

6 April 2025
Credit Strategy

Bite Size Strategy

Tariffs on, risk off: credit leaks



- Spreads are widening further and are expected to experience increased volatility due to the tariffs announced by President Trump. Risk-off sentiment is likely to persist, leading to a slowdown in primary market activity during upcoming volatile sessions. Within the credit space, many corporates and sectors will feel the pinch, looking more at the macro/rates environment and its focus on the negative impact on eurozone growth. Spreads have already jumped 20bp wider as sellers dominate.
- The technical picture is shifting more negatively with outflows, high CSPP redemptions and potentially higher supply (via more Reverse Yankee supply and tariffs absorbing margins, weakening fundamentals), all adding pressure on spreads. And with a lesser dominant demand from yield to soften the blow, as yield remains stable due to spread widening roughly matching the rates drop.
- USD credit was a notable underperformer throughout March, with significant widening versus EUR credit. Although USD credit was coming from a very tight and rich place, it has seen 30-40bp widening in March. The yield play may still be favourable in USD as rates could be set for some lowering, but further widening is likely on the cards for USD credit longer term.
- This recent widening of USD spreads versus EUR does offer a larger potential cost-saving advantage for US issuers to come to the EUR market with Reverse Yankee bonds, particularly considering how low the cross currency basis swap is. The supply pressure on EUR credit adds another piece to the deteriorating technical puzzle.
- We prefer shorter maturities on the curve, anticipating further steepening. We expect higher beta and lower-rated debt to underperform on the long end, with more underperformance likely as curves still flat.
- Within European corporates, the consumer, pharma, technology, and industrials sectors have the largest exposure in terms of revenues from the US. Similarly, corporates from the Netherlands, Germany, France and Spain see the most exposure of US revenues. Italy is also noteworthy, considering the large manufacturing sectors that will be impacted.
- Considering this has been mostly a beta move wider for most sectors, it's important to break down the level of impact each sector will feel from these tariffs. The high impact sectors will likely feel more of a pinch and could widen and underperform. On the other hand, those sectors that will see a low impact from tariffs may be looking cheap and could be approaching attractive levels to buy.
- **High impact:** Transport, Manufacturing (including Automotive and Chemicals), Food & agri, Pharmacy, Wholesale, Energy/Oil
- **Low impact:** Retail, Services, Utilities, TMT, Construction, Real Estate and Health Care

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EUR Corporate and financial supply (bn)

	Last week	2 weeks ago	Apr MTD	Mar	2025 YTD	2024 YTD
Euro IG Corporates	4.1	8.8	4.1	28.2	110.4	125.2
Reverse Yankee	0.0	2.8	0.0	3.4	22.0	17.5
Corporate Hybrids	0.0	1.2	0.0	1.7	6.5	7.9
Auto	0.0	0.0	0.0	3.0	10.3	22.2
Consumer	0.8	0.1	0.8	0.6	11.9	15.8
Healthcare	1.1	0.0	1.1	2.5	9.1	3.3
Industrial & Chemicals	1.0	2.8	1.0	6.7	20.0	21.6
Real Estate	0.5	1.3	0.5	3.6	7.7	4.3
TMT	0.8	4.3	0.8	5.9	19.6	25.2
Utility	0.0	0.0	0.0	1.6	15.0	24.5
Oil & Gas	0.0	0.0	0.0	1.7	6.7	1.0
Others	0.0	0.4	0.0	2.7	10.3	7.5
Euro IG Financials	7.1	8.8	5.9	42.2	197.9	201.8
Covered Bonds	6.0	1.8	4.8	9.5	57.5	80.2
Bank Senior	0.6	1.0	0.6	17.0	78.0	75.5
Bank Capital	0.0	2.2	0.0	6.1	24.1	19.8
Insurance	0.0	1.4	0.0	4.9	7.8	6.8
Financial Services	1.0	5.0	0.5	4.6	30.5	18.9

Source: ING, Dealogic

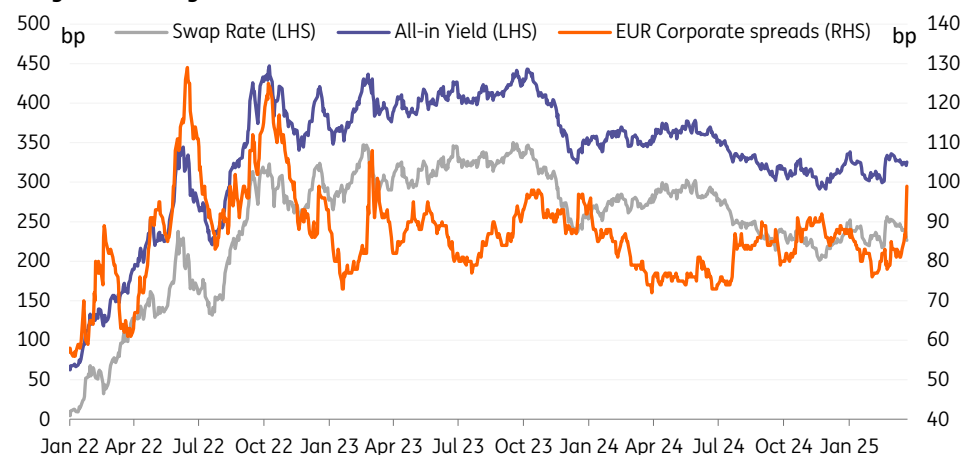
Corporate Fund Flows

% of AUM		Last week	Last 4 weeks Accumulated	YTD Accumulated	52 Week Accumulated
Euro	IG	0.1	0.1	2.6	10.1
	IG - 0-4yr	0.4	1.1	4.1	13.0
	IG - 4-6yr	0.0	-0.5	1.6	8.6
	IG - 6yr+	-1.4	-4.0	0.4	-0.6
	IG ESG	0.2	-0.5	1.0	6.4
	IG Non-ESG	0.1	0.4	3.4	12.0
	IG ETF only	-0.1	-0.2	1.0	7.7
	IG Non-ETF	0.2	0.2	2.9	10.6
	HY	-0.5	-1.3	-0.4	2.5
USD	IG	0.1	-0.3	1.8	6.5
	IG - 0-4yr	0.6	0.1	3.7	2.0
	IG - 4-6yr	-0.5	-0.2	0.8	7.5
	IG - 6yr+	0.7	-1.7	0.7	13.3
	IG ESG	0.3	-0.3	0.4	14.6
	IG Non-ESG	0.1	-0.3	1.9	5.9
	IG ETF only	0.3	-0.3	2.6	9.8
	IG Non-ETF	-0.3	-0.4	0.0	-0.6
	HY	0.0	-0.1	2.8	9.4

Source: ING, EPFR

Note: Flows are from Wednesday close

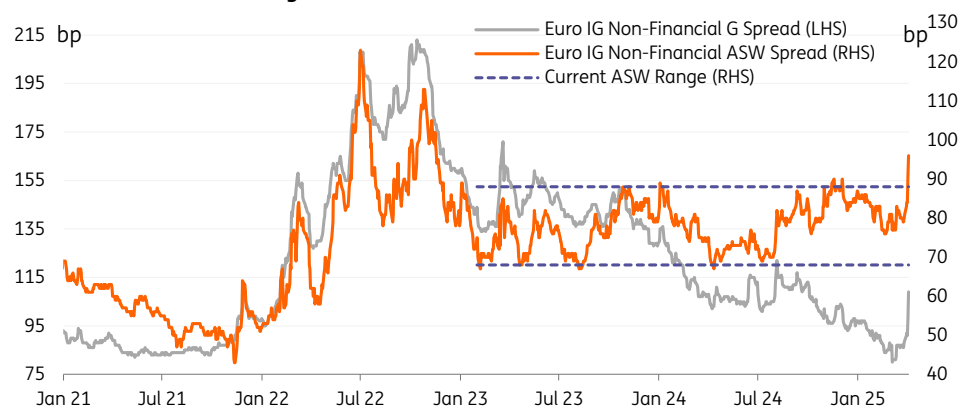
Very attractive yields in EUR credit



Source: ING, ICE, Refinitiv

Spreads widening out of the range

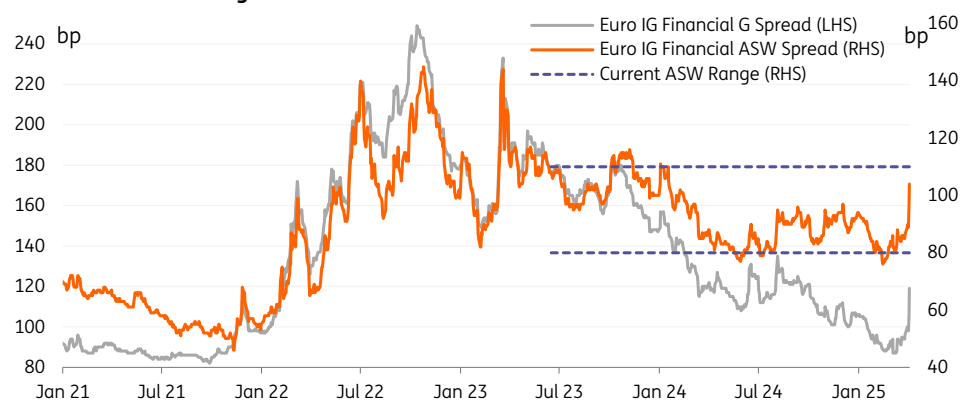
EUR IG Non-Financial range



Source: ING, ICE BofA EUR Non-Financial index – EN00

Spreads at wide end of the range

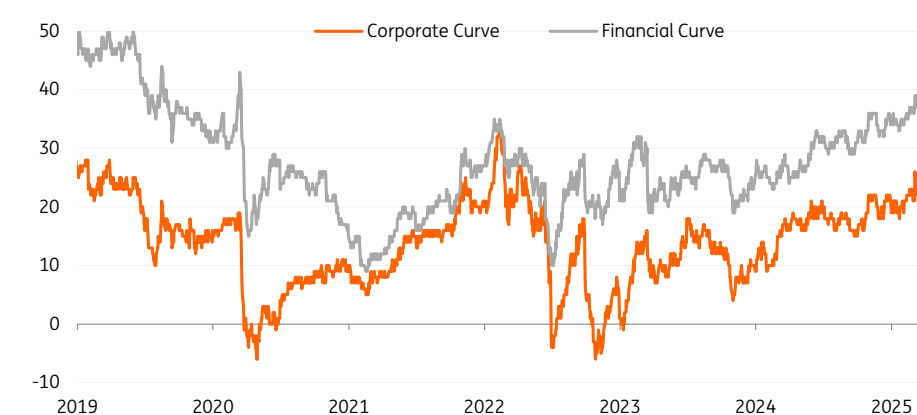
EUR IG-Financial range



Source: ING, ICE BofA EUR Financial index – EB00

Flattening credit curves

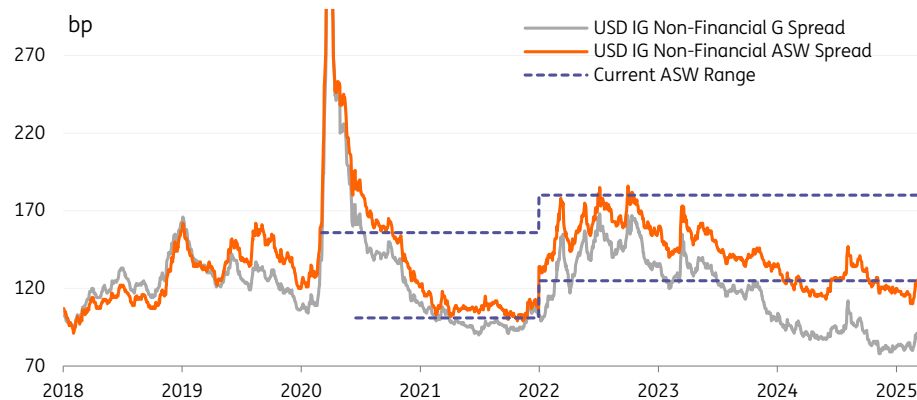
EUR IG-Credit Curves



Source: ING, ICE. Note: Calculated by finding difference between 7-10yr index and 3-5yr index

Spreads at middle of the range, with more widening to come

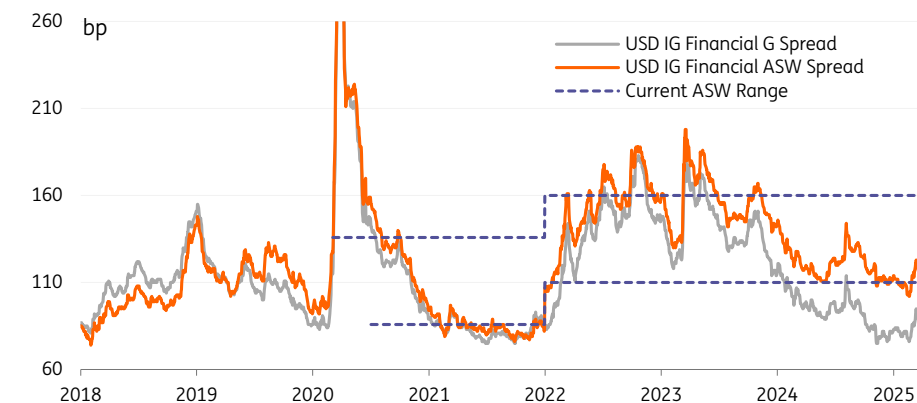
USD IG Non-Financial range



Source: ING, ICE BofA USD Non-Financial index – CFOX. Range adjusted for Libor to SOFR switch

Spreads at wider end of the range

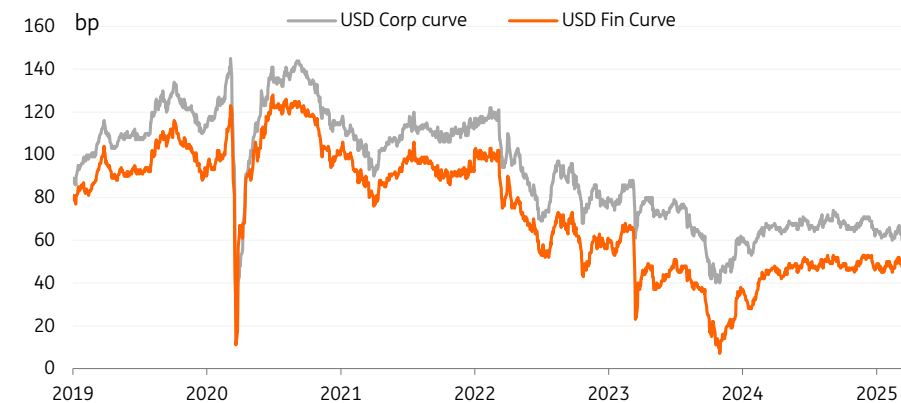
USD IG Financial range



Source: ING, ICE BofA USD Financial index – CF00. Range adjusted for Libor to SOFR switch

Slight Flattening of credit curves

USD IG Credit Curves



Source: ING, ICE. Note: Calculated by finding difference between 7-10yr index and 3-5yr index

EUR Corporate Sector Spread Developments (bp)

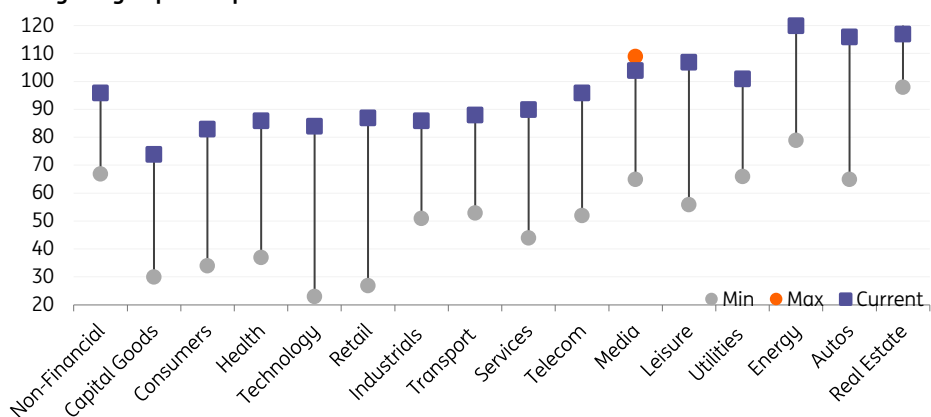
	Current	1 Week	1 Month	3 Month	YTD	Z-Score	R/C Call
Non-Financial	96	15	19	11	10	3.1	vC
Autos	116	17	23	7	7	3.3	vC
Transport	88	16	19	9	9	3.3	vC
Energy	120	21	29	20	18	3.1	vC
Utilities	101	14	18	9	8	2.9	C
Consumers	83	15	18	14	14	3.3	vC
Retail	87	17	22	15	14	3.2	vC
Leisure	107	20	25	16	16	3.3	vC
Health	86	19	21	14	14	3.4	vC
Telecom	96	17	21	16	15	3.2	vC
Media	104	17	22	15	16	3.2	vC
Technology	84	17	19	15	14	3.4	vC
Services	90	15	18	8	6	3.5	vC
Industrials	86	15	18	7	6	3.2	vC
Capital Goods	74	12	15	7	7	3.2	vC
Real Estate	117	7	10	10	9	2.4	C
Corporate Hybrids	242	28	44	31	24	2.9	C

Source: ING, ICE. The R/C column is constructed by comparing a bond's current ASW spread with its historical mean and standard deviation over the past 20 trading days. A bond with a Z-score greater than 2 (standard deviations) is considered statistically cheap and rich if less than -2

EUR Corporate Spread Developments (bp)

	Current	1 Week	1 Month	3 Month	YTD	Z-Score	R/C Call
Corp AA	61	14	15	10	10	3.5	vC
Corp A	81	14	16	8	8	3.3	vC
Corp BBB	109	16	21	12	12	3.1	vC
Corp 0-3	68	14	17	8	7	3.4	vC
Corp 3-5	95	17	23	14	13	3.1	vC
Corp 5-7	106	15	19	11	10	3.1	vC
Corp 7-10	114	15	18	12	12	3.0	C
Corp 10+	124	15	15	10	10	3.0	C

Source: ING, ICE. The R/C column is constructed by comparing a bond's current ASW spread with its historical mean and standard deviation over the past 20 trading days. A bond with a Z-score greater than 2 (standard deviations) is considered statistically cheap and rich if less than -2

Trading ranges per corporate sector

Source: ING, ICE

EUR Financial Sector Spread Developments (bp)

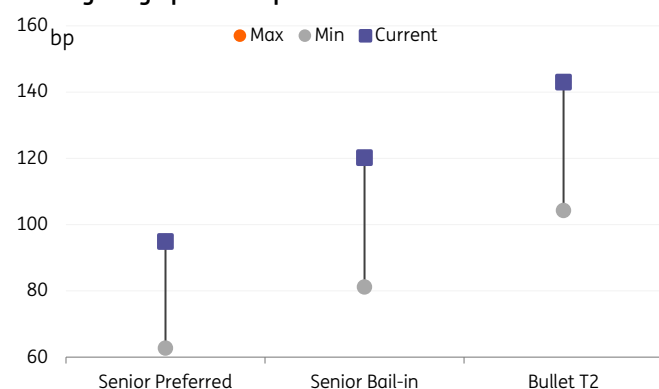
	Current	1 Week	1 Month	3 Month	YTD	Z-Score	R/C Call
Financial	122	20	26	18	16	3.3	vC
Bank Senior	112	22	28	19	16	3.4	vC
Bank Senior Preferred	95	19	22	15	12	3.5	vC
Bank Senior Bail-in	120	23	30	20	18	3.4	vC
Banks T2	173	27	37	26	20	3.1	vC
Bank Bullet T2	143	27	32	16	6	3.2	vC
Bank Callable T2	181	27	38	26	22	3.1	vC
Banks AT1	425	67	104	71	57	3.3	vC
Financial Services	99	14	18	10	9	3.2	vC
Insurance Senior	94	21	25	21	21	3.4	vC
Insurance Sub	181	23	35	21	20	3.0	C

Source: ING, IHS Markit. The R/C column is constructed by comparing a bond's current ASW spread with its historical mean and standard deviation over the past 20 trading days. A bond with a Z-score greater than 2 (standard deviations) is considered statistically cheap and rich if less than -2

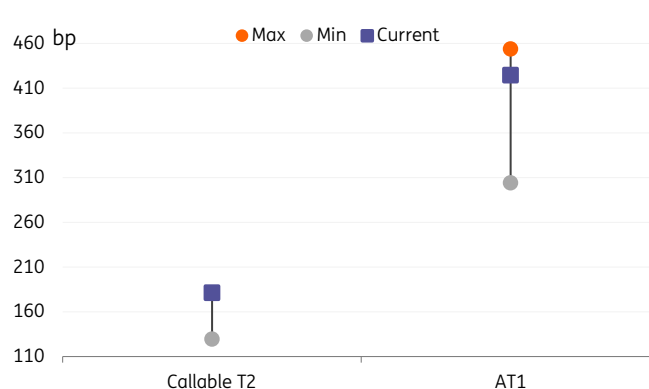
EUR Financial Spread Developments

	Current	1 Week	1 Month	3 Month	YTD	Z-Score	R/C Call
Fin AA	74	15	17	12	11	3.2	vC
Fin A	115	21	26	19	17	3.4	vC
Fin BBB	145	21	27	19	16	3.2	vC
Fin 0-3	88	21	25	13	10	3.6	vC
Fin 3-5	116	22	28	20	17	3.3	vC
Fin 5-7	132	21	28	21	20	3.2	vC
Fin 7-10	144	19	24	18	16	3.3	vC
Fin 10+	128	12	13	9	8	3.2	vC

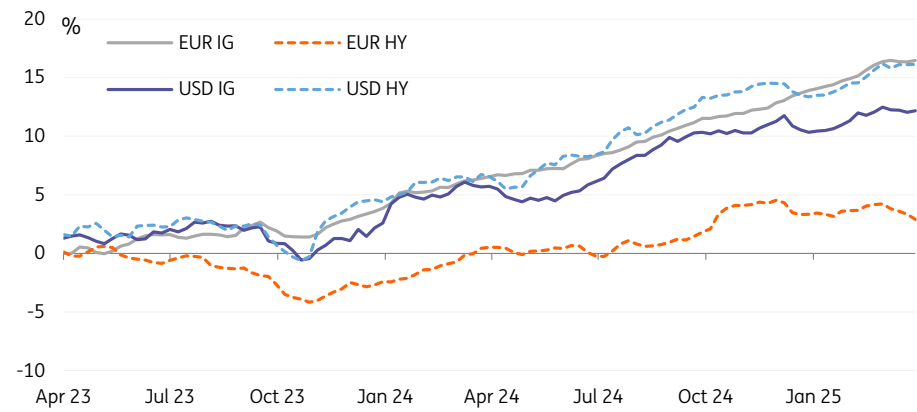
Source: ING, IHS Markit. The R/C column is constructed by comparing a bond's current ASW spread with its historical mean and standard deviation over the past 20 trading days. A bond with a Z-score greater than 2 (standard deviations) is considered statistically cheap and rich if less than -2

Trading range per Bank product

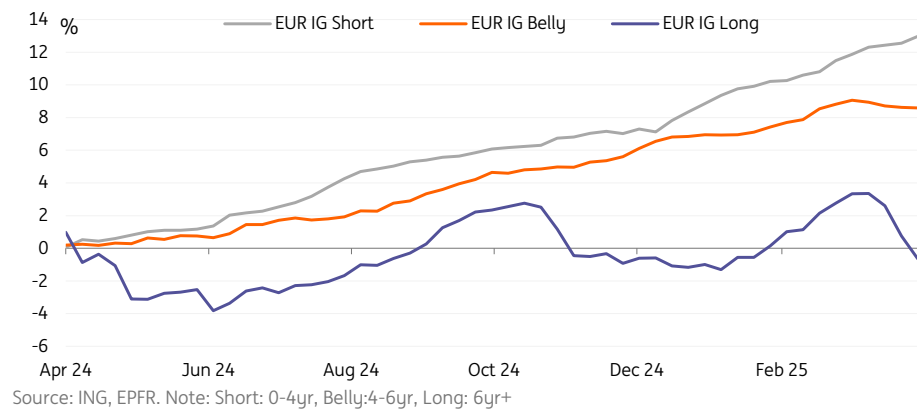
Source: ING, IHS Markit



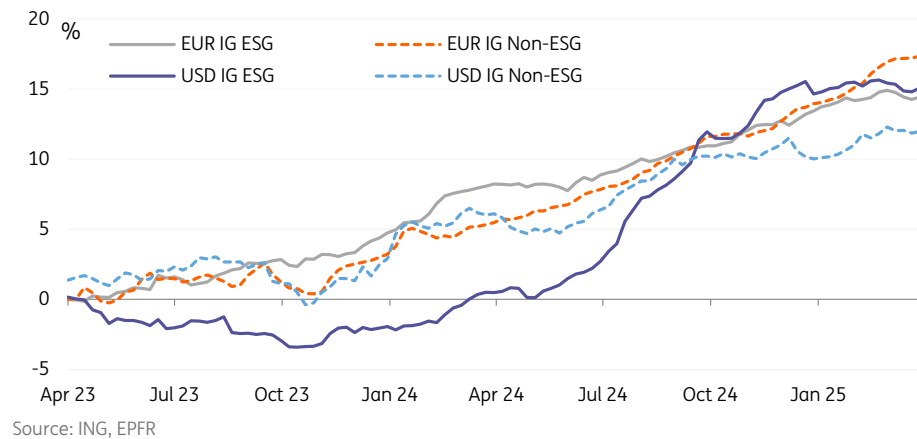
EUR & USD Fund Flows



EUR Duration aggregate fund flows

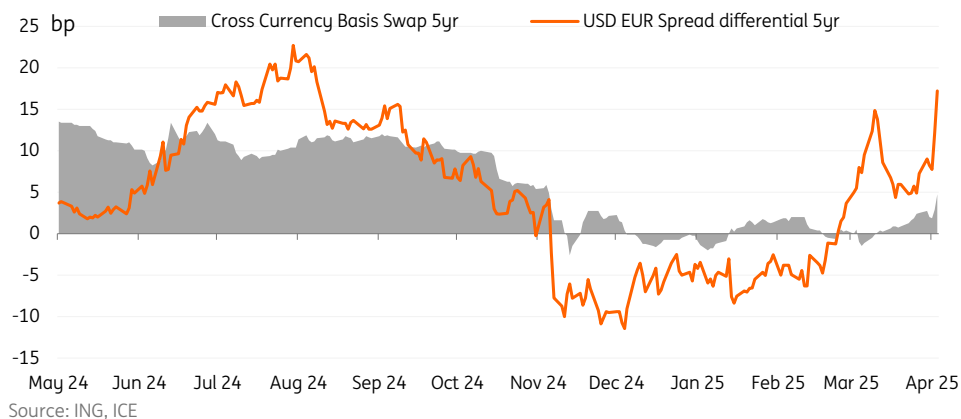


EUR & USD ESG Fund Flows

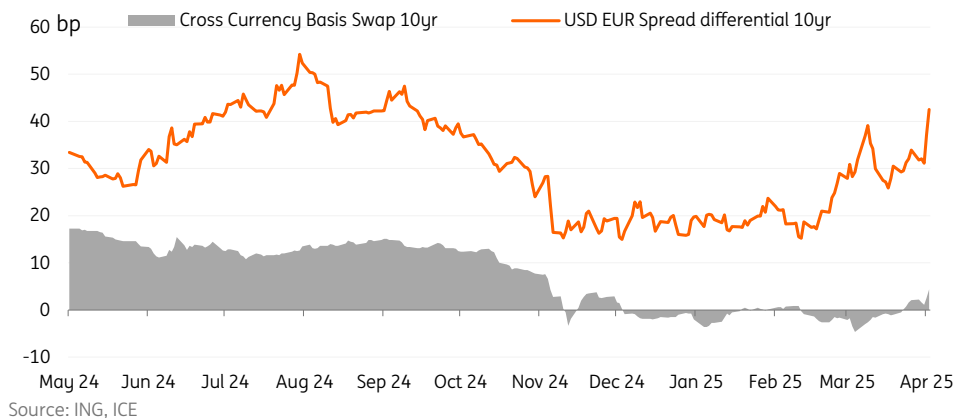


USD underperformance

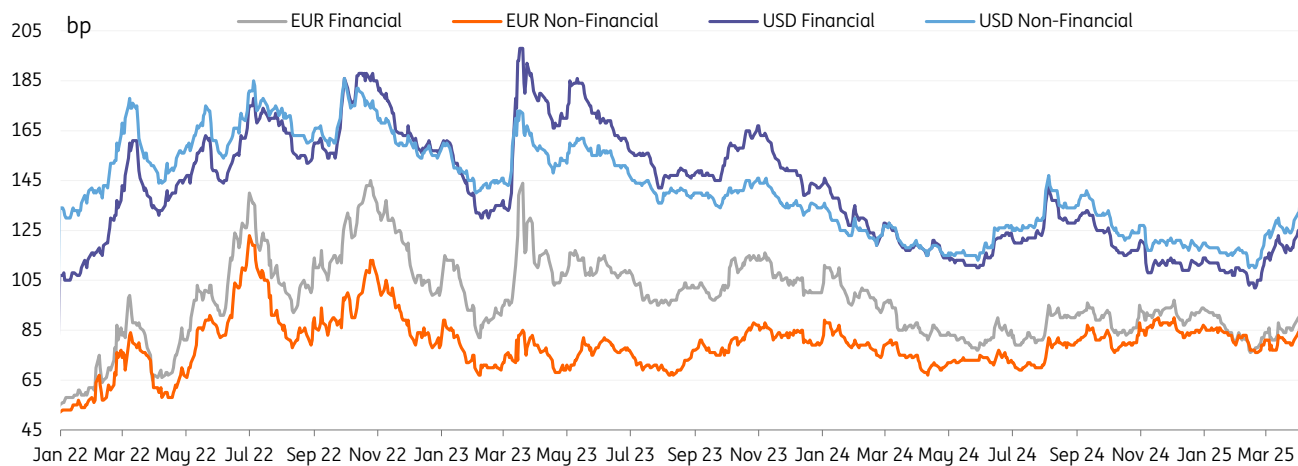
Cross currency basis and excess USD over Euro 5yr



Cross currency basis and excess USD over Euro 10yr

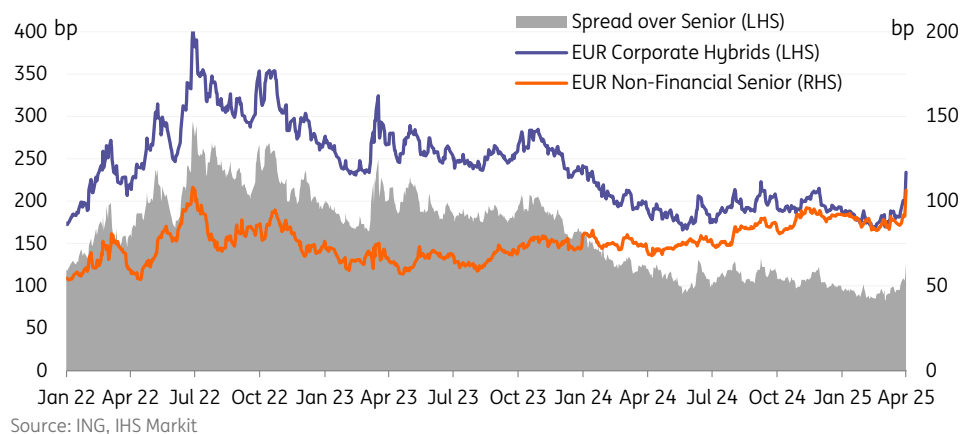


Spread developments



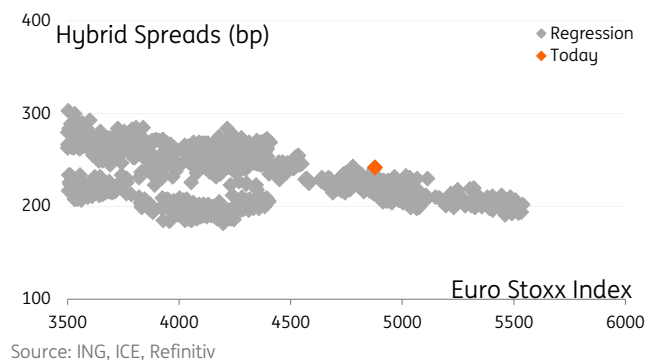
Hybrid spread over senior around the 100bp mark

Hybrids – Spread over Senior

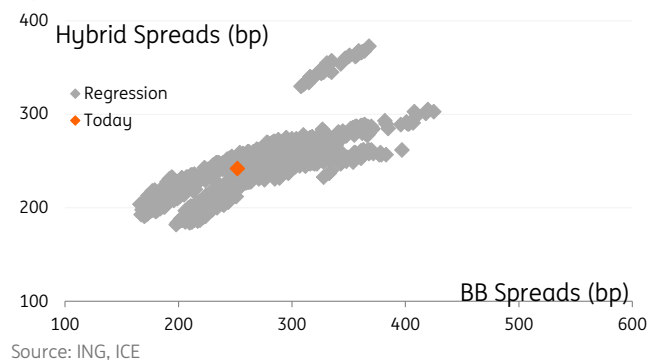


Hybrids still look attractive versus Equity and BB spreads

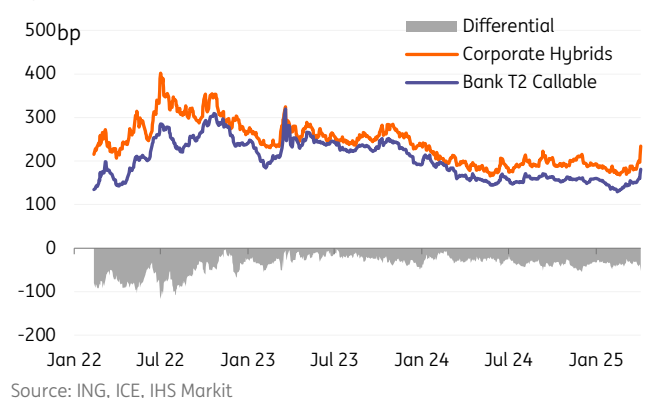
Hybrids vs Equities



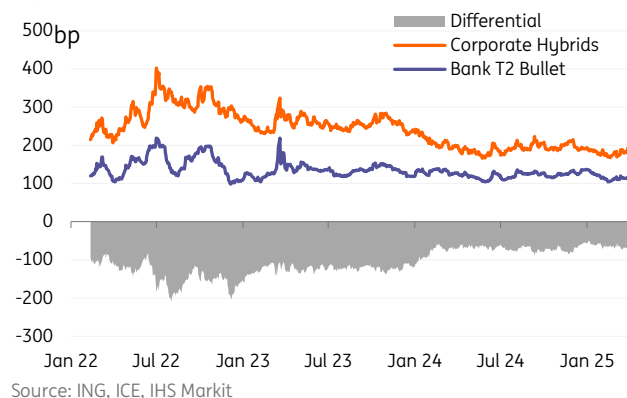
Hybrids vs BB



Hybrids vs Callable T2



Hybrids vs Bullet T2



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