



# Stability in the Euro Credit Market Amid

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## Mass “Reverse Yankees” Issuance

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- **Policy backdrop** ECB’s “wait-and-see” stance and easing U.S. yields are reinforcing cross-border carry trades, sustaining spread compression despite rising issuance.
- **Qualified driver of issuance** Reverse Yankee volumes (€10.52B) supported by ~1.8% USD-EUR yield gap and lower all-in EUR swap funding costs
- **Systemic implication:** Euro credit stability is increasingly dependent on leveraged non-bank liquidity channels, raising tail risk under funding stress despite stable fundamentals.

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This week, the European credit market has exhibited fragile stability despite a surge in arbitrage-driven bond issuance, raising questions about whether this resilience reflects underlying strength or growing risks within non-bank financial intermediaries (NBFIs).

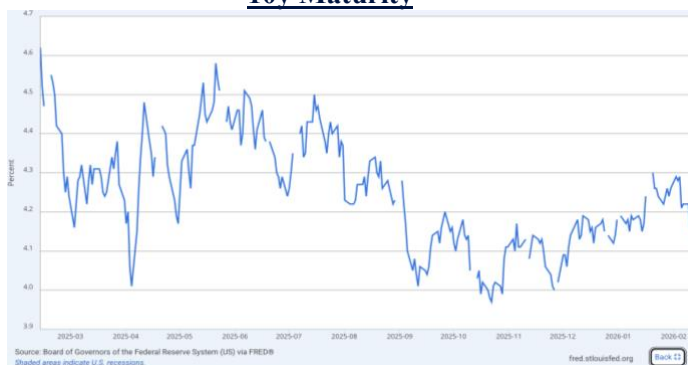
U.S. firms, including Goldman Sachs and JPMorgan, issued €10.25B of “Reverse Yankee” bonds this week (USD-based issuers raising capital in EUR). This activity is driven by a 1.84% yield gap between the iBoxx USD Corporate Index and its euro counterpart. The arbitrage can be further seen in the interest swap rate, including the 1Y EUR Swap Rate at 1.93%, the all in-cost remains well below the USD Corporate yield at 5.18%.

**Figure 1: Global Benchmarks**

Name	Yield	OAS	1 week	1 year
iBoxx Euro Corporates	3.34	87.63	0.06	3.40
iBoxx USD Corporates	5.18	92.61	0.73	8.10
iBoxx Euro Corporate Senior	3.31	83.36	0.07	3.26
iBoxx Euro Corporate BBB-rated	3.41	99.13	0.06	3.80

Source: FactSet

**Figure 2: Market Yield on US Treasury Security at 10y Maturity**



Source: Board of Governors of the Federal Reserve System (US)

**Figure 3: The spread of Markit iTraxx Eur Xover**

Markit iTraxx Eur Xover Continuous - 5Y



Source: FactSet

The compression of the Markit iTraxx Eur Xover spread signals that the investors are confident, especially in buying new bonds from these American firms as they offer higher returns than the ECB’s deposit facility rate. This demand is supported by lower U.S. Treasury yields (4.06%) and favorable EUR swap levels; the cost of interest swap rate making euro bonds, which are promising yields from 3.31% to 3.41%, more attractive thus foreign investments are flooding into Euro market. The global capital creates an issue where supply can’t keep up with demand for these bonds. From the

borrowers' perspective, this is a golden opportunity to borrow more money with lower rates since the market is flooded with investors. Especially with the ECB maintaining the 'wait and see' stance, which signals no immediate intention to increase rates as inflation is still slipping from its target. Whereas from the investors' perspective, they are facing limited upside since they are paying big risk for minimum reward. Moreover, this increase in issuance is also strengthening financial system linkages. A large part of the euro corporate bond demand come from non-bank investors (NBFIs) and they often rely on short-term funding through repo markets provided by Global Systemically Important Banks (G-SIBs). A significant share of euro corporate bonds is held by NBFIs, often financed through short-term repo borrowing from G-SIBs. The current European credit stability is predicated based on the assumption that the market can continue to digest massive supply without a sudden correction in risk pricing. However, this stability relies on fragile factors, including vulnerabilities in non-bank financial intermediaries where during a stress scenario, investors may face margin calls and be forced to sell assets quickly. At the same time, they may reduce their repo borrowing, which reduced liquidity from banks. This could amplify market moves and create broader funding pressure even if corporate fundamentals remain stable. In conclusion, Euro funding remains clearly cheaper for US issuers, but the risk is shifting. The main vulnerability has shifted from credit fundamentals to liquidity and funding conditions.

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