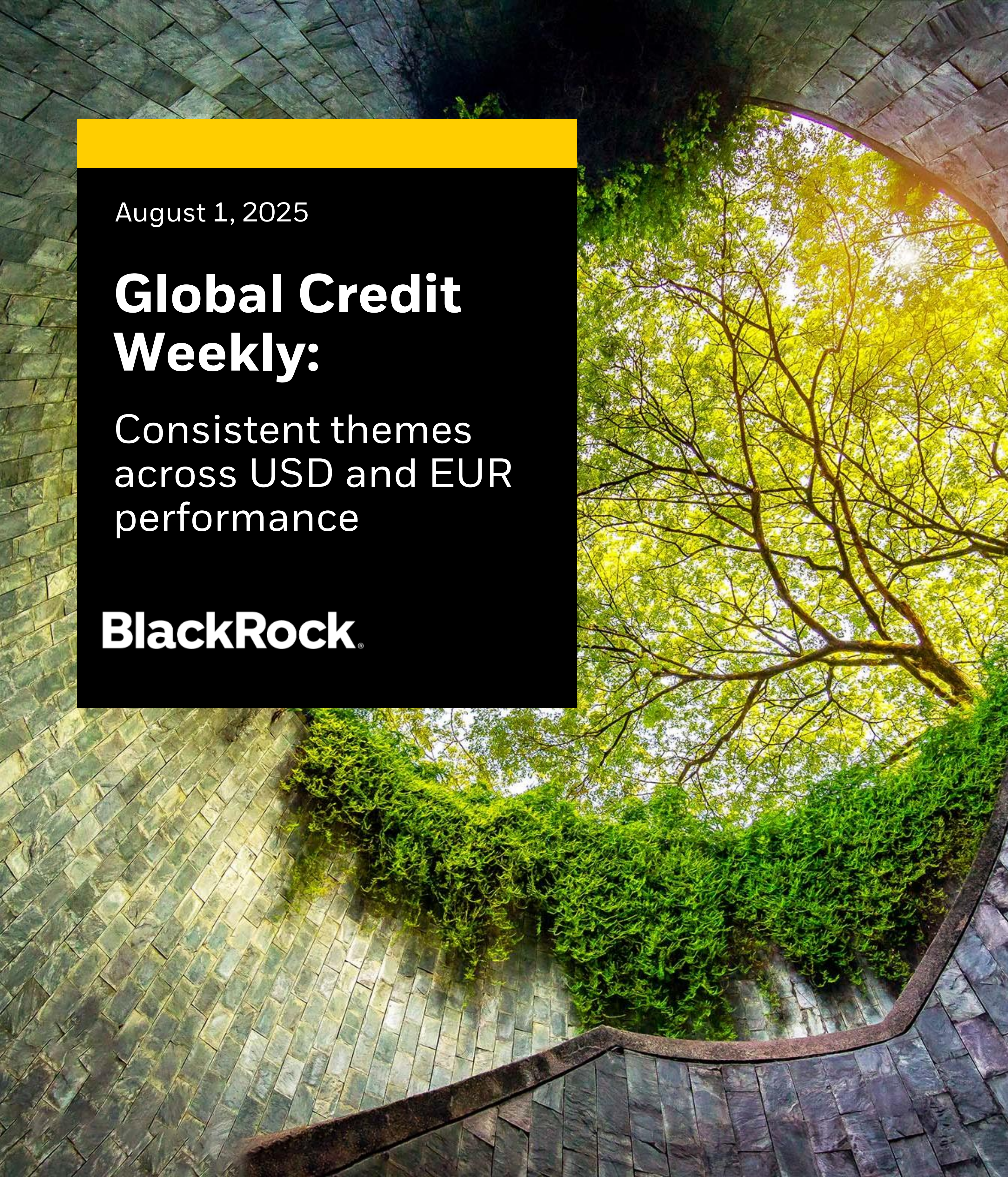

August 1, 2025

Global Credit Weekly:

Consistent themes across USD and EUR performance

BlackRock

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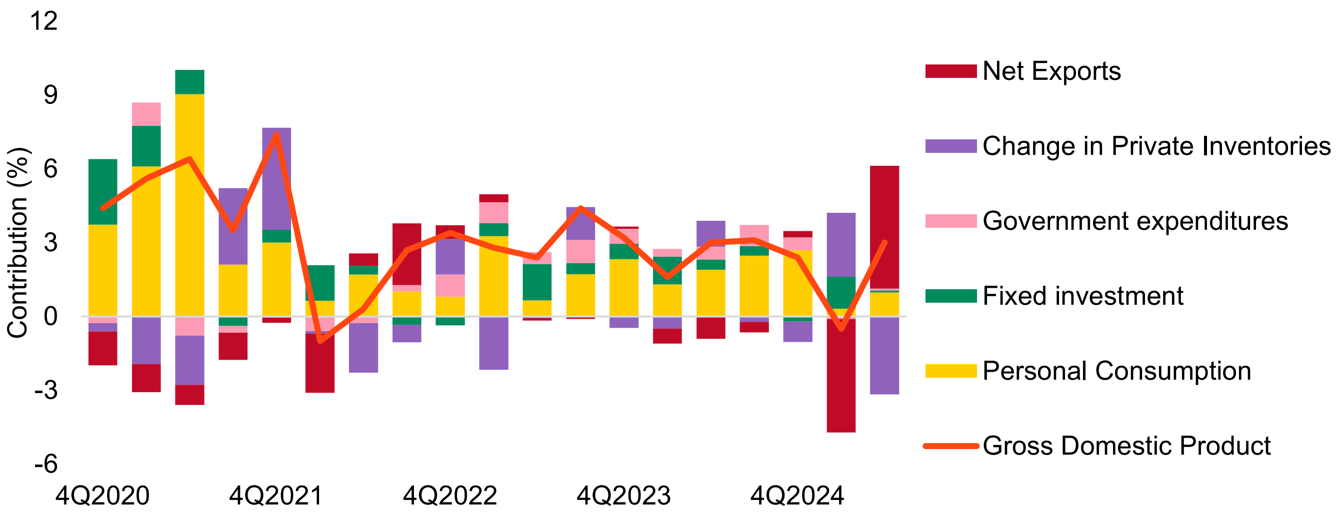
Key takeaways

- Recent developments across the U.S. and the E.U. – including central bank rate decisions, refreshed economic activity figures, and new trade frameworks – have refocused attention from market participants on the relative value considerations between USD and EUR corporate credit markets.
- In this *Global Credit Weekly*, we revisit our previous analysis of the relative value performance dynamics between the two regions. When comparing year-to-date (YTD) returns across IG and HY corporate credit indices (Exhibit 4), we find two notable takeaways: (1) interest rate fluctuations have been a *tailwind* for USD credit total return performance, but a *headwind* for EUR; and (2) the resilience of lower-rated credit is consistent across regions – on both a total and excess return (i.e., excluding interest rate fluctuations) basis. Spread valuations may leave some additional – yet modest – room for relative outperformance in the EUR market, in our view.
- As we highlighted in our *3Q2025 Global Credit Outlook*, we expect foreign investor appetite for USD corporate credit to be a key focus area in 2H2025, in part because foreign demand has acted as a technical tailwind for USD corporate credit in recent years. We do not expect a large-scale reallocation across regions; rather, we see scope for the *marginal* dollar managed by global allocators to be redeployed outside of the U.S., in areas where relative value may have become more attractive.
- This week, we also review key takeaways from the European Central Bank (ECB) and Federal Reserve (Fed) rate decisions over the past several days. We believe the ECB has likely reached the end of its 200bp rate cutting cycle. And while the Fed has been on an extended pause in 2025, we see scope for rate cuts to resume in 4Q2025 – consistent with the view we have held for the past few months. Moderating U.S. growth in 1H2025 (Exhibit 1) and downside risks to the labor market are the key factors underpinning this view – yet above target inflation reduces urgency.

Exhibit 1: Looking past the noise in net exports, the pace of U.S. growth moderated in 1H2025
Quarter-over-quarter change in U.S. real gross domestic product (GDP) at a seasonally adjusted annualized rate, and contribution categories as calculated by Bloomberg



Source: Bureau of Economic Analysis (BEA), Bloomberg, BlackRock. As of 2Q2025.

FOMC: labor market risks – not enough to cut in the near-term

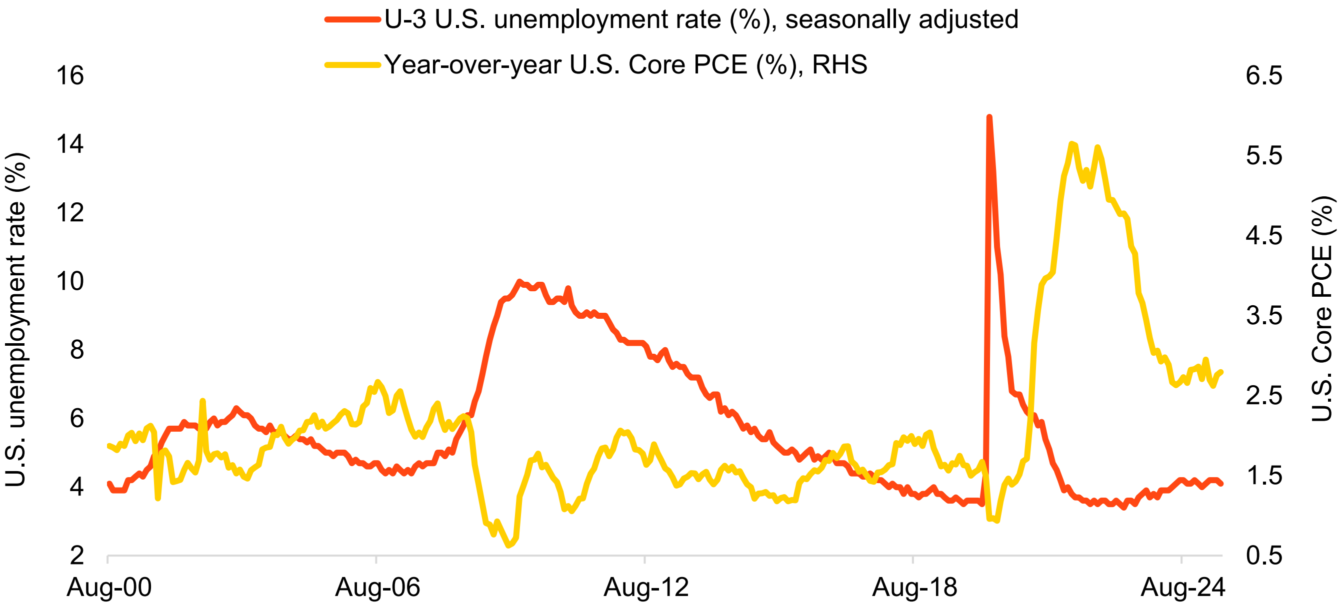
On Wednesday, July 30th, the Federal Open Market Committee (FOMC) held the Federal Funds rate steady at 4.25% - 4.50%, extending the 'hold' that has been in place throughout 2025. There were two Fed Governor dissents (from Governors Waller and Bowman), in favor of a 25bp rate cut, which had been well-telegraphed based on their public commentaries in the weeks ahead of the meeting.

Overall, we viewed Chair Powell's comments from the press conference as generally hawkish. We continue to view a rate cut as unlikely before 4Q2025.

Below, we outline key takeaways from the July FOMC press conference:

- **Tariff impacts – still early**. Chair Powell noted that the overall effect of tariffs on goods inflation remains to be seen and characterized the current stage as the "very beginnings," with the timing likely to be slower than originally anticipated. He added that the degree of corporate pricing power (i.e., the ability to pass-through higher costs) is also uncertain. Most notable, in our view, was Chair Powell's comment that viewing tariffs as a one-time price level shock (as opposed to a more persistent impact) is a "pretty reasonable base case."
- **A modestly restrictive stance.** Chair Powell once again characterized the stance of monetary policy as "modestly restrictive," although acknowledged that the true level of restriction is unknown given the range of views around the neutral rate. He added that he felt a modestly restrictive stance was appropriate, given above-target inflation and an unemployment rate which remains low at 4.1% (Exhibit 2). He added that the economy is not performing as though restrictive policy is holding it back inappropriately and flagged that overall financial conditions are accommodative.
- **Growth is moderating, but the economy is still "solid."** Chair Powell flagged the moderation in U.S. growth, which ran at an annualized rate of +1.2% in 1H2025 (vs. +2.8% in full-year 2024). Private domestic final purchases – which excludes categories that have been especially volatile around trade deadlines, such as net trade, inventories, and government spending – for 1H2025 was +1.6%.
- **Some emphasis on the unemployment rate, over payrolls:** Powell acknowledged that "downside risks to the labor market are certainly apparent" citing the decline in private sector job creation. That said, he also underscored that labor *supply* has moderated alongside a decline in labor *demand*, leaving the unemployment rate in a narrow (and low) range.

Exhibit 2: Inflation remains above target , while the unemployment rate is still low
U-3 U.S. unemployment rate (%) seasonally adjusted, and year-over-year U.S. Core PCE inflation (%) seasonally adjusted, RHS



Source: Bureau of Labor Statistics, Bureau of Economic Analysis, BlackRock. Captures data through June 30, 2025 (most recent as of July 31, 2025).

ECB: “in a good place” to hold rates

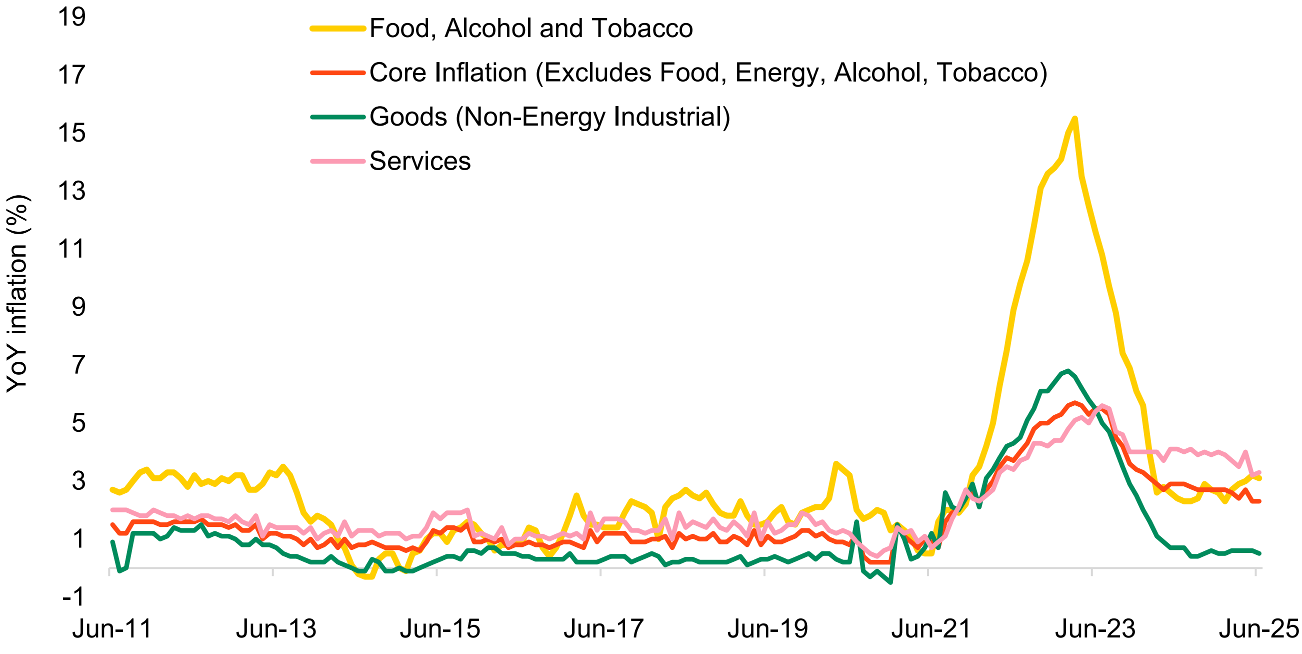
At last week’s European Central Bank (ECB) meeting, the Governing Council left its three key policy rates unchanged – marking the first pause after seven consecutive cuts. And while the decision to leave rates unchanged was widely expected, ECB President Lagarde’s comments skewed more hawkish than anticipated. Following the press conference, market pricing of forward rate cuts, using data from Bloomberg, modestly adjusted to suggest a lower probability of another rate cut by year-end 2025.

There were a few notable takeaways, in our view:

- **Growth is resilient.** During the press conference, President Lagarde characterized the economy as “resilient overall,” and said “growth is developing mostly in line with, if not a little better than, our expectations.” She noted the drivers include stronger private consumption and investment (supported in part by easier financing conditions), and frontloaded exports. Increased investment in defense and infrastructure (following recent fiscal developments) are also expected to support growth, over time. While trade related uncertainty was referenced as a downside risk to growth, a trade framework between the U.S. and E.U. was announced a few days later.
- **Rates are on hold, for now.** Lagarde once again reiterated a “data-dependent and meeting-by-meeting approach” for future rate decisions, but noted, “you could argue that we are on hold,” after 200bp of cuts over the course of nine meetings. President Lagarde was asked whether a rate *hike* could be a possibility, if trade related uncertainty was resolved quickly. She replied, “I would not exclude anything for sure.”
- **Inflation may *undershoot*, temporarily.** Related to their single mandate of maintaining price stability, President Lagarde shared, “we are in a good place because inflation is at 2%.” She also noted that the ECB staff projections forecast an *undershooting* of 2% inflation in 2026 – but will not “be moved away by some minor deviation,” as the Governing Council is focused on a *medium-term* inflation target. Exhibit 3 demonstrates year-over-year inflation progress for the Euro Area by category. Notably, while aggregate inflation has moderated, some elements, including ‘services’ and ‘food, alcohol and tobacco’, remain persistently elevated versus pre-COVID levels. Related to services inflation, Lagarde explained that wages, which have been somewhat delayed in incorporating price changes, are “heading in the right direction,” consistent with the “downward trend that [they] were expecting.”

Exhibit 3: Some elements of Euro Area inflation have proven stickier than others

Year-over-year inflation (not seasonally adjusted) for the Euro Area, by category



Source: Eurostat, Bloomberg, European Central Bank., BlackRock. Captures inflation data through June 30, 2025 (most recent available as of July 30, 2025).

Lower-rated credit has led in both the USD and EUR markets

Recent developments across the U.S. and the E.U. – including central bank rate decisions, refreshed economic activity figures, and new trade frameworks – have refocused attention from market participants on the relative value considerations between USD and EUR corporate credit markets.

As we highlighted in our *3Q2025 Global Credit Outlook*, we expect foreign investor appetite for USD corporate credit to be a key focus area in 2H2025, in part because foreign demand has acted as a technical tailwind for USD corporate credit in recent years.

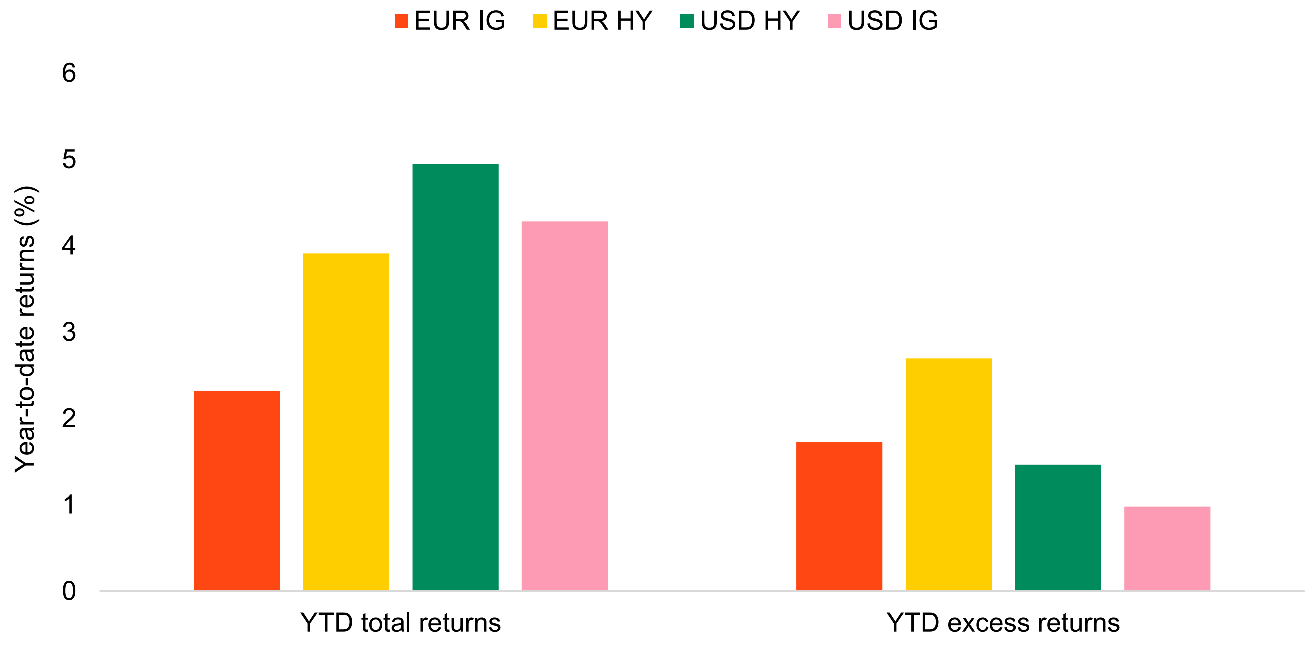
We do not expect a large-scale reallocation across regions; rather, we see scope for the *marginal* dollar managed by global allocators to be redeployed outside of the U.S., in areas where relative value may have become more attractive.

In this *Global Credit Weekly*, we revisit our previous analysis of the relative value performance dynamics between the two regions.

We start by comparing year-to-date (YTD) total and excess returns across IG and HY corporate credit indices (Exhibit 4), and find two notable takeaways:

- **Rates have been a *tailwind* for USD credit performance, but a *headwind* for EUR.** First, while USD credit has outperformed EUR credit on a total return basis, it has lagged on an excess return basis (i.e., when excluding the return contribution from interest rate fluctuations). This reflects the fact that U.S. Treasury yields (using the 10-year as an example) are lower vs. the start of the year, while German Bund yields are higher. The move higher in the risk-free rate has mechanically weighed on EUR total returns, while the decline in rates has been a tailwind in the USD market.
- **The resilience of lower-rated credit is consistent across regions.** Second, lower rated credit (HY) has outperformed its higher rated peer group (IG) in each region, on both a total return and excess return basis. In our view, this reflects a combination of slowing but still resilient growth, solid fundamentals among most corporate borrower cohorts, and favorable technicals (including demand from yield-based investors and limited amounts of net new issuance).

Exhibit 4: Returns for lower-quality credit indices have outperformed higher-quality, YTD
Year-to-date index level total and excess returns, for the ICE-BAML EUR and USD IG and HY Corporate indices

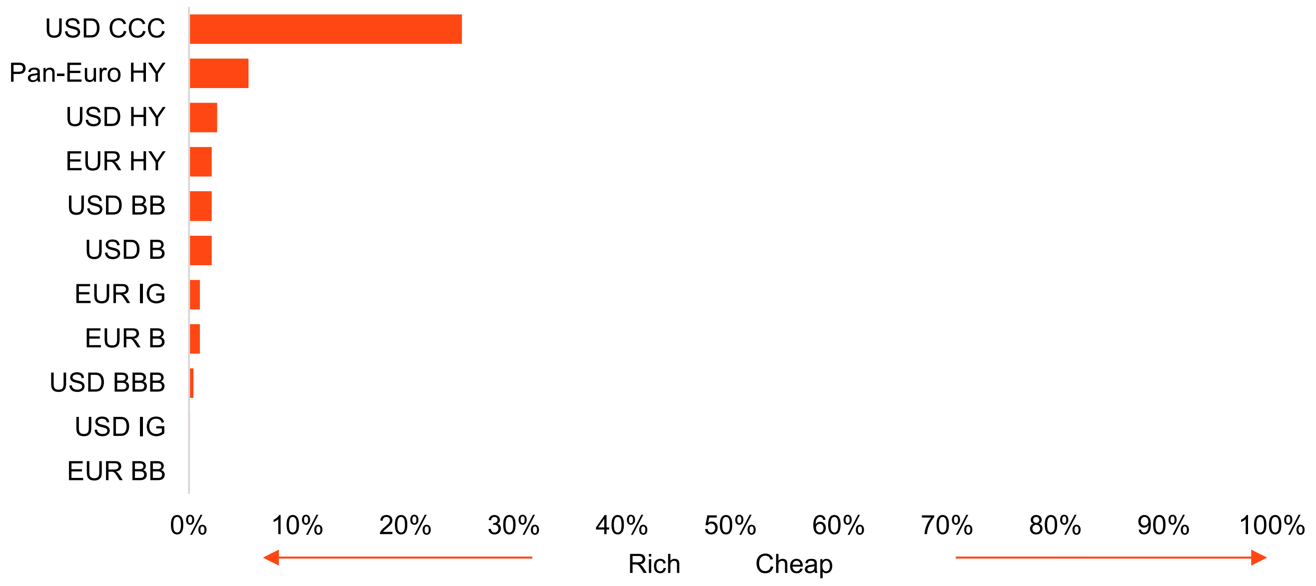


Source: ICE-BAML, Bloomberg, BlackRock. Year-to-date returns capture data through July 30, 2025. Excess returns exclude the impact of interest rate fluctuations. **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs, or expenses. Indices are unmanaged, and one cannot invest directly in an index.

Exhibits 5 and 6 provide a snapshot of spread and yield valuations using a longer timeframe (i.e., the post-financial crisis era period). As the charts illustrate, the spread vs. yield 'tug of war' remains firmly in place, with spreads at the rich end of the historical range, alongside yields which screen as attractive by historical standards.

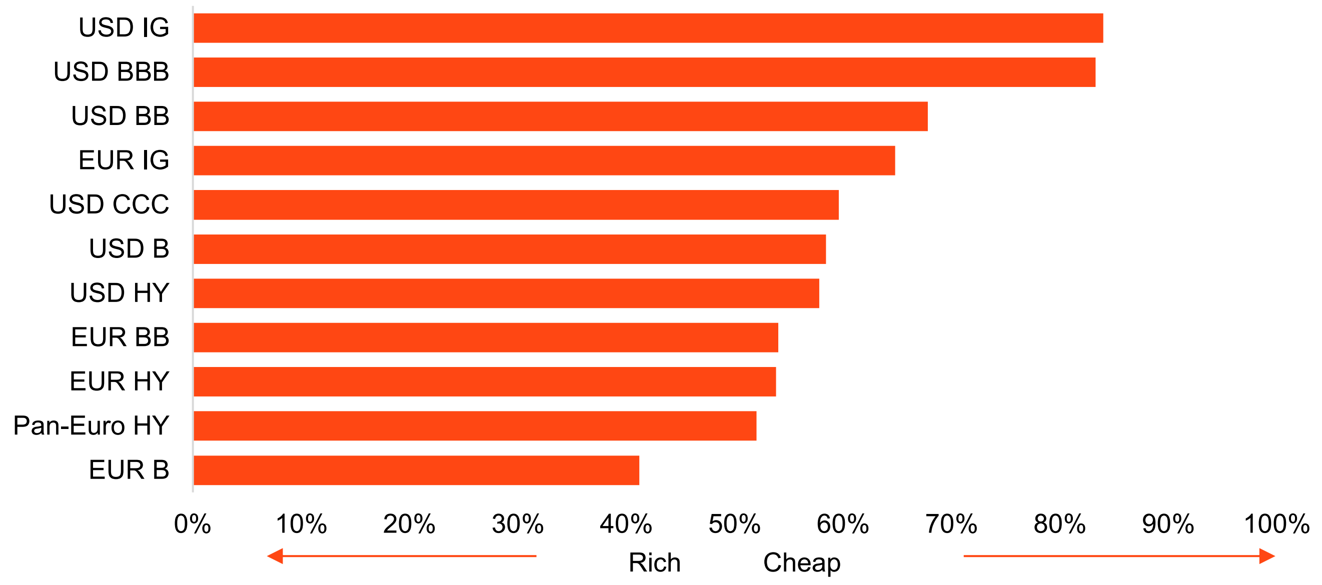
The notable exception to the tight spread levels in Exhibit 5 is the USD CCC cohort, where spreads have not kept pace with the rally in the broader market. We attribute this weakness in the so-called 'left tail' to preexisting fundamental challenges, which were *already* visible in the prior backdrop of above-trend growth. This is a key component to our approach to *selectively* move down in credit quality.

Exhibit 5: Spreads across most credit cohorts are tight…
Percentile rank of daily index-level corporate bond spreads since January 1, 2010



Source: BlackRock, Bloomberg, ICE-BAML. Captures option adjusted spread data through July 30, 2025. **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

Exhibit 6: …but yields are attractive
Percentile rank of daily index-level corporate bond yields since January 1, 2010



Source: BlackRock, Bloomberg, ICE-BAML. Captures yield-to-worst data through July 30, 2025. **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

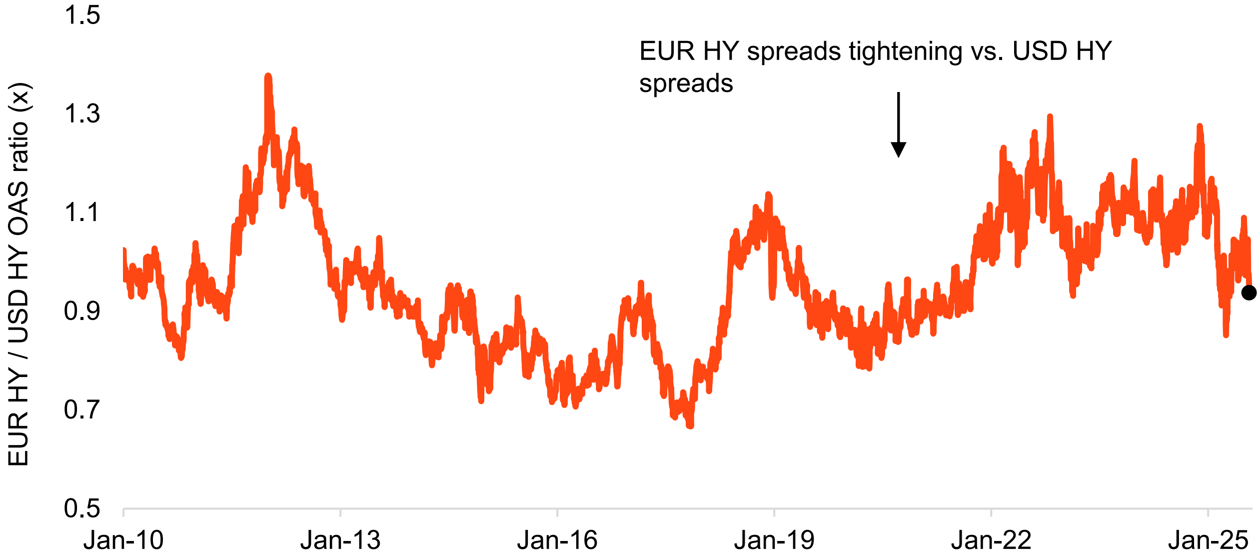
Placing EUR vs. USD spread performance in context

In April, we discussed the relative outperformance of EUR IG and HY spreads in 1Q2025. Since then, EUR spreads have widened somewhat vs. their USD peers (Exhibits 7 and 8).

That said, EUR spread performance across IG and HY has been strong relative to the late 2024 levels. With the ECB likely on hold, the yield backdrop in the EUR market is likely to remain attractive. And to the extent that growth remains resilient, we see some scope for EUR spreads to tighten a bit further, considering the longer-term range.

Exhibit 7: EUR HY spreads have outperformed their USD peer group since late 2024

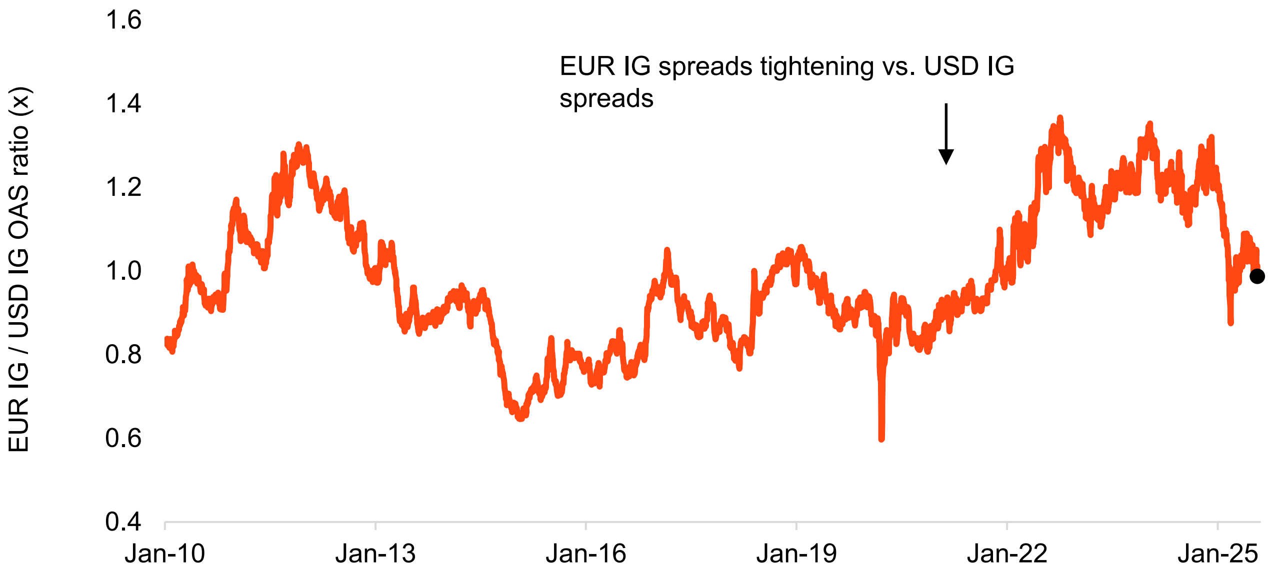
Option adjusted spread (OAS) ratio for the ICE-BAML EUR HY Corporate Index vs. the USD HY Corporate Index



Source: ICE-BAML, Bloomberg, BlackRock. As of July 30, 2025. **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs, or expenses. Indices are unmanaged and one cannot invest directly in an index.

Exhibit 8: EUR IG spreads have also tightened vs. USD IG since late 2024

Option adjusted spread (OAS) ratio for the ICE-BAML EUR IG Corporate Index vs. the USD IG Corporate Index



Source: ICE-BAML, Bloomberg, BlackRock. As of July 30, 2025. **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs, or expenses. Indices are unmanaged and one cannot invest directly in an index.

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