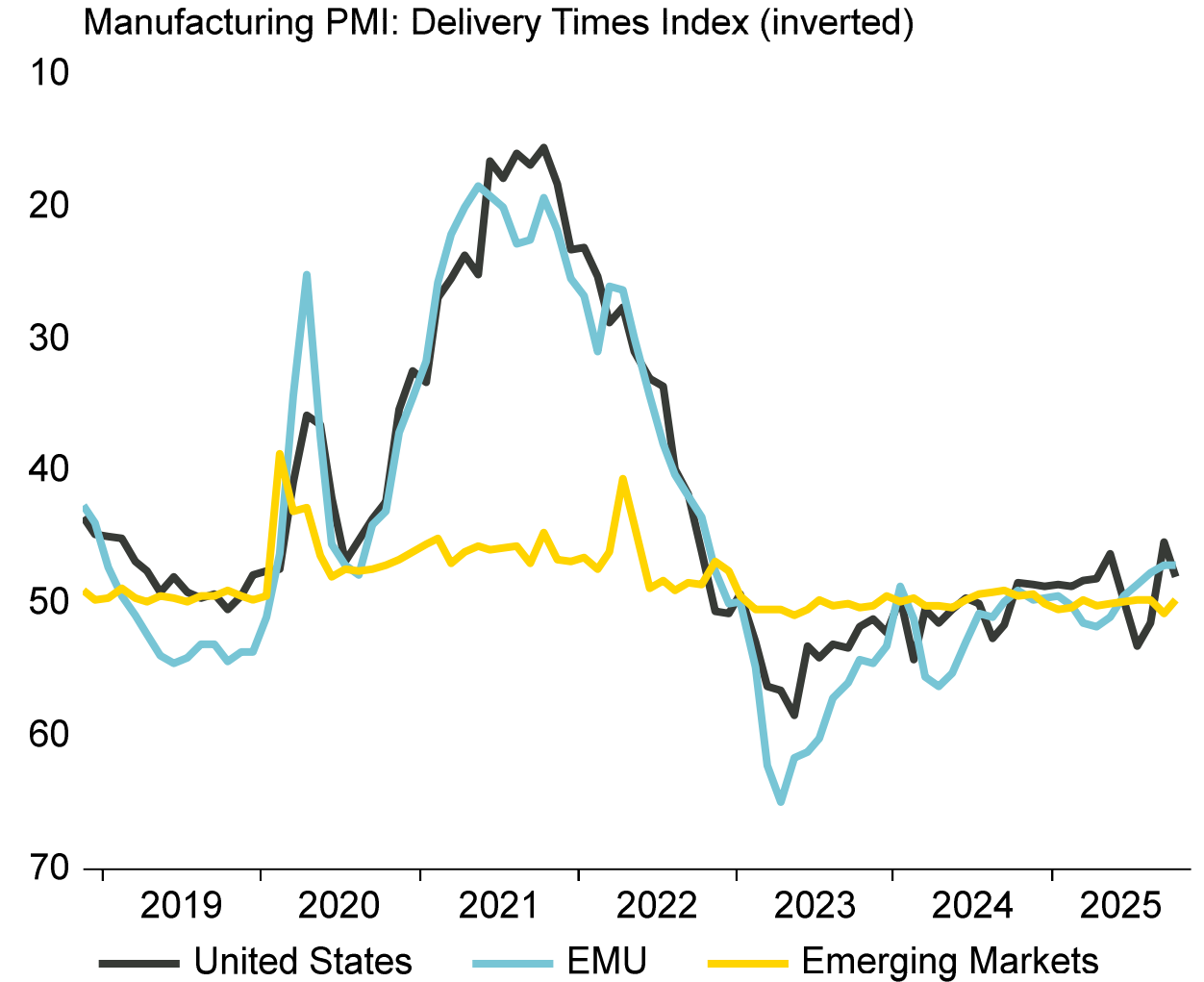
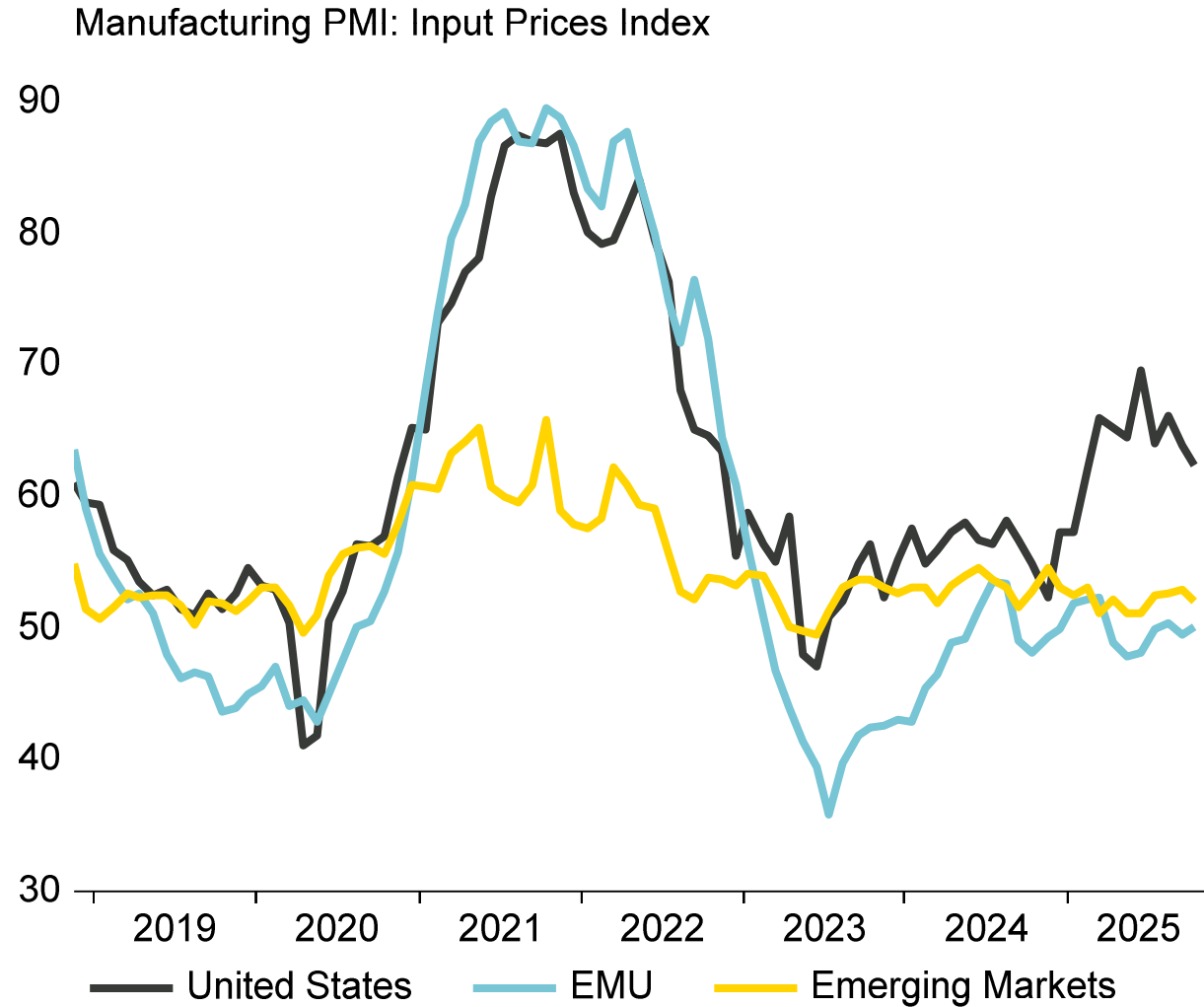
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# Inflation: the tariff impact in the US should also be temporary

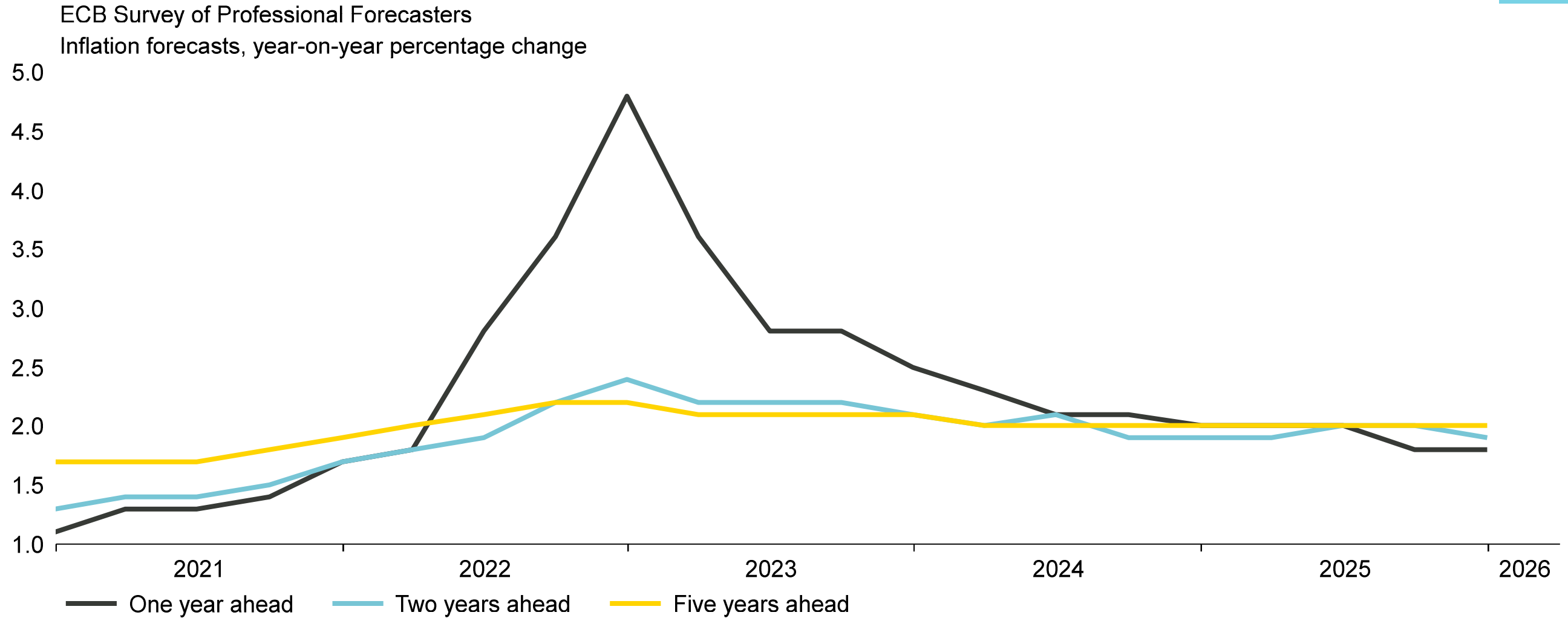
## Input prices have only accelerated in the U.S.

## Delivery times not an issue this time, not even in the US, unlike at Covid



# Inflation: EU inflation expectations on target

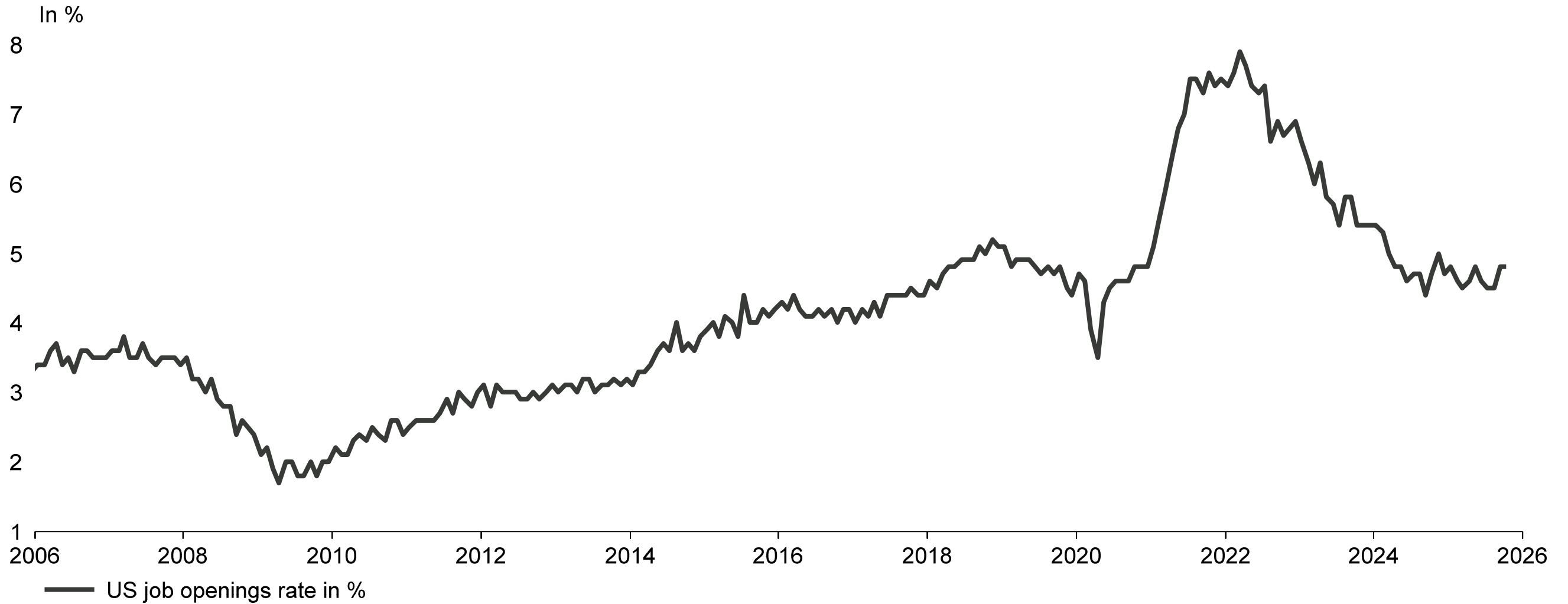
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→ The Governing Council has done a good job returning to their customary price stability threshold

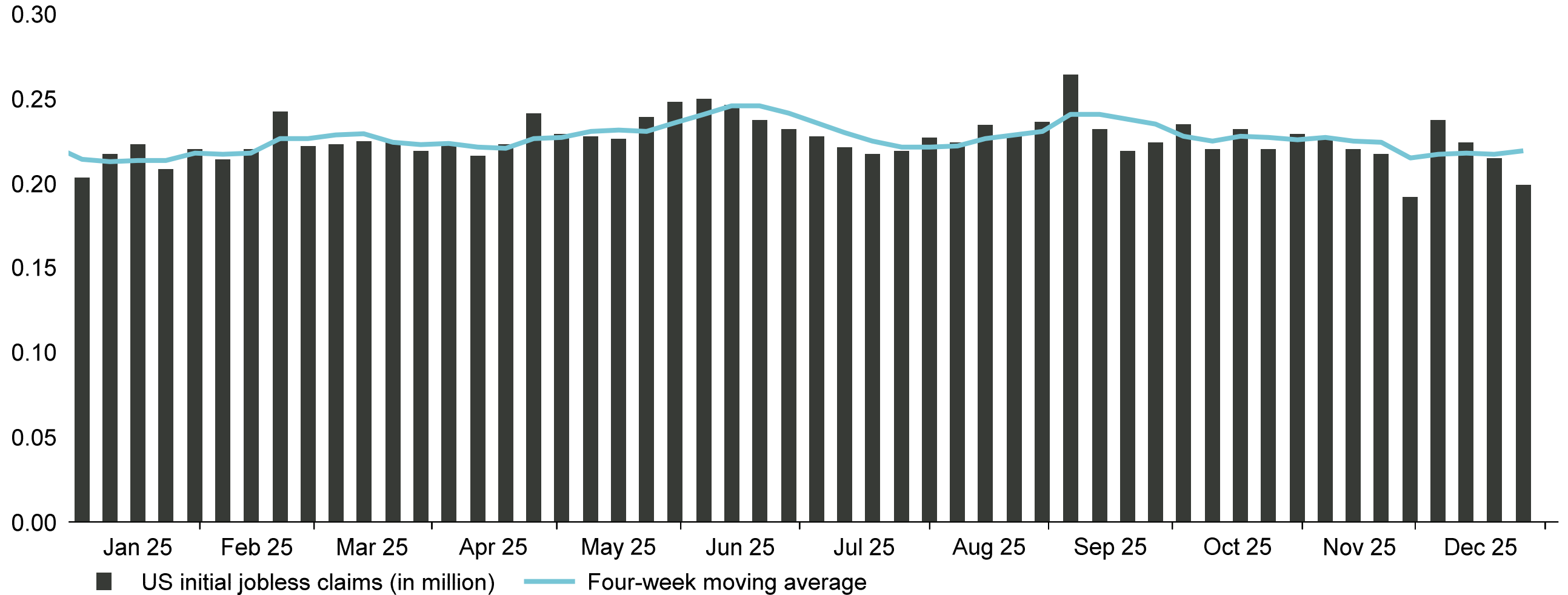
# US Labor market – job openings: the cooling in the jobs market is persisting

Macro



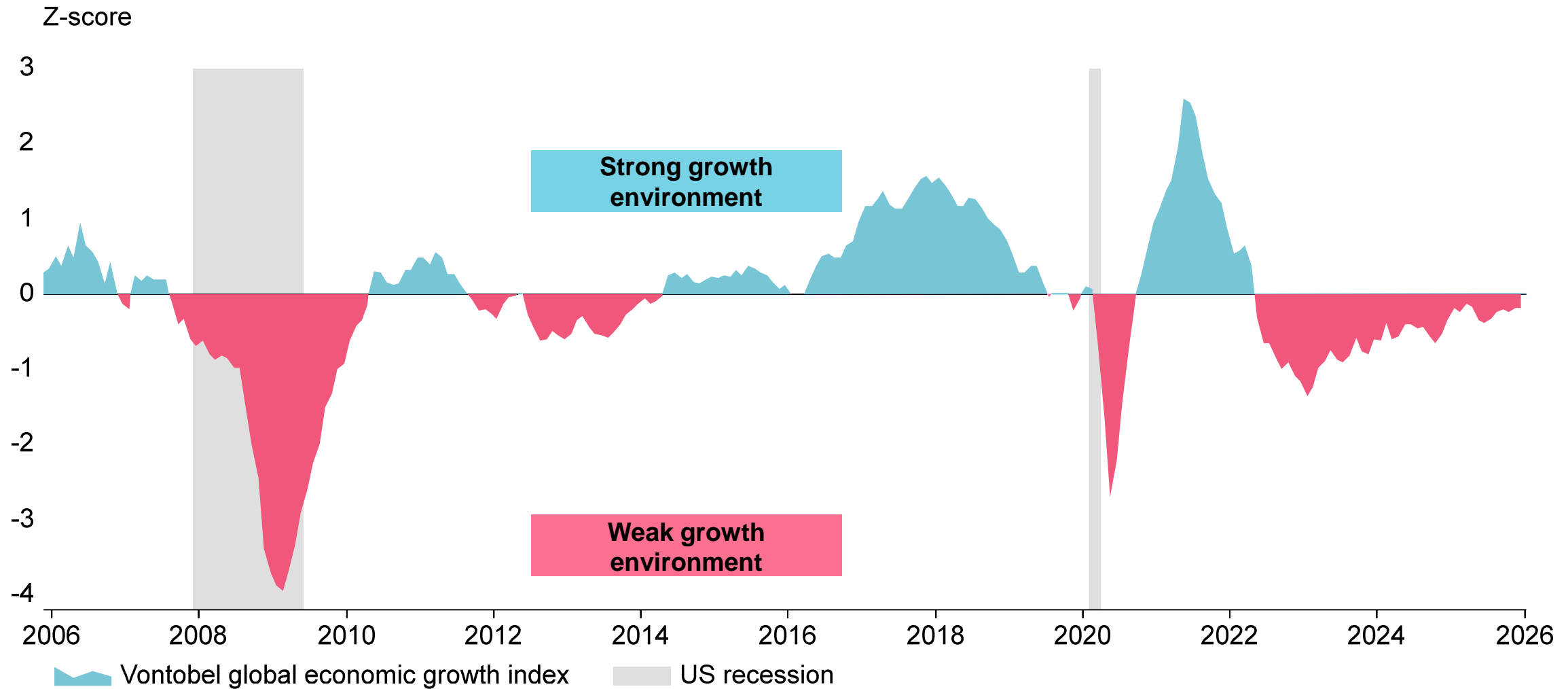
# US Labor market: ...though initial jobless claims & moving average does not show an acceleration in firing activities

Macro



# Growth: We stand @ just historical averages

Macro



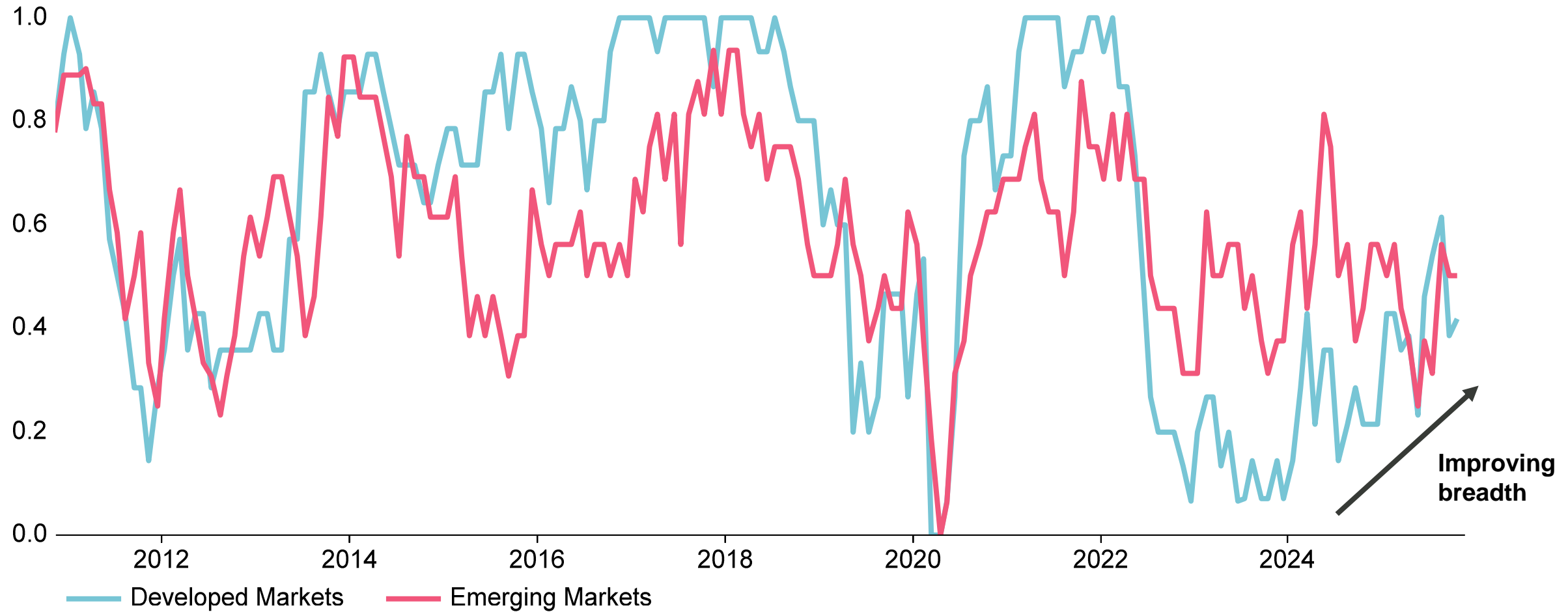
→ Vontobel's proprietary economic indicators reveal that we are currently growing @ just near historical averages

Our Vontobel global economic growth index reflects the current economic situation compared to its long-term history.  
Source: LSEG, Vontobel, 31.12.2025.

# Growth - 2026: ...though Global manufacturing PMIs are slowly but surely improving, even in developed markets

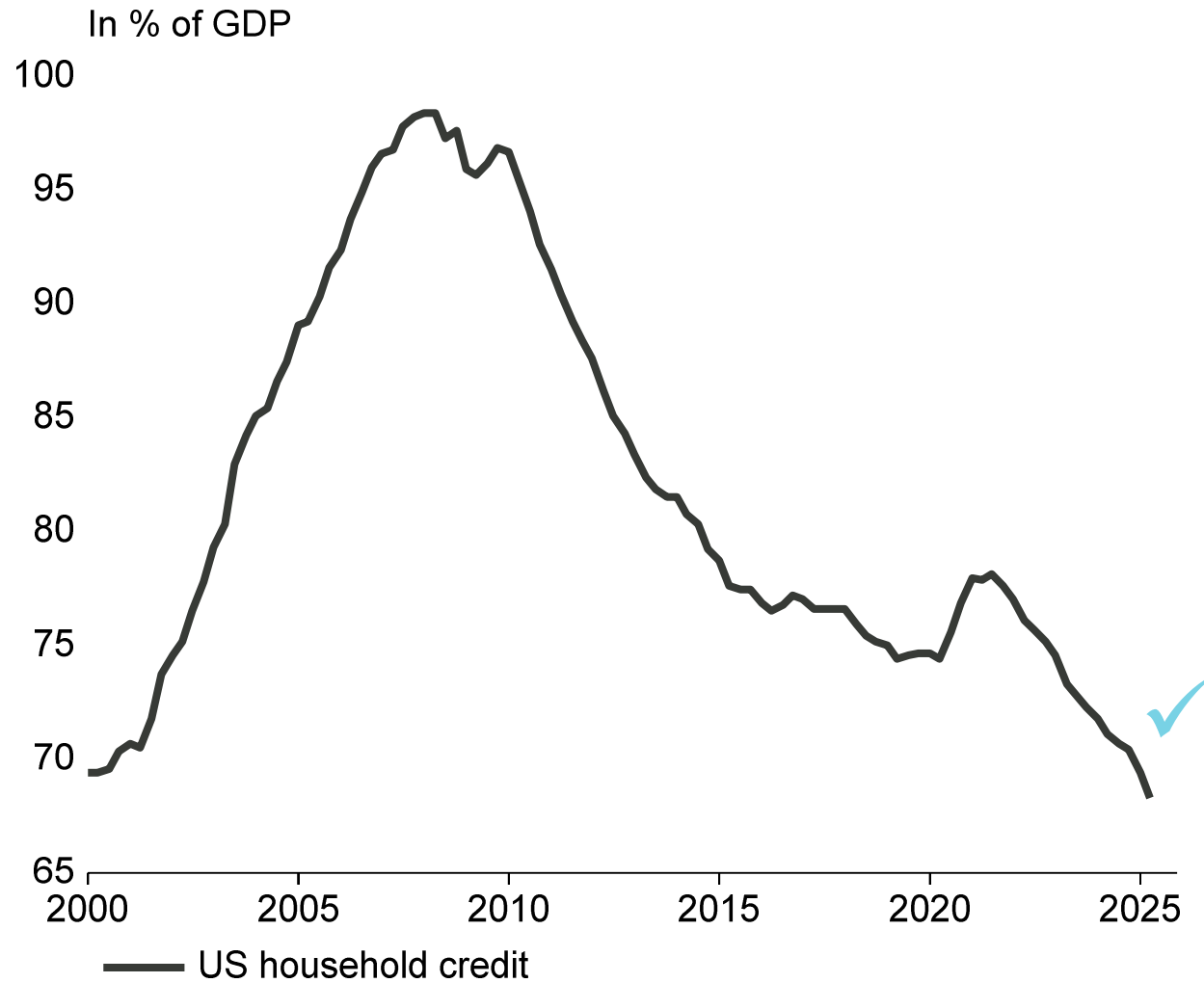
Macro

PMI manufacturing new orders: Breadth Index

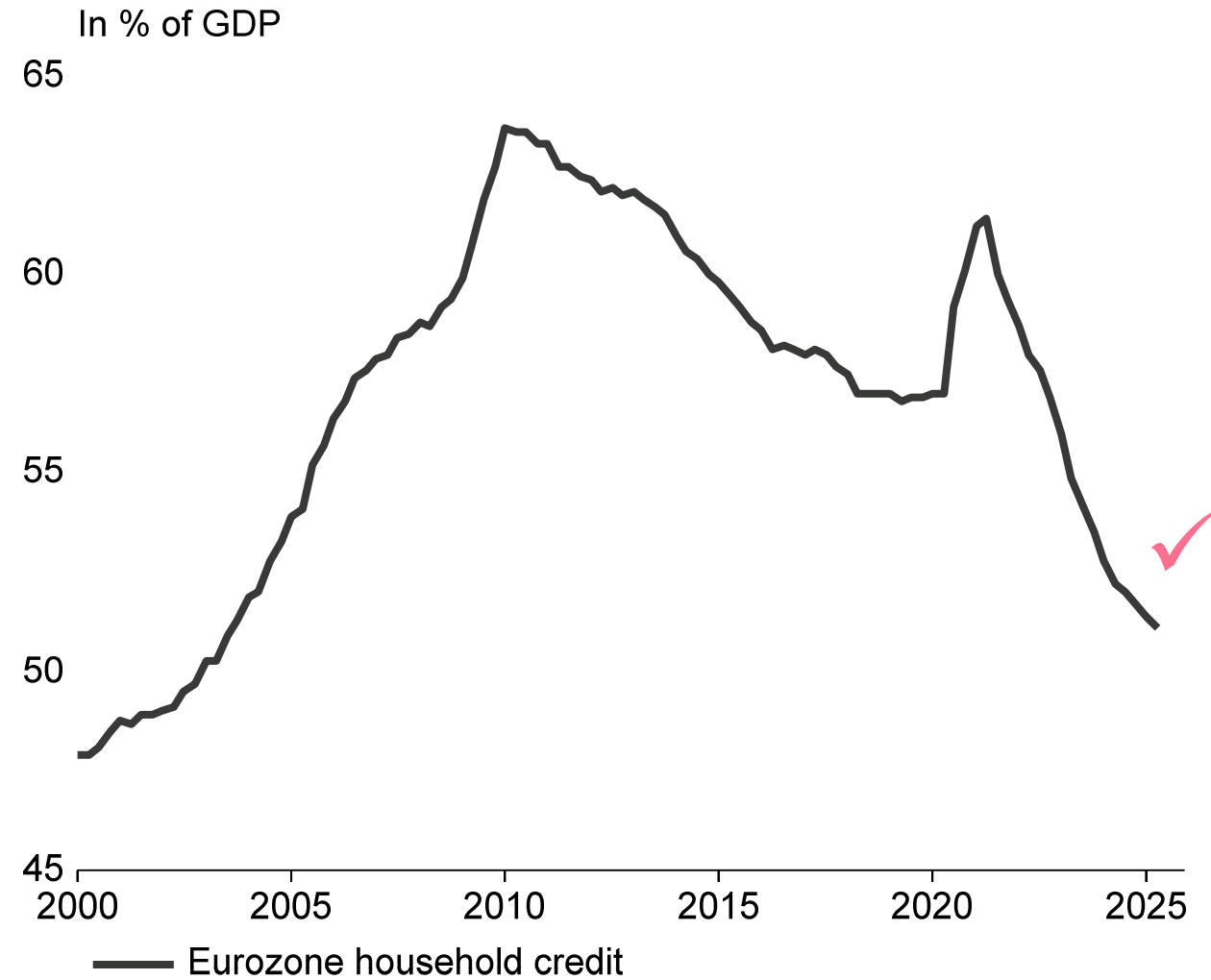


# Growth - 2026: the consumer can keep supporting the economies also given the supportive monetary and fiscal policies

## US households in good shape with low leverage...

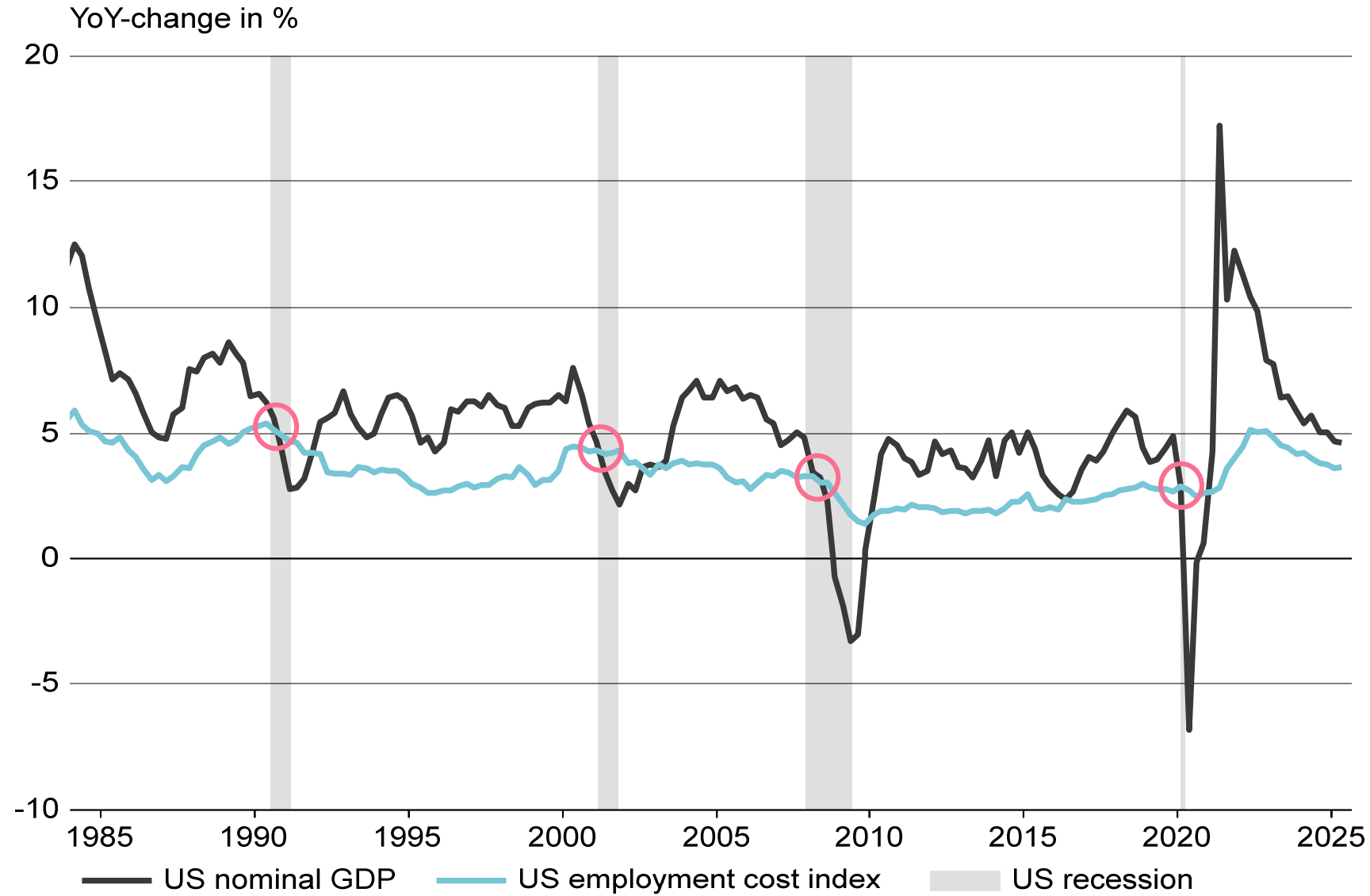


## ...just as European ones are

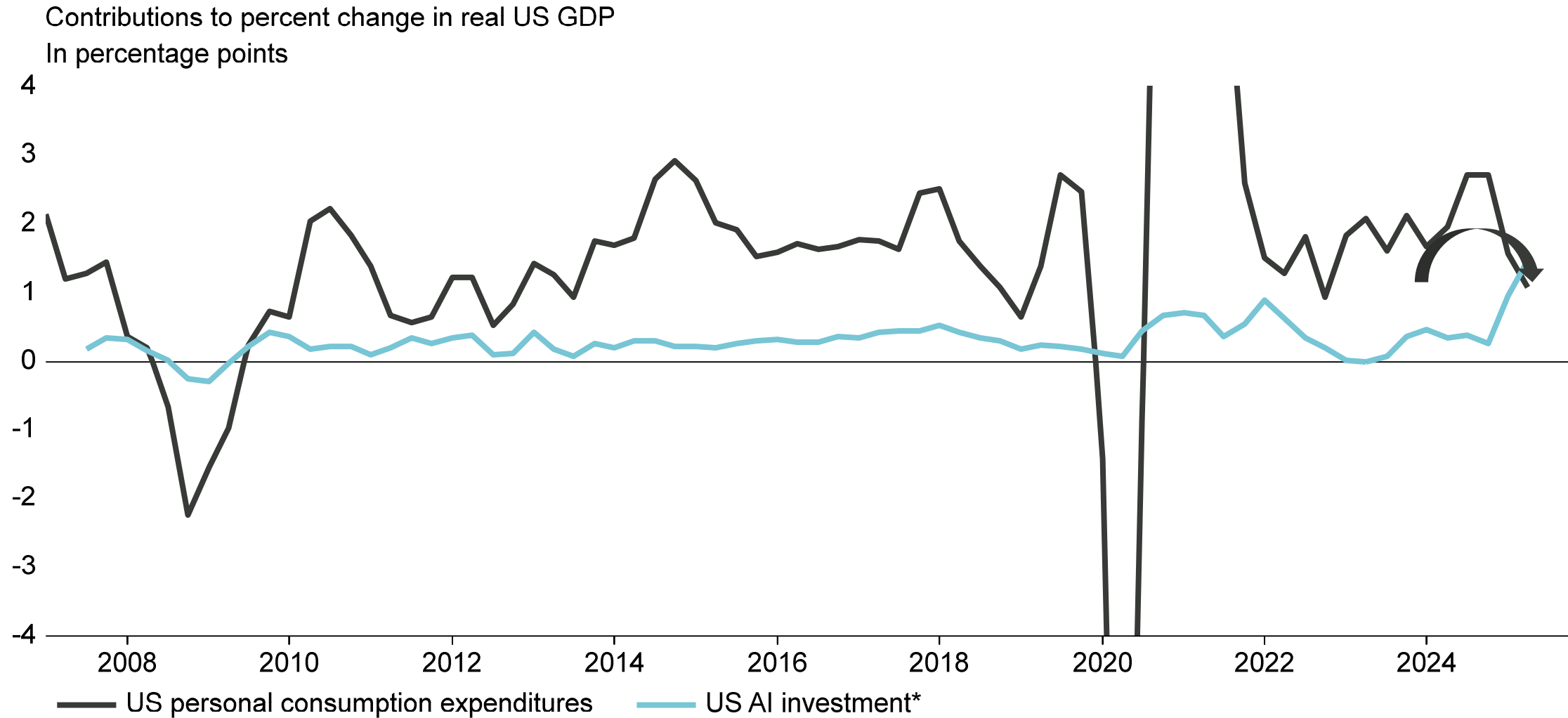


# Growth – 2026: As long as corporate profit margins remain healthy, firms will not be forced to lay off people in large numbers

Macro



# Growth - 2026: AI should continue to be pro-growth



→ AI investments have already a significant impact on US GDP growth today

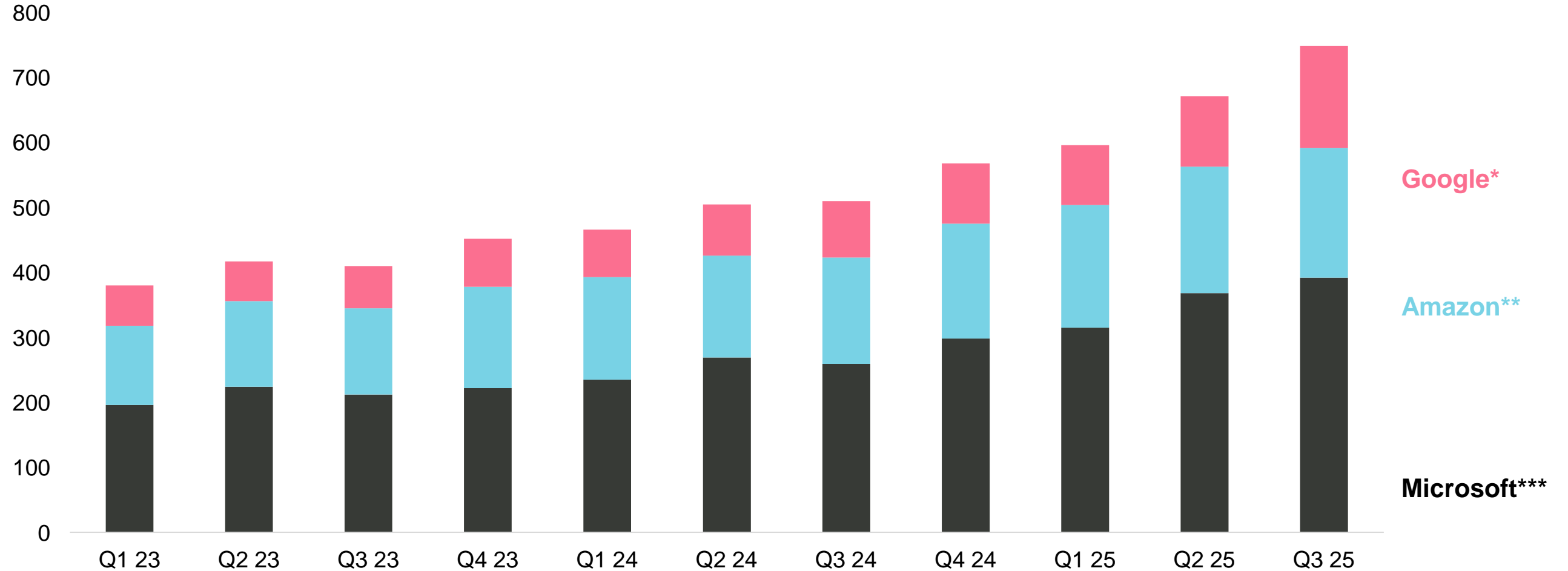
\*Private fixed investments: Information process equipment & software.  
Source: LSEG, Vontobel, January 2026.

# Growth - 2026: AI should continue to be pro-growth (II)

Macro

In bn USD

Cloud backlog

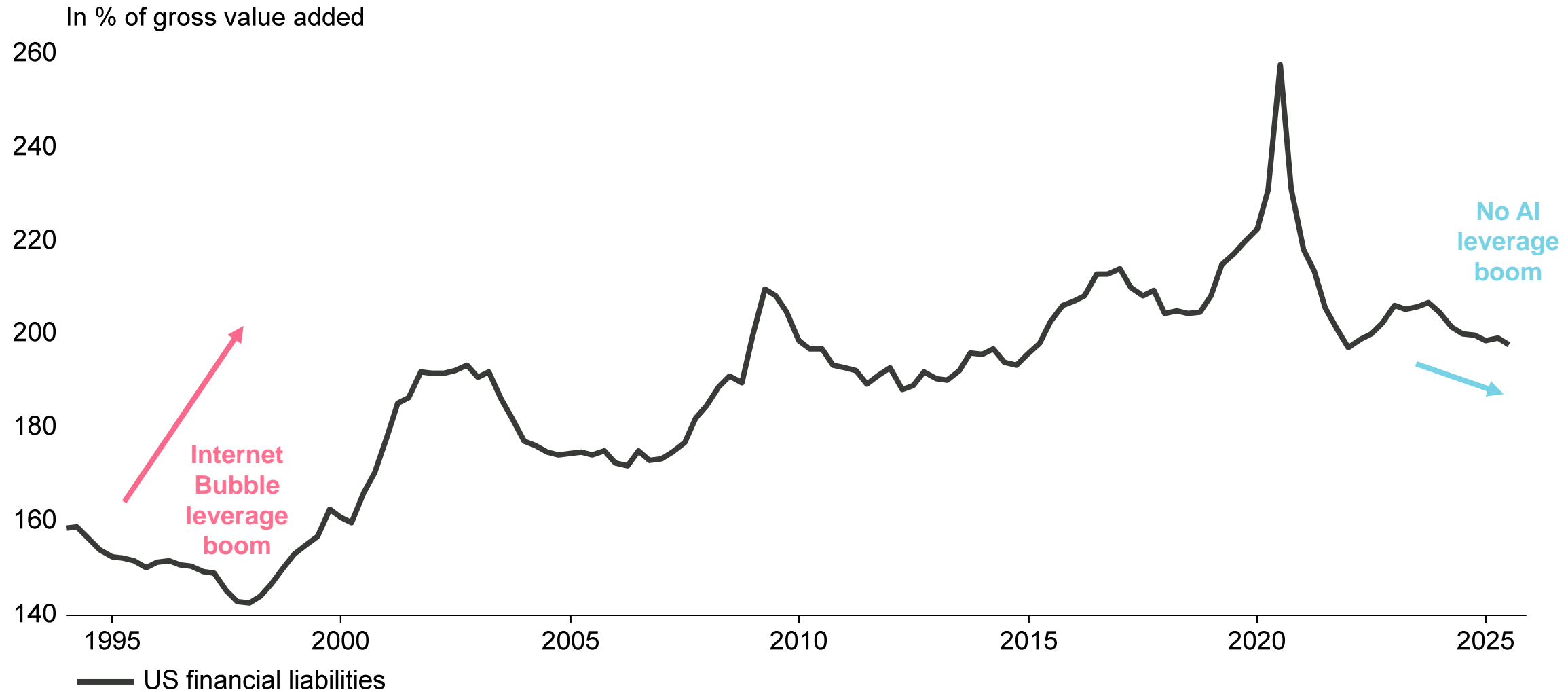


→ Backlog orders amongst *hyperscalers* is strong still

\*Revenue backlog, \*\*Remaining performance obligations, \*\*\*commercial remaining performance obligations  
Source: Bloomberg, Fiscal AI, Vontobel, January 2026.

# Growth - 2026: AI should continue to be pro-growth (III)

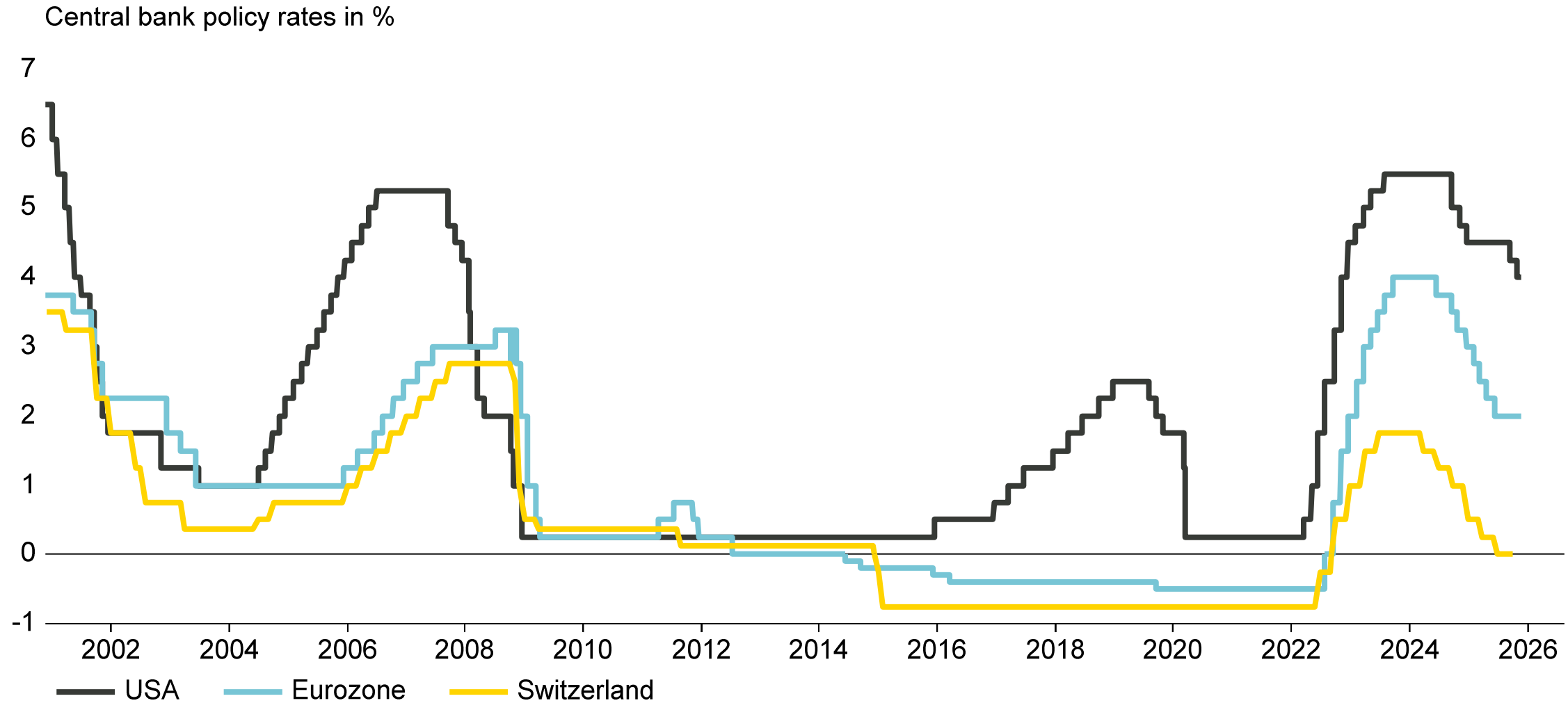
Macro



→ Leverage concerns starting @ *Hyperscalers* and will be monitored closely; however, the broad economy has not even started to leverage up and the cash piles available should satisfy their potential debt supply requirements in 2026

# Monetary policy: Where do we stand?

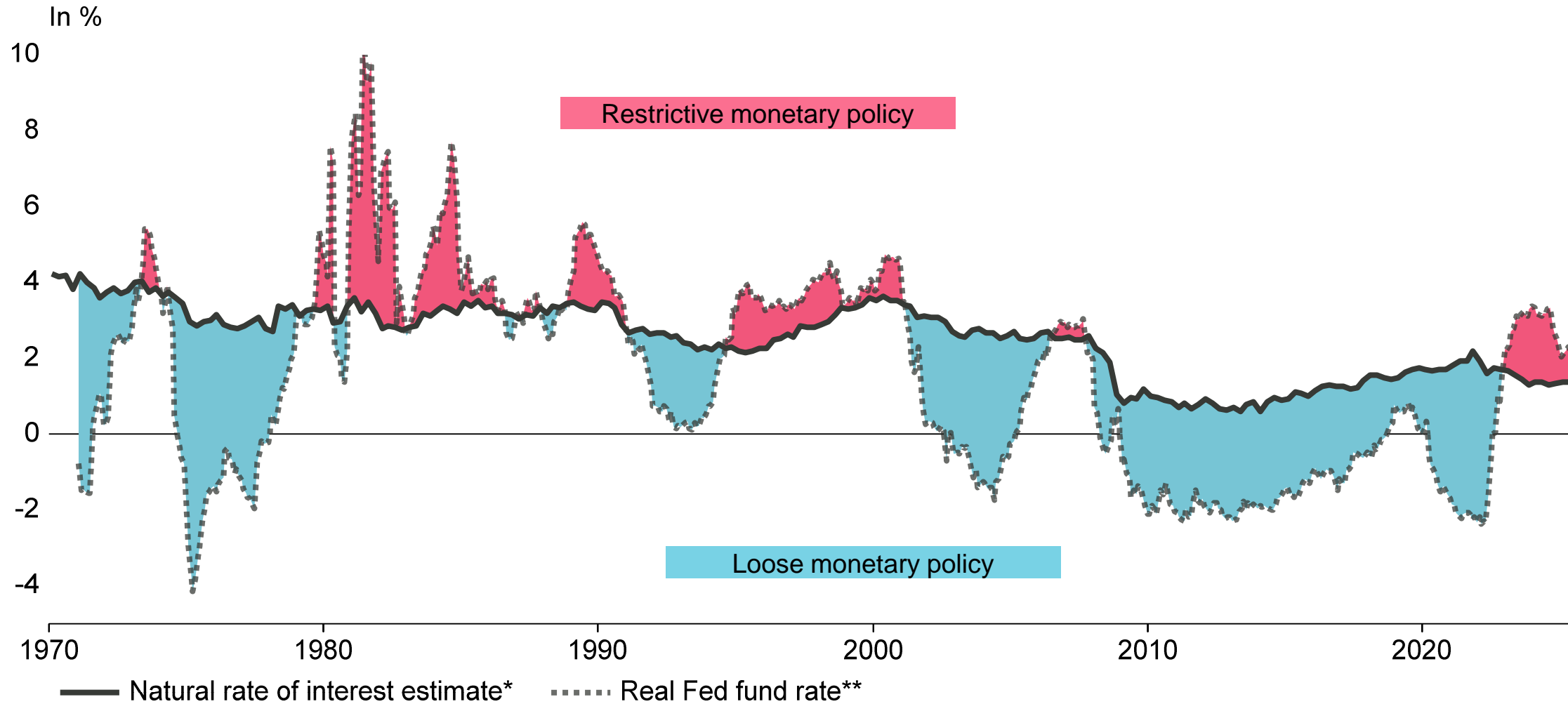
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→ Many central banks (like the SNB or ECB) have already cut back very close to their neutral policy stance; the Fed is continuing with its descend

# Monetary policy: The Fed remains rather restrictive and now is not the time to stop cutting

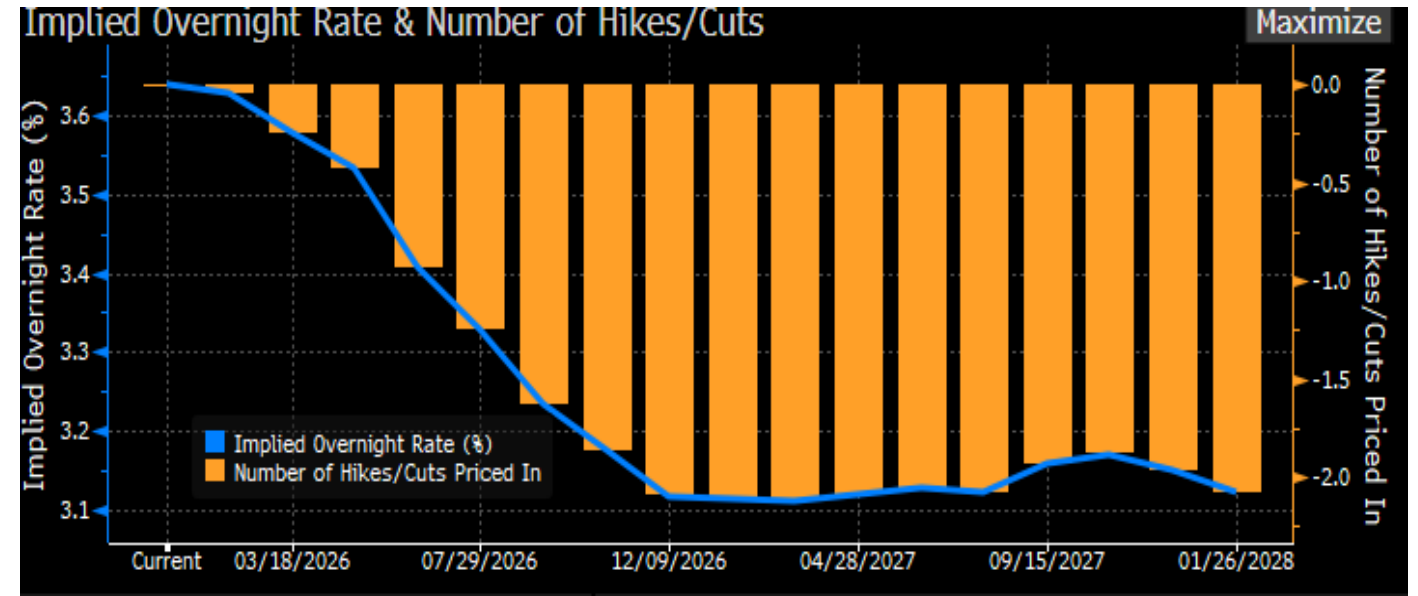
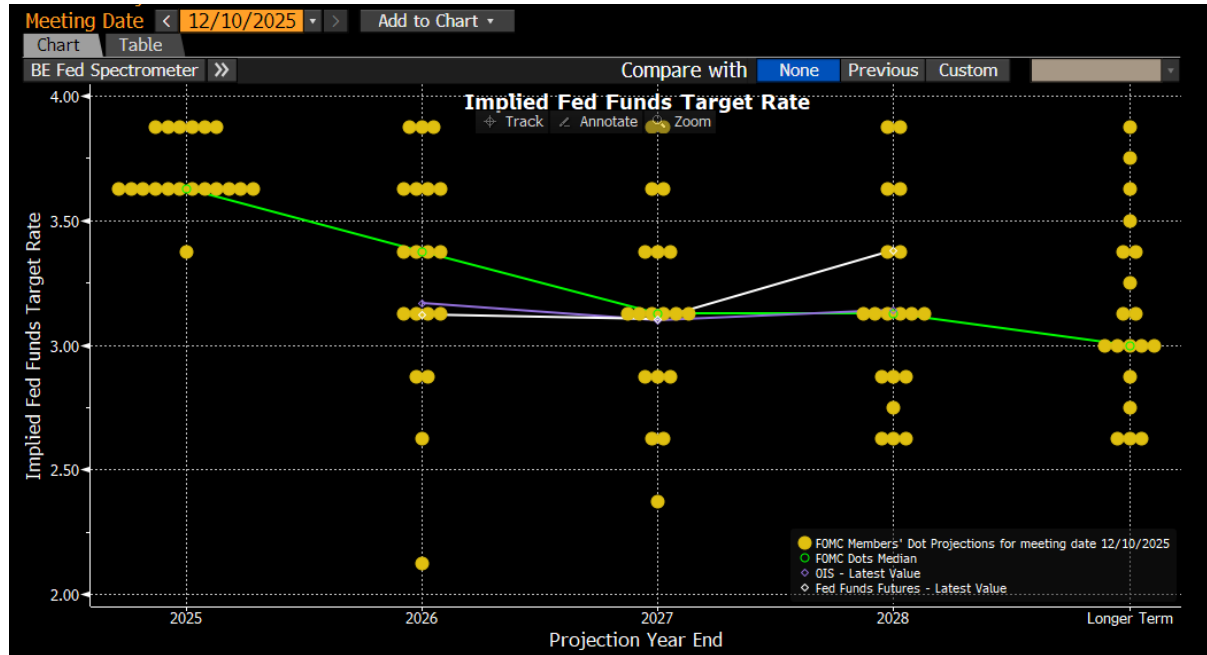
Macro



\*The natural rate of interest is the rate consistent with full employment and stable inflation (estimate from Laubach Williams) \*\*Deflated by core PCE until 2003, deflated by 10-year breakeven inflation expectations since 2003  
Source: LSEG, Vontobel, 31.12.2025.

# Monetary policy: The Fed's latest "dot plot" and current market pricing point to persisting rate cuts

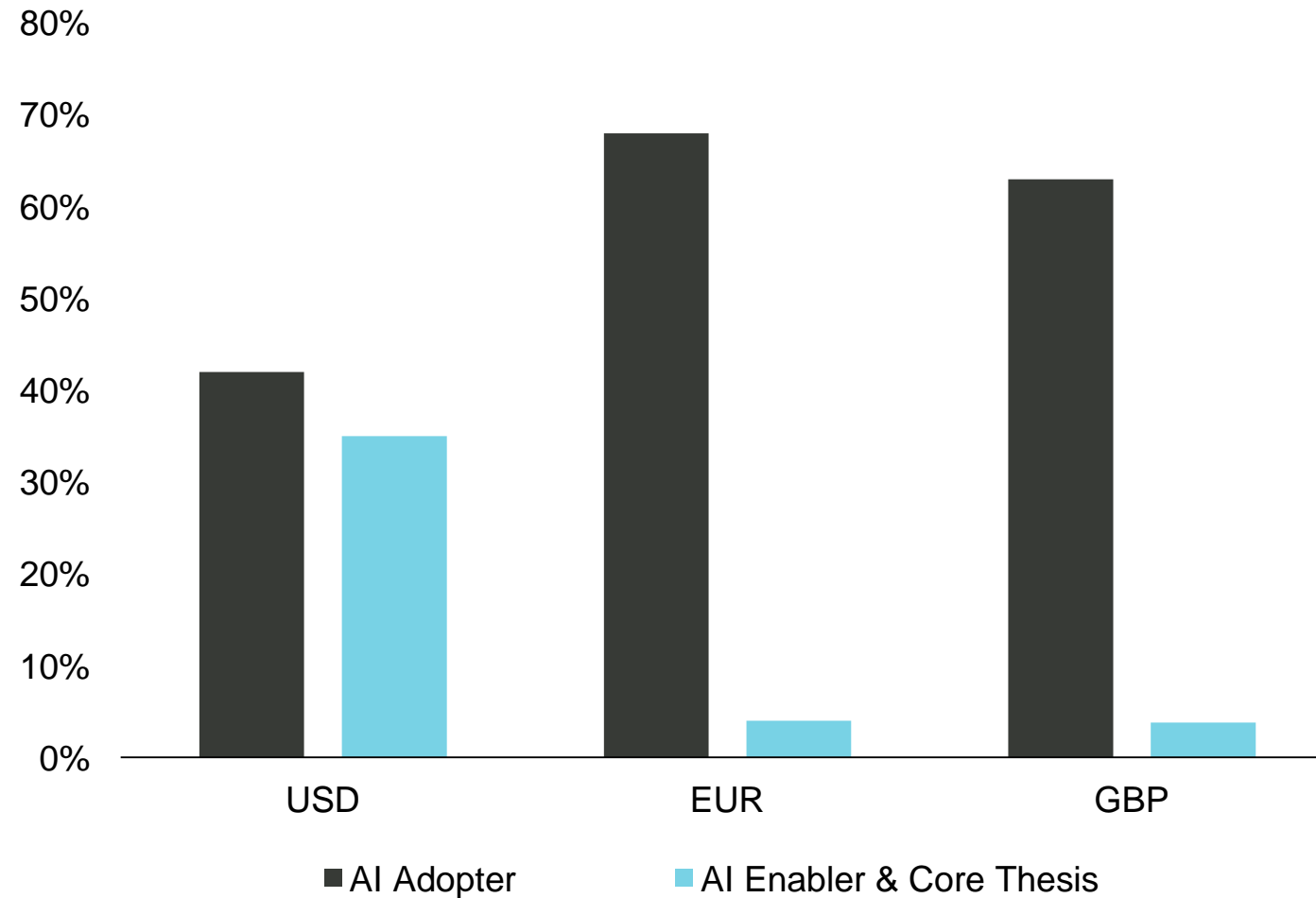
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→ The latest dot plot indicates a longer run rate @ 3% with Fed member Christopher Waller saying that there is room to bring rates to more neutral levels by even another 25 basis points (75 bp of cuts in all)

# Monetary policy: ...especially as productivity could surprise to the upside in 2026

Macro



→ Great AI adoption could mean that productivity could surprise to the upside in 2026 restraining wage growth pressures

# Meanwhile forecasts remain moderately optimistic

Macro

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

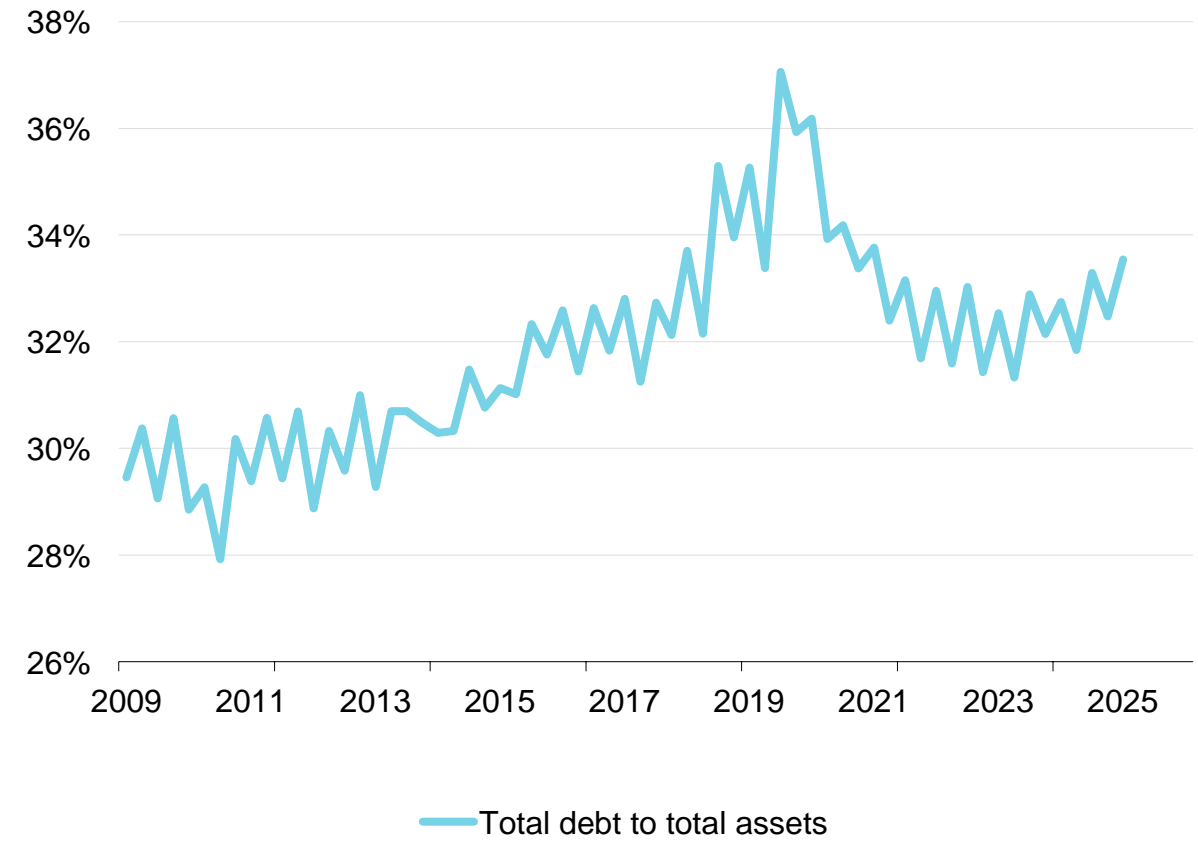
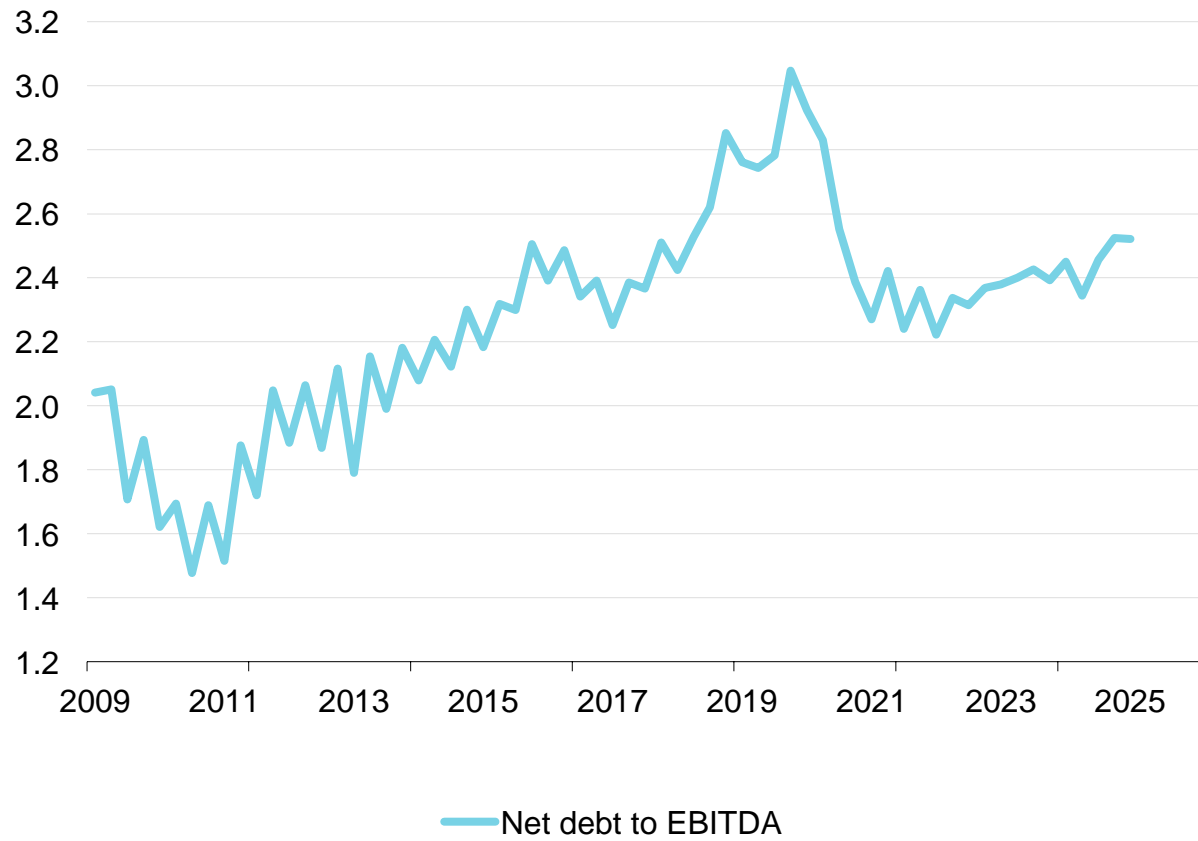
		Actual	Forecast		
		2024	2025	2026	2027
Real GDP growth rate	USA	2.5%	2.2%	2.1%	2.1%
	Eurozone	0.8%	1.4%	1.0%	1.3%
Unemployment rate	USA	4.2%	4.5%	4.4%	4.2%
	Eurozone	6.3%	6.4%	6.4%	6.3%
Inflation data	USA (Core PCE)	2.8%	3.0%	2.5%	2.1%
	Eurozone (CPI)	2.4%	2.1%	1.9%	1.8%
Key interest rates	USA (Fed Funds Rate)	4.4%	3.6%	3.4%	3.1%
	Eurozone (ECB Deposit Rate)	3.6%	2.0%	2.0%	2.0%

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

# Corporate fundamentals remain solid in the absence of any major re-leveraging

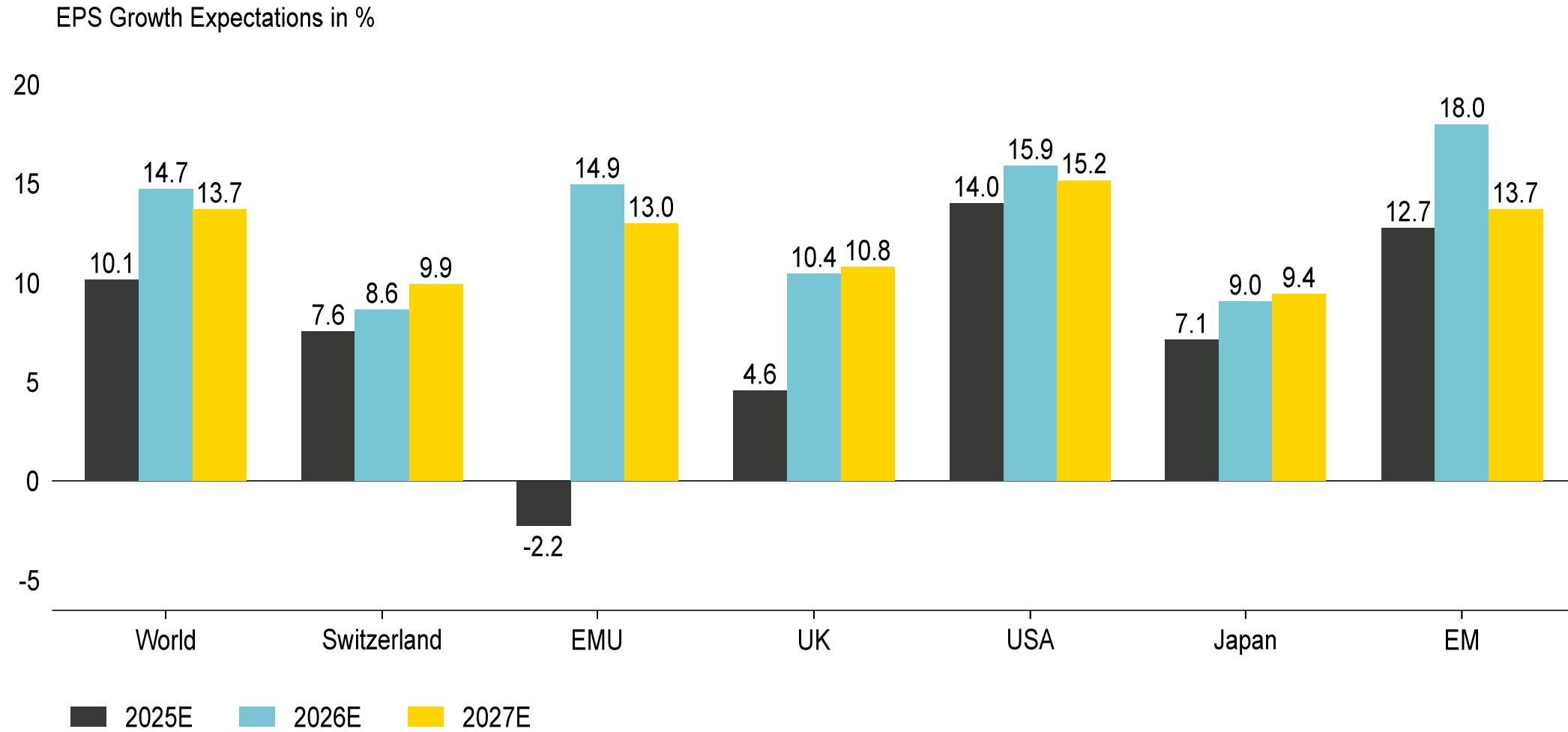
Micro

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



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

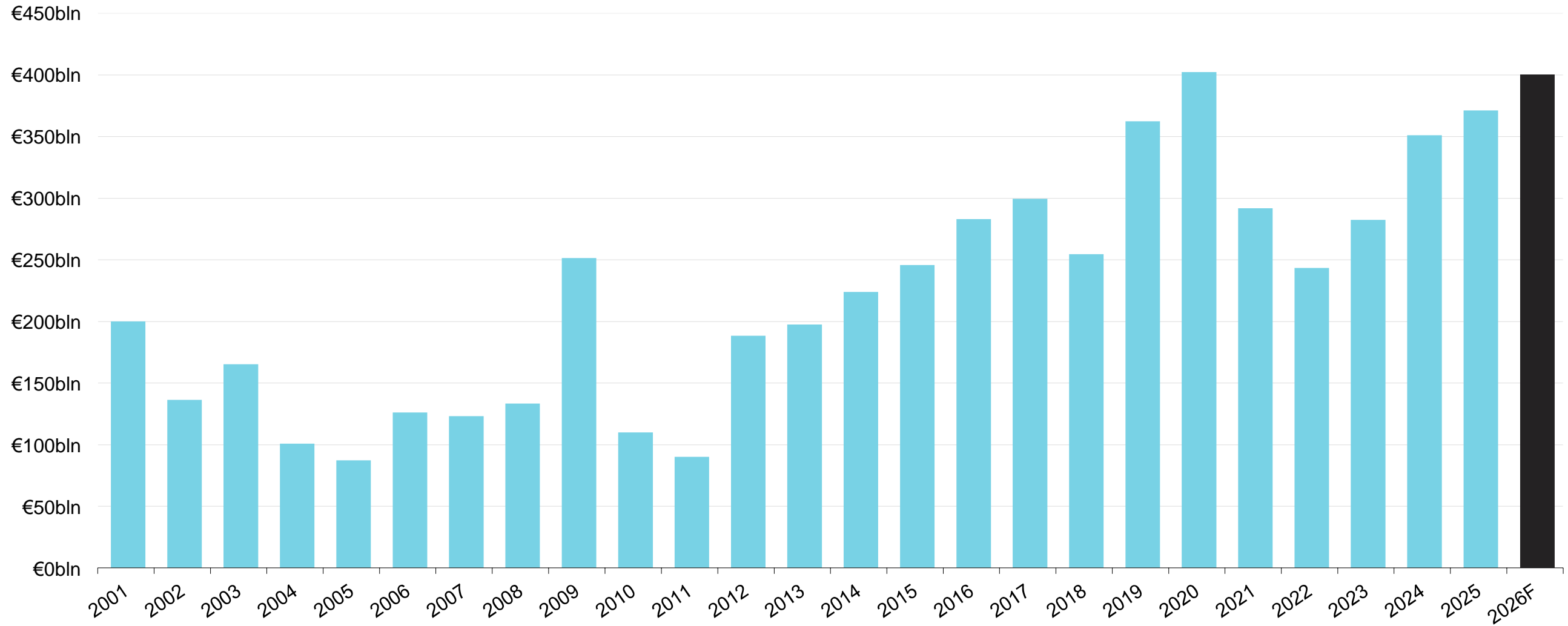
Micro



# Gross EUR IG non-financial issuance should increase modestly in 2026 (circa + 5%)...

Technicals

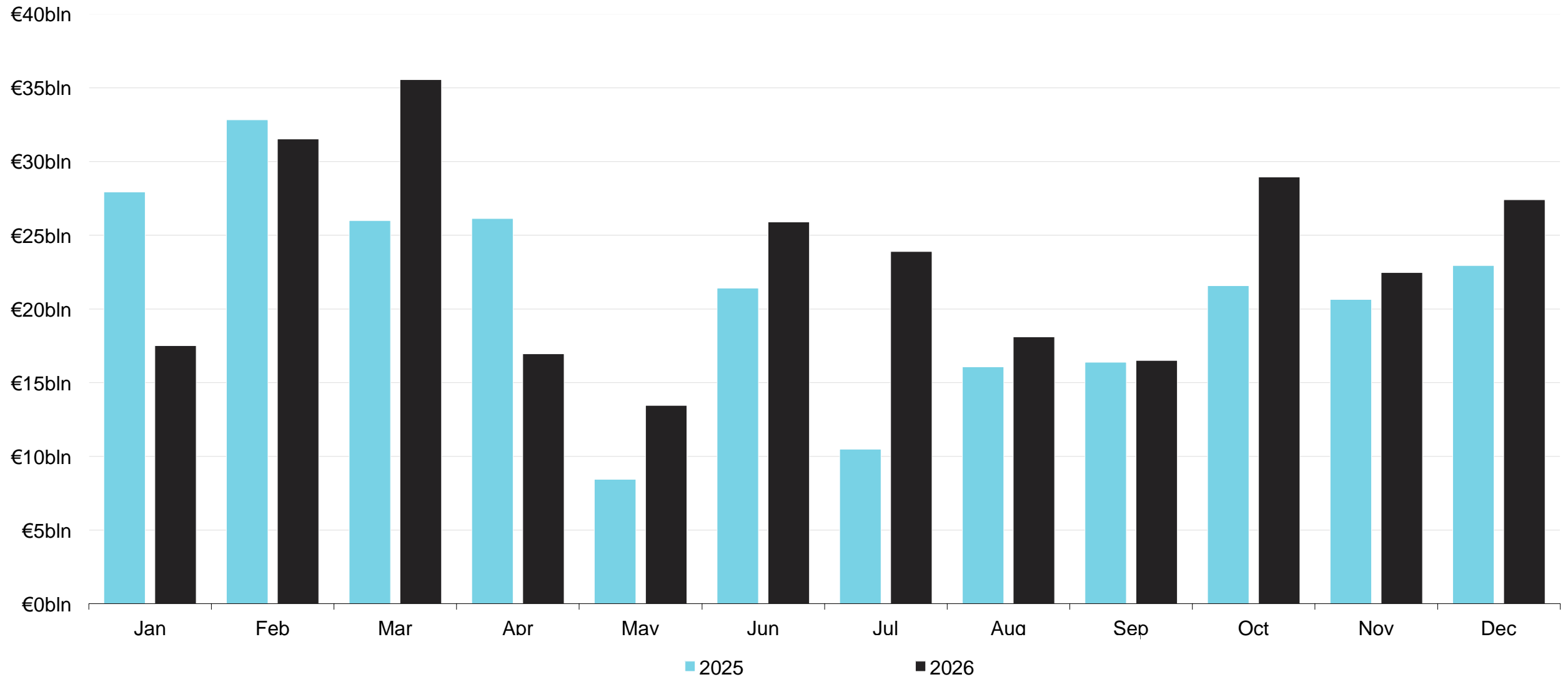
## Euro IG non-financials issuance



# ...and scheduled redemptions should also be higher leaving net supply at round 100 bn euros almost unchanged from 2025

Technicals

## Scheduled redemptions higher in 2026



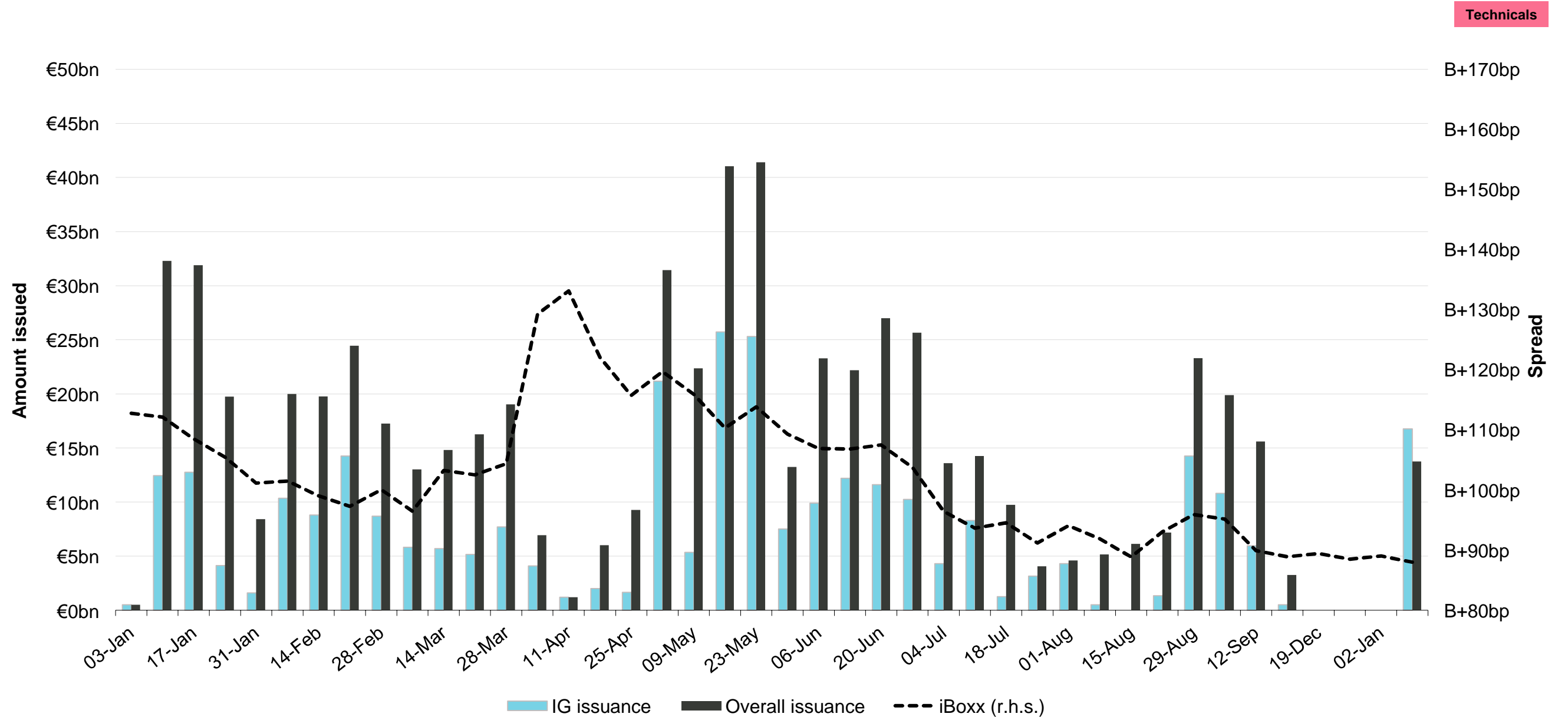
## 2026 Subordinated net supply should overall be lower than in 2025 & supportive

Technicals

### Subordinated Capital 2026 supply forecast

	Forecast 2026			2025			26-25 Delta
Euro Bn	Gross	Redemptions	Net	Gross	Redemptions	Net	Net
AT1s	32	-20	12	49	-37	12	0
Bank LT2s	41	-51	-10	50	-53	-3	-7
Insurance Subs	15	-7	8	29	-16	13	-5
Corp. Hybrids	35	-25	10	45	-30	15	-5

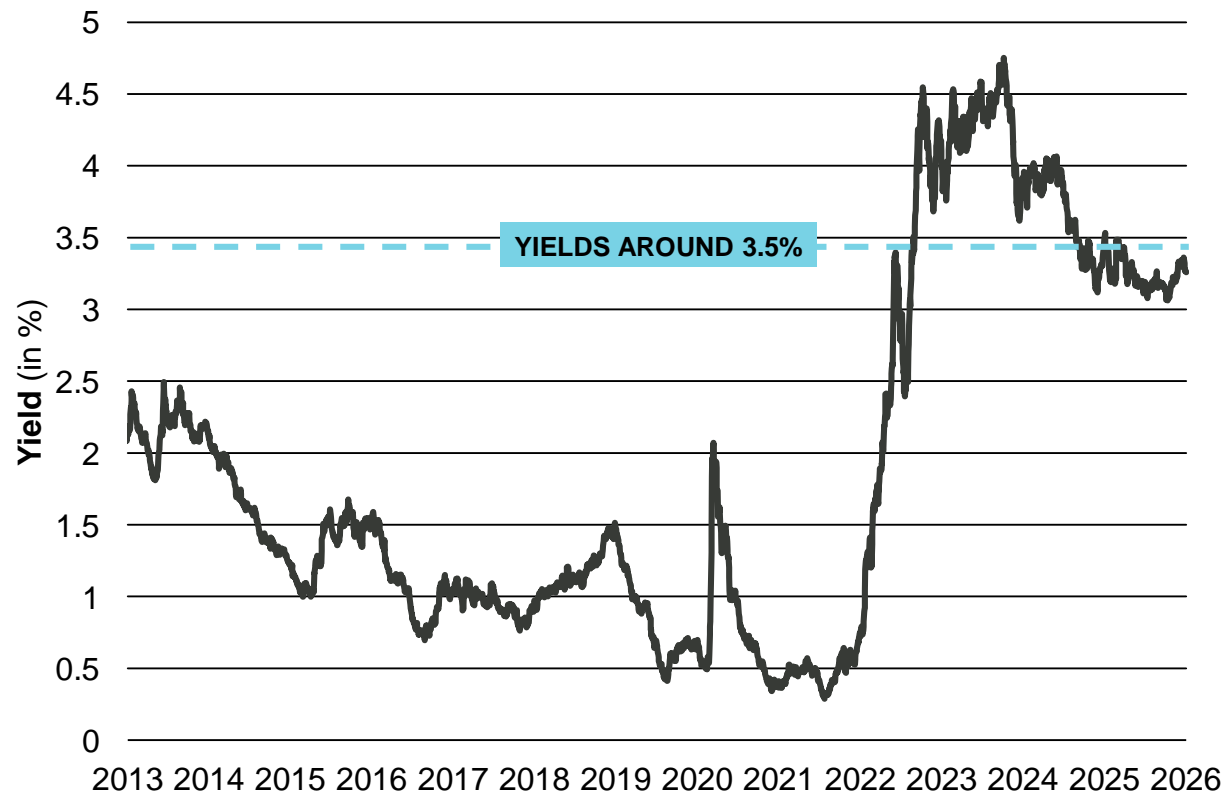
# High issuance easily absorbed in 2025 and secondary market tightened thanks to strong technical demand and plentiful cash levels



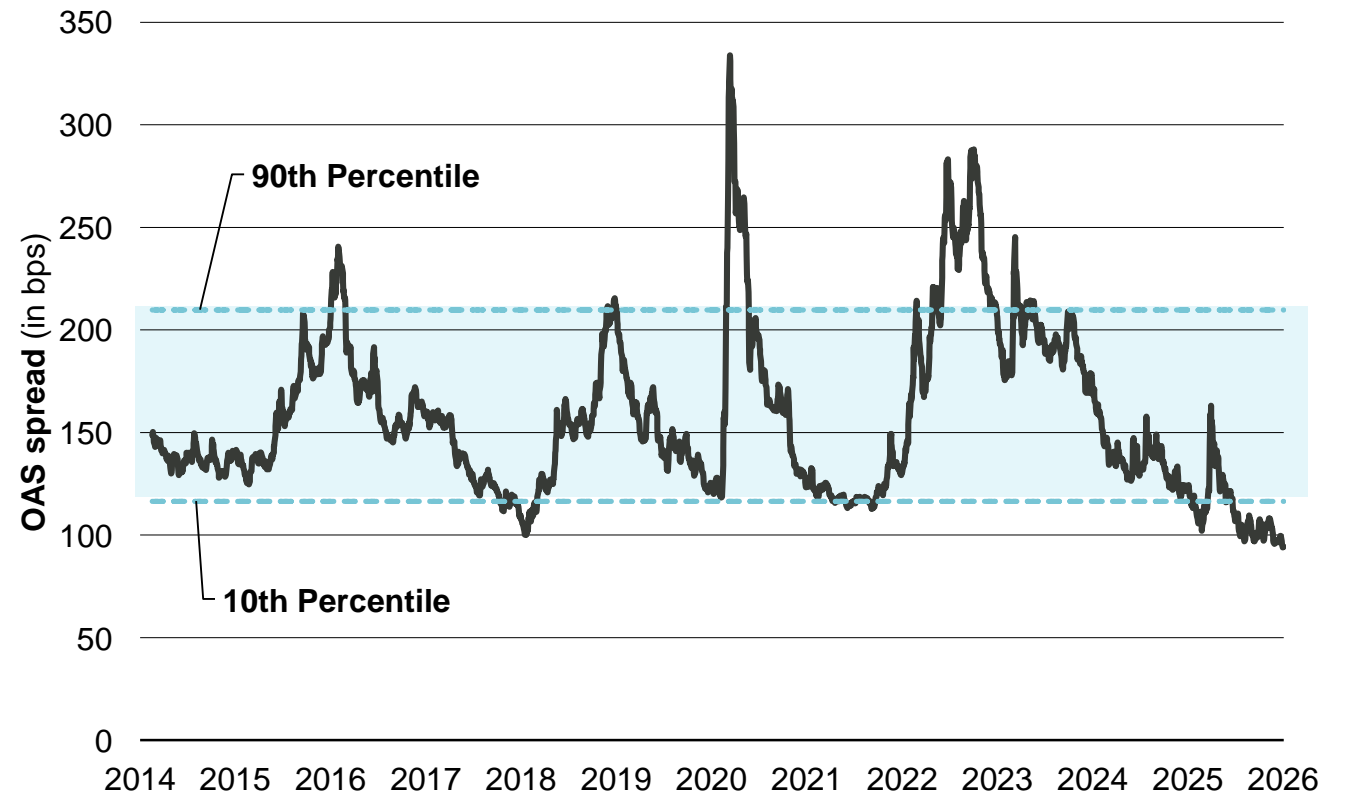
# Spreads expected to keep tight for longer or narrow a bit further

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)



→ Overall credit yields remain attractive and retail investors should continue to look for alternatives to money market instruments causing spreads to narrow a bit further, given the healthy yield driven demand.

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 14.01.2026.

## Our preferences for best carry in Q1 2026



### *Likes*

**Sectors:**

Banking, Insurance (SUB), Telecom (SUBs), Utilities (senior and SUBs), Transportation, Real Estate (high quality BBB/BBs), auto-parts (selective BBs)

**Regions:**

Peripheral National Champions

**Maturity:**

Focus on 6 - 10 years bucket (roll down)



### *Dislikes*

**Sectors:**

Consumer Goods, Capital Goods, Tech & Electronics, Cyclical Industrials, Insurance seniors

**Regions:**

Germany (valuation)

**Maturity:**

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

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