

"Investing is the only business where when things go on sale, everyone runs out of the store"*

Executive Summary

- Macro tensions increasing following President Trump's announcement of new trade tariffs.
- US 1-year recession probability has risen sharply: from ~20% to ~50% YTD.
- iTraxx Main widened to ~85bps on the 09th April, a level rarely seen outside periods of stress.
- Synthetic vs. cash spread basis is now in positive territory – an atypical and historically rich configuration.

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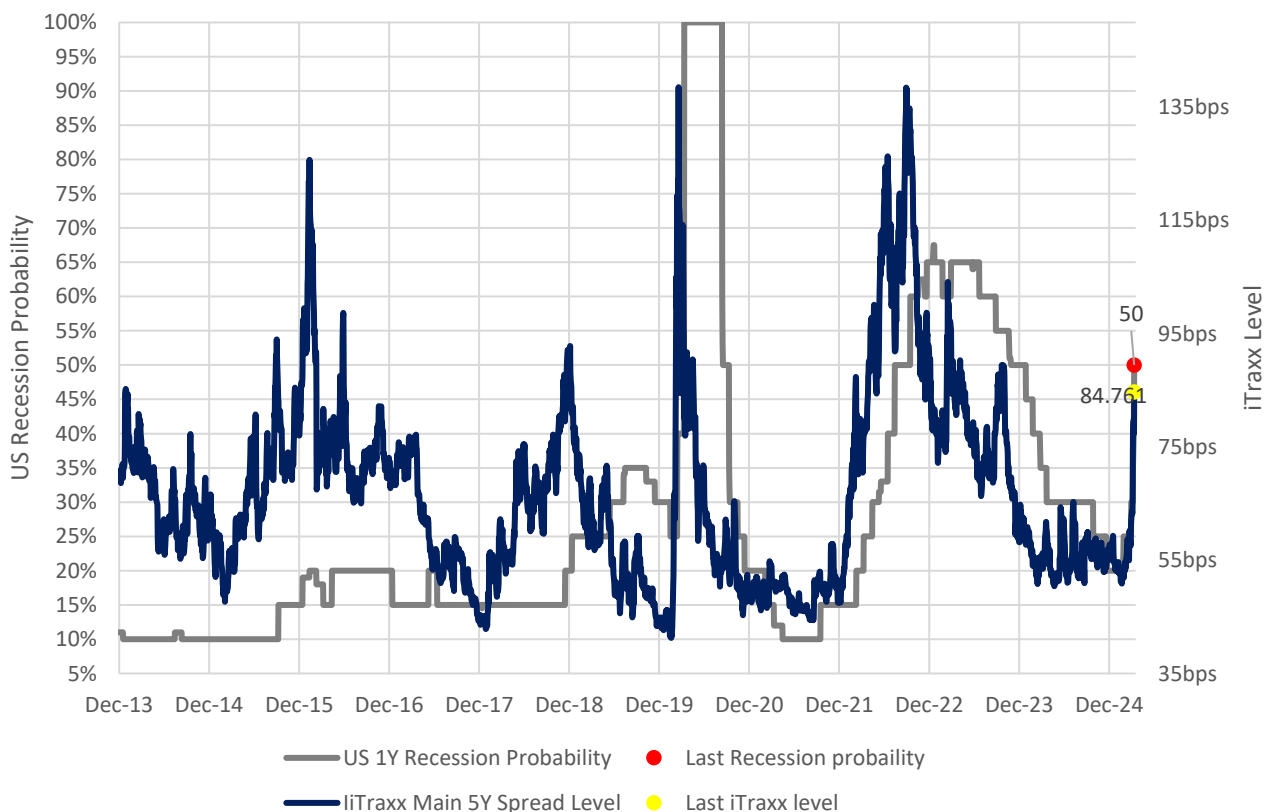
Trade Tariffs Revive Fears of a Global Trade Conflict and Recession

Analysts estimate that the U.S. economy could contract by -2% to -3.5% of GDP, while the European economy would decline by -0.2% to -0.6%, if the tariffs announced by the Trump administration were maintained throughout this year. It is difficult to know whether this decision is part of a negotiating strategy – announcing extreme measures to open a dialogue – or if the President Trump considers the announced tariff levels to be justified and should be maintained long-term. In our view, a partial easing of tariffs over the next six months is likely, for two main reasons

1. **Negotiation strategy:** If the tariffs are part of a negotiating strategy, they are likely temporary and conditional on obtaining concessions.
2. **Market reaction:** Continued pricing-in of recession risk (around a 50% chance within the next year) could destabilize confidence across equities, services and consumptions, pressuring the US administration politically.

That said, an escalation into a full-scale trade war cannot be ruled out – which would carry further significant downside risks for markets and global growth.

Fig. 1: US recession probability vs iTraxx level



Source: Selwood AM France, Bloomberg

Market Response: Credit Spreads Widening

As of April 9th, 2025, the iTraxx Main 5Y (Series 43) stands at ~85 bps, reflecting increased macro risk pricing.

- This marks a ~+20-bps widening (taking into account the roll) since the start of the year (YTD).
- At current levels, the market is implicitly pricing ~9 defaults over 5 years (assuming 40% recovery), which is historically elevated for European Investment Grade credit.
- Trading volumes have picked up sharply in recent sessions (trading more than €30bn per day!), suggesting rising interest in hedging or repositioning activity.

Fig. 2: iTraxx Main 5Y – YTD Spread and Volume



Source: Selwood AM France, Bloomberg.

Valuation Context: Elevated & Potentially Attractive

Current iTraxx Main 5Y spreads (~85 bps) place the index **in the top ~13% of its highest levels over the past decade**, well above the long-term median and third quartile.

Historically, such elevated spreads have been seen only during periods of market stress — yet today's context reflects pricing for uncertainty rather than realized credit deterioration.

This spread environment may offer an attractive opportunity for IG synthetic credit exposure. Investors can potentially benefit from both enhanced carry and spread tightening as macro conditions stabilize.

Fig. 3: Historical iTraxx Level Quartile & 10Y Percentile

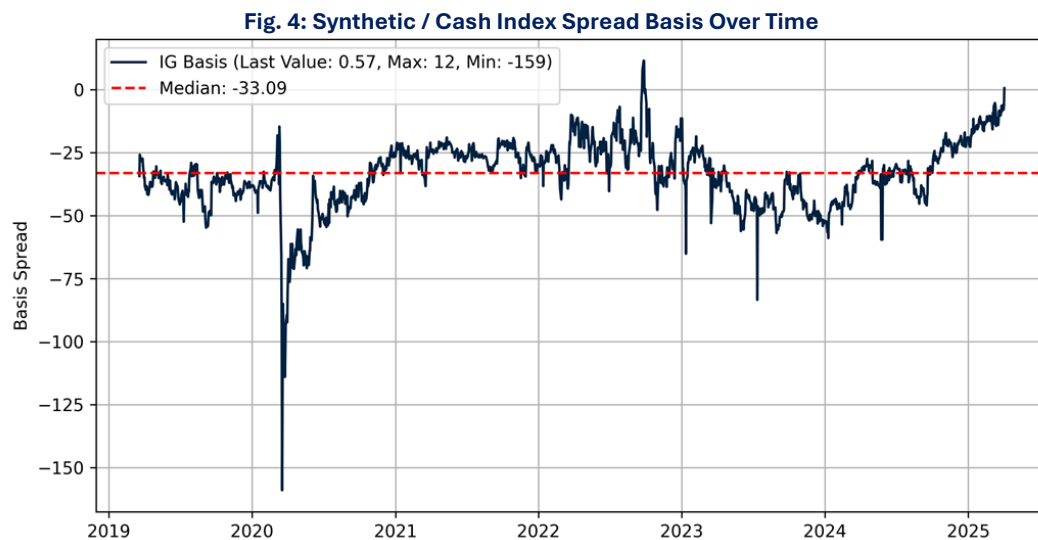


Source: Selwood AM France, Bloomberg.

Technical Indicators: Synthetic vs Cash Dislocation

The current market configuration shows a rare dislocation between synthetic and cash credit spreads:

- The Investment Grade basis (difference between iTraxx and iBoxx spreads) recently turned positive, reaching +0.57 bps.
- Historically, this basis hovers around -30 bps, indicating that synthetic instruments are currently trading at a premium vs. cash, a signal of heightened risk aversion or hedging flows.
- This technical dislocation tends to revert over time (Fig.4) – offering potential relative value opportunities for active credit investors.
- On Tranches – *Super Senior* is offering attractive levels of correlation (priced at ~80.50%).



Conclusion:

We believe the current environment warrants close monitoring, as it may offer selective opportunities for risk-adjusted positioning in Investment Grade Credit via synthetic.

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Fig. 5: Word cloud**

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