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Credit Outlook 2026

Goldilocks and the bears



Credit Strategy



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Goldilocks and the bears

- Goldilocks is still at play, but is it too good to be true?
- External factors (the bears) could create volatility and lead to some widening, but the trading range is expected to hold.
- Demand will continue in strength (Snow White the Seven Dwarfs) and carry is still a strong trade.
- Conservative positioning is favoured, going up in quality.
- The combination of duration and spread does not look so threatening this time round as steepening will be seen but muted.



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The bearish threats to Credit's Goldilocks scenario

2026 needs an investment mantra of careful conservative positioning as spreads widen moderately, where carry is still rewarded but duration needs to be taken with caution. New issues will provide some solace and subordinated debt in financials and corporates are best undertaken with short call dates but are preferred over senior high yield or leveraged loans. It will be a year of windows for issuance and investment opportunity.

Seldom in credit markets have we seen the combination of such low spreads, endless supply and external threats. For 2026 the demand angle will not change, while some of the shifts that have driven supply can be seen as a structural part of the so-called debasement trade. So, while we feel valuations are too good to be true, credit markets will widen but not significantly so.

“Goldilocks is the fairytale in the market”

The porridge, the chair and the bed are all just right...

Credit markets have that feel of everything seeming a little too good to be true. So, welcome back our old friend Goldilocks, reflecting a market that is perfectly balanced. But, when you look at all the external factors, it's a bit of a stretch that this is the correct fairytale to be referring to.

Goldilocks is contented when she determines that the porridge is not too hot, not too cold, but just right. In economic terms, that means growth is steady and moderate and inflation is low and stable. And in terms of the bond market, the primary market is supportive, demand is high, spreads are low and stable returns are predictable. But growth, trade and inflation are questionable.

...but the bears may be returning home

Besides there are plenty of external threats such as an asset allocation shift when relative value in fixed income is considered. Elsewhere, macro-economic uncertainty is driven by tariffs, a possible return of inflation, supply chain threats and geopolitics in general. A negative driver for credit metrics comes from increasing merger and acquisition activity and we are starting see some weakness in private credit and several US based defaults (ie, First Brands), which in turn affect leveraged loan markets, CLOs and the US regional banks. It's no surprise then that recent commentary by prominent asset managers on positioning indicate a more bearish tone to credit, with the likes of PGIM, Blackrock, Columbia Threadneedle and Fidelity all indicating conservative positioning changes such as shortening duration, moving up the rating scale, selling high yield, to an outright short position.

“For demand the fairytale is Snow White and the Seven Dwarfs”

The true driver of credit is the **persistent and, in some areas, structural demand**, fuelled by a growing preference to invest rather than to save or hold cash. If we imagine **Snow White as credit**, then the **seven dwarfs represent the key factors** that find her the most attractive asset in the investment landscape – each one contributing to the strength of demand. In the next section, we explore why credit continues to be so highly sought after.

The structural and sometimes permanent changes to the demand angle for credit is why we believe that any external or systemic change will affect spreads but the effect will be limited. The demand can therefore be compared to the dwarfs that helped Snow White as they believed that Snow White (credit) is the prettiest in the land. We compare the seven demand factors (dwarfs).

- 1) Mutual fund and ETF inflows (aka **Sleepy**, tired and slow moving)
- 2) Corporate cash balance re-investment (aka **Bashful**, shy, shouldn't be there)
- 3) Constant Maturity funds (aka **Dopey**, playful and childlike)
- 4) Don't underestimate the yield component (aka **Doc** the leader and most logical)
- 5) Macro inputs not severe enough to adjust the asset allocation flow (**Grumpy**, grouchy but caring and influential)
- 6) Stable expectations on rates and mild curve steepening (credit attraction remains 80% of yield in rates, and not credit) (aka **Happy**, cheerful and optimistic)
- 7) De-dollarisation (aka **Sneezy**, a sneezing fit that can blow everything away)
- 8) Okay, make it eight dwarfs 😊, net supply for credit remains easily absorbable (we will call this **Dwarf Broeksy**, stubborn and significant)

In the meantime, enjoy the story while we await systemic risk or asset allocation shift. And remember the beauty of a fairytale is that it always carries a message and the credit market should take heedwhile we foresee the seven dwarfs as being supportive, the Stepmother, the Pied Piper, the Wolf and, let's face it, even Goldilocks' bears, are threats and a happy ending is not always ensured.

Investment ideas

- Spreads will end the year wider in 2026
- The range will hold, but spreads will be wider within the range
- Position conservatively in terms of credit risk and duration
- The carry still works and yield is still attractive

Seven Dwarfs, seven demand drivers

1

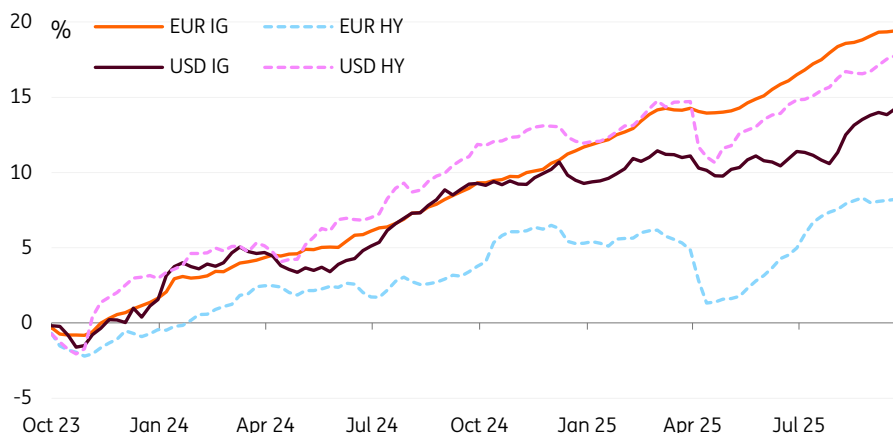
Mutual fund and ETF inflows (aka Sleepy, tired and slow moving)

The resounding inflows have only become more significant in 2025, all while the investment climate for 2025 offered fewer compelling reasons to target credit over other assets.

So where is the flow coming from and how likely is a reversal of that pattern?

- No longer driven by ESG related inflows, the credit market was the first large asset class to truly provide an opportunity to favour sustainable investments.
- A contentious angle here is that inflows are pushed by general asset price inflation and from other assets such as crypto and equity where profits are reinvested into safer lower risk credit (where credit benefits).
- De-dollarisation, although hard to prove in terms of pure outflows set against inflows, it is clear to see that EUR debt has been favoured by European and other international investors of late.

Fig 1 Fund flows



Source: ING, EPFR Global

- As short-end rates fall, money markets lose some of their attraction and, as such, a move into credit increases returns. Corporate balance sheet cash has also taken this route increasingly over 2025.
- Structural shift in investment philosophy from retail, the ease of access through technology of ETF products enhances their preference to target investments above savings (which also offer very low returns).

Fig 2 Fund flows per segment in IG Corporate Bonds (% of AuM)

	2020	2021	2022	2023	2024	2025 YTD
Euro <i>ETF</i>	3.8	9.5	20.2	16.9	5.8	10.6
<i>Retail</i>	-0.1	-0.6	-6.6	11.3	20.4	8.7
<i>Institutional</i>	11.0	7.5	2.0	6.0	4.4	7.0
<i>Insurance</i>	2.4	17.9	4.0	11.1	-2.2	6.7
<i>Hedge Funds</i>	-9.4	27.4	-17.3	-12.1	16.1	12.3

Source: ING, EPFR Global

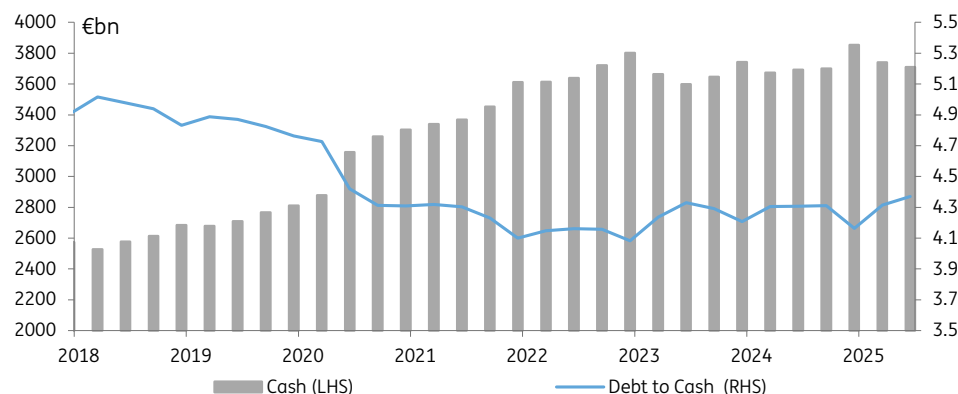
2 Corporate cash balance re-investment (aka Bashful, shy, shouldn't be there)

A less well known but still significant driver of credit demand has been the larger proportion of cash held on the balance sheet for non-financial corporates. While the driver of such a preference might be from a safety perspective, it's clear that for Credit it often becomes an additional technical positive.

At times when interest rates are low and potentially heading lower and volatility hits low points, as seen currently – just look at 2yr swap volatility (at post zero rates era lows) or the VIX – and spreads show stability (read tight spreads), there is often a move by some corporates to target higher returns by buying IG credit from well known issuers with high ratings.

Although the trend of more cash on the balance sheet has diminished (as shown in Figure 3) and debt to cash levels have also plateaued, this stabilisation has happened at high cash balance levels. Our information currently indicates that there is increasing activity of this parking of liquidity in credit.

Fig 3 European corporates cash levels on balance sheets



Source: Macrobond, ING

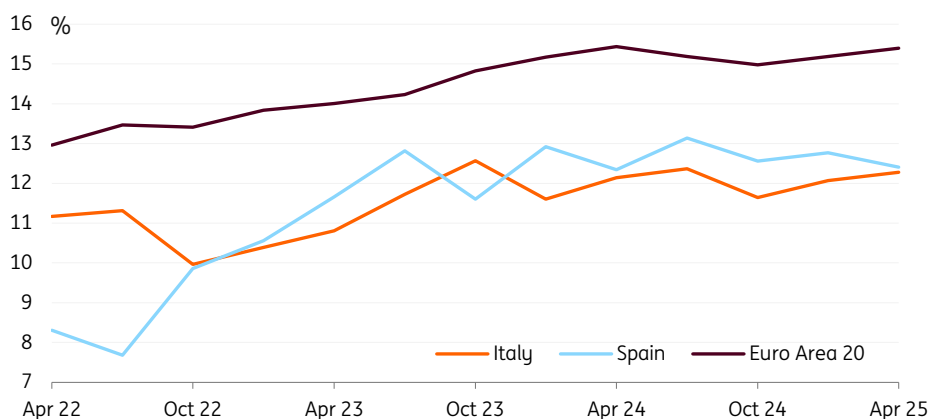
3 Constant Maturity funds (aka Dopey, playful and childlike)

This one is perhaps what we should be calling the Pied Piper. Savings accounts are traditionally far less popular in Spain and Italy and this creates another form of demand for credit markets, much like the demand from corporate balance sheet cash parking this might not be the greatest additional flow but it's all these smaller flows that really add up to something significant.

In Spain and Italy, the alternative to savings accounts is the product constant maturity funds. These provide a fixed average maturity by continuously rebalancing their portfolios. For example, a fund targeting a 5-year maturity will regularly sell shorter-term bonds and buy longer-term ones to keep the average maturity constant. Savings have grown significantly in Europe – and are expected to continue to grow. Spain in particular has seen a jump in savings rate.

A look at the numbers for inflows into constant maturity funds shows that in 2025 the flows rise to over €18bn from the previous year's €9.5bn. These numbers might sound like small beer, but the Pied Piper is leading retail into credit without realisation. Italian flows have tripled in 2025, Spanish flows have almost doubled.

Fig 4 Household savings rate increasing



Source: ING, Macrobond

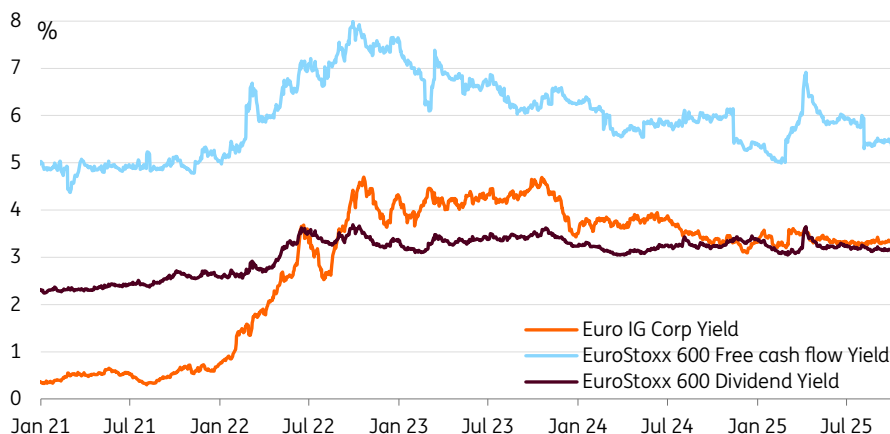
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Don't underestimate the yield component (aka Doc the leader and most logical)

With credit yields still offering plenty to be excited about, the ultimate attraction for credit will stand strong. Stability in rates will also offer an element of consistency in yield levels for 2026. In fact, as rates on the 10yr tick upwards, more yield attraction will appear on the longer end of the curve, although positioning short in the meantime is advised.

A large portion of inflows and attraction towards credit is the yield on offer, which competes elegantly with dividend yield from equity.

Fig 5 Credit yields comparable to Equity yields



Source: ING, IHS Markit, Refinitiv

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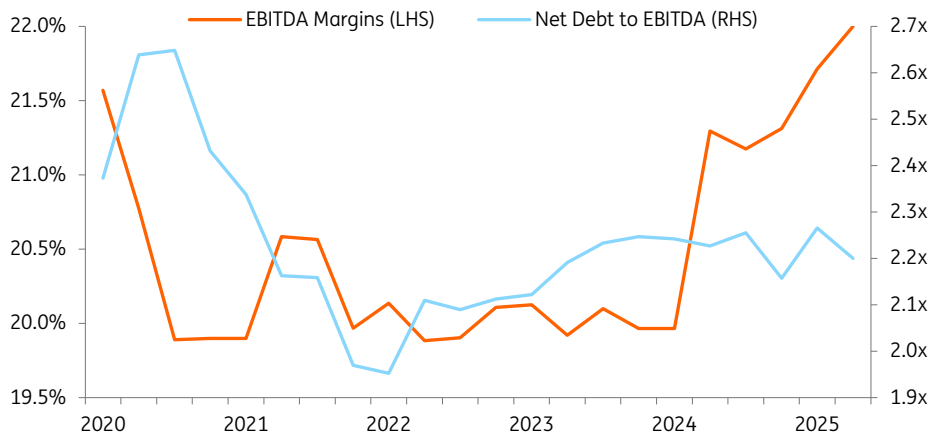
Macro inputs not severe enough to adjust the asset allocation flow (Grumpy, grouchy but caring and influential)

Much has been made of margin pressure as a result of the increasing tariffs around the globe and we are seeing pressure in the following sectors:

- 1) Autos & Transport
- 2) Manufacturing
- 3) Chemicals
- 4) Pharma (not the rest of healthcare)
- 5) Energy/Oil & Gas

We do see that the impact on credit metrics so far is minimal. Looking at Figure 6 it's a surprising conclusion that EBITDA margins for European corporates have actually ticked upwards in 2025, whereas the Net Debt to EBITDA is essentially stable. The case for credit metric stability seems a strong one.

Fig 6 European corporates improve credit metrics

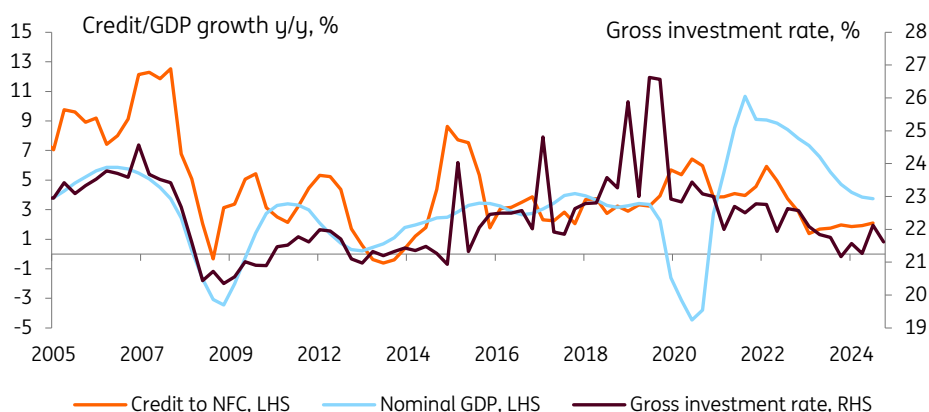


Source: ING, Credit Sights

We note that earnings are still strong. Inflation, tariffs and higher cost of debt were easily absorbed and rating migration is typical for a stable low growth economy while default rates are benign and not expected to increase in the base case for both the major rating agencies.

A possible, delayed impact from tariffs could see margins decline but not enough to cause selling of credit. For now, it seems that the economic and trade drivers for credit have not led and will not lead to prolonged spread widening and we believe that credit spreads can shrug off all negative risks.

Fig 7 Credit extended and investments relative to GDP



Source: ING, Macrobond

Lastly, we highlight that both credit extended to non-financial corporates (NFCs) and the gross investment rate remain structurally well below the nominal GDP growth rate. This suggests that although investment levels are increasing year over year, they are not keeping pace with the broader economic expansion.

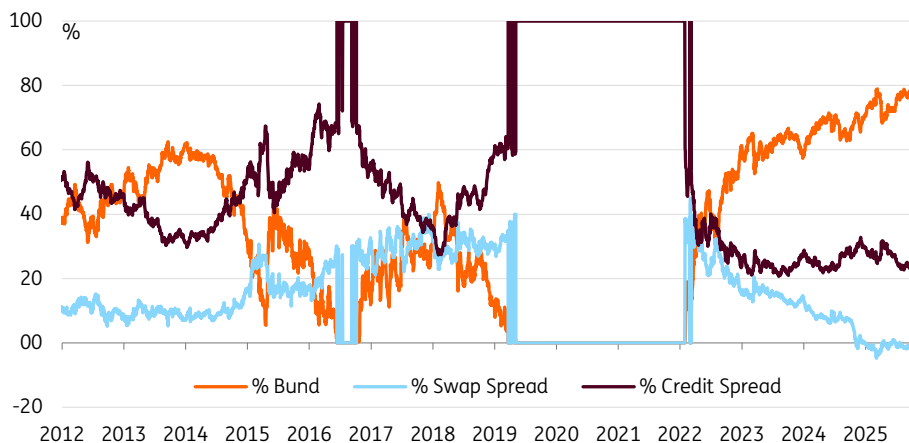
The broader implication is that, while credit markets may appear tight in terms of valuations, the credit cycle itself is not in an expansionary phase - nor is it peaking, as some suggest. The persistent gap between corporate investment and credit provision also helps explain why supply can continue to rise annually without necessitating significant balance sheet leveraging.

6

Stable expectations on rates and mild curve steepening (credit attraction remains 80% of yield in rates, and not credit) (aka Happy, cheerful and optimistic)

For over a year now the sole dominant component of the all-in credit yield has been the rates component, not the credit spread and not the swap spread as the latter two only provide 18% of the typical yield. Figure 8 shows that this is a 10yr low. The rates component is therefore the dominant driver of returns in credit. But what is in store for of 2026?

Fig 8 Percentage build-up of yield within credit



Source: ING, IHS Markit, Refinitiv

The outlook remains benign, with rates expected to stay stable throughout 2026 and volatility continuing at the currently subdued levels. Our rates strategists anticipate a modest steepening of the swap curve: the 2-year rate is likely to remain anchored, while the 10-year is projected to rise by 25 basis points, and the 5-year by 15 basis points.

A similar dynamic is expected in swap spreads. While the curve remains inverted, some normalisation is anticipated. The 10-year spread, currently near 0 basis points, is expected to rise towards 10 basis points, while the 2-year spread should hold steady around 15 basis points.

Given that over 80% of the all-in yield in credit is driven by rates rather than credit spreads, this stable rates outlook is a key driver of continued demand for credit.

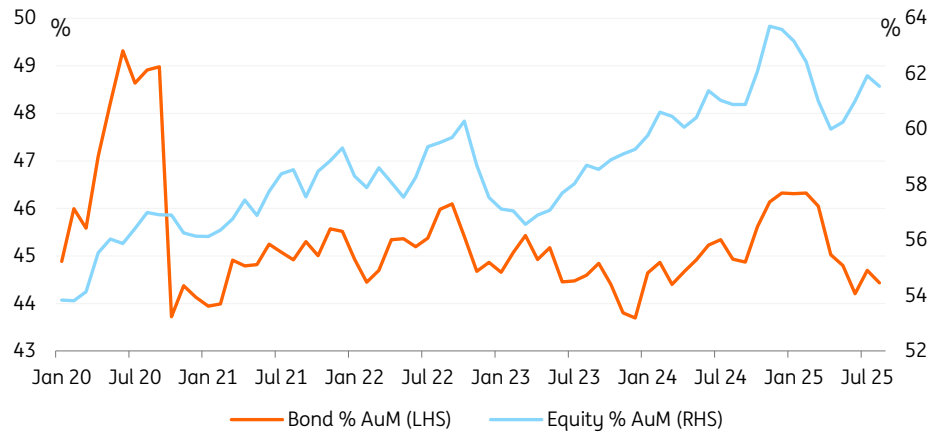
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De-dollarisation (aka Sneezzy, a sneezing fit that can blow everything away)

De-dollarisation has been a noteworthy theme within financial markets this year, and it is expected to persist. This is a theme that credit certainly has not been immune from. Despite it being hard to quantify, we are seeing a tilt away from US dollar markets and towards the likes of Euro.

As illustrated in the fund flows chart (Figure 2), we see inflows continuing with strength into EUR IG credit, while USD fund inflows have tapered off in a notable fashion. A more pungent picture is painted in Figure 9, which illustrates the allocation of global funds to the US region, which has seen a substantial drop since the Spring of this year, in both Equity and Bond funds.

Fig 9 Allocation of global funds into US



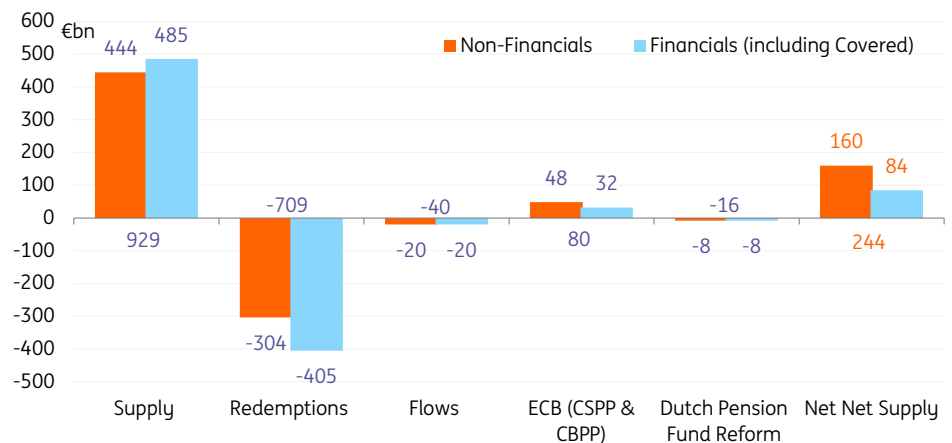
Source: ING, EPFR

This is not an exclusively demand driven shift as we also see a preference for US issuers to come to the Euro bond market with Reverse Yankee bonds. This is certainly facilitated by the low cross currency basis swap ensuring a low cost of swapping for issuers, matched with the underperformance of USD credit over EUR credit, resulting in a wider USD EUR spread differential, ultimately offering cost saving advantages.

8 Okay, make it eight dwarfs 😊, net supply for credit remains easily absorbable (we will call this Dwarf Broeksy, stubborn and significant)

Despite our forecast for yet higher supply in 2026 compared to 2025, which will be driven by higher redemptions, higher capex and higher M&A we do not expect the net supply story to become a factor of negative importance. The net supply picture does indeed worsen slightly, given high supply expectation and the additional large ECB holdings rolling off the curve but it's the flows into credit that will continue this trend of strong demand. Over the past couple of years, we have seen a slightly worsening net supply picture but, interestingly, coverage ratios have risen and new issue premiums have fallen. We do not see such a significant change in net supply numbers that this recent trend would not continue into 2026. Sure, we could see a more window-driven primary market but spread effect will be limited, if not negligible.

Fig 10 Technicals picture remains strong



Source: ING, Dealogic, EPFR, ECB

In terms of numbers, we are looking at €444bn for corporate supply in 2026, in a year that redemptions rise up to a significant €304bn. For financials, supply will increase slightly up to €485bn, but redemptions also come in at a hefty €405bn.

The ECB corporate holdings from CSPP and PEPP amount to €48bn rolling off the curve. This a notable jump from last year, but should be absorbed by the market nonetheless. Similarly, the covered bonds rolling off from CBPP total €32bn.

The inflows into credit could easily amount to a further €40bn, if not more. And there is the additional demand coming from the Dutch Pension Reform, which will account for an estimated €30bn into IG credit over two years, at least half of which will be in 2026. There is also an added €15bn expected for HY credit over the coming two years. Read more on how this is a positive for credit in the *Dutch Pension Reform* section (page 69).

As a result, the amount of new debt that needs to be absorbed by the market in 2026 is a total €244bn, on our estimates. Corporates account for €160bn while financials and covered bonds account for €84bn.

Investment ideas

- Carry and yield are the name of the game
- Very high demand is set to continue and will keep spreads held in the range
- Prefer EUR credit over USD credit – de-dollarisation set to continue
- The fairytale market is set to continue ...for the time being

But don't forget ...the bears

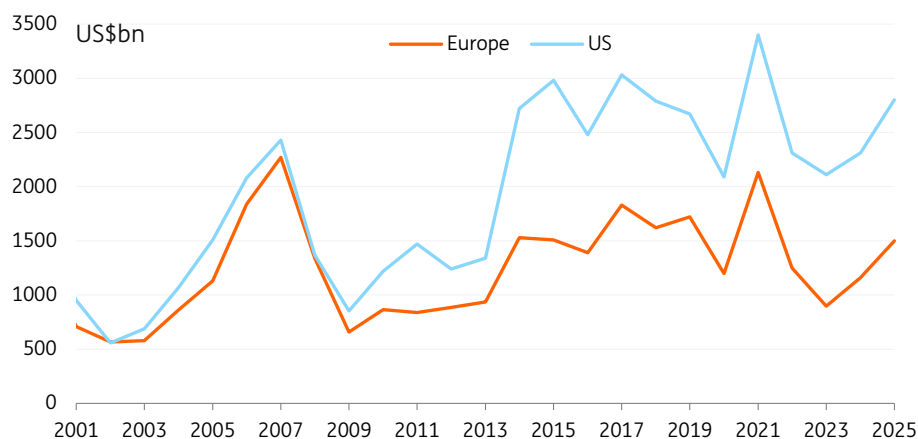
Fairytales always carry underlying messages, such as not to trust strangers or humility or honesty, as identified in the tales of Little Red Riding Hood, the Pied Piper and the three bears when they come home to find that Goldilocks has taken up residence.

While the credit market may be resilient enough to weather challenges, such as tariffs and broader economic threats, a true reckoning could come when deeper risks materialise - **defaults, loan losses, inflation, aggressive M&A activity and rising capital expenditures.**

At that point, the market may resemble the townspeople of Hamelin who failed to pay the Pied Piper to rid them of their rats just as today's credit incumbents risk underestimating and mispricing the initial threats.

A negative driver for credit metrics comes from increasing merger and acquisition activity or capital expenditure and we are starting see some weakness in private credit and several US based defaults (ie, First Brands) which, in turn, affect leveraged loan markets, CLOs and the US regional banks.

Fig 11 M&A deals (excluding technology) beginning to increase



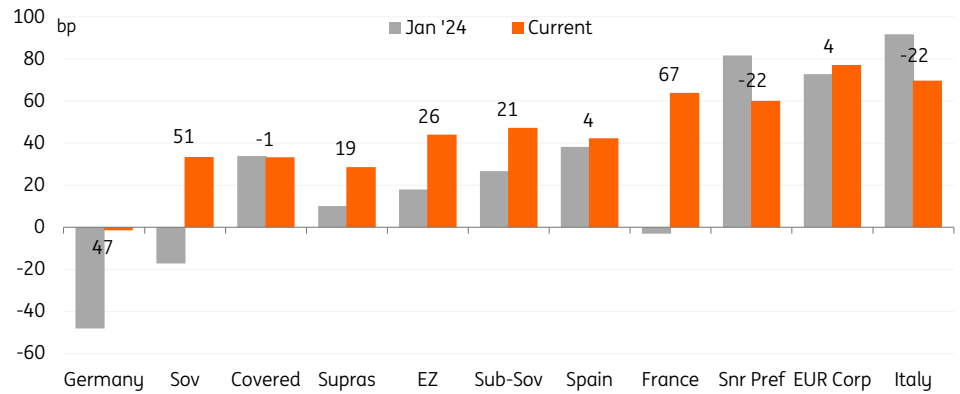
Source: ING, Dealogic

Valuations are the big discussion in credit markets, in terms of spread, especially over Govies there is simply no performance potential. The threat of an asset allocation shift is therefore bigger than ever, indeed recently prominent asset managers have been indicating that they are reducing exposure to credit.

As stated earlier, the likes of M&G, Blackrock and Fidelity have all been quoted in the *Financial Times* as saying that they are shying away from more leveraged (high yield and lower rated) credit and looking to cut duration and move up the ratings curve.

As indicated in Figure 12, the generic difference between the likes of Senior preferred banks in credit and Germany, both on an ASW basis, has contracted some 69bp since the start of 2024, the comparison to France shows that the widening by France versus Swaps of 67bp and the tightening of Senior preferred leads to a significant 89bp change in relative value in less than two years.

Fig 12 Asset allocation questions as credit looks less attractive vs other FI

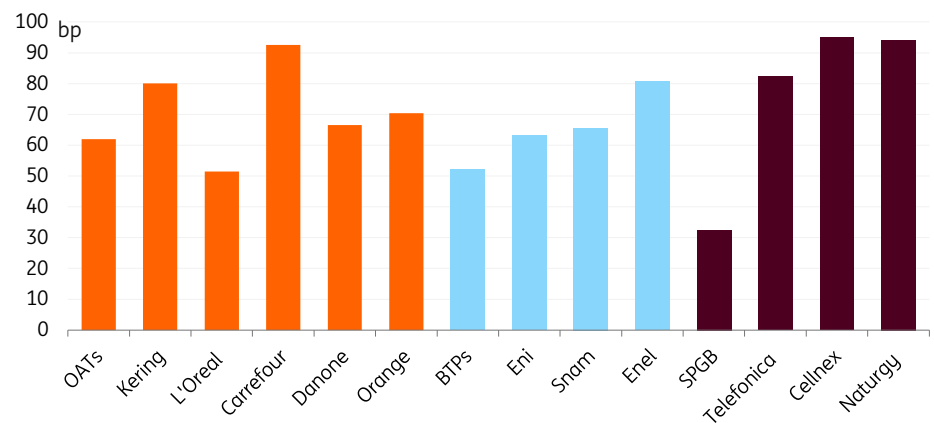


Source: IHS Markit, ING

On top of that, we have to point out **French corporates** and their relative positioning versus French government spreads though we appreciate that OAT spreads obstruct spread tightening for French corporates (and as they make up some 20% of the total credit market it's clear that average credit spreads are affected by the struggles in France).

Another question we must ask is whether the long-held belief that French corporates cannot issue new deals and permanently trade below OATs should be challenged, indeed is there sound reasoning for European corporate credit to trade in excess of their Govies at all?

Fig 13 French, Italian and Spanish G-Spreads at 5yr



Source: ING, IHS Markit

Governments are increasingly challenged by unsustainable business models, with spiralling debt levels and growing fiscal deficits becoming critical concerns. In contrast, corporate business models – particularly those focused on equity and bondholders – tend to be cleaner and more adaptable in times of rising debt. Investment-grade corporates operate global business models that are not tied to any single domestic market. Yet, their funding remains intrinsically linked to their sovereign, creating a paradox.

Across Europe, the issue of sovereign contagion has largely faded, France being a notable exception. Discussions around sovereign spreads for countries such as Portugal, Spain and Italy, have receded as their economies recovered, arguably demonstrating that past contagion fears were often unjustified. Ultimately, corporates retain the flexibility to relocate if necessary, a strategic advantage that sovereigns do not possess.

Looking at the French conundrum, it is the country that carries the lowest debt to equity of non-financial corporates of the aforementioned countries and has by far the highest revenue share from outside its home country.

Lastly, let's address the discussion around the risk-free rate. Is there truly a case for using Bunds or any government-related benchmark? If anything, the appropriate reference should be ESTR. In fact, the most accurate basis for credit pricing should always be over swaps, not sovereign yields. And that would solve the OAT issue in one fell swoop.

So, let us start the difficult discussion, **we believe that non-financial corporates in Europe should trade irrespective of the country they happen to be based in.** If that shift is slowly starting to imbed itself in markets, then we believe French corporates are excellent relative value.

While the bears show a real threat to credit spread performance in 2026, we feel that all in all, the market feels like a fairytale and fairytales can last a long time but, be aware, as it would only take one major roadblock to see reality return.

Investment ideas

- Not all fairytales end in happy endings
- There are still plenty of risks that embody the bears returning home to find Goldilocks
- Risks - Defaults, loan losses, inflation, aggressive M&A activity, rising capex weakness in private credit and several US based defaults (ie, First Brands), which in turn affect leveraged loan markets, CLOs and the US regional banks.
- Valuations are the big discussion within credit as RV is very limited
- Country spreads (eg, OATs) are adding pressure
- We prefer conservative positioning for 2026
- Going up in quality and lowering duration

Spread direction

Spreads remain rangebound for 2026, but widening from here is on the cards

Given the eight reasons listed above, for 2026 we expect to see spreads trading within a similar pattern as in 2025. We believe spreads will remain within the highlighted ranges shown in Figures 14 and 15 - a c.20bp trading range for both EUR non- financials and EUR financials.

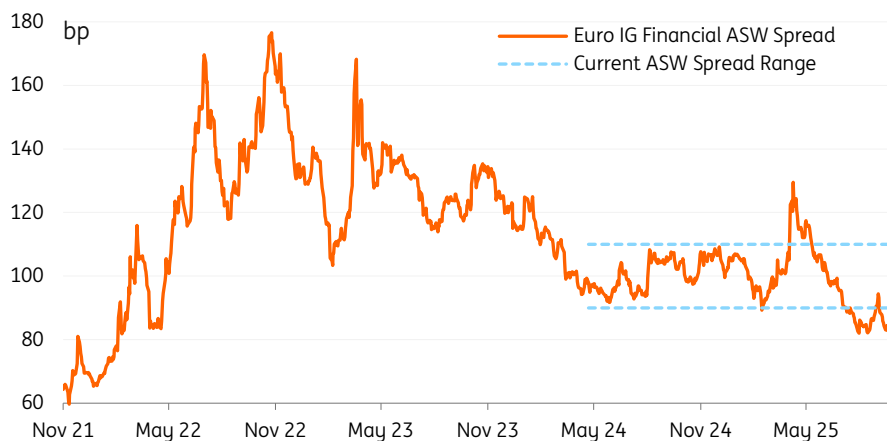
However, given warning signs that the bears could return, it is unlikely that we will approach the very tight end of the range. We are more likely to see a touch more volatility and spreads trading wider within the range. As we head closer to year-end, we are seeing a touch more volatility and more widening of spreads. Although within the range, spreads still sit rather tight, suggesting that a general widening of 10-15bp could be on the cards for 2026.

Fig 14 EUR non-financials spread ranges



Source: ING, IHS Markit

Fig 15 EUR financials spread ranges



Source: ING, IHS Markit

Curves set to steepen

Steeper credit curves via long end underperformance – we favour the short to belly

We expect a continued trend of steepening of credit curves in 2026, as the long end will be under more pressure and is set to underperform further.

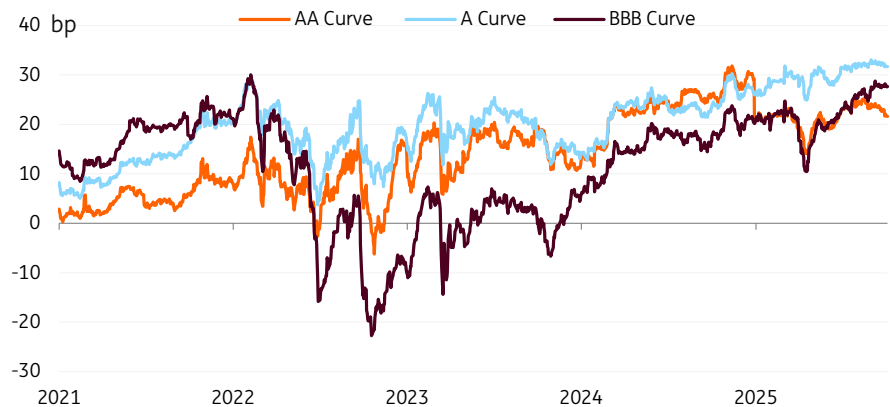
“We see at least 15-20bp of steepening in 2026”

As a result we prefer the short end of the curve up to the belly. We are wary of too much duration when combined with beta.

It's the lower rated and higher beta debt that needs to steepen more

There is some more shape to the curve in lower beta and higher rated debt. It's the riskier credits that are lagging in the steepening theme we have seen throughout 2025. As illustrated in Figure 16, we believe BBB debt in particular should steepen above the A rated curve.

Fig 16 Curve per rating bucket

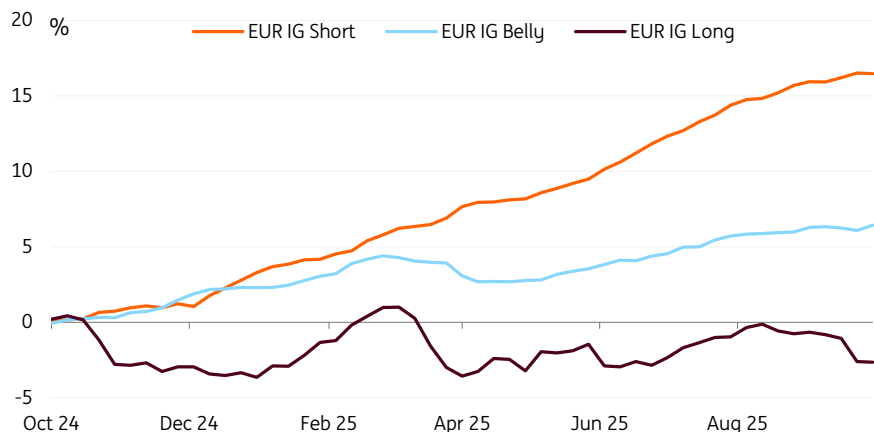


Note: Calculated by finding difference between 7-10yr index and 3-5yr index
Source: IHS Markit, ING.

Fund Flows show no love for the long end

Over the past two years the trend has been very clear – no love for the long end as inflows are mainly focused on shorter dated maturities. For 2025, we note the 0-4yr bucket has seen 14% of AuM inflowing, followed by over 4% inflowing into the 4-6yr bucket. The 6yr+ bucket has seen a mere 0.7% of AuM inflowing YTD.

Fig 17 Inflows are concentrated in shorter dated credit, Oct 2024-Oct 2025



Source: ING, EPFR

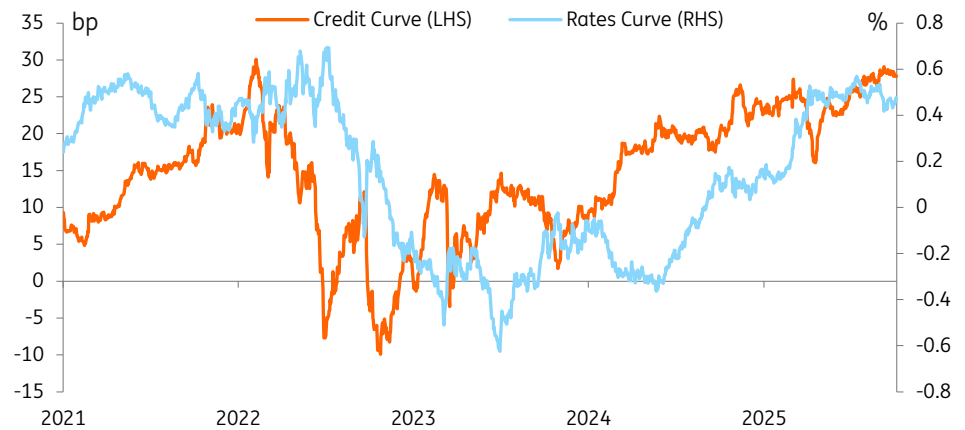
Steeper rates curves and steeper swap spread curves

Our rates strategists are expecting some small steepening of the swap rates curve. The 2yr should remain anchored where it is but we believe the 10yr is set to rise by 25bp, while the 5yr should rise 15bp.

We believe there will be a similar steepening of the swap spreads, or at least a lesser inversion of the curve, as the 10yr should rise up towards 10bp from the c.0bp it sits at now, meanwhile the 2yr should remain anchored at the current 15bp.

We see a strong correlation between steepening rates and swap spreads and steepening credit curves. In addition, with the 10yr credit and 10yr rates expected to rise slightly, we also note a strong correlation between the rise in rates and steepening credit curves over the past 25 years - Figure 18 illustrates the correlation since 2021.

Fig 18 Strong correlation – expecting a further steepening of rates curves

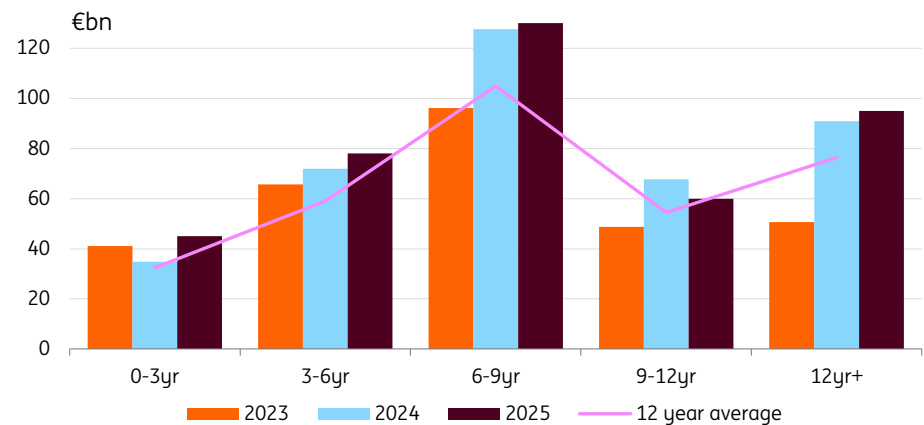


Source: IHS Markit, Refinitiv, ING

Issuers are tilting longer and longer each year

New issues coming to the market also appear to be more inclined to attack the long end. Supply in 2025 to date, as seen in Figure 19, has seen a continuation of the 2024 trend, with issuers preferring to target the long end. The chart shows that YTD supply is still showing a longer duration preference by issuers compared to 2023 (a good proxy as this was a typical average duration issuance year). So we conclude that issuers target long while investors prefer shorter.

Fig 19 Supply is targeting the longer end



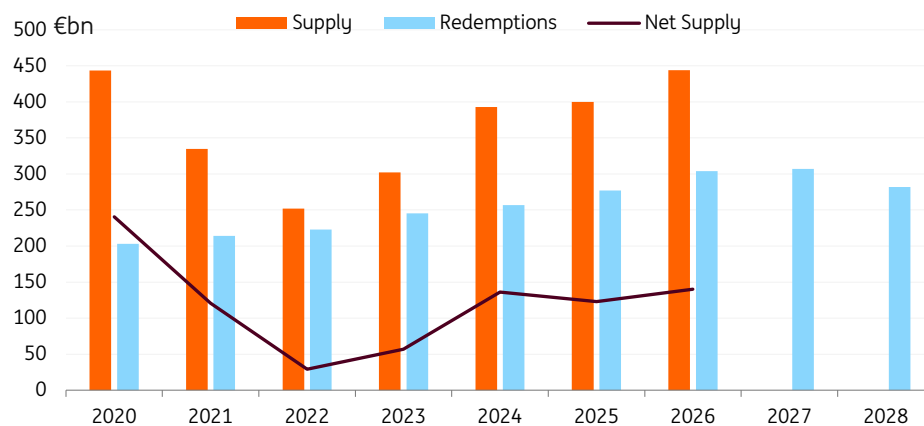
Source: ING, Dealogic

Corp supply: All the fours at €444bn

We forecast €444bn for corporate supply in 2026

The genie in the bottle is often credit supply, offering a new issue premium, more diversification, liquidity and often excess returns. Our forecast for 2025 at €400bn was seen as lofty but, nonetheless, has proven an easy target to reach, for 2026 we are looking for a nice but not round €444bn, all the fours for 2026. This matches the very significant Covid-induced supply of 2020. A decent portion of which is coming due in 2026.

Fig 20 Supply will increase in 2026

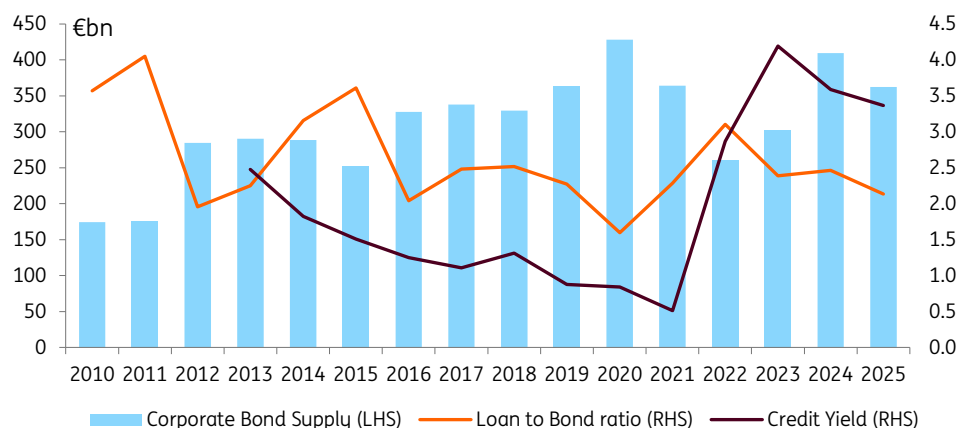


Source: ING, Dealogic

The factors that will ensure supply rises by 10% again

- **Redemptions** are set to rise in 2026 to €304bn – the highest on record. Net Supply will therefore remain stable YoY at €140bn.
- **Capex and M&A will rise**, particularly the latter seems to have developed quickly over recent quarters with a spike to nearly US\$1.6tr in M&A deals outside the tech industry over 3Q25 alone; the bulkiest quarter for over for years. Earlier in the year, capex and M&A had been slow to get off the blocks due to some turbulence related to a changing political environment and tariff concerns.
- **Disintermediation** trend continues. We note a strong correlation between all in funding levels and the direction of the loan to bond ratio, with bond funding in preference as yields are attractive (offering better lock in yields for longer duration).

Fig 21 Trend of disintermediation



Source: Dealogic, IHS Markit, ING

- **Large Reverse Yankee supply** with our forecast at €80bn, as the equation remains for US issuers to catch a cost saving advantage by coming to the EUR market. This was a substantial driver of supply in 2025 and is expected to be another driver of high supply next year. See below for more detail.
- **Decent hybrids supply** as we forecast €35bn. Refinancing will be notable in 2026 as the number of first call dates jump. Read more below.
- **ALM activity** is expected to add to the supply. The ALM activity environment is seen as supportive for optimising the maturity profile and funding costs so more activity is expected from tenders and exchanges.
- **Debt will continue to be well absorbed.** Demand within primary markets remains very firm as almost every new deal gets considerably oversubscribed, despite NIPs being at all-time lows. The strong demand in 2026, as per the Seven Dwarfs listed above, should maintain this strong primary market demand. However, the fairytale in primary markets might also begin to falter slightly as spreads widen.
- Certain sectors will see a jump:
 - **Real Estate** is set to see a further jump next year after a record-breaking 2025. We forecast a rise to €40bn in 2026.
 - **TMT** supply soared in 2025, driven by tech and even more so a raft of Reverse Yankee deals. We expect this to continue into 2026.
 - **Utilities** supply was low in 2025 despite the expectation for large capex growth and thus more issuance. A portion of this capex growth was financed in equity, etc, but capex didn't see the large jump given the political turbulence. 2027 will be the year this turns into fruition, in our view.
 - Jumps in redemptions should drive higher supply for the likes of **Industrials, Autos and Healthcare.**

Fig 22 Supply forecast per sector

	2025			2026		
	FY F	Reds	Net Supply	FY F	Reds	Net Supply
Auto	42	38	4	50	46	4
Consumer	53	37	16	55	35	20
Healthcare	35	21	14	40	28	12
Industrial & Chemicals	60	46	14	70	54	16
Real Estate	32	23	9	40	26	14
TMT	85	41	44	80	42	38
Utility	60	36	24	70	38	32
Oil & Gas	12	16	-4	15	13	2
Others	21	19	2	24	22	2
Total	400	277	123	444	304	140

Source: Dealogic, ING

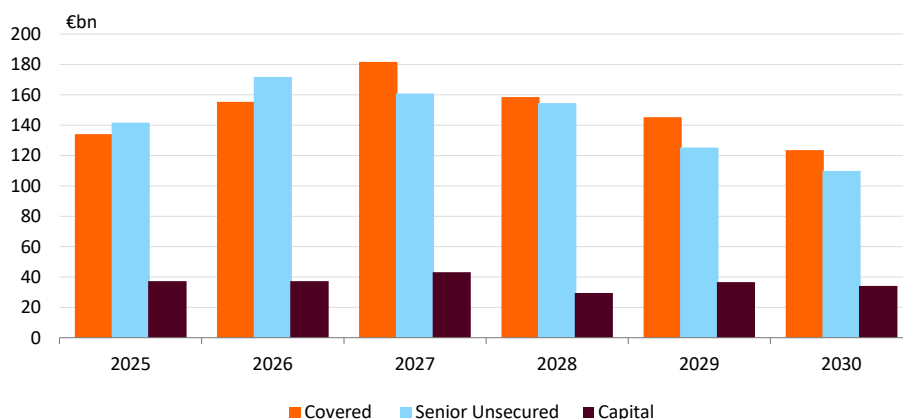
Bank bond supply: Set to rise in 2026

Expected increase in bank bond supply in 2026, reversing the 2025 decline

We expect EUR bank bond supply to pickup to €420bn in 2026 after an anticipated €13bn decline to €405bn in 2025. In our view, several variables will be driving next year's issuances.

Firstly, redemptions could rise by approximately €50bn compared to this year's levels. The bulk of this stems from the senior unsecured segment totalling €172bn, up €30bn from 2025. Covered bond redemptions could also go up by €20bn to reach €155bn. Bank subordinated instruments should see the most muted redemption increase and reach slightly over €37bn. Considering the anticipated overall increase, **we expect redemptions to positively affect banks' activity on the EUR bond primary market as institutions will need to refinance the maturing instruments.**

Fig 23 Bank bond redemptions per segment



Source: ING

Secondly, despite the volatility recorded in April, spreads fully recovered from the widening and are now bid close to historically tight levels, despite the geopolitical index showing growing instability. **The current compressed trading levels could have a positive impact on bank bond supply, especially in early 2026.**

Over the past decade, banks have preferred issuing over the first quarter of the year. In all segments, historical data shows that the first quarter of the year represents on average nearly 37% of the full year supply. We therefore expect that the liability structure spread compression will see again a dominant supply focus on capital instruments and senior bail-in bonds (senior non-preferred or HoldCo senior bonds) at the beginning of next year.

In addition to the tight spread levels, the slow drift towards the underperformance of US dollar debt versus euro denominated could also be a variable positively affecting EUR bank bond issuances in 2026. These points will push the overall issuances level upwards, supported by the stable monetary policy and the macroeconomic outlook.

We expect a rather stable year on the monetary policy front with our economists pencilling in no further rate cuts from the ECB in 2026. Paired with a modest macroeconomic outlook composed of relatively stable inflation, a slight GDP increase and modest lending growth, **the macroeconomic outlook remains a slightly supporting factor for the EUR bank bond supply over 2026.**

Taking into account all those variables, we expect the EUR bank bond supply to reach €420bn in 2026. Accounting for redemptions, this results in a net bank bond supply of

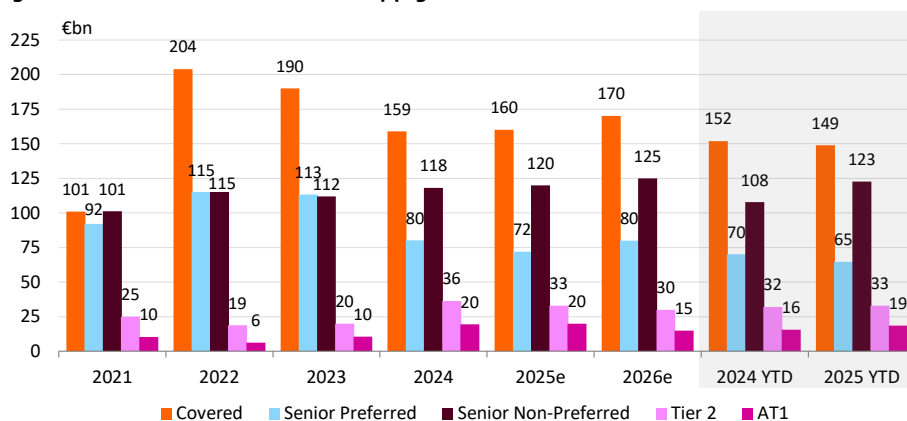
€56bn. Our forecast of €170bn in covered bonds, comprises about €165bn in benchmark size issuances, and a further €5bn in sub-benchmark and floating rate notes.

This implies a €10bn increase compared to the expected 2025 level. This growth reflects the rise in covered bond redemptions next year as well as the peak at €180bn in 2027. However, we think the supply growth will be somewhat muted by banks’ aim to limit their assets encumbrance as long as an environment of tight spreads allows them to attractively finance through the senior unsecured segment.

We expect senior unsecured issuance to reach €205bn in 2026 with €80bn in senior preferred bonds and €125bn in senior bail-in issuances. Overall, that’s a €13bn increase compared to 2025, mainly driven by higher redemptions and attractive spread levels.

Lastly, we expect Tier 2 supply to reach €30bn while the AT1 segment is expected to lie at €15bn. We expect a slight decline in bank capital issuance, as the potential impact of RWA growth is likely to be partly offset by prefinancing already completed in anticipation of broadly stable but elevated redemptions.

Fig 24 Forecast EUR bank bond supply for 2026



YTD as to 16 October
Source: ING

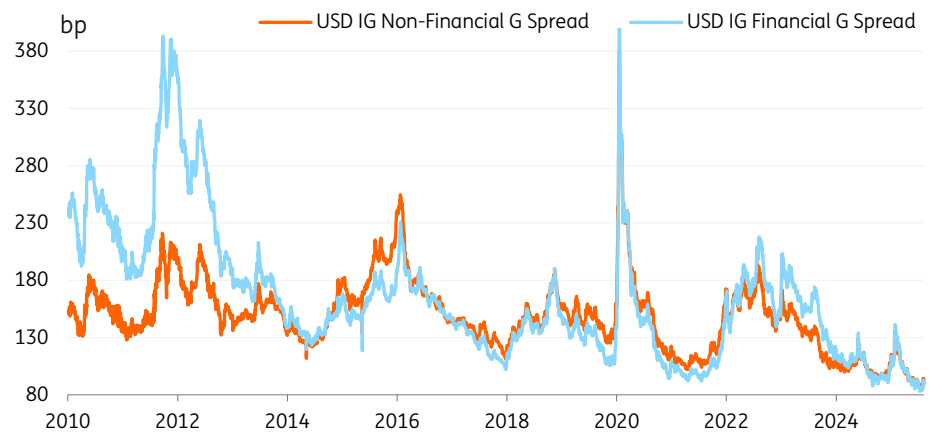
Marine Leleux marine.leleux2@ing.com

USD credit looks less favourable

USD spreads still trading at very tight levels

The credit cocktail for 2026 for USD and US corporate spread direction is a little more complex – persistent or returning inflation, a cooling labour market, consumer strain (higher debt and borrowing costs), trade and supply chains and, last but not least, US fiscal and debt concerns, are all factors that make corporate America challenged while credit spreads in the US are even tighter relative to history than in Europe. With the spread over Treasuries now at an all-time low, a level to which even EUR spreads have dared to venture.

Fig 25 USD spreads over treasury



Source: ING, IHS Markit

We still see USD credit on an ASW basis also trading at very tight levels within the range. While we expect the range to hold, there is plenty of widening potential from these tight levels.

Fig 26 USD non-financials spread ranges



Source: ING, IHS Markit

De-dollarisation has been a noteworthy theme within financial markets this year, and it is expected to persist. This is a theme that credit certainly has not been immune from. Despite it being hard to quantify, we are seeing a tilt away from USD markets and towards the likes of Euro.

As illustrated in the fund flows in Figures 1, 2 and 26, we see inflows continuing with strength into EUR IG credit, while USD fund inflows have tapered off in a notable fashion. A more pungent picture is painted in Figure 9, which illustrates the allocation of global funds to the US region, which has seen a substantial drop since the Spring of this year, in

both Equity and Bond funds. Furthermore, as shown in Figure 27, USD credit has not seen the same jump in demand from retail fund flows, as was seen in EUR. Insurance is another segment that has now seen outflows YoY.

Fig 27 Fund Flows per segment in IG Corporate Bonds (% of AuM)

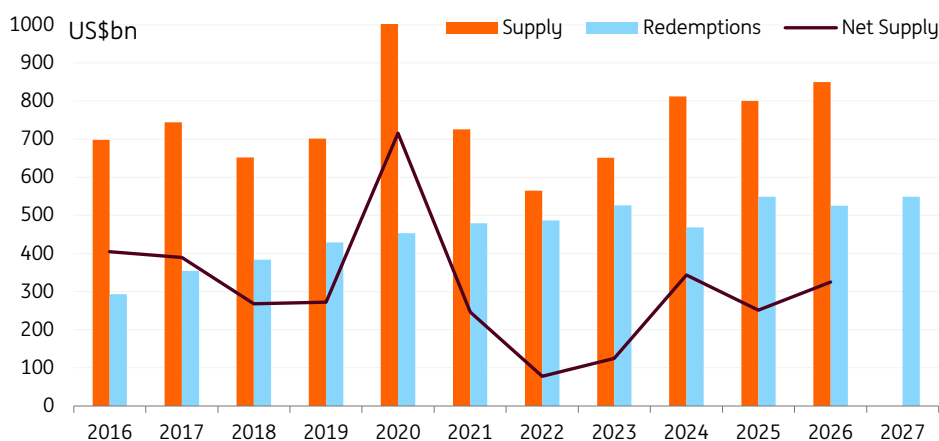
		2020	2021	2022	2023	2024	2025 YTD
USD	<i>ETF</i>	26.5	4.3	9.2	3.7	11.3	6.2
	<i>Retail</i>	0.5	-5.6	-17.7	-0.2	6.8	3.0
	<i>Institutional</i>	22.3	1.6	4.5	3.0	8.0	5.4
	<i>Insurance</i>	-4.1	2.6	-9.5	-10.5	-9.6	-7.7
	<i>Hedge Funds</i>	13.7	0.1	-17.7	27.7	23.4	10.8

Source: ING, EPFR Global

We forecast US\$850bn in USD Corporate supply

We expect a rise in USD Corporate supply to US\$850bn. While redemptions are down 5% compared to 2025, it's only a small factor as most of the 2025 peak was related to the 2020 Covid 5-year issuance that was rolling off the curve. These were principally precautionary financings in a time of stress that, compared to other bond deals, have a lower need for replacement.

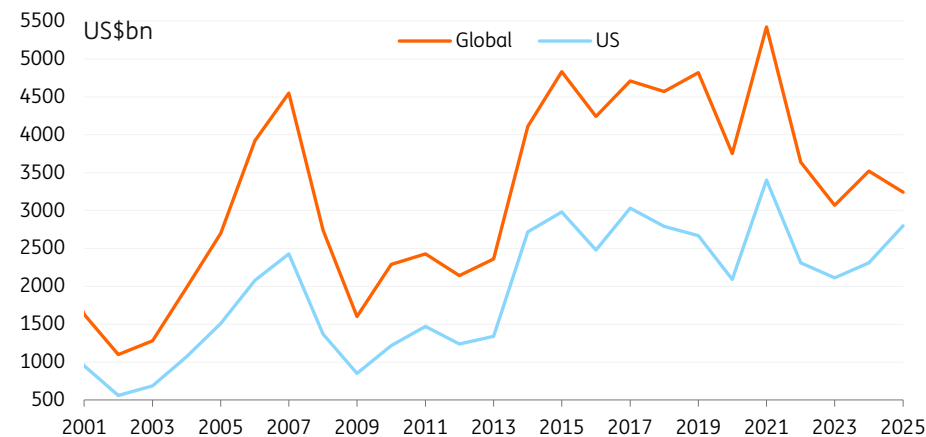
Fig 28 Supply increases further in 2026, but redemptions drops a touch



Source: Dealogic, ING

Capex and M&A will rise, particularly the latter seems to have developed quickly over recent quarters with a spike to nearly US\$1.6tr in M&A deals outside the tech industry over 3Q25 alone. The bulkiest quarter for over four years. Earlier in the year, capex and M&A had been slow to get off the blocks due to some turbulence related to a changing political environment and tariff concerns.

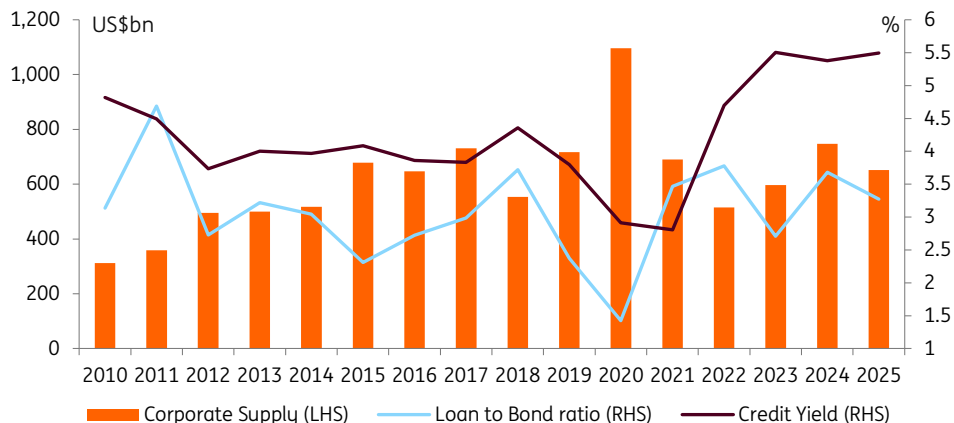
Fig 29 M&A levels are set to rise



Source: ING

Disintermediation trend continues. Relative to Europe where the disintermediation trend is very strong, we only note a small trend of a falling loan to bond ratio.

Fig 30 Slight disintermediation in the US



Source: Dealogic, ING

ALM activity will add to the supply. The ALM activity environment is seen as supportive for optimising the maturity profile and funding costs so more activity is expected from tenders and exchanges.

Debt will continue to be well absorbed. Demand within primary markets remains very firm as almost every new deal gets considerably oversubscribed, despite NIPs being at all-time lows. The strong demand in 2026, as per the Seven Dwarfs listed in our introduction, will maintain this strong primary market demand. However, the fairytale in primary markets may also begin to falter slightly as spreads widen.

Investment ideas

- USD market looks less favourable and is set for widening given the very tight levels
- Spreads will remain range bound but come under more pressure from external factors
- Prefer EUR credit over USD credit – expect USD to underperform
- De-dollarisation has been a noteworthy theme
- USD sees significantly lower inflows relative to EUR
- Persistent or returning inflation, a cooling labour market, consumer strain (higher debt and borrowing costs), trade and supply chains and last but not least, US fiscal and debt concerns are all factors that make corporate America challenged

Reverse Yankee supply to hit €80bn

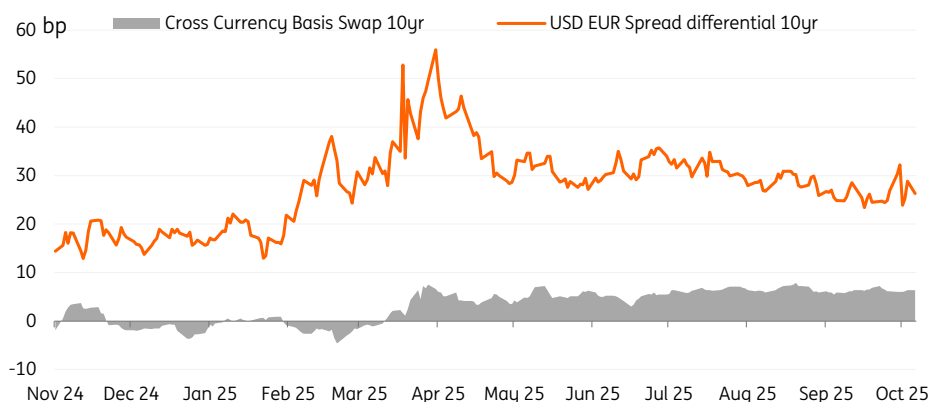
The cost saving advantage remains

The cross-currency basis swap equation will continue to offer a cost-saving advantage for US issuers to come to the EUR market and swap back. This is in addition to US issuers also financing their European operations at a lower yield level.

USD spreads are set to underperform slightly more than in EUR. As mentioned above, the trend of de-dollarisation is set to continue with less love for USD. The increased differential between EUR and USD spreads creates a lower cost of issuance in euro, particularly as the cross-currency basis swap remains at historically very low levels. We expect this basis to stay anchored at these very low levels of between 0bp and 5bp.

While the mathematics of the cross-currency basis swap and the spread differential over swaps in the 5yr is minimal in conjunction with large discrepancies between issuers, the 10yr shows a large funding gap. The expected underperformance of USD spreads will therefore benefit that area to a greater extent and entice more large multi tranche deals as US issuers typically seek significant deal sizes.

Fig 31 Cross currency basis swap and USD EUR spread differential



Source: ING, Refinitiv, IHS Markit

Figure 32 illustrates the cost saving advantage than many US issuers can currently benefit from. In these examples, issuers could see a notable 6-13bp discount by going to the EUR market. Of course this is a theoretical spread swap, as the table also depicts the actual EUR spread of these issues which is at times a wider spread than the swapped spread, but is also still remarkably more tight than the USD spread.

Fig 32 Swapped spreads for Reverse Yankee issuers

		USD Spread	Swapped To EUR	Cost Saving	EUR Spread
VZ	5yr	100	93	7	92
	10yr	135	122	13	102
IBM	5yr	87	80	7	78
	10yr	112	101	11	105
AMT	5yr	111	103	8	96
	10yr	124	112	12	118
AT&T	5yr	99	92	7	86
	10yr	133	120	13	107
GM	5yr	137	128	9	127
	10yr	180	165	15	
MCD	5yr	73	67	6	85
	10yr	105	94	11	107

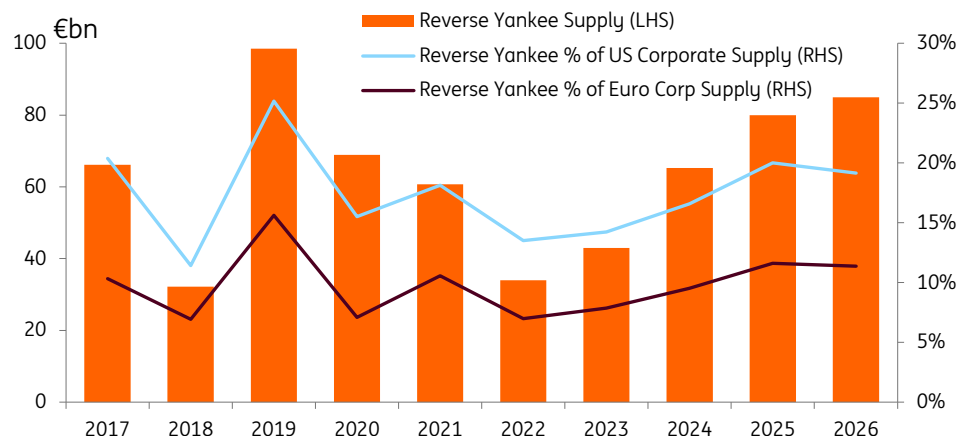
Source: ING

Because of this current differential between the EUR swapped spread and the actual EUR spread, we see value in these Reverse Yankee bonds. It is common for US issuers to leave extra NIPs on offer when coming to the EUR market, and additionally these Reverse Yankee bonds tend to outperform in the secondary thereafter. While this holds true for 2026, so does general value in these bonds given where the USD bonds are trading.

A factor of larger EUR corporate supply and US corporates supply

We forecast €80bn of Reverse Yankee supply in 2026. A rise on most previous years. This will mark the second highest Reverse Yankee year on record, following the €100bn seen in 2019.

Fig 33 Reverse Yankee supply



Source: Dealogic, ING

Normally, Reverse Yankee is a factor of both Euro corporate supply and US corporates supply in both USD and EUR. As stated above, we forecast €444bn for Euro corporate supply, and the average percentage of reverse Yankee supply done is 18% – pencilling in €80bn for the year. Similarly, as we forecast US\$850bn for USD corporate supply and thus US\$800bn US corporate supply in both EUR and USD, the €80bn forecast Reverse Yankee supply is in line with the average 10% of US corporate supply in EUR and USD.

Investment ideas

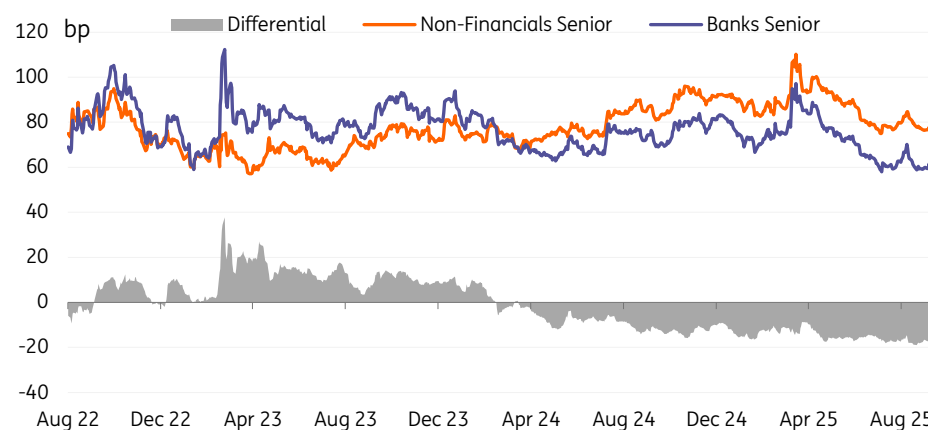
- Value in Reverse Yankee deals in the primary as more NIP on offer
- Reverse Yankee bonds currently look attractive given the level at which USD bonds are trading
- Cost saving advantages remain for US issuers coming to the EUR market

We prefer financials over corporates

Almost nothing on offer from an RV perspective – it's about technicals

There are minimal relative value opportunities between the two segments, as Figure 9 illustrated. Banks have seen a strong outperformance in the past couple of years and even more so in the past number of months. The differential between non-financials and banks has reached rather tight levels.

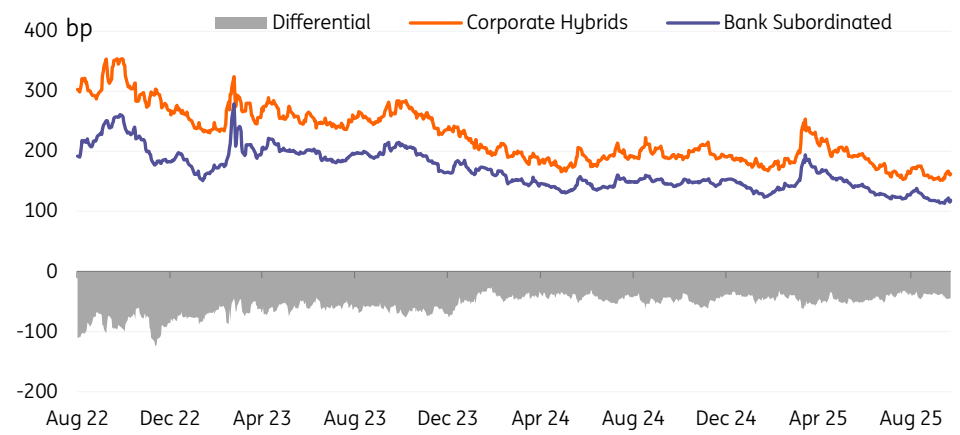
Fig 34 EUR non-financials spreads vs Bank Senior spreads



Source: ING, IHS Markit

However, we expect the momentum for bank bond outperformance to continue in 2026 given that:

- **The net supply technical picture** is more beneficial for financials. As illustrated in Figure 35, financials will see net absorbable supply, after redemptions, inflows, ECB holdings rolling off and the added demand from the Dutch pension reform at just €84bn, versus corporates that see double the amount at €160bn.
- **Banks see the most mutual fund demand.** Inflows into EUR IG credit that target bank bonds boast over 10% of AuM inflowing this year, driving the two-year total inflows to nearly 20% of AUM. This exceeds all other sectors by some margin.
- **Financial services also see a strong level of demand from mutual funds**, with 8% inflowing this year and 16% inflowing over the past two years. Insurance, on the hand, is not catching the same demand, with relatively low inflows of just 5% in 2025 and 9% over two years.
- **Less exposure to tariffs.** Relative to other corporate sectors that are highly exposed, banks will not see a significant direct impact. Corporates that are exposed will bear the brunt of the force from them. Whereas banks will only be indirectly impacted if corporates see a very significant struggle. Additionally, profitability, capital strength and diversification insulate banks in any case.
- **Less steepening of credit curves.** We expect further steepening and long end underperformance from corporates in the coming months. Given that financials sit with an already much steeper shape to the curve, we expect a lot less underperformance from financials longer on the curve.
- **Corporate hybrids look tight on Bank subordinated.** Both subordinated debt segments have seen strong performance in 2025. However hybrids have been outperforming against bank capital over the year with hybrids now looking particularly tight on bank capital. As illustrated in Figure 35.

Fig 35 EUR non-financials subordinated spreads vs Bank Subordinated spreads

Source: ING, IHS Markit

Investment ideas

- We prefer Financials over corporates for 2026
- In particular we prefer bank exposure
- Financials are set to see much less steepening than corporates
- Comfortable taking on more duration in banks
- While both are looking at very tight levels in terms of spreads, and widening risks are probable, we still like exposure to subordinated. The carry trade still works here, but we prefer shorter dated hybrids and bank capital bonds.

Sector positioning

Tariffs impacts, fund flows and CSPP & PEPP holdings rolling off

Sectors that see strong demand from mutual funds, have low exposure to tariffs and won't be caught at a technical disadvantage from CSPP redemptions are in a better position. Read more detail on this in the sector scoring section later.

Investment ideas

- We are overweight – Household Goods, Telecoms, Technology, Bank callable T2 and Bank AT1
- We are underweight – Autos, Chemicals, Food & Bev, Retail, Oil & Gas and Insurance senior
- Given the still large list of possible risks, negative drivers, widening of spreads and steepening of credit curves, we favour a conservative positioning, limited duration and going up in quality.
- However, in higher rated names and sectors, and in lower beta segments, there is more shape to the curve, thus we feel more comfortable taking on more duration

Sector scoring

	Duration (years)	iBoxx (%)	Bond value 20	Supply 15	Buy/Sell 5	Fund Flows 5	Fundamental 15	Volatility 5	ESG 25	Strategic 10	Averages 100	Call
Autos												
Automobiles	3.8	5.4	5	8	4	6	5	5	3	5	5.0	Underweight
Industrials												
Basic resources	4.6	0.7	5	7	5	6	6	6	5	5	5.5	Neutral
Chemicals	4.8	2.2	5	7	5	6	6	7	4	2	4.9	Underweight
Materials	4.1	1.7	5	7	5	6	6	7	6	7	5.9	Neutral
Industrials	4.5	8.6	4	7	7	6	7	7	5	8	5.9	Neutral
Consumers												
Food & Bev	5.6	4.8	4	5	3	6	7	5	3	6	4.7	Underweight
Health care	5.7	5.7	5	5	6	5	7	4	5	9	5.6	Neutral
Household Goods	4.7	2.4	4	5	8	5	7	8	7	6	6.2	Overweight
Retail	4.2	0.8	4	5	4	5	6	6	4	6	4.7	Underweight
Travel & Leisure	5.8	2.3	5	5	4	4	8	8	4	8	5.7	Neutral
TMT												
Telecoms	5.5	5.3	5	4	3	6	8	6	8	10	6.7	Overweight
Media	4.1	1.2	4	4	5	6	7	5	5	10	5.4	Neutral
Technology	4.6	2.4	5	4	5	6	8	5	8	9	6.4	Overweight
Energy												
Oil & Gas	4.7	3.4	5	8	1	5	7	5	2	1	4.5	Underweight
Utilities	5.2	11.8	5	5	2	5	7	7	6	5	5.5	Neutral
Real Estate												
Real Estate	4.8	5.0	6	5	6	7	6	8	6	6	5.9	Neutral
Financials												
Banks Snr Pref	3.2	9.3	3	10	10	5	7	6	6	6	5.9	Neutral
Banks Bail-in	3.7	18.4	3	5	10	4	6	6	7	6	5.3	Neutral
Banks Bullet T2	3.0	0.5	6	5	10	2	5	5	7	6	6.0	Neutral
Banks Callable T2	3.4	1.9	6	8	10	2	5	5	6	6	6.6	Overweight
Banks AT1	3.2	1.8	10	4	10	5	5	4	6	6	6.9	Overweight
Insurance Snr	4.3	1.5	4	1	3	5	7	7	5	7	4.8	Underweight
Insurance Sub	4.8	2.7	8	5	3	4	5	6	5	7	5.9	Neutral

Bond value: 1=rich, 10=cheap, Supply: 1=high, 10=low, Buy/Sell: 1=selling, 10=buying, Fund Flows: 1=low, 10=high, Fundamentals: 1=negative, 10=positive, Volatility: 1=high, 10=low, Environmental risk: 1=high, 10=low, Strategic/Economic view: 1=negative, 10=positive. Averages are based off weighted averages according to relevance of the metric.

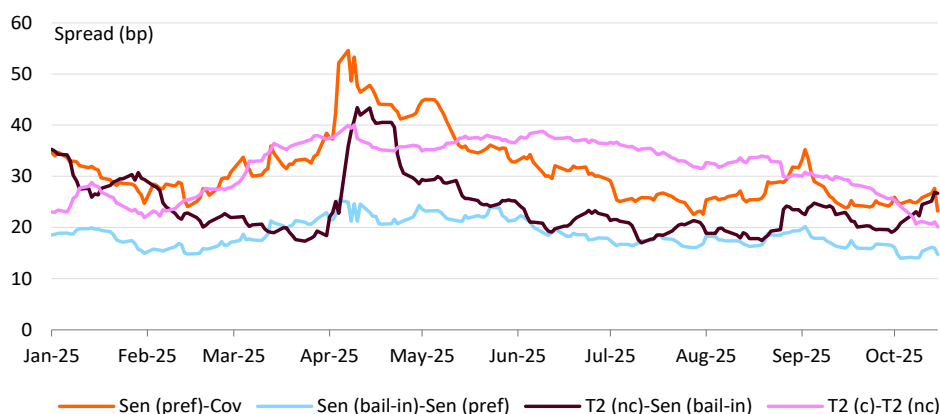
Liability structure positioning

Preferred senior as one-eyed king

Bank bonds have performed strongly this year, regardless of the few brief episodes of tariff or French politics related spread widening. Subordinated bonds have outperformed, but spreads across the liability structure are so compressed that further outperformance of subordinated paper appears unlikely.

At the other end of the spectrum, covered bonds continue to struggle with the performance boundaries set by Govies and SSAs. **This leaves the senior preferred segment as our instrument of choice in a landscape in which few options look truly compelling.** The performance potential of higher rated preferred senior notes will likely be equally constrained by the historically tight spread levels versus SSAs.

Fig 36 Relative performance of the indices



Source: IHS Markit, ING

Covered bond spreads have tightened across the different jurisdictions this year with Italian covered bonds showing the strongest performance, reflecting the improved ratings and performance momentum of the Italian sovereign.

Turning to the **senior unsecured segment**, bonds have been performing in a relatively narrow range versus their weighted covered bond and T2 equivalents this year. This reflects the compressed trading levels across the liability structure, which makes it more difficult to find notable senior performance outliers versus covered/T2 comparables. Senior Bail-in bonds (senior non-preferred or HoldCo senior bonds) outperformed preferred senior unsecured comparables.

T2 instruments have been most susceptible to the April tariff turmoil and the French confidence vote related widening in August. Nonetheless, they turned out to be the best performing instruments YTD, outside AT1. Portuguese T2 bonds have by far been the strongest performers, mainly driven by M&A prospects and constructive rating developments. Australian T2 bonds rank among the weaker performers due to the addition of a new bond.

To conclude, as the proverb goes, in the land of the blind, the one-eyed man is king. In the current environment of liability structure compression, preferred senior unsecured bonds may well be this one-eyed man.

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AT1 positioning

Spreads are tight but yield is attractive

AT1 spreads are at very tight levels after a strong performance in 2025, trading close to record low levels. Therefore, we clearly see higher risks of spreads to widen from here. However, demand is still supported by attractive coupons due to high rates. The 5.3% yield for the AT1 index is above the 3.5% for callable T2 debt or 3.1% for bail-in senior paper.

Extension risk to increase further out – thus position in shorter AT1 calls

On AT1 curves we would stick to the shorter end up to the belly area. Higher reset AT1 debt continues to offer better resilience if markets start to price in a higher likelihood of extension for some of the bonds. We have overall a relatively resilient view on bank fundamentals going into 2026. We expect bank earnings to remain strong but as always for bank capital a careful name and bond selection remains key.

Country perspectives

French AT1 debt has underperformed compared to Spanish and Italian counterparts this year, with concerns over upcoming French elections potentially continuing to weigh on performance. Despite their stronger ratings, Crédit Agricole and BNP Paribas offer notable yield pickups over Italian peers, though their outlooks remain stable even following a recent sovereign downgrade. Société Générale and La Banque Postale are more vulnerable to market volatility and sovereign risk, particularly with low coupon resets offering little stability.

Spanish AT1 debt is preferred over Italian, thanks to robust bank fundamentals and supportive sovereign dynamics, despite strong outperformance in the shorter end of the curve. Italian banks have improved, but tighter trading levels and lingering sovereign risks limit further outperformance.

Dutch and Belgian AT1 bonds have lagged, but Dutch paper now offers value versus lower-rated Italian issues, especially in the 2-3 year range.

German and Austrian AT1s have performed well in 2025, though they remain more volatile during stress, with German bonds offering attractive spread pickup over Austria in the 3yr area to compensate for the notch lower rating.

Read about AT1s in more detail below.

Investment ideas

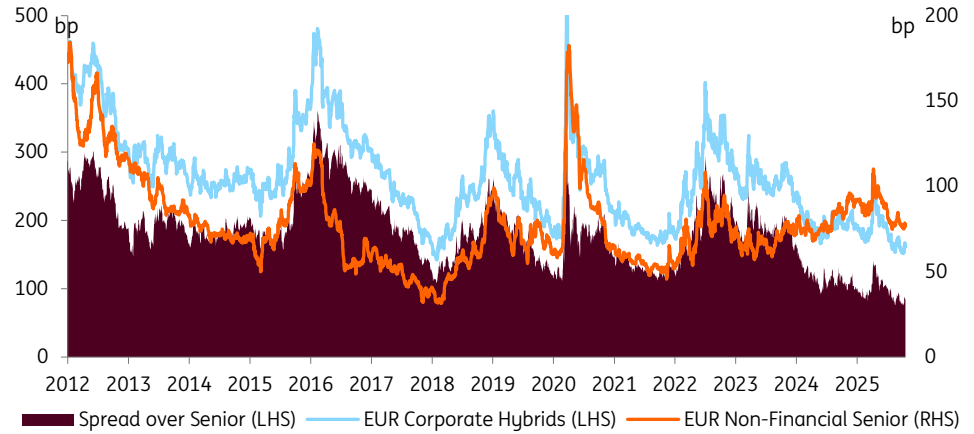
- **French AT1** offers 35bp pickup over Italian alternatives in the '30s, up from -130bp in early 2024 despite two-notch stronger bond ratings and +35bp wider coupon reset level
- Prefer **Spain** over Italy up to the 2-3-year area with wide resets
- Value in the **three-year Deutsche Bank 10%**, quoted 20bp through similarly rated Commerzbank with a 255bp higher reset spread
- **ABN AMRO 4.75% 9/27** offers some 20bp spread pickup over Rabobank 3.1% 6/28, quoted still 10bp through Rabobank in the beginning of the year, despite its 66bp higher coupon reset level

Hybrid heaven is in the short end

Very tight spreads but the yield still works

Corporate hybrids test new tights in spreads after a strong performance in 2025. The spread over senior has broken below the usual 100bp floor, down towards the current c.85bp. With spreads trading so expensive we see only risks of widening from here.

Fig 37 Spread over senior trading at very tight levels



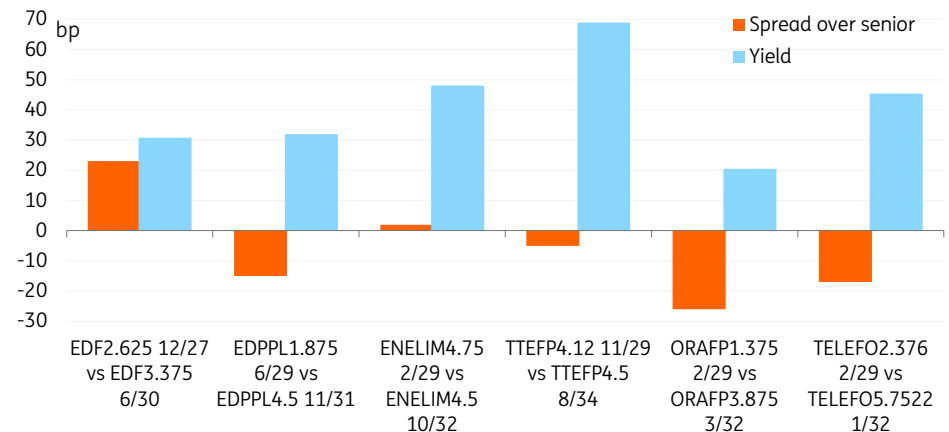
Source: ING, IHS Markit

Relative value

With recent pressure on leveraged loans, concern on private credit, stretched valuation in high yield credit and high supply expectations for 2026, we are still looking to subordinated product for carry purposes and while valuations here too are challenging we do believe that short dated calls will offer protection through the roll down. Besides which, when we look at the sub over senior spread curves we see that curves are very flat, and even the yield comparison provides very little insulation for taking duration risk, so despite valuations the only place to go is the shorter dated calls.

When we look in detail at opportunities, as illustrated in Figure 38, we see that the spread over senior difference in spread (orange bar) is often negative, in other words the hybrid curve is not providing any negative compensation for extension trades. There is a yield pick-up but that is limited where only the Total (TTEFP) extension trade provides 40bp, but remember all pick-ups are either from the underlying rates curve or the senior curve. The bottom line is that 2028 and 2029 have far better relative value and exposure to any form of duration for the underlying credit is best undertaken in the senior curve.

Fig 38 Curves are flat and at time inverted



Source: ING

Elsewhere, with regards to new issuance, we favour the shortest duration calls (5yr) to reflect our conservative stance on credit in 2026. We also note that low coupon issues, like most in the NC2028 and NC2029 area, trade at an attractive premium.

Corporate Hybrid supply to increase up to €35bn in 2026

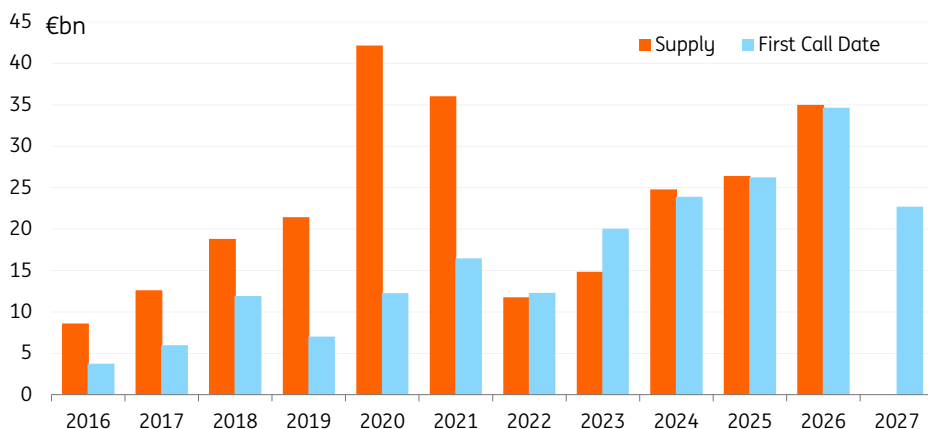
The level of first call dates rise rather notably in 2026 up to €34bn. This is driven by the very significant levels of supply seen in 2020 and 2021.

The general equation for finding the actual refinancing needs is to take half of one year added to half of the next year’s first call dates. Considering the drop down to €23bn for first call dates in 2027, the refinancing needs for 2026 equates to just short of €30bn. But that number could be a bit higher as we still see €23bn in 2026 that has not been refinanced so adding half the €23bn for 2027 to that could take us a bit higher. We have added a further €5bn for new entrants and possible ratings defence issuance as M&A activity increases next year.

Further factors that will influence supply for 2026 are:

- **Increasing capex** for the largest issuance sector utilities and stable capex for the Telecom sector.
- **Extremely low spreads and low yields** mean that from a funding cost perspective it is an ideal time to issue and raise capital, with the weighted average cost of capital calculation being favourable.
- **The Moody's-driven possibility for the new hybrid structure** could attract more issuers that are not looking for equity accounting, a 1 notch downgrade instead of 2 when the structure is dated (NC30), senior over preferred shares and with a 5yr maximum coupon deferral.
- Lastly, we also note **a trend in recent years** that supply of hybrids nearly always edges above the first call date total of any given year. Thus, we forecast supply to reach up to €35bn in 2026. In any case, these new issues will continue to be met with very strong demand and will easily be absorbed by the market.

Fig 39 Corporate Hybrid supply



Source: ING, Dealogic

Picks and Pans

Utilities	
Picks	Pans
<p>Veolia</p> <ul style="list-style-type: none"> • The business model benefits from waste and water demand expansion across the globe • Large geographical presence that can counterbalance weaker geographies • Robust financial results and credit metrics • The issuer's long-end of the senior curve looks attractive 	<p>Orsted</p> <ul style="list-style-type: none"> • The core business of offshore wind faces important challenges with higher costs, supply chain bottlenecks and regulation • More asset write-downs to come • Despite some cash flow generation progression, Orsted is still striving to reduce debt and restore credit metrics • We continue to expect volatility in Orsted's bond spreads
<p>Iberdrola</p> <ul style="list-style-type: none"> • Business model well diversified from a geographical and activity point of view • EBITDA will grow at a slower pace, but the 'green' business profile continues to support the issuer's credit quality • Stable financials and credit ratios • We see value in Iberdrola's € senior long dated papers 	<p>RWE</p> <ul style="list-style-type: none"> • Business model reliant on power generation and trading activities, leading to more volatile cash flow generation than average for the sector • Slashed investment plan for 2025-2030 signals strategic difficulties • Senior € curve trades significantly too tight for RWE's credit ratings and fundamentals
<p>SSE</p> <ul style="list-style-type: none"> • Strong cash flow generation progression and diversified business model supported by electricity transmission activities • Higher capital expenditure will weigh on balance sheet, but credit metrics have some buffer • SSE's € senior curve offers c.30bp pick-up over E.ON for similar credit ratings 	<p>Redeia</p> <ul style="list-style-type: none"> • Stagnating regulated asset base and earnings • Regulatory uncertainties with proposed higher but somewhat disappointing WACC • Weaker credit metrics on higher capex and leverage • We prefer Enexis and Alliander whose curves trade outside Redeia and offer stronger credit quality

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Real Estate	
Picks	Pans
<p>Fastighets Balder (BALDER)</p> <ul style="list-style-type: none"> Encouraging 2Q25 results – improved leverage, very strong lfl earnings growth and outlook, with a stable ICR Swedish transaction market remains a bright spot in European real estate in 2025; management has a proven track record of transacting and executing on growth Focus on growth should not come at detriment of credit metrics Spreads look attractive vs peers (ie, AKFAST, CASTSS), have underperformed higher rated names (ie, LIFP, GFCFP, PLD) 	<p>Gecina (GFCFP)</p> <ul style="list-style-type: none"> Mainly driven by relative value. Trades tight vs French and highly rated peers Concerns over office demand in AI-driven market linger, equity discount to NTA wider than some French peers suggest the market is a bit cautious French political turmoil could pressure Bund/OAT spreads, with Gecina's spreads currently trading close to OATs
<p>Vesteda (VESTNL)</p> <ul style="list-style-type: none"> Large Dutch residential fund with strong market position Solid credit metrics compared to many residential peers, we like the rotation to 'Primary Regions' in recent years, and see Vesteda benefitting from the tight Dutch mid rental market Expect limited impact from upcoming Dutch elections. Focus on housing and building could be beneficial for Vesteda Spreads trade wider than most A- rated names, and also many BBB+ names (Vesteda is A-). Spreads decent here, also outperforms in a widening environment. Pick: VESTNL € 0.75% 2031s 	<p>Castellum (CASTSS)</p> <ul style="list-style-type: none"> Softer 1H25 results with valuations still leaking, modest rental income growth, weakening office occupancy in bigger cities Downward pressure on cash flows from valuation declines and Northvolt default LTV and net debt up this year following acquisitions as the group is shifting towards growth mode ICR low, stable at 3.2x but is sensitive to refinancing Management changes driven by Akelius highlight increased governance risks and potential change to financial policy Spreads have outperformed Nordic peers, now less attractive
<p>CBRE Pan European Core Fund (CBRPEC)</p> <ul style="list-style-type: none"> Large, diversified fund with a solid liquidity position, next bond maturity in 2028 Strong credit metrics compared to other fund peers, with improving LTV and solid ICR One of the steepest curves in EUR real estate, with the 2034s trading at more than 80bp over the 2028s at the time of writing, providing curve steepness and protection in case of widening markets 	<p>Logicor (LOGICR)</p> <ul style="list-style-type: none"> Occupancy trended down further in 1H25, with tenant departures pressure, while take-up is also soft Credit metrics are stable, but LTV remains quite high at 48.5%. ICR at 3.1x We are somewhat cautious on the logistics sector, with macro uncertainty, slower take-up and tenant decision delays hitting demand. Logicor is one of our less preferred names in the space We prefer higher quality/growth-focused Logistics names at this point in the cycle (ie, PLD, PRIFIL, CTPNV, SAGAX)

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TMT	
Picks	Pans
<p>Equinix</p> <ul style="list-style-type: none"> • The company has shown good growth over time. AI propels attractive industry dynamics further • Leverage will likely increase to c.4.5x net debt to EBITDA on the back of its investment plan • Nevertheless, we like the strong asset base and good cash flows • Relative value looks attractive compared to most telecom peers with a similar rating 	<p>Cellnex</p> <ul style="list-style-type: none"> • A European market leader, with a strong asset base • We do like the company as it grows cash flows and wants to maintain IG ratings. Leverage is also expected to come down • However, spreads at the long end of the Cellnex curve look unattractive versus the spreads on the notes of Orange, which has a lower leverage • The notes of American Tower also look more attractive
<p>RELX</p> <ul style="list-style-type: none"> • Strong and leading market positions as an information provider • Topline growth makes the credit particularly attractive compared to telecom peers • Potential M&A can be done within current financial policies • Credit spreads look attractive compared to other TMT credits 	<p>Telia Hybrid notes</p> <ul style="list-style-type: none"> • Telia is performing well compared to its telecom peers • We like the proposed acquisition of Bredband2, while it may look to add more local fibre networks to its footprint. • We think the credit quality of Telia can be compared to the quality of Orange, because of its diversification and financial performance • Nevertheless, Telia's hybrid notes look rich compared to Orange's hybrid notes
<p>In High Yield, prefer TMT hybrids over senior notes</p> <ul style="list-style-type: none"> • Valuations in the High Yield space look compressed, move up in quality • TMT hybrids offer similar spreads compared to BB rated TMT issuers, against lower credit risk. • Credit risk for the hybrid issuers KPN, Telefonica and Vodafone is low, because of a commitment to an investment grade credit profile • We are also not concerned with extension risk of TMT hybrids • Short duration hybrid notes offer protection against widening 	<p>Single A- rated notes DT and SAP with 5 year duration</p> <ul style="list-style-type: none"> • At the front-end of the curve, we prefer spread over duration when building Duration Times Spread (DTS) exposure, also if this implies moving down in quality slightly • On a fundamental basis, we like DT, SAP, ASML Orange, Swisscom and Telenor, because they show solid performances and have predictable financial policies • However, the notes of DT, SAP and ASML with a c.4-year duration look unattractive. We prefer notes with a c.2-year duration (or longer) of companies such as Telenor, Orange and Swisscom. The spread is similar but the duration much lower.

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Banks	
Picks	Pans
<p>Deutsche Bank</p> <ul style="list-style-type: none"> Deutsche Bank has been among banks showing the strongest profitability improvement in 1H25. The bank continues its transformation, which is likely to continue to reflect as a strengthening bias in its credit metrics. Next year some further support is expected to come from the German government spending plans, alongside the somewhat stabilising real estate markets. The headroom to MDA has improved to 300bp from 250bp HoH, a positive for its capital layers. 	<p>BPCE</p> <ul style="list-style-type: none"> The potential for a renewal of the political turmoil acts as an overhang for French names. Negative spillovers would more severely hit banks with higher sovereign exposures and stronger links to the domestic economy such as in the case of BPCE. BPCE is also among the names with a more modest profitability and weaker credit quality metrics.
<p>BBVA</p> <ul style="list-style-type: none"> BBVA has solidified its position among the most profitable banks in Europe. Its strong earnings generation capacity offers substantial room for the bank to absorb weakness in credit quality in case of need. While its M&A ambitions were blocked, we see the stand-alone story also as attractive. The capital position has strengthened with MDA headroom at closer to 390bp. 	<p>BAWAG</p> <ul style="list-style-type: none"> BAWAG has been very active on the M&A front in 2025. In the longer term we consider there to be potential for synergies. In the shorter term the 290bp decline in the CET1 ratio in a year poses some risks, and we consider the clearly tighter capital headroom a credit negative.
<p>KBC Group</p> <ul style="list-style-type: none"> KBC has continued to deliver on strong profitability, while its credit quality has remained solid. While KBC is likely to be looking at inorganic growth opportunities, we would expect it to foremost look at smaller scale bolt-on acquisitions with clear earnings and capital synergies. KBC exhibits solid capital metrics, a credit positive. 	<p>Deutsche Pfandbriefbank</p> <ul style="list-style-type: none"> The German real estate lender is taking measures to improve its business mix, but in the meantime its earnings have remained weak, and profitability and capital metrics continue to substantially trail its peers, a risk for creditors.

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EM Corporates	
Picks: IG-rated	Picks: HY Rated
<p>KZOKZ/ TENGIZ: KazMunayGas NC in Kazakhstan</p> <ul style="list-style-type: none"> Kazakh vertically integrated oil & gas company with state and foreign ownership. Maintains low leverage and strong liquidity. Geopolitical risk premium persists due to Ukraine's war impact on oil shipments. 	<p>UNGUZB</p> <ul style="list-style-type: none"> Strong financial momentum and favourable market perception offset transparency concerns. Bonds offer an attractive premium over the sovereign curve. EBITDA rose 9.4% in 2024 to approximately US\$1,278m, supported by the consolidation of a 46.5% stake in Uztransgaz and higher gas sale prices. Supply risks are negligible for the remainder of 2025.
<p>OCPMR: OCP SA</p> <ul style="list-style-type: none"> A robust credit undergoing a MAD120bn investment programme (2023–2027). Capex surged to MAD44bn in 2024, resulting in negative free cash flow (c.MAD20bn). Fertiliser output is expected to rise by at least 70% by 2027 vs 2021. Leverage should remain within 2.5–3.5x. Low global fertiliser stocks support the pricing outlook for 2025. 	<p>NAVOIM</p> <ul style="list-style-type: none"> State-owned and among the world's top four gold producers, with 2.3m oz output, US\$5.7bn revenue, and US\$3.3bn EBITDA. Net Debt/EBITDA stood at 0.5x as of end-6M24.
<p>TVLRO/ OTPHB</p> <ul style="list-style-type: none"> Leading banks in Romania and Hungary. Solid 6M25 results in both markets, while Polish banks remain subdued due to the legacy CHF mortgage phase-out. Improving financial conditions should support lending growth. Lower payment rank bonds benefit from the strong performance in Romania and Hungary. 	<p>LIMAK</p> <ul style="list-style-type: none"> Operational and financial performance remains resilient. Sales and production volumes were stable in 6M25; net leverage is aligned with Turkish corporate averages (1.9x). Free cash flow was slightly positive despite higher CAPEX; liquidity remains comfortable.
Pans: HY-rated	Pans: HY Rated
<p>SASOL</p> <ul style="list-style-type: none"> One of the most attractive BB-rated CEEMEA credits, though challenged by expectations of increased oil supply and lower prices. S&P revised its outlook to Negative due to weaker FY25 results. Bonds offer c.300bp yield premium over BB+ CEEMEA curve. Net Debt/EBITDA expected to rise from sub-2.0x to c.2.5x by 2026. 	<p>ZOREN / VESTEL</p> <ul style="list-style-type: none"> Despite a solid 2025 performance and liquidity boost from the Dorad Energy sale, ZOREN bonds remain vulnerable due to Vestel Elektronik's liquidity stress. Investors are concerned about ZOREN's potential role as a liquidity provider to its sibling company.
<p>WESODA</p> <ul style="list-style-type: none"> Strong credit fundamentals, though shareholder situation remains delicate. WE Soda Ltd is ring-fenced and not involved in the investigation. Ciner Group's assets were transferred to Turkey's Savings Deposit Insurance Fund. Bonds may retain a governance premium. 	<p>ACKAF</p> <ul style="list-style-type: none"> The financial profile deteriorated over 2023–6M25, with Net Debt/EBITDA reaching 5.9x. The company burned c.US\$2.5bn in cash, doubling total debt to US\$5.2bn since end-2022. Inflation in Turkey and Europe, plus rising competition from Chinese producers, continue to pressure margins.

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Sector scoring

- Tariffs, inflation, fund flows and CSPP redemptions per sector is something to watch for in 2026
- We are overweight – Household Goods, Telecoms, Technology, Bank callable T2 and Bank AT1
- We are underweight – Autos, Chemicals, Food & Bev, Retail, Oil & Gas and Insurance senior

While tariffs are not proving to be as drastic as feared, we still favour leaning away

High impact sectors such as Transport, Manufacturing, Autos, Chemicals, Food & Agri, Pharma, Wholesale and Energy/Oil & Gas are likely to feel more of a pinch and could widen and underperform, in our view.

Low impact sectors such as Retail, Services, Utilities, TMT, Construction, Real Estate and Healthcare are likely to outperform but are under less pressure from tariffs, in our view.

Fund flows show a clear picture of preference

Banks are seeing the largest inflows from mutual funds, with over 10% inflowing this year, driving the two-year total inflows to nearly 20% of AUM. While all sectors are seeing strong inflows in 2025, the Oil & Gas and Utilities sectors are seeing a lack of love. Consumer sectors vary a touch but do sit on the lower side of the chart, with the exception of Household goods. Despite the tariff worries in the Healthcare sector, there is a considerable level of inflows. Real Estate and Industrials are also seeing a strong level of demand.

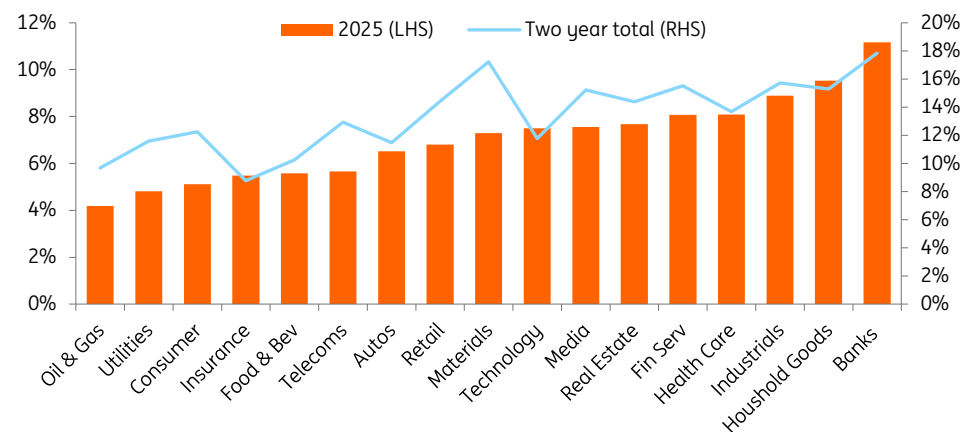


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Fig 40 EUR IG Fund Flows per sector



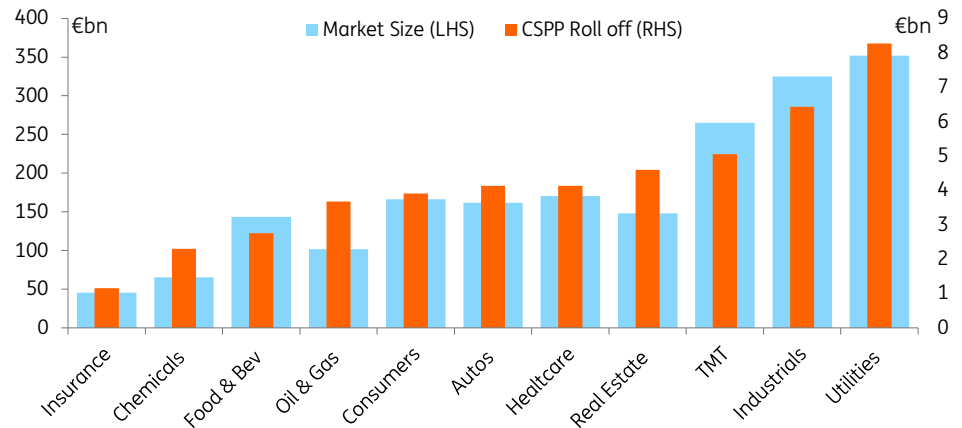
Source: ING, EPFR

Large levels of CSPP & PEPP holdings are rolling off the curve in 2026

Utilities, Industrials and TMT will see a large amount of bonds rolling off the ECB's curve, thus leaving more for the market to absorb itself. However, these are also the three largest sectors in terms of market size, so the overall impact is not as dire as looking at the redemptions alone.

Real Estate, Oil & Gas and Chemicals, on the other hand, show relatively small market size for the level of redemptions. Therefore, the absorption of these refinanced bonds may prove slightly less technically positive.

Fig 41 CSPP & PEPP holdings rolling off the curve in 2026



Source: ING, ECB, IHS Markit

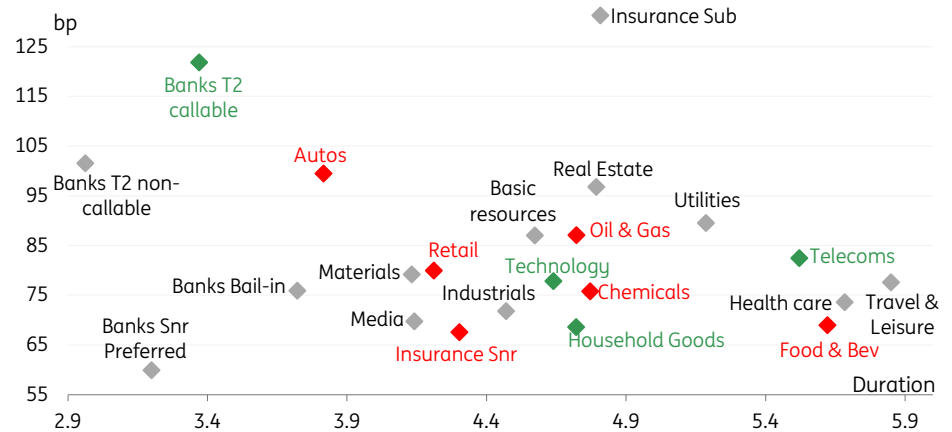
Conservative positioning for 2026

Given the still large list of possible risks, negative drivers, widening of spreads and steepening of credit curves, we favour a conservative positioning, limited duration and going up in quality.

Sectors that see strong demand from mutual funds, have low exposure to tariffs and won't be caught in a technical disadvantage from CSPP redemptions are in a better position.

We favour a shorter duration in general as curves are set to steepen via long end underperformance. However, in higher rated names and sectors, and in lower beta segments, there is more shape to the curve. As such we feel more comfortable taking more duration with lower beta.

Fig 42 Spreads per sector based on duration and score



Green: Overweight, Red: Underweight, Grey: Marketweight. Source: ING, IHS Markit

Investment ideas

- Conservative positioning for 2026
- Limited duration and going up in quality
- Avoid sectors that see lower demand from mutual funds, have large CSPP redemptions that will weaken the technical picture and those that are more tariff / inflation sensitive.

Sector scoring

	Duration (years)	iBoxx (%)	Bond value 20	Supply 15	Buy/Sell 5	Fund Flows 5	Fundamental 15	Volatility 5	ESG 25	Strategic 10	Averages 100	Call
Autos												
Automobiles	3.8	5.4	5	8	4	6	5	5	3	5	5.0	Underweight
Industrials												
Basic resources	4.6	0.7	5	7	5	6	6	6	5	5	5.5	Neutral
Chemicals	4.8	2.2	5	7	5	6	6	7	4	2	4.9	Underweight
Materials	4.1	1.7	5	7	5	6	6	7	6	7	5.9	Neutral
Industrials	4.5	8.6	4	7	7	6	7	7	5	8	5.9	Neutral
Consumers												
Food & Bev	5.6	4.8	4	5	3	6	7	5	3	6	4.7	Underweight
Health care	5.7	5.7	5	5	6	5	7	4	5	9	5.6	Neutral
Household Goods	4.7	2.4	4	5	8	5	7	8	7	6	6.2	Overweight
Retail	4.2	0.8	4	5	4	5	6	6	4	6	4.7	Underweight
Travel & Leisure	5.8	2.3	5	5	4	4	8	8	4	8	5.7	Neutral
TMT												
Telecoms	5.5	5.3	5	4	3	6	8	6	8	10	6.7	Overweight
Media	4.1	1.2	4	4	5	6	7	5	5	10	5.4	Neutral
Technology	4.6	2.4	5	4	5	6	8	5	8	9	6.4	Overweight
Energy												
Oil & Gas	4.7	3.4	5	8	1	5	7	5	2	1	4.5	Underweight
Utilities	5.2	11.8	5	5	2	5	7	7	6	5	5.5	Neutral
Real Estate												
Real Estate	4.8	5.0	6	5	6	7	6	8	6	6	5.9	Neutral
Financials												
Banks Snr Pref	3.2	9.3	3	10	10	5	7	6	6	6	5.9	Neutral
Banks Bail-in	3.7	18.4	3	5	10	4	6	6	7	6	5.3	Neutral
Banks Bullet T2	3.0	0.5	6	5	10	2	5	5	7	6	6.0	Neutral
Banks Callable T2	3.4	1.9	6	8	10	2	5	5	6	6	6.6	Overweight
Banks AT1	3.2	1.8	10	4	10	5	5	4	6	6	6.9	Overweight
Insurance Snr	4.3	1.5	4	1	3	5	7	7	5	7	4.8	Underweight
Insurance Sub	4.8	2.7	8	5	3	4	5	6	5	7	5.9	Neutral

Bond value: 1=rich, 10=cheap, Supply: 1=high, 10=low, Buy/Sell: 1=selling, 10=buying, Fund Flows: 1=low,10=high, Fundamentals: 1=negative, 10=positive, Volatility: 1=high, 10=low, Environmental risk: 1=high, 10=low, Strategic/Economic view: 1=negative, 10=positive. Averages are based off weighted averages according to relevance of the metric.

The Sector Scoring explained

In our sector scoring, there is a score assigned to all the different sectors on the back of a number of different metrics. In return this leads us to a weighted average score per sector, which helps us dictate our underweight/overweight calls. Bond valuation is determined by analysing the performance of the sector versus the overall iBoxx corporates index. The supply score is taken from our forecast net supply as a percentage of the sector size. Equity volatility is used as an indicator for spread movements and direction, where we compare current volatility versus an historical average and translate that into a score (the lower the volatility vs history, the higher the score). Buy/Sell flows are scored by the traders associated with each sector. Fund Flows are derived from EPFR tracking flows in and out of mutual funds and ETFs. Environmental scores are based off Moody's environmental issuer profile scores each sector. Fundamentals are scored by the analysts that research each sector, and the strategic/economic view is scored by credit strategists to assure alignment to broader strategic, economic and spread views.

Utilities

The Utilities sector has limited exposure to tariffs and perhaps looks a touch on the cheap side currently. We are, however, cautious about the sector in our outlook given the large capex needs driving weaker fundamentals and large net supply. We assign a market weight call but also note it scores on the low side. The sector is insulated from potential tariffs and may become an attractive buying opportunity if spreads widen further. We still prefer integrated utilities that are well diversified from a business and geographical perspective.

Telecoms

Similarly, the Telecoms sector (both IG and HY) is not overly impacted by the potential for tariffs as telecoms are a domestic sector. US telecoms may have to pay more for capital goods, meaning network upgrades could be delayed. Over recent months, we have seen a small trend of telecoms trading more in line with the market, instead of the usual relatively tighter spreads, which is likely caused by the CSPP-programme coming to an end. Thus we see Telecoms as a good sector in which to position, particularly longer out the curve as there is decent shape to the curve and the short end looks rich.

Technology

Most names in the Technology sector have strong balance sheets and high credit ratings. Also, the semiconductor companies we cover are well-positioned to navigate the challenges posed by the global trade tensions. This also holds for the other companies under review in this sector. As such, we expect most technology names to fare relatively well. We expect that many companies in the sector are well-positioned to capitalize on the accelerating demand for AI-based services. This holds for both companies providing digital infrastructure services, but also for the software and data companies. Given good credit metrics compared to other sectors, we remain constructive on the sector.

Real Estate

Real Estate has been performing well in recent months on the back of the underlying rates curve moving lower, which is supportive of the sector. Value is becoming more limited in the sector at these levels, but there are still plenty of opportunities on a name-by-name basis. In terms of impact from potential tariffs, the US or US-exposed names would come under greater pressure. We assign a neutral call but note that it scores very highly and just escapes the overweight call. For us the sector is more about name selection.

Banks

We are specifically overweight Callable T2 bank bonds and AT1 bank bonds. But it is important to note that we also score Bullet T2 bank bonds and senior preferred bank bonds very highly, but they just slip out of an overweight call due to valuations. Preferred senior is a strong pick on the liability structure, read more on that later. And bullet T2 bonds are looking a touch on the tight side relative to callable T2.

Autos

We are Underweight Autos as we believe there could be more pain to come for the sector in terms of spread widening. Looking at the Autos index versus the overall market, the sector currently trades about 20bp wider, and we expect a spread differential of closer to 30bp in 2026, as was the case in November and December last year. Automotive is one of the most globalised sectors. Almost one out of every two cars sold in the US is assembled abroad while the constituent parts of the remaining one out of every two cars sold are sourced from abroad. Also, car makers are exporters out of the US, so all car makers globally are significantly exposed to tariffs.

Transport

Shipping is expected to be impacted both negatively and directly. Many companies have been frontloading but might start to draw from inventories first, leading to lower China-US and EU-US flows. Global trade will suffer and supply chains will face drastic recalibration. In terms of transportation infrastructure, such as Airports and Toll Roads, the impact is more indirect and certainly lower. In times of widening and volatility, the transport sector remains more defensive and credit spreads tend to outperform versus the overall market.

Healthcare

An important division between Pharmaceuticals and other healthcare corporates. In our view, pharmaceutical companies would fare the worst from the imposition of tariffs, as many US names have a large presence in Europe, in particular in Ireland. We also think that potential tariffs could prompt an increase in capex in the US. While historically the sector has had a defensive edge and would tend to outperform in times of widening and volatility, this may be less the case in relation to tariffs for pharmaceuticals, which would have a more direct effect. We remain neutral on the sector as other factors such as high inflows from mutual funds benefit the sector.

Consumers, Retail, Food & Beverages

Retail, Food & Beverages: A name-by-name analysis is required for the consumer sectors. Overall, there is a moderate impact for most names, driven both by some direct impacts and multiple indirect impacts. However, in our view, many names would be less impacted, particularly those that operate domestically. In general, we would be wary of consumer sectors as they will feel the pinch from higher costs (tariffs and higher wages) that would be difficult to pass on to the consumer in the current lower inflation environment. Volumes have been weak, but revenues are coming under pressure now that prices are not increasing as much. While we expect volumes to improve somewhat on the back of a consumer with greater purchasing power, companies are expected to experience muted pricing power. We underweight Retail and Food & Beverages particularly given the lower demand seen from mutual funds and the larger relative amount of CSPP bonds maturing.

Household Goods

We would take an overweight position in the Household Goods sector for 2026 as companies are positioned to outperform and score highly within the model. The sector also sees a strong level of demand from mutual fund flows, giving a boost to demand.

Services

While we are wary of Industrials as a whole, Services would be our sector of choice, with fewer risks from geopolitics and tariffs. The sector is largely insulated from tariffs but could see lower consumer demand from a weaker economic environment. An increase in supply in Industrials overall poses some technical disadvantages.

Industrials and Capital Goods

Companies in this sector are expected to come under pressure from potential tariffs, but name-by-name analysis and sub sector-by-sub sector analysis would be essential. For instance, Chemicals, Paper & Packaging, Metals and Mining, and Manufacturing would all fall under a high impact from tariffs category. Whereas Construction, Building Materials & Products, Aerospace and Defence would not be under any notable strain with a lower tariff impact. In our view, these sectors could offer some attractive buying opportunities. Industrials overall as we see several factors to be negative about. Supply is set to rise in the sector over the second half of 2025, and the ECB's maturities in 2025 are mainly made up of Industrials. As such, the technicals picture will be under pressure, which we believe supports a name-by-name analysis for the Industrial sector. In particular, we would underweight the likes of Chemicals and Mining.

Liability structure

- Bank bonds have performed strongly this year and that despite the few brief episodes of tariff and French politics-related spread widening.
- Subordinated bonds have outperformed, and further tightening appears unlikely. At the other end of the spectrum, covered bonds continue to struggle with the performance boundaries set by Govies and SSAs.
- This leaves the preferred senior segment as our instrument of choice in a landscape where few options look truly compelling.

Strong YTD performance across the liability structure leaves it compressed

At the time of writing, spreads across the liability structure are feeling a bit of pressure from resurfacing tariff concerns and the ongoing French political saga. Despite that, EUR bank bonds have performed strongly this year.

Subordinated bonds have outperformed, but spreads across the liability structure are so compressed that further outperformance of subordinated paper appears unlikely. At the other end of the spectrum, covered bonds continue to struggle with the performance boundaries set by Govies and SSAs. This leaves the senior preferred segment as our instrument of choice in a landscape where few options look truly compelling. The performance potential of higher rated senior preferred notes will likely be equally constrained by the historically tight spread levels versus SSAs.

Looking at country specifics, French bank bonds continue to trade at elevated spread levels across the liability structure. This reflects the French budgetary challenges and unstable political environment. We do think that the bonds offer value versus Belgian or Italian comparables that show too much sovereign risk neglect relative to French paper. This is especially true for covered bonds as the French instruments continue to trade wide from an issuer rating angle.

Still in the covered bond segment, Australian covered instruments currently trade quite close to Swedish and Finnish comparables despite their less favourable regulatory treatments and ineligibility for ECB collateral purposes. We therefore see better value in Canadian covered bonds. These bonds also don't benefit from a favourable risk weight or LCR treatment in the EU, but they do at least benefit from the ECB collateral eligibility.



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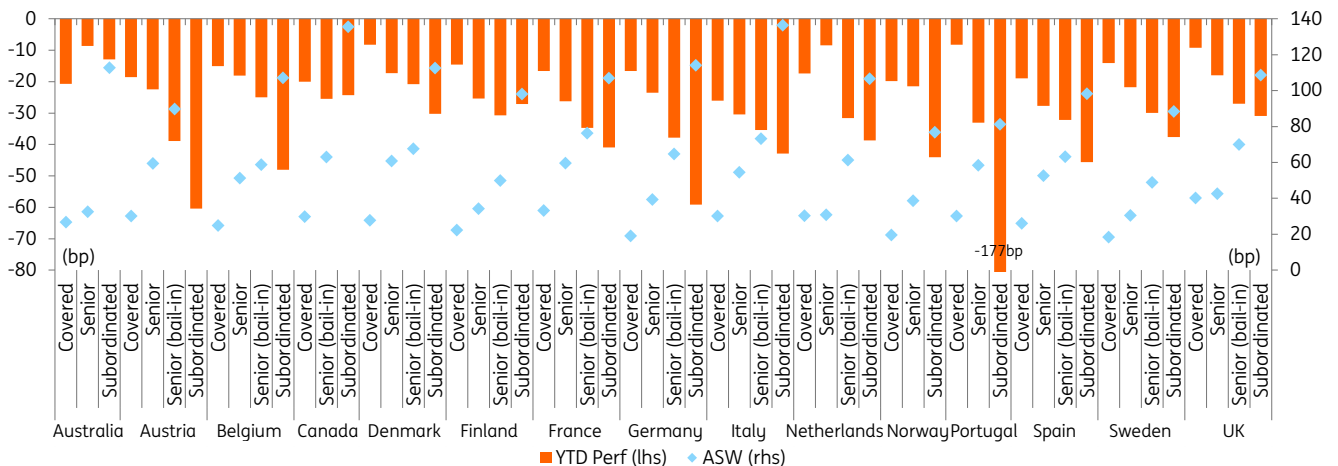


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Covered, senior unsecured and T2 spreads and performance



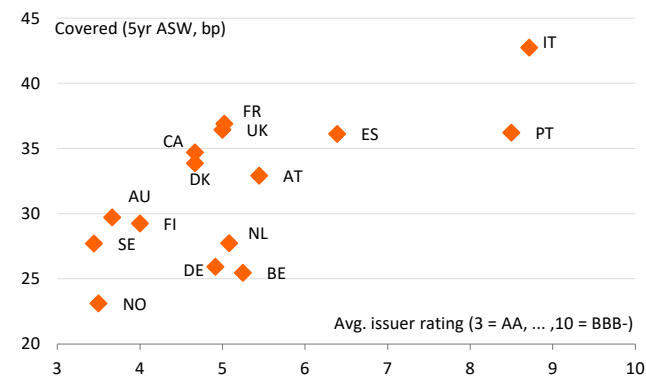
Source: IHS Markit, ING

Senior unsecured bonds have been performing in a relatively narrow range versus their weighted covered bond and T2 equivalents this year. This reflects the compressed trading levels across the liability structure, which makes it more difficult to find notable senior performance outliers versus covered/T2 comparables.

Senior preferred unsecured bonds have mostly struggled to outperform covered/T2 despite the support of a net positive supply equation as it is closer to the cheap Govie and SSA segment. The relative tightness of senior bail-in (senior non-preferred or HoldCo senior bonds) instruments on the liability structure is underscored by the outperformance of the instruments versus covered/T2 comparables in most countries this year.

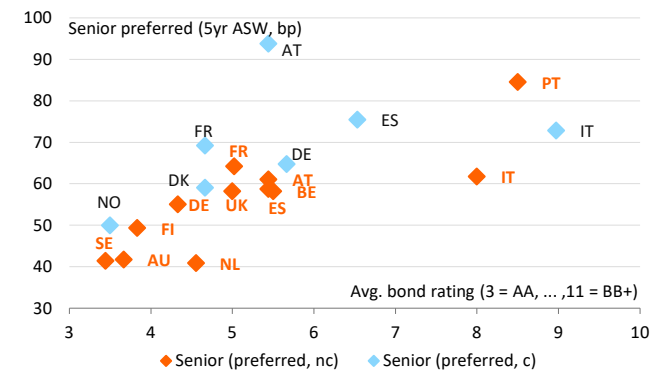
Coming back to the senior preferred segment, at the country level, we would also prefer the French notes (trading at a premium versus similarly rated comparables) to the tighter trading Italian equivalents. Italian senior preferred bonds, in our view, price in too much rating upside, regardless of Italy's more stable political environment and fiscal progress. Dutch senior preferred bonds also remain rather tight from an instrument rating angle; we therefore see better value in Nordic and Australian comparables higher up the rating scale.

Covered spreads versus issuer rating



Source: IHS Markit, Refinitiv, ING

Senior (preferred) spreads versus bond rating

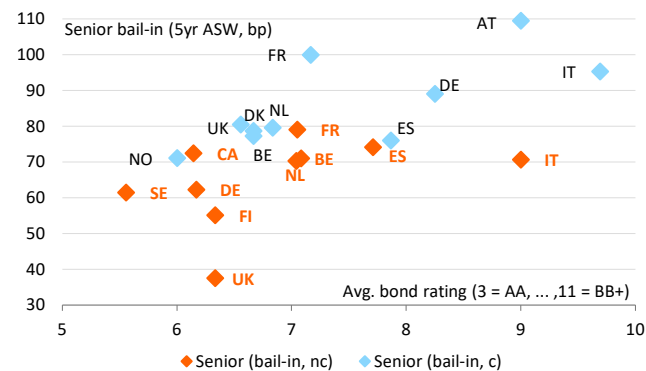


Source: IHS Markit, Refinitiv, ING

In the senior bail-in unsecured segment, French callable senior bail-in bonds stand out for their relatively wide trading levels, including in comparison to French non-callable senior bail-in alternatives. Therefore, they offer a notable pickup versus Belgian callable senior bail-in alternative and even more pickup than German, Spanish and Italian alternatives at a better rating.

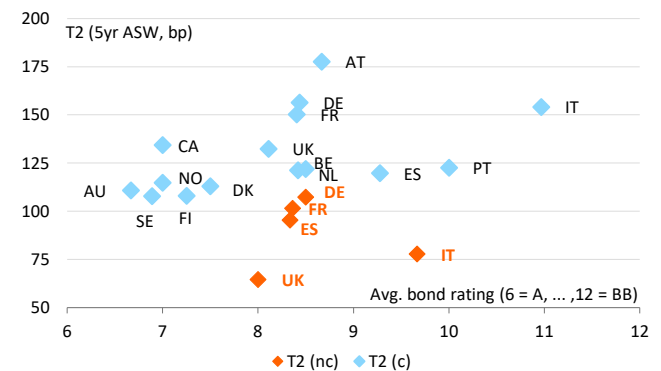
The graph below confirms the very tight spread levels of UK non-callable senior bail-in instruments. These levels partially reflect the shorter maturity of the bonds but are also the result of a tender exercise in September 2024 in one of the two bonds. Better value can be found in Canadian and Swedish bail-in senior comparables.

Senior (bail-in) spreads versus bond rating



Source: IHS Markit, Refinitiv, ING

Tier 2 spreads versus bond rating



Source: IHS Markit, Refinitiv, ING

In the Tier 2 segment, the one single UK non-callable T2 bond in our liability structure exercise is also quite tight in comparison, for example, to German or French comparables. Spanish non-callable T2 bonds also look more enticing than Italian non-callable T2 bonds at a better rating. Except for a few outliers, the callable T2 segment overall offers very little compensation for a move down the instrument rating scale. The M&A led outperformance of the Portuguese callable T2 bond of novobanco marks a case in point, with the bond now quoted through acquiring party BPCE's callable T2 curve.

Overall, bank bonds have performed strongly this year and that despite the few brief episodes of tariff and French politics-related spread widening. As the proverb goes, in the land of the blind, the one-eyed man is king. In the current environment of liability structure compression, preferred senior unsecured bonds may well be this one-eyed man. This is at least the case on the Australian, Austrian, Belgian, Finnish, Portuguese and Spanish liability structures in our view. In Canada, Denmark, Italy, Sweden and the UK we would move even further up the liability structure to covered bonds, be it outright or in combination with bail-in senior or T2. The table below summarises our calls for each country.

Key country calls

Country	Recommendation
Australia	Limited value to be found on the Australian liability structure
Austria	Plenty of value on offer, particularly in callable preferred, bail-in and T2 bonds
Belgium	Most value is found in Belgian preferred senior bonds and non-callable bail-in bonds
Canada	Significant tightening potential on the highly rated but cheap Canadian bank bonds
Denmark	After underperforming Nordic comps, some value is found in covered and bail-in bonds
Finland	We see value in covered bonds and 5yr senior preferred instruments
France	A lot of weakness has priced in, value in bail-in senior debt and covered bonds
Germany	Despite strong performance we see value in callable Tier 2 and bail-in senior paper
Italy	Italian bank debt is quoted at tight levels, only covered bonds continue to offer some value
Netherlands	Bail-in senior is the preferred pick, with some value in covered bonds on offer too
Norway	T2 bonds are our favourite pick on the Norwegian liability structure
Portugal	After the strong T2 tightening driven by BPCE's bid, the best value in preferred senior debt.
Spain	The best performance potential is in the callable preferred senior unsecured segment.
Sweden	Despite the strong performance, pickup space remains in covered and 5yr bail-in bonds.
UK	Short dated non-callable bail-in senior and T2 bonds are too expensive versus covered

Source: ING

Bank capital: Too hot to handle

- AT1 spreads are very tight, risks going forward towards higher spreads
- So far, demand is still supported by attractive coupons due to high rates
- We expect extension risk to increase further out and prefer shorter AT1 calls
- We see value in Dutch AT1 paper after soft performance, prefer Spain over Italy
- French AT1 prices in weakness, fading sovereign risks would allow for tightening



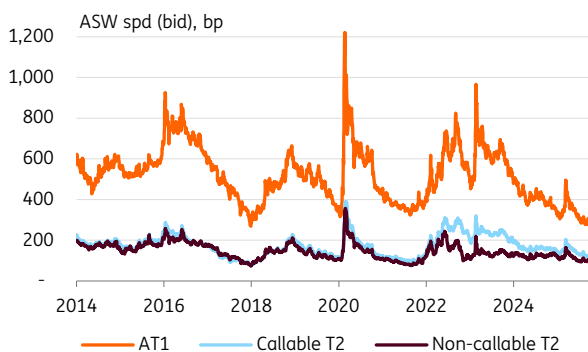
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AT1 spreads are flirting with decade lows, higher risk for spreads to widen from here

AT1 markets have seen another strong year in 2025 with spreads not far off from the lows recorded in the past decade. The Markit iBoxx EUR Contingent Convertible Developed Markets index (with a 10% issuer cap) was at 299bp late October, 67bp tighter on a year-to-date basis. The index is now some 195bp *through* the widest levels that were witnessed during the US tariff-induced volatility on 9 April. Since the beginning of 2014 the AT1 index recorded the so far tightest level of 268bp in January 2018, and we are now hovering only 30bp above this level. Moreover, AT1 spreads are now 63bp tighter than where we were in the beginning of 2022, ie, before the ECB started hiking rates. AT1 spreads have reached very tight levels. We see clearly higher risk for spreads to widen than we would see potential for further spread tightening.

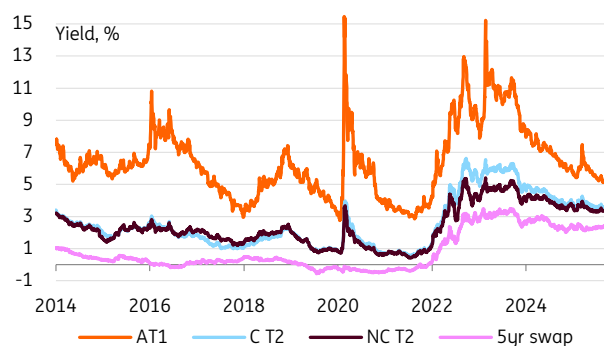
The underlying rates environment is likely the main factor allowing for such tight spread conditions. The 5.3% yield for the AT1 index is above the 3.5% for callable T2 debt or 3.1% for bail-in senior paper. The still relatively elevated yield levels have continued to support demand for the product. While the AT1 yield is flirting with the YTD tightest levels, it remains still some 252bp above the lowest level in the past decade, on the eve of the pandemic in early February 2020. The AT1 yields are some 170bp above the levels where we were at the beginning of 2022 and before the ECB started hiking rates.

AT1 spreads have continued to head lower this year...



Source: ING, IHS Markit

...likely supported by their overall yield levels



Source: ING, IHS Markit

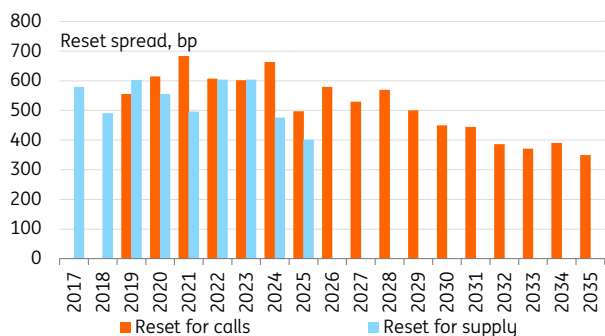
Strong primary markets, low coupon reset levels

The very strong secondary spread levels have contributed also to strong primary markets with so far this year €19bn printed in euro-denominated AT1. Demand for new AT1 paper has been supported by the still attractive yield.

In 2025 the average coupon for new EUR AT1 issuance has been so far 6.3%, although down from 7.2% in 2024 the coupon levels remain higher than what we saw in 2018-2021. The caveat here though is that while banks are now offering new AT1 at relatively attractive overall yield for investors, they do so by pricing the paper at relatively tight

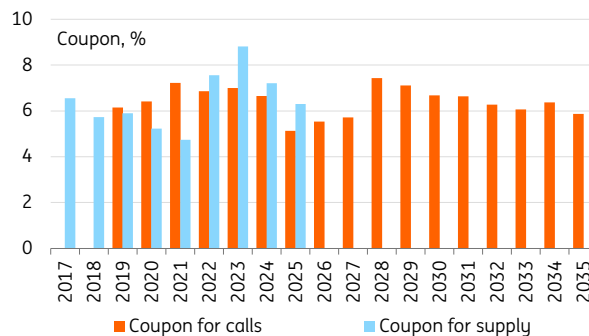
spread levels. In 2025 YTD the average coupon reset level in new EUR AT1 deals has been 402bp, down from 476bp in 2024 and even more clearly down from just above 600bp in 2022-2023. New debt has been priced at clearly below the spread of the paper that is reaching the first call date, making calls economic. The average reset spread for 2025 calls is c.500bp rising to c.580bp in 2026, which leads us to expect banks to continue calling their euro-denominated AT1 next year. However, the average reset levels for 2030-2034 are below any other year since 2019 with 2032-2035 coupon resets positioned in the range of 350-390bp, some 100-150bp through the average coupon reset level in deals that are callable in 2019-2029. While it is, in particular, the stronger rated names (with therefore tighter reset levels to start with) that reach out for the longer calls, this is not enough to explain the substantial shift in the reset levels.

The new AT1 bonds are printed at very low reset levels...



Source: ING, IHS Markit

...but coupons remain supported by high underlying rates



Source: ING, IHS Markit

Slightly longer term this equation poses a number of risks, in our view. And particularly so in the current environment with substantial geopolitical risks and very limited support expected from the part of the ECB in 2026 on the interest rate front. On top, once eventually the secondary AT1 spreads move clearly higher, the tight reset levels (and in particular so in the case this came in combination with lower underlying yields) could make it much more attractive for many issuers to extend their AT1 debt instead of calling and refinancing their deals to continue to enjoy the attractive levels. Due to this, we worry that, in the longer term, extension risk is set to increase. More banks may decide to extend than we have been used to in the past.

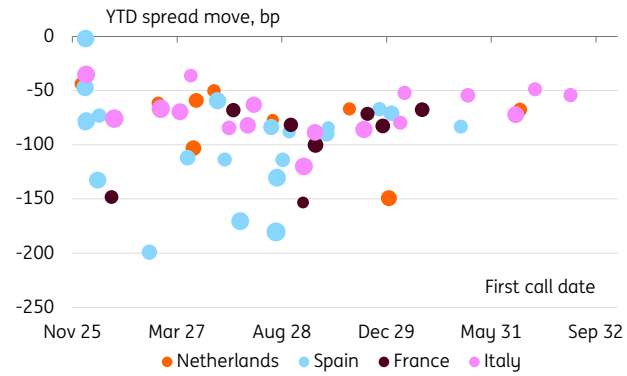
On AT1 curves we would stick to the shorter end up to the belly area. Higher reset AT1 debt continues to offer better resilience if markets start to price in a higher likelihood of extension for some of the bonds. We have overall a relatively resilient view on bank fundamentals going into 2026. We expect bank earnings to remain strong but, as always for bank capital, a careful name and bond selection remains the key.

Country perspectives

French AT1 debt has been among the less impressive performers this year, clearly lagging Spanish and also Italian alternatives. Sovereign worries may well remain a topic also next year with the approaching French presidential elections (latest) in 2027, which could continue to act as a drag for French bank bond performance. This could open up some interesting opportunities in the high rated French AT1 space, however.

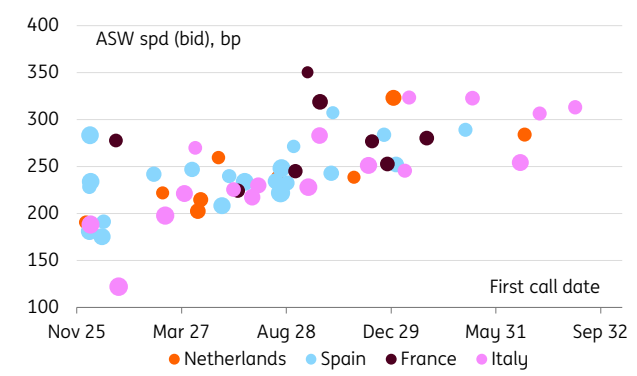
Of the French names Crédit Agricole and BNP Paribas are already quoted with quite some pickup over Italian Intesa Sanpaolo despite their two-notch stronger bond ratings than the latter, pricing in some weakness already. While a one notch rating downgrade at S&P would push these bonds to below investment grade, both have currently a stable outlook. We don't expect changes following the sovereign downgrade late October. While Société Générale is quoted wider in AT1 than Spanish or Italian alternatives, we see it more susceptible to a spread reversal in case of volatility due to the strong performance this year. La Banque Postale remains very susceptible to any further sovereign weakness and the relatively low coupon resets won't help in finding stability on this front.

French AT1 underperforms Spanish and Italian comps...*



*Bubble size depicts the coupon reset spread
Source: ING, IHS Markit

...and is quoted aligned or wider despite rating difference*

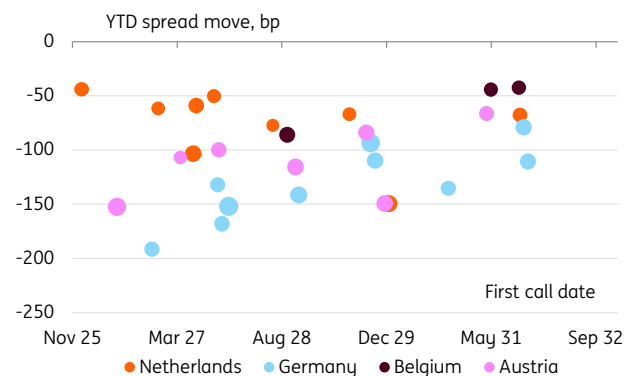


*Bubble size depicts the coupon reset spread
Source: ING, IHS Markit

We have a preference for Spain over Italy. We like Spanish bank fundamentals, and the strengthening sovereign profile continues to lend some support for banks. We have seen a substantial improvement in Italian bank fundamentals but see potential for sovereign driven weakness a tad higher for Italy. In both countries M&A hopes may keep focus partly away from operational excellence. Spanish AT1 debt has outperformed against Italy this year with substantial outperformance in the shorter end of the curve. In particular, the higher reset bonds have been tightening. In the case of Italy, the AT1 performance has been a bit more even across the curve. While Italian performance has remained very much insulated so far from French worries, we consider that the tight trading levels act as a limitation for further strong outperformance against stronger rated comps. Italian trading levels already price in a clear improvement in fundamentals while the bond ratings continue to lag those of Spain. Despite the outperformance the shorter end of the Spanish AT1 curve with relatively elevated reset spreads continues to offer some pickup over the tight trading Italian alternatives in our view. Spanish paper has very high reset levels, in particular, in the 2-3yr area.

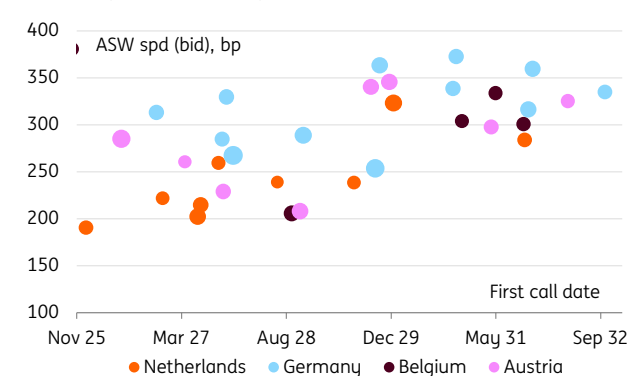
Dutch and Belgian AT1 paper has been among the softer performers this year. Dutch bonds are now quoted with pickup over lower rated Italian comps, in particular, in the 2-3yr area. German AT1 debt has shown strong performance in 2025 across the curve. We continue to see German and Austrian AT1 paper as more volatile in times of stress and would stick to high reset paper. The 3yr area on German curves provides some 80bp compensation for the notch lower bond rating and +20bp higher coupon reset as compared to the Austrian curve.

Dutch AT1 debt has underperformed in 2025...*



*Bubble size depicts the coupon reset spread
Source: ING, IHS Markit

...offering value vs Belgium and Austria in the '27-28 area*



*Bubble size depicts the coupon reset spread
Source: ING, IHS Markit

Investment ideas

- **French AT1** offers 35bp pickup over Italian alternatives in the '30s, up from -130bp early-2024 despite two-notch stronger bond ratings and +35bp wider coupon reset level
- Prefer **Spain** over Italy up to the 2-3-year area with wide resets
- Value in the three-year **Deutsche Bank** 10%, quoted 20bp through similarly rated Commerzbank with a 255bp *higher* reset spread
- **ABN AMRO** 4.75% 9/27 offers some 20bp spread pickup over Rabobank 3.1% 6/28, quoted still 10bp through Rabobank at the beginning of the year, despite its 66bp higher coupon reset level

Utilities: Steady currents

- The sector's EBITDA expected to expand by 2%.
- Hedged electricity prices are stabilising.
- Investments continue to rise but at a slower pace, especially for integrated utilities.
- Network Utilities find alternative financing to protect balance sheets.



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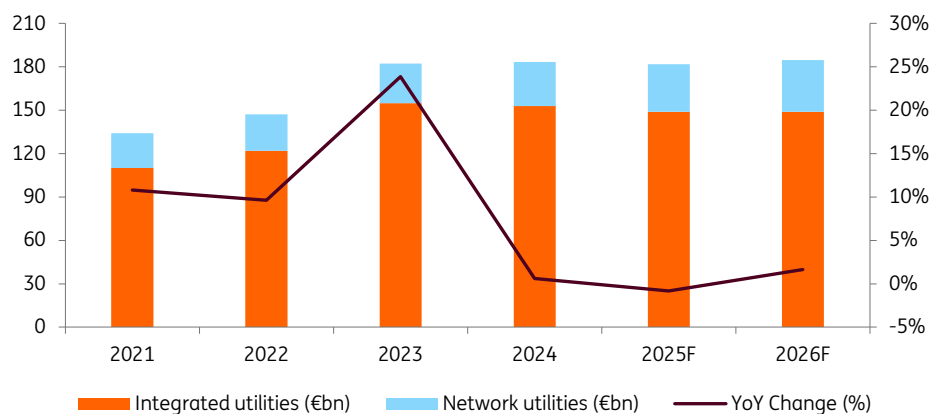
Trends observed in 2025 are carrying into 2026

The European Utilities sector enters 2026 with a steady picture compared to 2025. Bond redemptions at €40bn are at a similar level as in 2025. We expect the € utilities sector to print €70bn in the course of 2026. We are neutral on the sector with trends stabilising for integrated utilities. For pure network players, capital expenditure plans continue to weigh on balance sheets, but still more regulated utilities address funding challenges with capital increases and shareholder loans.

Sector Performance and EBITDA Trends

With the top 40 European utilities generating c.€186bn in 2026, the sector is projected to achieve a c.2% growth in EBITDA vs 2025, primarily driven by a robust 7% increase in network utilities' EBITDA thanks to growing asset bases. In contrast, integrated utilities should experience stagnating cash flow generation on aggregate, with significant disparities within the sub-segment. In the first nine months of 2025, power prices averaged €75/MWh (average for Germany, France, Italy, Spain, the Netherlands and the Nordic pool), down €2/MWh compared with 2024. The Dutch 1 month TTF natural gas future contract has stabilised around €35/MWh in the last two years. This is substantially below the levels seen during the energy crisis but still higher than pre-Covid due to expensive LNG imports.

Top 40 European utilities' aggregated EBITDA (€bn)

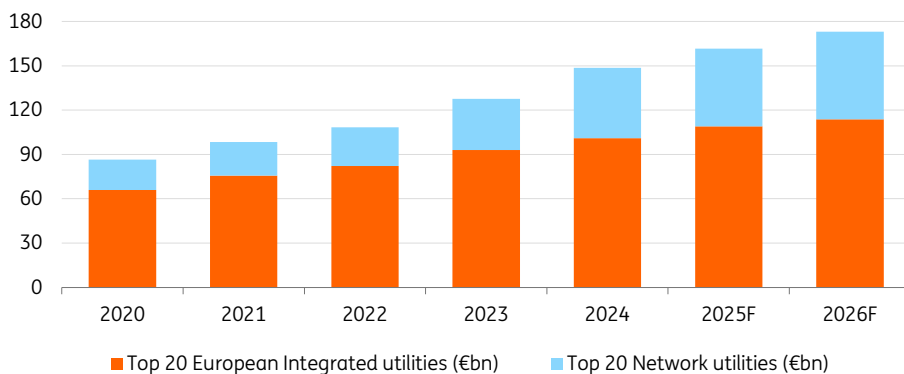


Source: Company data, ING

Investment activity expands but at a slower pace

The sector's investment activity remains robust, but the growth slows down with integrated utilities being more selective on projects, especially renewables. The top 40 European utilities will invest about €173bn in 2026, a 6% increase compared with 2025. The investment plans of integrated utilities point to €114bn spent on infrastructure and projects representing a 4% growth vs 2025. For pure network utilities, the obligation to expand and modernise grids and gas pipelines result in an additional 12% growth in capital expenditure in 2026 with c.€59bn for the top 20 pure network utilities.

Top 40 European utilities' investments, 2020-26F (€bn)

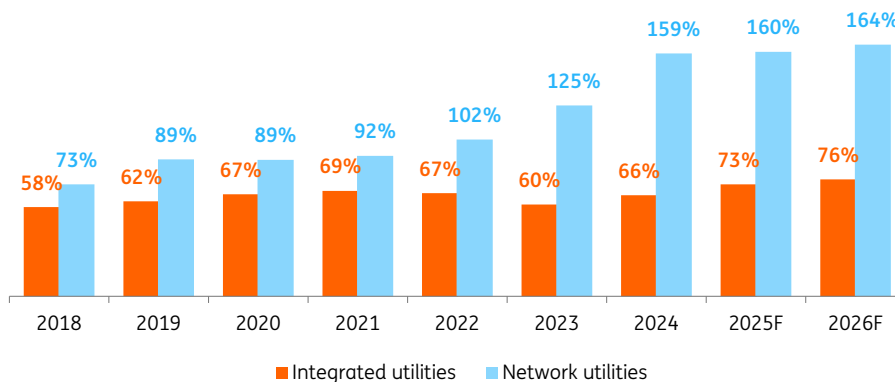


Source: Company data, ING

Tackling funding challenges

The elevated level of capex, particularly among network utilities, is a source of concern for credit metrics and funding capacities. Integrated utilities have benefitted from large cash flow generation thanks to their diversified business model. Grid operators, due to their capped revenues, have seen investment needs reaching levels far above their self-financing capacities since 2022. The situation keeps deteriorating and we expect network utilities' capital expenditure to represent 164% of their EBITDA on average in 2026.

European integrated and network utilities: Capex-to-EBITDA ratio



Source: Company data, ING

Several utilities have looked for alternative funding solutions other than bank loans and bonds. Dutch utilities have already received shareholder loans and TenneT's state guarantee for senior bonds should support the credit quality of the issuer. TenneT Germany will receive c.€9bn from its new shareholders. With the deal between RWE and Apollo asset management, Amprion will benefit from additional funding resources that should reassure credit investors. Regulated network utilities will need to continue looking for external funding to keep credit metrics and ratings at acceptable levels. Access to funds will become a major element in the determination of their credit ratings as signalled by rating agencies' methodology focus.

Investment ideas

We are neutral the € IG Utility sector. French utilities' curves offer value and could trade tighter when political uncertainty settles down. We remain cautious on Nordic utilities. Looking at pure players, we are positive on Dutch and Italian utilities. Dutch utilities still offer robust credit ratings and strong shareholders' support. Italian regulated utilities' curve offer value, especially in the long end curve



Real Estate: Momentum, but mind the gap

- We believe Real Estate will see further recovery in 2026 but with more divergence across asset types and further flight to quality. This could lead to more spread dispersion, as there's no way around it – spreads are looking tight, almost as tight as the lock on Rapunzel's tower
- Real Estate bond supply is expected to increase further following a strong 2025.
- Our picks for 2025 include Balder, Vesteda and CBRE PEC, while our pans include Gecina, Castellum and Logicor.



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A trickier 2026

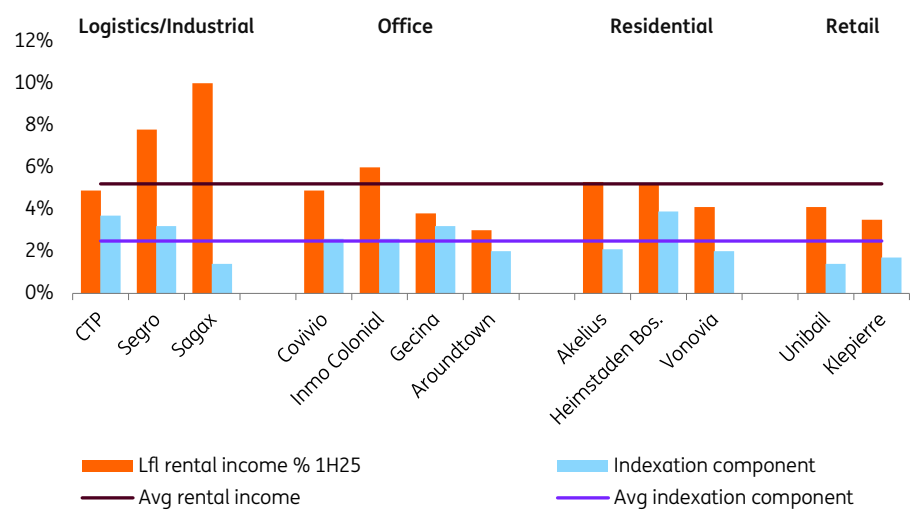
2025 was mostly about continued recovery and momentum for Europe's challenged real estate sector. 2026 could be trickier: While the fundamental and sector outlook is increasingly positive - yes, you guessed it, external factors including weaker macro, tariff volatility, inflation spiking and rates curve steepening are the main headwinds.

At the same time, with improving fundamentals and transaction activity remaining robust, investor confidence continues to improve. Furthermore, after years of uncertainty, we think the real estate market has become somewhat immune, adopting a certain "je ne sais quoi" when it comes to external events. We also see more capital returning to the sector, across many asset classes. The momentum for real estate is continuing albeit with potential bumps in the road ahead. For credit investors, spreads are looking a tad tight across the sector, and we could see more divergence of spreads within real estate.

Rental income growth normalises further, while remaining robust

Rental income should moderate in 2026, with inflation-indexation uplifts less of a driver as inflation cools. On the other hand, we see re-letting spreads and ESG upgrades or active asset management to become more of a driver for like-for-like rental income growth, as it has been in 2025. NOI growth should continue to support valuations, while interest rates remain elevated and yields are not expected to compress much. We may also see more divergence between asset types, depending on tightness of supply, capex requirements and prime vs secondary. Overall, we expect low single-digit rental income growth, in the 3-5% range.

Rental income growth lfl (%) and indexation (%)



Source: Company reports, ING

Real estate asset class dynamics

	Logistics Trade tensions and normalisation of demand continue to hamper leasing and investment decisions, although deal activity should remain robust. Nearshoring trends benefit CEE and Southern Europe, while Western Europe could benefit from lower supply, offsetting the slight increase in vacancy. Ongoing tariff and trade issues could see regions exposed to US trade more impacted.
	Residential The residential sector is set to remain one of the top performing sectors, with leading fundamentals and favourable demand/supply dynamics. Vacancy is below 2% across most of Europe. Rental growth should slow a bit but remains robust. Valuations may continue to improve, supported by robust demand, and rental uplifts and reversion.
	Office The office sector is back on investor's minds, though the market is likely to remain bifurcated. Prime real estate in strong markets such as London or Paris are seeing improvements in pricing and larger deals are being done. Vacancy rates are also stabilising, although the return-to-office mandates are mixed by country and sector. Overall, there are encouraging signs in the office market.
	Retail Retail is performing well, with prime assets doing better than expected on resilient consumer spending and lack of supply. This continues to provide compelling alternatives to other sectors, although the sector remains exposed to macro headwinds in both Europe and the US, something that we will be closely watching in 2026.

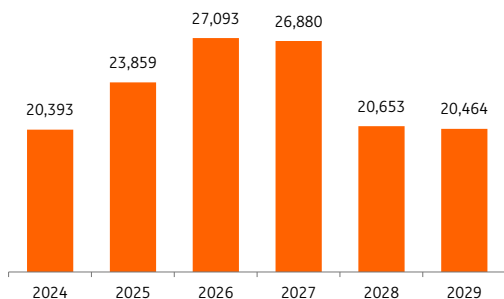
Source: ING

Supply expected to increase further in 2026

2025 bond supply volumes saw a strong pick-up compared to 2024, with our forecast of at least €30bn already met (as of October 2025). For 2026, we expect another pickup in supply:

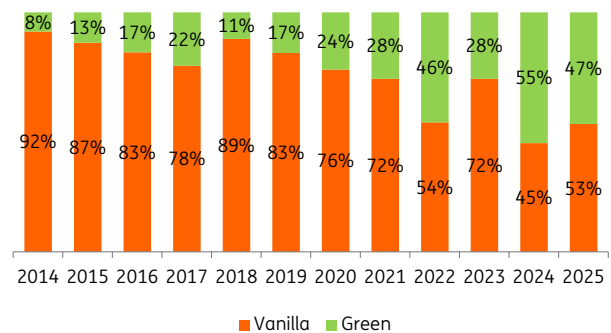
- Bond supply saw a notable increase vs 2024, with the forecasted minimum of €30bn already achieved YTD. For 2026, we expect another uptick in supply
- Rising maturities: Maturities are set to rise above €27bn in 2026, with refinancing of higher maturities in other currencies into EUR likely to further boost supply
- Increasing issuer activity amid improving funding conditions: The number of issuers coming to market grew to 45 in 2025, up from 39 in 2024 and just 16 in 2023; this figure could rise again in 2026
- More maturities, more issuers: Issuers with upcoming maturities increase to 56 in 2026, compared with 46 in 2025
- The Green stuff: Green bond financing towards decarbonising the real estate sector is increasingly a driver of supply, with c.50% of supply expected in Green format
- **2026 forecast: Total EUR supply is forecast at €40bn for the full year, resulting in a net supply of roughly €13bn**

Bond maturities pick up in 2026



Source: Dealogic, ING

Green bond issuance increasingly a driver of supply



Source: Dealogic, ING

Credit metrics expected to remain solid

Fundamentals have generally seen an improvement in 2025. The average EPRA LTV of names in our coverage which disclose EPRA LTV's declined by -1.4% between FY23 and 1H25. Net debt/EBITDA has also improved for many companies, a result of growing EBITDA and flat or declining net debt. For 2026, we think the focus shifts further from deleveraging to growth, hence why we don't expect much lower leverage from here. At

the same time, sustained earnings growth and limited scope for significant expansion should limit net debt increases.

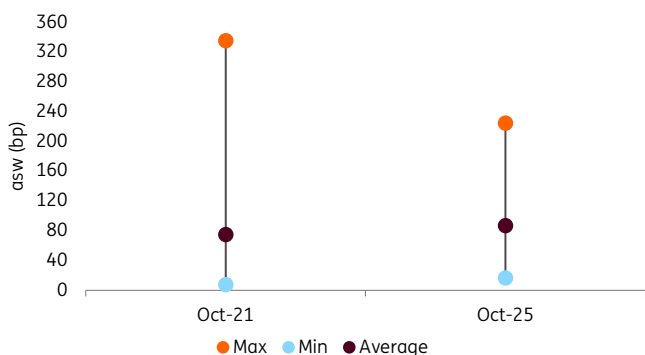
The interest coverage ratio remains the key pressure point, although concerns have reduced this year. While the marginal cost of debt has come down and could decline further in 2026, this still means many companies are refinancing their debt above their weighted average cost of debt. For some companies, particularly in the Nordics and Germany, this will be more of an issue, remaining top of investors' minds.

Prefer to go up in quality, or higher-beta names with positive credit trajectories

On the face of it, the real estate sector is trading at quite compressed levels. The index is at asw+95bp as of late October. This is similar to spreads at the end of 'rebound year' 2021 and not far off the GFC tights. Considering the tariff-induced widening at the start of the year, the index has compressed by around 30bp. Much more compression seems less likely here, although the sector still trades wider than most other sectors, with carry being the name of the game

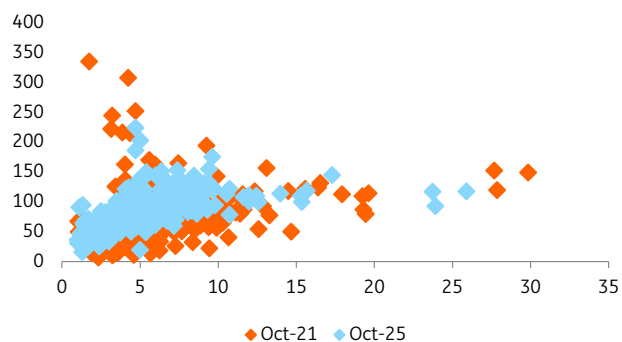
Still, sector dispersion is low, also compared to the compressed markets at the end of 2021, as shown below. This suggests that there is less pickup for higher beta names. Furthermore, we think stock selection will be very important. We favour going up in quality in longer duration, while we believe it also makes sense to own some high-beta names with positive rent growth and balance sheet trajectory, in shorter duration paper.

Real estate spread dispersion is low compared to 2021...



Source: IHS Markit, ING

...with a smaller distribution between high & low spreads



Source: IHS Markit, ING

Investment ideas

- We like going up in quality in some less well-covered issuers, although this may come with a bit of illiquidity. We also see value in some higher beta names with an improving credit story and strong rental growth but preferring shorter duration.
- Our picks include Vesteda (VESTNL), CBRE PEC (CBRPEC) and Fastighets Balder (BALDER).
- Our pans include Gecina (GFCFP), Castellum (CASTSS) and Logicor (LOGICR).
- In Hybrids, we like bonds with high reset levels, or where we think there is too much extension risk priced in. We think there is value in the 2026 and 2027 notes, in names including HEIBOS and ARDNTN.

Telecom: A message from space?

- We expect EBITDA growth for the sector, but it's not much.
- Deutsche Telekom has one A-rating again, which is a positive development.
- Expect to be able to send an SMS-message through space in the medium term.
- Expect more debt issuance by reverse Yankee issuers.
- The sector looks somewhat compressed. Our general investment idea is to go up in quality.

Prospects for telecom look solid; most risks and opportunities come from M&A

Our overall outlook for telecom markets points to stability. We expect the European Commission's regulatory review to provide a tailwind for the sector. Also, we expect more telecom operators to announce transactions with satellite companies. Lastly, M&A could bring some excitement to the sector.

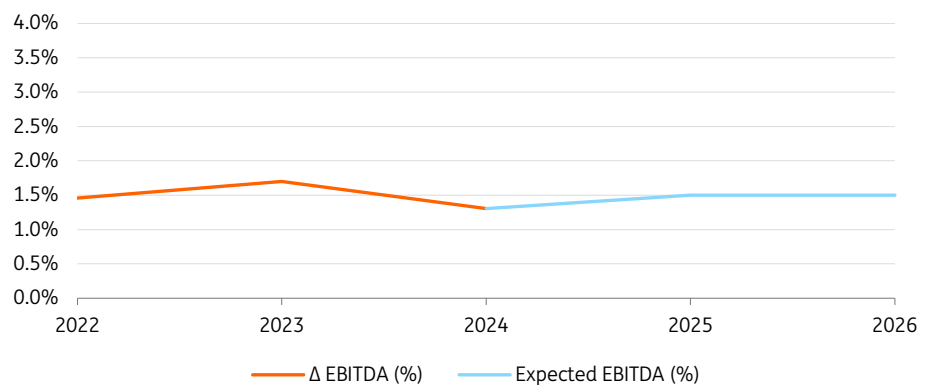
The Digital Networks Act will likely provide a tailwind to the sector

By the end of 2025, the European Commission is expected to present its Digital Networks Act. The Commission aims to harmonise and simplify regulations, while ex-post-merger regulations aim to promote consolidation. The Commission is also trying to even the playing field between telecom operators and technology companies. Since telecom operators are no longer the monopolies they were when the regulations were created, we think this makes sense. Also, we expect that a slight increase of prices and lower costs would improve the financial prospects of the sector.

Expect benign sector growth with slightly declining capex profiles

While it's encouraging that the sector has stabilised and is no longer experiencing EBITDA declines, the muted prospects for EBITDA growth are somewhat disappointing. In our sample, underlying growth has been c.1.5%, while companies will only get there next year if they control their cost base. Cash flows for the sector could improve a little bit more, as some telcos have largely completed the fibre rollout. Nevertheless, investments are still required by many telecom operators, such as Deutsche Telekom, Proximus and BT.

Positive but disappointing EBITDA growth



Source: ING, Companies

Satellite connectivity will become a common feature in Europe

Starlink is rapidly becoming a global force selling satellite broadband solutions, also in Europe. They are a leading company, but not the only innovator. Vodafone and AST SpaceMobile have conducted a test call through space, using a mobile phone. A satellite-based SMS-service is being developed by Deutsche Telekom and Skylo. Lastly,



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SES and Eutelsat provide the technology to connect mobile towers in remote areas. We expect such solutions to gain further traction in 2026. Interestingly, business customers of T-Mobile US can already use satellite connectivity for some of their apps. Despite all these innovations taking place, we do not expect these developments to replace the current mobile businesses. Moreover, revenue upside remains limited, while Starlink will sell its services mostly to customers in remote and underserved areas.

M&A remains an important driver for markets in 2025

Over time, we think it is possible to see further consolidation among mobile operators in France and Italy. Telcos in France are already trying to achieve this. We think consolidation in Spain and Germany is more difficult, from a regulatory standpoint. The figure below shows some potential buyers of telecom assets, companies from the Middle East, Iliad and Orange. CK Hutchison Europe and Altice are likely sellers of telecom companies. We expect most M&A action to come from companies that take a portfolio approach to their holdings. Private equity and companies such as Liberty Global, Telefonica and Proximus will likely sell some assets and buy other ones. We think this would be a positive development for the sector, if the prices they negotiate are fair.

M&A remains a source of opportunities and risks for the sector



Source: ING

The credit quality of telecom operators could increase slowly

Deutsche Telekom's S&P credit rating was recently upgraded, which is positive for the sector. Together with Swisscom and Telenor, these companies are the strongest telecom operators in Europe, in our view. Orange and Telia are almost as strong but lack an A-rating. We also like KPN and Vodafone, although their credit quality ranks slight below the previous companies. We continue to think Telefonica and BT operate with the weakest credit profiles now that Vodafone has taken decisive corporate action to improve its profile. In our view, the credit quality of the reverse Yankee issuers Verizon and T-Mobile US is in line with the credit quality of Orange, while the credit quality of AT&T is in line with that of Vodafone. Now that the CSPP has come to an end, the spreads of American issuers over Orange can become smaller over time.

Investment ideas

- Spreads on the notes of Deutsche Telekom look rich
- Prefer the notes of Telenor and Swisscom over the notes of Orange because of expected issuance by Orange to fund M&A
- The hybrids of Telia look expensive. We also prefer to avoid the long end of the Telefonica curves, because of tail risk

Technology: Techno optimism

- Expect solid fundamentals across the technology and digital infrastructure space.
- Credit selection matters as Cellnex, SAP and Infineon look somewhat expensive.
- We believe AI presents an opportunity for Wolters Kluwer and RELX, not a threat.



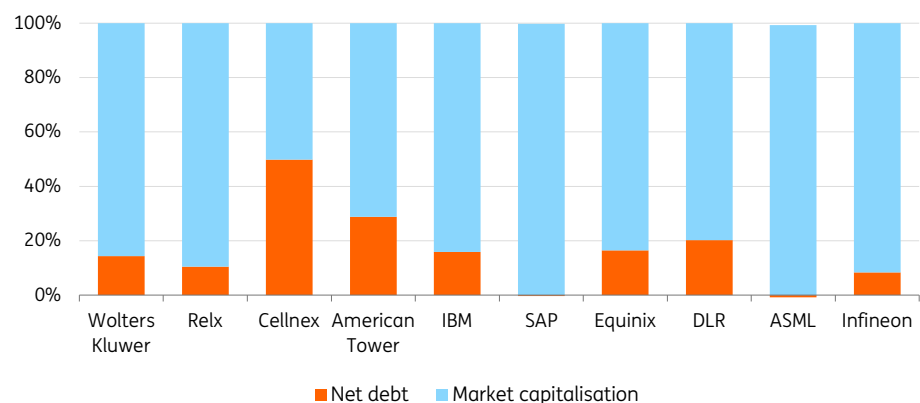
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Continued growth for the technology sector including for digital infrastructure

In our view, AI will be a multi-purpose technology driving productivity growth over time. In the credit space, this demand driver should benefit companies such as ASML, Infineon, Wolters Kluwer, RELX and IBM. We also expect a growing demand for the services of digital infrastructure providers such as Digital Realty Trust, Equinix, Cellnex and American Tower. Although the era of cheap credit is over, we continue to see large transactions for digital infrastructure. Strong investor confidence in the sector is also evident from the figure below. The enterprise value of the companies under consideration in this report is largely driven by the market value of their equity.

Rating agency S&P recently also acknowledged the attractiveness of some digital infrastructure providers. It has raised the ratings of Equinix, Digital Realty Trust, and American Tower to BBB+, and has put the BBB- credit rating of Cellnex on positive outlook. Note that S&P has raised the credit rating on Infineon in February this year to BBB, and the ratings of Wolters Kluwer and RELX to A- in March 2025.

High market capitalisation drives enterprise value of IG technology firms



Source: Refinitiv, ING

Software – SAP and IBM

The software companies SAP and IBM remain quite cash generative. We appreciate their strong market capitalisation, reflecting investor confidence. Their sound credit quality is also evident from their solid credit ratings. Nevertheless, we prefer the credit profile of SAP over the profile of IBM, as the latter could be willing to sacrifice its credit rating for a transformative acquisition. Also, SAP's underlying revenue growth is strong, while IBM also benefits from acquired growth.

Semiconductors – ASML and Infineon

In our view, ASML and Infineon will benefit in 2026 from the strong demand for AI-related computing power. Despite soft demand in more mature segments of the semiconductor market, both companies perform relatively well, although Infineon is expected to report a small decline in revenues for its fiscal FY25. This factor is mitigated

by a policy to maintain a gross debt to EBITDA ratio of 2x or lower. ASML's strong credit profile is also reflected by a strong balance sheet which shows more cash than debt. Both companies should benefit from an increasing demand for semiconductors towards 2030.

Data centres – Equinix and Digital Realty Trust

We expect growing demand for the services of the data centre operators Digital Realty Trust and Equinix in 2026 and beyond. Growing demand for cloud solutions as well as demand driven by the app economy are drivers of secular demand growth. For 2026, we are not concerned about a mismatch between future demand and supply for AI compute services, as these two data centres are active in the colocation and interconnection market. Also, they could scale back capex to enhance free cash flow.

Data platforms – Wolters Kluwer and RELX

The information providers Wolters Kluwer and RELX keep investing in their digital information platforms, also through bolt-on acquisitions. We therefore expect growing sales and profitability for both companies in 2026. Also, we expect that both companies have the ability to develop trusted, AI-based, solutions. Although there will be competition from other vendors based on open-source information, we expect that health care providers and legal professionals are willing to subscribe to higher quality services based on trusted data sources. We therefore do not see a cannibalisation of their services by cheaper alternatives.

Mobile tower companies – Cellnex and American Tower

In 2026, there are still regions in Europe with poor mobile coverage, for example, in remote places and around transport corridors, such as railway tracks. Also, existing networks often need more capacity to provide better indoor coverage at higher frequencies. This is also evident from Cellnex's build-to-suit programmes and its commitment to build new sites. In 2026, Cellnex and American Tower will work to enhance the profitability of their tower portfolio. We expect both companies to engage in M&A in the coming years, although they will do so without sacrificing current credit ratings. We expect credit metrics to improve slowly for both companies, absent debt funded M&A. We expect any such M&A in 2026 to improve the business profile.

Investment ideas

- All companies mentioned in this section have good credit profiles. Nevertheless, Cellnex's cash generation will only expand after its investment programme
- IBM's notes look a bit rich because underlying revenue growth is soft while it could make a large, debt funded, acquisition
- Some notes of SAP also look expensive, because spreads are low
- At current valuations, we prefer the notes of Orange over the notes of Infineon
- When comparing the two tower companies, the notes of American Tower look more attractive than the notes of Cellnex
- The notes of Wolters Kluwer and RELX continue to look attractive
- We particularly like the notes of Equinix and Digital Realty Trust



Banks: Solid but peaking

- European banks outlook to remain robust in 2026, but risk factors substantial.
- We like Spanish banks despite the likely slow-down of earnings growth.
- German banks are a transformation play, but larger names clearly lead.
- French sovereign worries may yet return, a risk (for now) for French names.



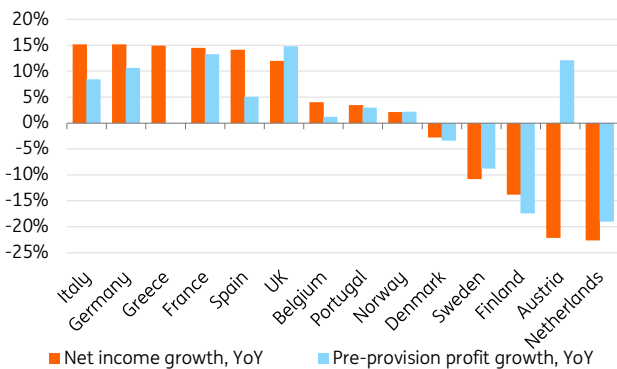
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Bank fundamentals to remain solid going into 2026 but substantial risks remain

Going into 2026 the outlook for bank fundamentals looks supportive enough with the ECB more or less done with rate cuts for now and with hopes for at least modest economic growth. These factors continue to drive volume growth and also act as a limit to further pressures on the net interest income front. The impacts from the M&A spree continue to be assessed with only few deals finalised and others facing quite some pushback. While we have seen credit costs edge higher in 2025, we expect the picture to stabilise somewhat next year. European banks have utilised their earnings generation to distribute profits to shareholders, and together with RWA inflation we have seen capital metrics weaken a bit in 2025 for many.

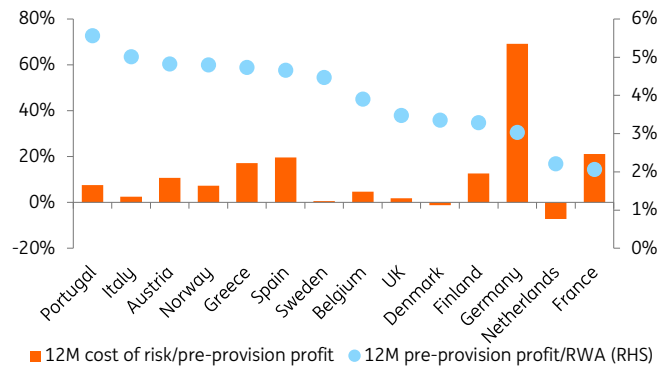
Assuming no strong (unforeseen) shock to the banking system we would continue to expect European bank fundamentals to remain relatively strong going into 2026. The risk factors however remain plentiful, including a turn in private markets or the AI sector alongside the ever present economic, sovereign and geopolitical uncertainties. French issues have so far remained very much isolated in France and any wider infection would obviously constitute a clear risk for banks. While we consider the current strong bank fundamentals to offer substantial scope to absorb weakness, this is hardly the case for bank bond spreads (see pages 47 and 48).

Southern European banks lead earnings growth in 1H25



Source: ING, company data for 49 bond issuers

Core European banks lag in profitability comparison



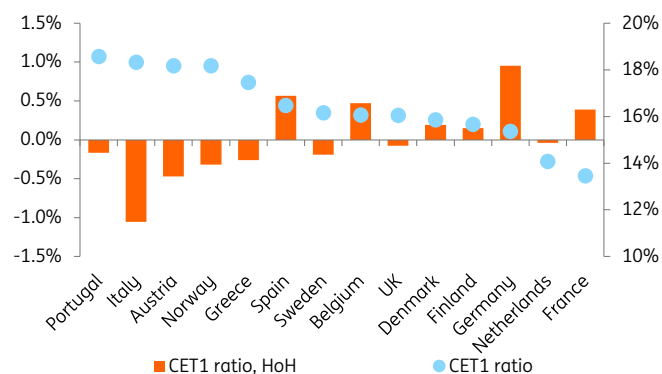
Source: ING, company data for 49 bond issuers

Southern European banks have showed strong improvements in their fundamentals in 1H25. In Italy and Spain banks have enjoyed solid revenue growth outpacing operating expenses, offsetting negative net interest income developments with higher fee growth. While they booked lower cost of risk in 1H25, Spanish and also Italian names have used an elevated share of their earnings to offset credit costs on a 12-month rolling basis. Both Italian and Spanish banks have seen their profitability metrics improve, positioned among the top across European names. While the capital ratios of Italian banks are a bit ahead of those in Spain, in both countries capital metrics improved and the MDA headroom remains strong. In 2026 we expect Spanish names to continue to benefit from the strong economic backdrop alongside the relatively benign sovereign

developments, although earnings growth is likely to clearly slow down. Our pick in Spain is BBVA. In the case of Italy, the economic growth picture remains modest at best and while the sovereign risk developments have been rather supportive in 2025, we would see a higher risk of things turning weaker again here. Italian bank fundamentals look however relatively strong and in the longer term we would expect to start seeing some benefit from synergies as banks work through the ongoing M&A deals.

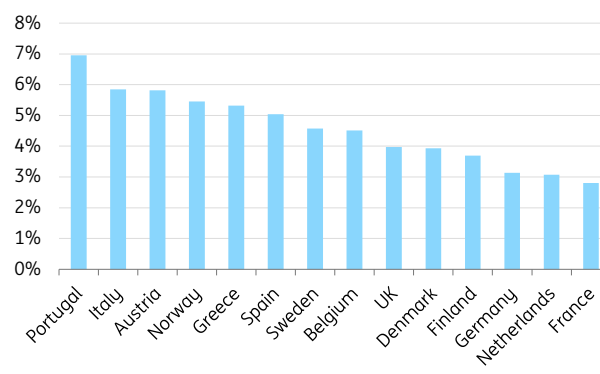
Benelux banks have seen mixed earnings development with larger names clearly outpacing smaller ones. Credit quality and strong capital metrics remain positives, also in 2026. Of Benelux names we like KBC, which is likely to continue to benefit from favourable earnings trends next year, with potential for smaller bolt-on acquisitions.

CET1 ratios have moved lower in 1H25...



Source: ING, company data for 49 bond issuers

...but MDA headroom (%) remains relatively strong

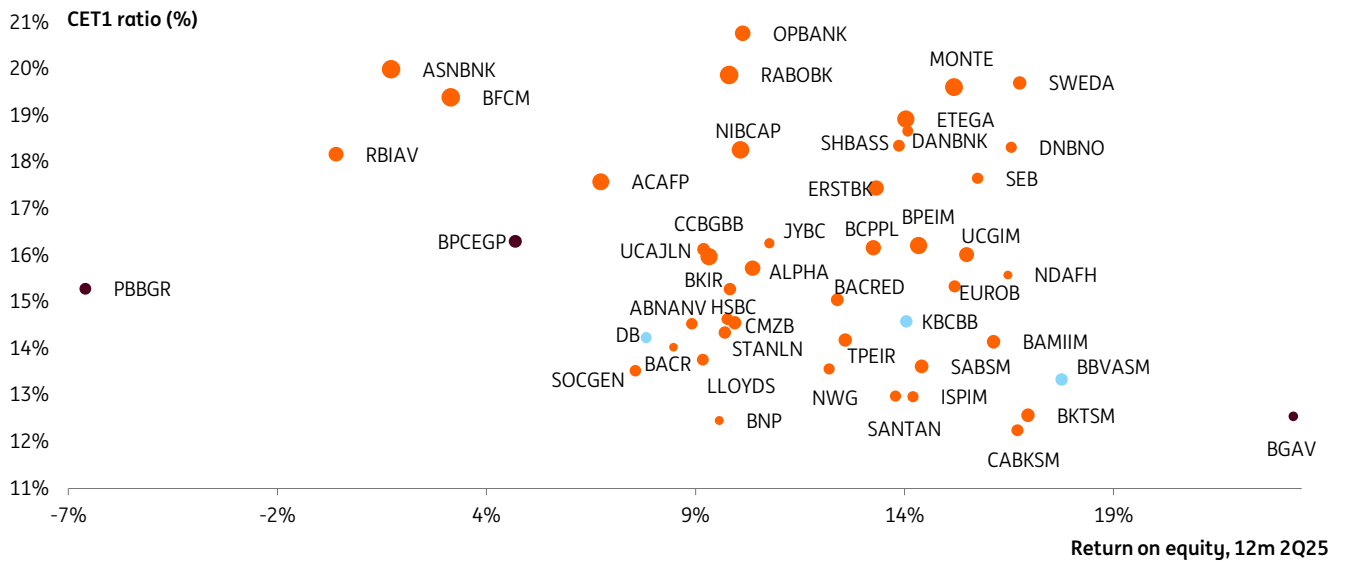


Source: ING, company data for 49 bond issuers

German banks have showed strong earnings growth in 2025, but differences between names are notable with larger banks outpacing smaller peers. German names continue to exhibit lower profitability metrics than many and they run with more limited capital buffers. These factors make German banks a tad more exposed to a weakening. We expect to see more support from the government spending plans in the second half of 2026 onwards, a positive for volumes. Stabilising real estate markets should also help, but putting the house in order is likely to take some time for weaker names. Our preferred German transformation play is Deutsche Bank.

For French banks political uncertainties remain one of the main risk factors also in 2026. While our baseline is that sovereign developments remain a bit more stable throughout the first half of next year, the chances for early elections are still not zero. The risks also look a bit more elevated in the second half with new budget discussions and the looming presidential elections approaching. These have potential for renewed volatility. The impact from intensifying sovereign worries would come through to French banks via several channels including higher funding costs, pressures on their sovereign bond portfolios and weaker economic growth prospects, eventually impacting volumes and credit quality. French names have though finally seen a turn in net interest income, which contributes strongly to revenue development and more positive operating jaws. French banks lag most peers in profitability and credit costs absorb an elevated share of their earnings. While French capital buffers look solid enough, the differences between names are substantial. We would stick to the larger internationally active banks that are less exposed to renewed sovereign-related weakness via lower sovereign exposures and also due to their stronger diversification. We consider La Banque Postale and BPCE as names more exposed to sovereign weakness.

CET1 ratio against return on equity on a 12M rolling basis vs headroom to MDA restriction point (bubble size)



Blue and burgundy coloured circles depict our picks and pans selections
 Source: ING, company data

Covered bonds: Anchored spreads

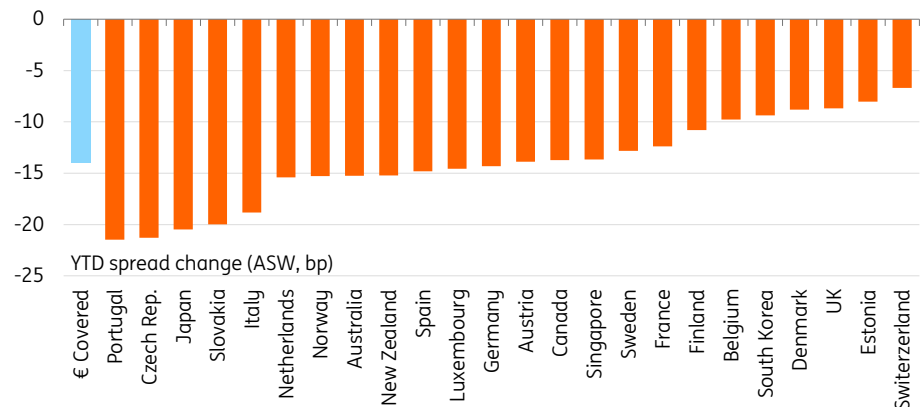
- The themes for covered bonds remain similar to 2025, with squeezed credit spreads and elevated Govie/SSAs levels signalling performance downsides.
- However, we believe that covered bond spreads will remain well anchored around 35bp, as investors will increasingly appreciate boring over exiting.
- EUR benchmark covered bond supply will rise to €165bn in 2026 on the back of a €21bn increase in redemptions. Canadian repayments stand out at €23bn.

Covered bonds will perform in a stable range around 35bp in 2026

It very much feels like the performance themes for covered bonds will remain unchanged in 2026. Covered bond spreads have tightened impressively this year, by 15bp, but that rally has largely been an adjustment from the widening seen at the end of last year. With the IHS Markit iBoxx EUR Covered index now at 34bp, covered bonds still have not recovered to the levels seen before Macron’s call for snap elections in France in June 2024. Every other bond product on the bank liability structure has recovered, and even well beyond those levels further down the liability structure.

Covered bonds have had only two episodes of positive performance this year: in January-February when spreads tightened from 49bp to nearly 40bp, and in July, when spreads narrowed towards 35bp. Both tightening periods were driven by improved relative value metrics versus SSAs and halted by the same factor. This keeps bringing us back to the same point: trading levels in Govies and SSAs constrain the performance upside, while squeezed spreads across the liability structure and ample (geo)political, trade or credit uncertainties, signal a challenging performance environment.

CEE and Southern European covered bonds among the better YTD performers



Source: IHS Markit, ING

We do think though that covered bonds should remain relatively well anchored at their current spread levels in 2026. The pressure on Bund asset swap spreads from sovereign spending is a negative performance consideration for covered bonds and SSAs. But, given the numerous risk factors at play, the search for quality element should partially cushion the spending related widening. This will also benefit SSAs and covered bonds.

Even though market expectations are still biased towards another ECB rate cut next year, the support of central bank rate cuts on underlying yield levels and bond valuations have largely played out. With the direction of yield levels offering little cushion against negative shifts in credit risk perception, investors will toughen up on their risk-reward assessment for riskier bonds. Ignoring risks will simply be a riskier bet to



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take in 2026 compared to 2025. Covered bonds should come out positively given their secure nature and – in asset swap spread terms – still decent valuations.

“Covered bond spreads should be well anchored around 35bp in 2026”

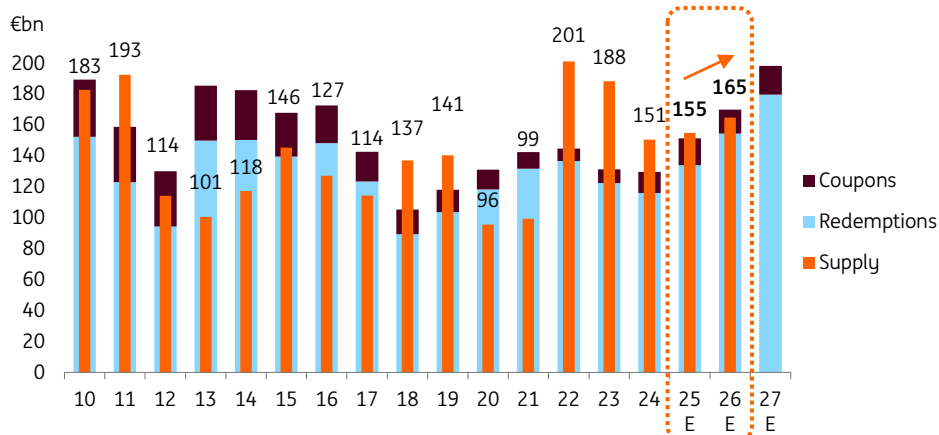
EUR benchmark covered bond supply is projected to increase from €155bn in 2025 to €165bn in 2026, driven by a €21bn increase in redemptions, which will reach €155bn next year. Concurrently, repayments to the CBPP3 are set to decline from €42bn in 2025 to €32bn in 2026. This makes the CBPP3 adjusted net supply technicalities less negative.

Earlier in the year, tight spreads across the liability structure may once again encourage banks to focus first on unsecured or subordinated issuance, rather than encumbering assets for public covered bond issuance. Particularly considering the liquidity management merits of such assets for retained covered bond issuance purposes.

Once investors start seeking safer assets, covered bond supply will become more dominant. Mortgage lending growth is expected to pick up, while record covered bond redemptions in 2027 (€180bn) will also ensure an active primary market presence of covered bond issuers in the second half of next year.

While the proposed EU securitisation reforms could eventually replace some covered bond supply by securitisation, we do not expect a big impact in 2026. We may see some increase in the focus of third country issuers on their domestic market as a way of proving access to home country investors following the EBA’s advice on third country equivalence. Canadian banks repay a lot of EUR covered bonds in 2026 (€23bn). We doubt these will be fully refinanced by new EUR covered bonds.

Covered bond supply will rise on higher redemptions



Source: ING

Investment ideas

- Covered bond spreads are expected to remain relatively stable in 2026 as investors become more selective about risk.
- French covered bonds should reap some benefits from attractive trading levels and the improved – albeit still fragile – political stability in France.
- Canadian covered bonds also offer performance potential.
- Some HQLA investors may still seek more pickup at a 45% LGD, but the high volume of redemptions in 2026 provides a supportive technical backdrop for this market.

High Yield: Surfing on optimism

- Inflows losing momentum.
- As high yield spreads look somewhat expensive, we expect a bit of spread widening towards the end of 2026.
- Remain cautious, move up in quality. We are not expecting a major sell-off, but quality-based spread dispersion could increase.

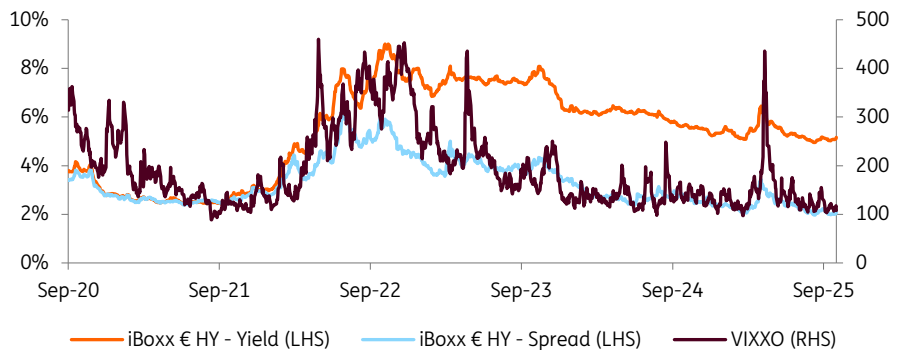


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Spreads look tight, reflecting high risk appetite

In line with relatively low volatility and increasing stock prices, spreads on the Markit High Yield index trade around historical lows. A small silver lining is that today's yields are higher than those in 2021. We'll discuss below the role of inflows and dispersion within the asset class, which is only there for CCC-rated credits.

High Yield spreads tightened on the back of lower volatility

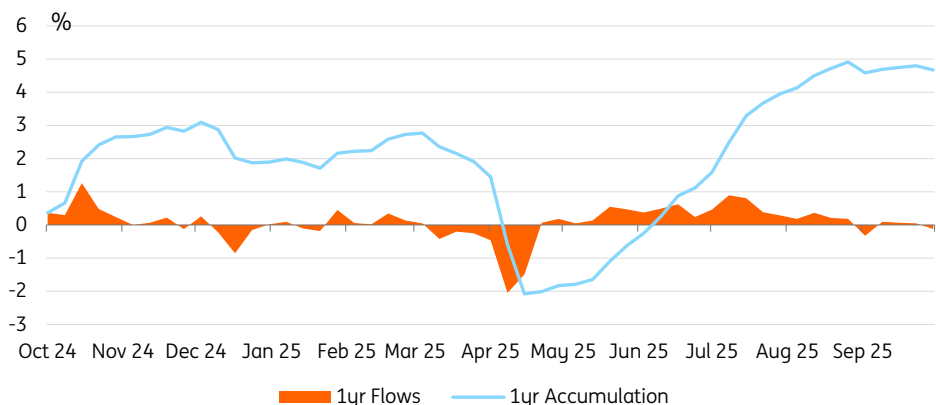


Source: Refinitiv, Markit, ING

In line with lower volatility, we saw inflows from May

At the end of April, Trump softened his rhetoric on China and Jerome Powell. This marked the beginning of lower market volatility, followed by inflows in the European high yield market. Recently, the inflows started to fade, largely because of less attractive valuations. However, we also do not see an imminent trigger for outflows, as equity markets remain strong. Spreads are likely to widen a bit as volatility may increase in 2026.

European High Yield saw inflows

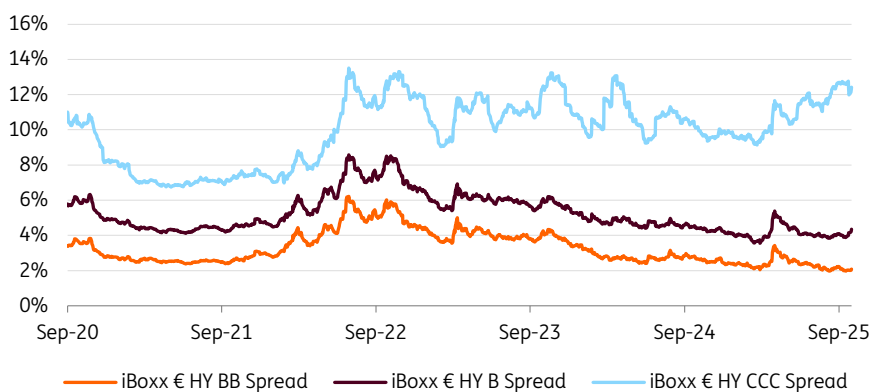


Source: EPFR, ING

Path leading to CCC downgrade has been a dead-end road for some companies

The main worry for high yield markets is the composition of the low-quality segment of the market. When evaluating rating changes, we see downgrades across high yield have the upper hand. Notably we expect that it will be quite difficult for a few CCC-rated credits to be upgraded to a B rating or to refinance. A financial restructuring may be needed for some of them, as at least €7.7bn of CCC-rated notes trade at a cash price below 80. Therefore, the spreads on CCC-rated notes did not follow the tightening that we have witnessed for notes with a BB-rating. Notably, spreads on B-rated notes have followed the general tightening, although we see a little bit of widening lately. We argue that the technical picture for higher quality high yield is best, because an increase in volatility, which is likely to happen sometime in 2026, will mostly impact the lower rated names most.

The High Yield market is a tale of two stories



Source: Markit

Other factors driving the high yield credit markets

Developments in the public High Yield market are increasingly driven by developments in the markets for private credit, banks loans as well as syndicated term loans. Developments across these markets point to looser lending standards. This weakens the ability of asset managers to protect their investments and make the high yield asset class a bit less attractive. But it also shows there is a strong bid to invest in speculative credit markets. This strong bid is partially caused by developments in the private equity market. Because private equity is sometimes delaying exits and obtaining funding from related private credit funds, the High Yield market did not see many new companies lately, which reduces supply. The high €92bn YTD supply is driven by refinancings, partly of bonds issued in 2021, which was a strong year for issuance as well. Considering substantial debt redemptions in 2026, we expect €90bn supply, as we expect to see a few new companies coming to the market. However, we also expect some funding to move to private markets. Moreover, we expect an inflow in European High Yield from the Dutch pension reform of c.€7.5bn in 2026, which is a positive technical. For more detail, see the chapter on *Dutch Pension Reform* on page 69.

Investment ideas

- Avoid long duration risk
- Prefer BB over B
- Prefer Hybrids over Seniors



EM Corporates: High turbulence

- The multiple years compression of EM corporate spreads lost momentum in 2025, driven by heightened uncertainty stemming from tariff wars, weakened growth perspectives, downward pressure on oil prices and escalating geopolitical risks in the CEEMEA region.
- We expect elevated turbulence to continue in 2026, likely to trigger sporadic risk aversion and spread decompression – particularly in high-yield segments. Uneven supply throughout the year may amplify refinancing risks, leading to higher risk premiums and increased default rates.
- As a result, we are adopting a more cautious stance on CEEMEA corporate credit and favour defensive positioning. Even fundamentally strong credits may be vulnerable to spread widening under current conditions.



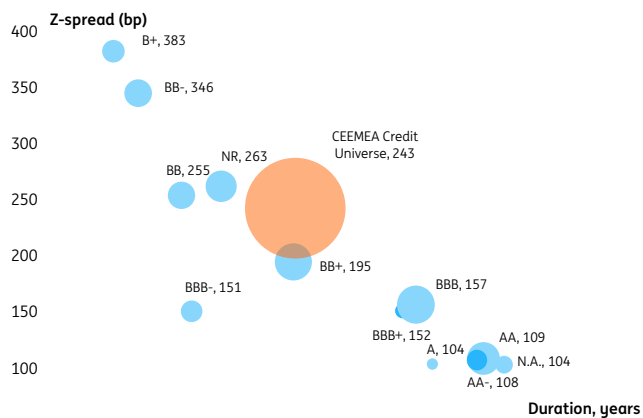
Egor Fedorov
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Resilience of EM Credit performance to be stress-tested throughout 2026

Emerging Market credit markets demonstrated notable resilience in 2025, with total returns exceeding 8% by mid-October (vs 6% in 2024). This was driven by a strong performance in investment-grade (IG) bonds (+8.0%, vs 4.0% in 2024) and a solid showing in the high-yield (HY) segment (+8.2%, vs 12% in 2024).

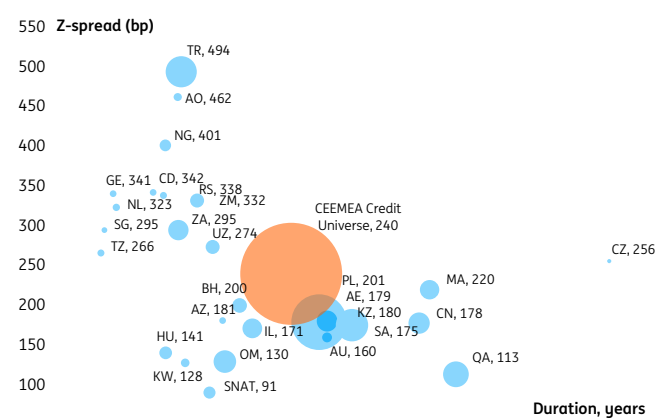
Looking ahead to 2026, we expect total returns in EM credit to come under pressure – particularly in the HY space – as we are likely to see wider spreads due to the lingering effects of tariff wars, deteriorating growth prospects, continued downward pressure on oil prices, and intensifying geopolitical risks.

Spreads/duration of non-financial USD bonds by ratings (Oct 25)



Source: ING

Spreads/duration of non-financial USD bonds by country (Oct 25)



Source: ING

Strong new issuance drives risk premium expansion in High-Yield Credit

The EM primary market is expected to remain robust, with total issuance surpassing the 2025 volume of US\$648bn. This surge has triggered sporadic selling in certain high-yield (HY) credits across EM in October, particularly in idiosyncratic sectors and country-specific stories in Turkey, HY GCC, and South Africa.

In CEEMEA, corporate and financial institution bond issuance reached US\$132bn by mid-October, according to Bond Radar. Net new issuance – defined as the difference between year-to-date placements (US\$104.3bn) and scheduled full-year maturities (US\$56.8bn) for 240 USD- and EUR-denominated corporate tickers (in our sample) – stood at US\$63.4bn by mid-October 2025, compared to US\$70.6bn for full-year 2024.

Refinancing needs are rising, with total redemptions increasing. We estimate bond maturities of US\$84.2bn in 2026 and US\$62.9bn in 2027, versus US\$73bn in 2025 across our working sample of EUR and USD bonds.

This growing refinancing burden is expected to fuel intensive issuance activity, which will likely push risk premiums higher – especially among HY credits facing issuer-specific challenges.

EM BB-rated Corporate space increasingly vulnerable amid deteriorating credit metrics

We expect spread dispersion within rating categories to widen in 2026, as many higher-yielding credits face pressure from elevated supply and issuer-specific risks. While there will always be room for standout performers – such as select gold miners or corporates from countries like Uzbekistan and Morocco – our overall stance on EM corporate credit remains cautious.

Investment-grade (IG) spreads are likely to remain relatively resilient, though modest widening is expected. IG-rated corporates across CEEMEA, particularly in CEE and GCC, should continue to serve as safe havens during periods of market turbulence. However, supply-side pressures and persistent uncertainty will likely push risk premiums higher, even among IG names.

In 2026, we anticipate IG spreads to remain broadly flat or widen slightly – by up to 50bp on average – compared to mid-October 2025 levels. As of mid-October, yield and spread distributions for IG-rated CEEMEA corporates were as follows: 5-year modified duration: Yields ranged from 4.75% to 5.10%, with spreads between 125–175bp; 10-year duration: Yields ranged from 5.50% to 6.50%, with spreads between 150–250bp. Compared to the beginning of the year, yields have declined by 70–100bp, while spreads have tightened by up to 30bp. Spreads in the high-yield (HY) segment are expected to widen in 2026, driven by idiosyncratic risks at the country and sector level – particularly among mid-sized oil & gas and petrochemical companies, as well as select Turkish corporates. We anticipate spread decompression of 50–150bp across CEEMEA, with yield ranges expanding to 5.0–10.0% for 3-year maturities and 5.0–12.0% for 5-year maturities. Spread distributions have also widened significantly, reaching 150–550bp for 5-year bonds and 150–600bp for 10-year bonds. As of mid-October 2025, BB-rated corporate yields declined by 80bp year-to-date, with spreads tightening by up to 20bp, while B-rated corporates saw spreads widen by as much as 70bp, reflecting growing investor caution and issuer-specific vulnerabilities that are likely to persist into the next year.

Investment ideas

- We maintain a cautious outlook for the next 12 months, as we see elevated risks of turbulence across EM credit markets driven by idiosyncratic sector dynamics, geopolitical developments, and country-specific stories.
- Within the investment-grade space, we continue to favour issuers in CEE, GCC, and CIS as relatively safe and defensive. OCP (Morocco) remains a top pick for the second consecutive year, while **KazMunayGaz NC/Tengizchevroil** continues to be our preferred name among BBB-rated USD-denominated credits. We see long-term value in select names in Uzbekistan, including **Uzbekneftegaz** and **Navoi MMC**.
- Our view on the Turkish corporate sector changed to cautious; although individual names such as **Limak Cement**, **Turkcell**, and **Turk Telekom** exhibit strong fundamentals, the sector-wide risk premium has increased due to weaker credit metrics and issuer-specific concerns – particularly among names like **WE Soda**, **Sisecam**, **Arçelik**, **Zoren Enerji**, **Vestel Elektronik**, **Aydem Renewables**, and **Limak Renewables**.



Dutch pension reform good for credit

- Over €1.5tr Dutch pension assets will move from a defined benefits to defined contributions model in the coming years, with a first peak on 1 January 2026.
- Investment grade credit can benefit as funds shorten the maturities of their fixed income portfolios and government bonds lose their preferential status.
- Developments in US politics have triggered pension funds to evaluate their US exposures, especially for ESG investments, posing opportunities to euro credits.



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From 1 January 2026, the management of c.€600bn assets will change radically

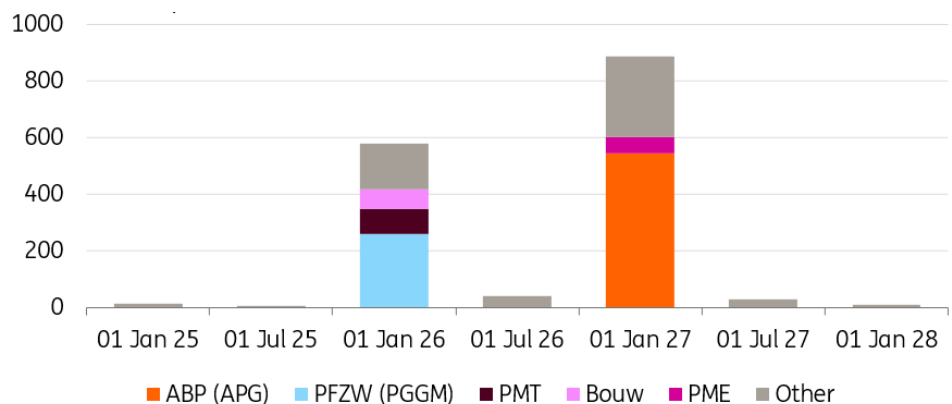
After transitioning Dutch pension funds can start optimising the asset allocation mix per age cohort, which fundamentally changes the way portfolio management is done. One implication is that the demand for longer dated (30Y and longer) swaps and bonds will diminish significantly. For maturities up to 20Y we continue to see strong demand for fixed income and see an increasing role for credit.

We anticipate some rates volatility in the immediate period after the transition dates as all trades will be moving in the same direction. The first priority of funds will be to unwind longer-dated swaps, which some of the larger funds aim to finish within six months. The broader rebalancing of the fixed income portfolio is expected to take longer. ABP, for example, aims to adjust the strategic asset allocation over a period of three years.

Having said that, we do see a first-mover advantage for early rebalancing. Funds may also look at efficiency gains by already folding some of their strategic rebalancing within the fixed income allocation into the changing hedging requirements. This could mean related transactions happening rather sooner after funds transition than the longer-term plans imply.

We anticipate rates volatility in the periods directly after the transition dates

Assets planned for transition (€bn)



Source: PensioenPro, DNB, ING

Credits should benefit as pension funds rebalance their fixed income portfolio

The shortening maturity profile of the fixed income portfolio opens the door to more credit. Right now, government bonds make up around €350bn of assets, around 50% of the fixed income portfolio. The high allocation is driven by the special treatment of government bonds under the current regulatory framework and the need for ultra-long duration like 50Y Austrian government bonds.

Investment grade credit will likely benefit as it closely tracks swap rates but still offers a yield pickup. As is the case now, the new system encourages the fixed income portfolio to follow the 6M EURIBOR swap curve for interest hedging purposes. ABP, the largest fund with c.€500bn assets will reduce its govies by around €25bn over the coming years while investment grade credit should see a gain of €10bn and high yield around €5bn. If we were to take ABP as a representative fund for the sector, then the total inflows for investment grade credit would be around €30bn and €15bn for high yield. Most of these flows would be spread between 2026 and 2027.

Other funds are not as detailed about the sizing but do comment on their rebalancing in a qualitative way. PFZW (c.€250bn assets), for instance, shared plans to increase exposures to euro investment-grade credit and Dutch mortgages at the expense of euro govies and emerging market local currency debt. High yield credit should also increase at the third largest fund, Bouw, which wants to increase the allocation to high yield and alternative credits while decreasing exposure to developed market equities.

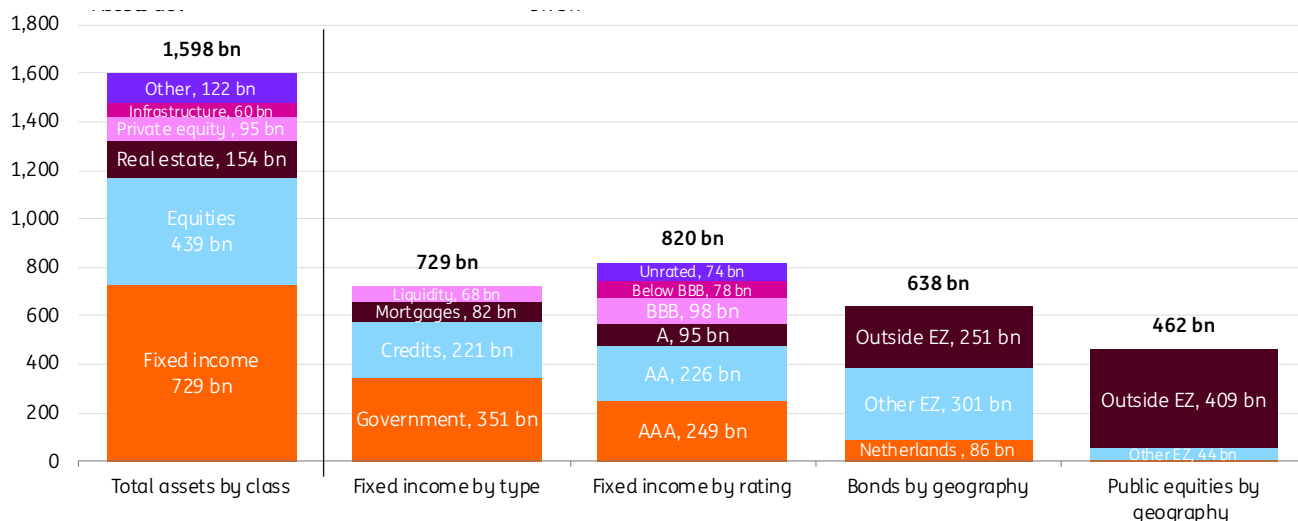
Political developments in the US pushes pension funds to look closer to home

Dutch pension funds are actively responding to the recent developments in the US, offering opportunities for euro credits. ESG is an important consideration for most funds, which have come under pressure for US investments. Some of the largest funds even revoked their investment mandates from US players due to concerns about their approach to sustainability targets. PFZW, for example, recently withdrew €15bn assets from Blackrock on concerns about ESG.

Having said that, market depth remains a challenge for funds to invest in European financial markets. A smaller fund mentions that they reduced the maximum exposure to the US to reduce concentration risks considering recent developments. For larger funds reducing the US exposures seems more difficult. US equities make up a significant portion of the portfolio simply because of that markets' ability to absorb the large pile of pension money.

Dutch pension funds are already a big player in global markets and their interest in credit may increase

Assets decomposition of Dutch pension sector* (€bn)



*Classification deviations can lead to inconsistencies between total values
Source: ING, DNB

ESG bonds: Where is the greenium?

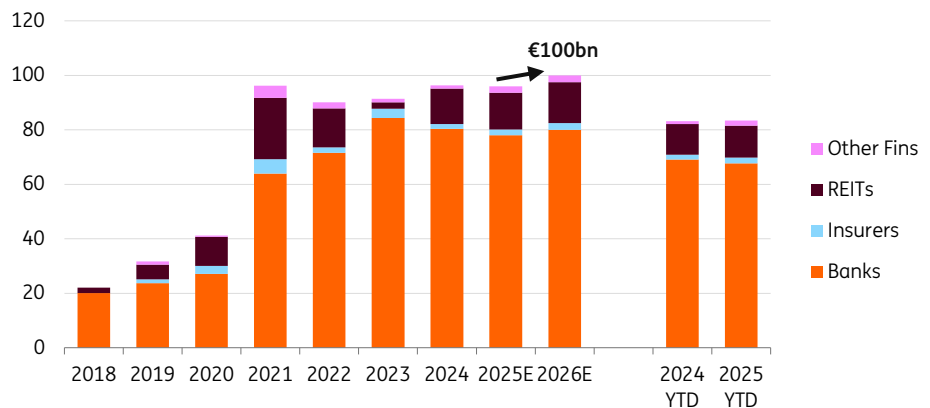
- Sustainable issuance by banks will maintain a steady pace in 2026
- The uptake of the EU GBS will remain limited, which in combination with a negative greenium makes bonds issued under the standard look appealing
- c.20% of the bonds issued by IG Corporates will be ESG bonds in 2026
- Corporates' ESG bonds greenium has become negligible, signalling the end of novelty. But modest spread widening in 2026 could lead to more on offer

ESG issuance by financials remains steady, but with a limited uptake of the EU GBS

Sustainable issuance by banks has exceeded our expectations in 2025, regardless of the deregulation backdrop. Banks issued €68bn in sustainable debt up to mid-October, €1bn less than over the same period last year. The distribution across green and social is roughly comparable to last year. Green issuance at €53bn and social issuance at €11bn are both slightly down YTD, while sustainable issuance with a combined green and social use of proceeds is slightly ahead of last year at €3bn.

Banks issued slightly more in unsecured and subordinated instruments and slightly less in secured debt, but the differences versus last year are truly negligible. We expect sustainable bank bond supply to end the year 2025 around €78bn, a bit lower than in 2024. Issuance by other financials, such as insurers and REITs, is expected to reach €18bn in total in 2025, €2bn more than in 2024.

Sustainable financials supply will be slightly up in 2026 (€bn)



Source: ING

In 2026, we expect banks to issue €80bn in sustainable debt, while other financials are projected to issue €20bn. This represents a slight increase for banks compared to 2025, reflecting a modest rise in overall issuance volumes in 2026. Additionally, EUR ESG redemptions for banks are set to increase from €36bn in 2025 to €56bn in 2026. Although factors such as look-back periods, stricter use-of-proceeds criteria, or loan repayments since initial issuance may limit the full sustainable refinancing of maturing bonds, a portion of the freed-up assets is expected to support new supply.

The real estate sector has seen stronger ESG supply again since 2023 and supply is expected to grow further as the sector is increasingly ESG focused, and sustainability factors are playing an increasing role in investment decisions. Moreover, we also note an increase in REIT ESG redemptions in 2026 from €6bn to €11bn.



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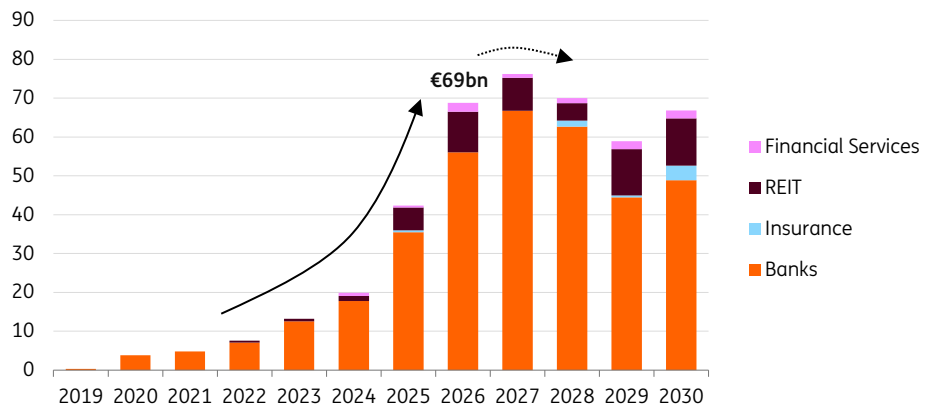


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Sustainable redemptions rise notably in 2026 for financials (€bn)

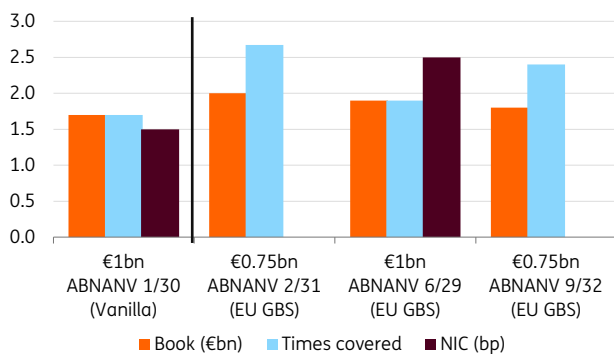


Source: ING

Bank issuance under the EU Green Bond Standard (GBS) is expected to remain subdued, even though the technical screening criteria for substantial contribution as currently broadly embedded in the green bond frameworks, will remain constructive to the general supply of green bonds. Nonetheless, with the EuGBS requiring full taxonomy alignment its take-up is set to remain low, among others due to the advocated reductions in the scope of ESG disclosures, the postponements in Taxonomy alignment reporting, and the upcoming review of the Taxonomy’s technical screening criteria.

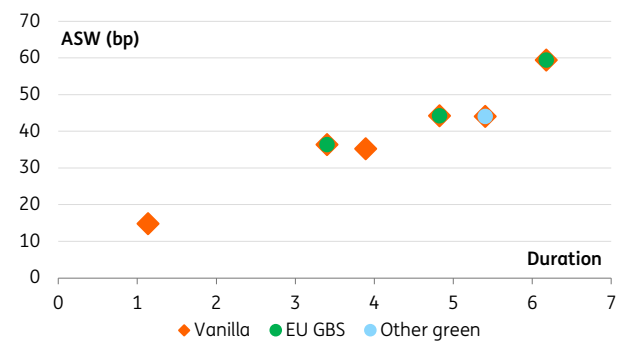
Moreover, this year’s issuance by ABN AMRO Bank under the EU GBS lacks convincing funding advantages. Although the books and coverage ratios for the green preferred senior bonds issued under the EU GBS were slightly better than those for the bank’s vanilla preferred senior bond in January, book sizes have steadily declined since the first EU green bond was launched. The new issue concession (NIC) for the EU green bonds ranged from 0bp to 2.5bp, compared to 1.5bp for the vanilla transaction. These differences in NIC appear to be partially explained by varying issue sizes.

Primary statistics for ABN AMRO Bank indicate that book size advantages of EU GBS issuance are diminishing



*Only bonds issued in 2025
Source: IHS Markit, ING

ABN AMRO Bank preferred senior curve proves a lack of ‘greenium’ for bonds issued under the EU GBS



*Only bonds issued in 2025
Source: IHS Markit, ING

Lastly, ABN AMRO Bank’s secondary preferred senior curve indicates that green bonds issued under the EU GBS trade at slightly more elevated spread levels. These wider spread levels may discourage issuers from undertaking the additional requirements associated with EU GBS issuance. However, for investors seeking strong green credentials, these bonds could present an attractive investment opportunity, particularly given the scarcity of issuance under Europe’s ‘golden’ green bond standard.

Corporates' greenium is shrinking

We expect c.€440bn of corporate EUR bond issuance in 2026 and we think that c.20% (€90bn) of these bonds will be ESG bonds. This is up on the 16% penetration ratio we have seen in 2025 thus far. A ratio very low compared to the last three years.

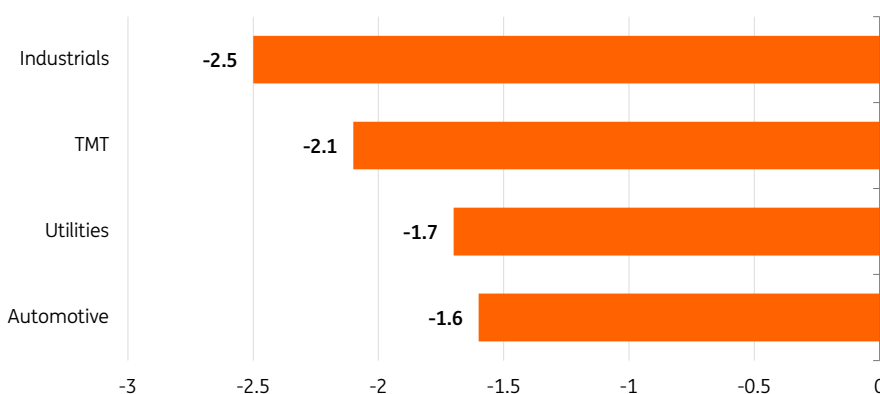
In terms of sectors, with their high capital expenditure plans and their position at the forefront of the energy transition, Utilities should continue to lead ESG issuance, followed by Industrial Goods & Services and the Automotive sector.

The corporates' € ESG issuance deceleration can find its explanations in several factors. While a lot of corporates and countries remain committed to their sustainability goals and the countdown towards 2030, we are seeing players and governments pausing or postponing their ambitions given the changing political nature. This reflects directly on corporates whose sustainability projects are to some extent aligned with their economic environment. Another explanation could reside in the low ESG bond redemption schedule in 2025, with a mere €7.5bn of ESG € corporate bonds maturing, while the market hit a level of maturity as many issuers already have an ESG curve. In 2026, the redemption amount climbs up to about €20bn, which should support a more dynamic ESG issuance.

We think the deceleration could also be due to a shrinking 'greenium'. The yield/spread discount that green bonds once enjoyed over conventional bonds continues to evaporate. Although the level of greenium has always differed between sectors and issuers, ESG bonds globally traded at tighter spreads due to strong investor demand and limited supply. Recent incidents have shown that credit investors accept less willingly to be lower remunerated as the market may have reached a certain saturation.

Our latest analysis selecting 30 corporates offering a € senior grey and € green curve confirms that this greenium still exists but has become negligible. Although, along the lines of our expectation for a slight spread widening and a decompression between segments in 2026, we may see outperformance of sustainable products increase.

Spread greenium (in bp) per sector as of mid-October 2025



Source: HIS Markit, ING analysis

Overall, ESG bonds trade 2bp tighter than vanilla bonds. Two years ago, we had conducted a similar analysis with the conclusion that ESG bonds traded between 4bp and 5bp tighter. The greenium disappearance signals a transition from novelty to normalisation but is also a factor of very strong credit markets leaving compression between many segments. For instance, the € IG Utilities sector attained a 70% ESG bond ratio in 2023/2024. The ESG bond market is not a linear growth trend and the more timorous corporate ESG supply in 2025/2026 could bring some greenium back, or at the very least reactivate the outperformance normally seen from ESG in the primary markets via lower NIPs on offer and higher oversubscription levels.

Investment ideas

- Higher supply and rising redemptions offer a supportive environment for slightly more sustainable bond issuance by banks in 2026.
- The presence of a negative greenium and the limited availability of EU GBS issuance enhance the appeal of these bonds as investment opportunity.
- While the greenium is low for corporates, the lingering supply should put back ESG bonds in a sweet spot, both in secondary -as divergence between segments grows- and in primary outperformance via higher oversubscriptions.

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