

“In credit patience compounds”

Executive Summary

- Global Equity markets are down in average circa 8-9% MTD and -3% YTD
- Rates are up circa +50bps on 5Y
- All credit markets have widened in sympathy. Nonetheless, within credit markets, the spread widening has been asymmetrical creating interesting opportunities.

Key elements, specific to credit markets, that we will discuss here:

- Is liquidity still a coward disappearing when you need it?
- Has Synthetic Credit become the better trade (relative to cash)?
- From Relative to Absolute: Synthetic Credit's Appeal

Synthetic instruments liquidity increased, to the detriment of cash liquidity.

Fig. 1 : iTraxx Main 5Y & Daily Volumes



Source: Selwood AM – 23.03.2026 | Bloomberg.

The first point to highlight is the exceptionally high level of daily trading volumes observed since 26 February. Over this three-week period, total volumes in iTraxx reached a record €35bn per day. Excluding the roll date, average daily volumes exceeded last year's “Liberation Day” period by approximately €5bn and were €15bn higher than during the most volatile three-week window of the COVID crisis. This clearly illustrates that investors are increasingly using iTraxx as a preferred instrument for gaining exposure to, or hedging, credit spreads.

Further confirmation comes from the most recent roll. Trading volumes on the roll date (Friday the 20th of March) exceeded €132bn, surpassing previous peaks of €110bn in September 2025 and €100bn in March 2025. For comparison, even during the volatile period of September 2024, volumes reached only €65bn. **This sustained increase in roll activity reflects the growing size of outstanding positions in the market.**

Price action during the roll was also notable. The *fair roll* level on Main 5Y (i.e., the spread difference between the new and old series) was initially estimated at around 4bps, but traded higher throughout the session, closing at approximately 5.15bps. **This upward move suggests that short investors were actively rolling their positions into the new series.**

iTraxx basis shows extreme level.

Fig. 2: IG Synthetic / Cash Index Basis¹ spread



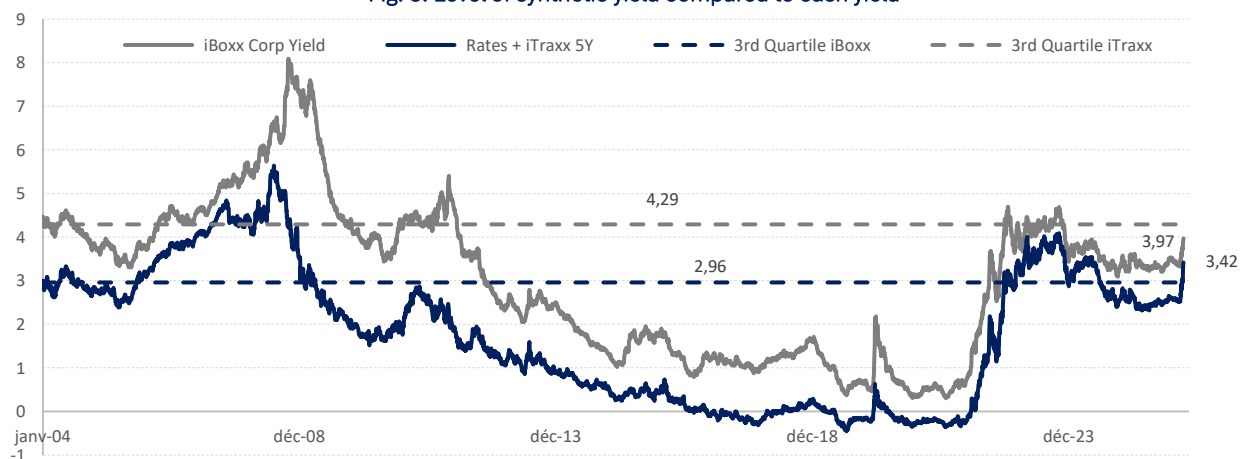
Source: Selwood AM – 23.03.2026 | Bloomberg.

The significant liquidity available in synthetic indices has, however, come at the expense of the cash market, which has remained comparatively subdued. Since the beginning of the year, iTraxx has widened by approximately 15bps, broadly in line with the 14bps move observed in cash indices. However, given a typical beta of around 1.7x, this implies that the traditional basis ($1.7 \times \text{iTraxx} \text{ minus cash spreads}$) has compressed back above zero (+8bps); a level last observed at the peak of the 2022 credit crisis (see Fig.2).

Attractive level of synthetic yield compared to cash yield.

Positive rates environment and wider credit spreads make the total yield very attractive compared to historical levels. Have we left the bulk of the stress over interest rates behind us? Now that US rate cuts are off the table and Europe is pricing in three hikes this year (April, June, and December), it's likely.

Fig. 3: Level of synthetic yield compared to cash yield

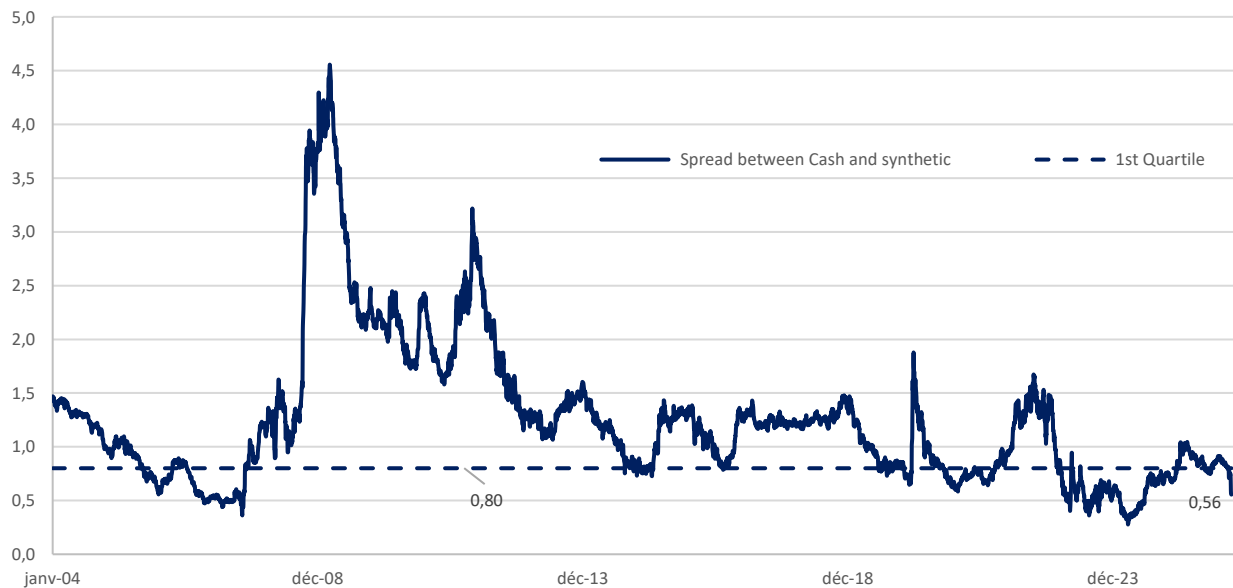


Source: Selwood AM – 23.03.2026 | Bloomberg.

¹ Methodology: $1.7 \times \text{iTraxx Main} - \text{gSpread}$ (spread in basis points over German 5Y)

Historically, although the iBoxx yield is ~ 30 bps below its third quartile, the combined iTraxx and rates measure stands nearly 50 bps above it. This configuration has historically corresponded to a relatively attractive entry point, as seen in 2022.

Fig. 4: Yield spreads between Cash and Synthetic (Cash - Synthetic).



Source: Selwood AM | Bloomberg.

The spread between iBoxx and iTraxx plus rates is at historically low levels, directly reflecting the elevated iTraxx - cash basis.

Regarding the most recent iTraxx Main series (last *roll*), it excluded three names from the previous series; *Stellantis*, *Südzucker*, and *Leonardo*, the latest due to insufficient outstanding debt to meet eligibility criteria. These were replaced by three issuers (*Adecco*, *SES*, *GSK*) trading within the tightest 20% of credit spreads, all below 35 basis points. While the new index is fundamentally safer, the steepness of the curve between the December 2030 and June 2031 maturities (for Series 44 and Series 45, respectively) has resulted in a fair value roll of approximately +4.1 basis points, with Series 45 trading wider than Series 44.

Conclusion.

We have been waiting for market stress to add exposure at more attractive levels in our Long Only solutions. Tight spreads are the least appealing scenario for us, as they make credit the least attractive, or most unexciting, asset class in the room. While it may be premature to be too optimistic, we had rolled our indices (on the 20th of March) at what we believe is an opportune moment (top 20% days for the yield level since 2024).

We now find ourselves in a position where you can gain exposure at attractive levels, to a highly liquid index, something we cannot say for all credit asset classes. This index is highly transparent and carries minimal idiosyncratic risk, assuming you are rolling your exposure. We can now target high single-digit returns for all our solutions, with exposure limited to Investment Grade indices and reasonable leverage.

Of course, it is impossible to predict how much further these CDS indices will widen due to this conflict and its broader implications. However, if you can tolerate this volatility, it is becoming an increasingly compelling time to consider IG synthetic credit. After all, we are well compensated to wait for a more favourable environment.

Mathieu Labelle, 25.03.2026

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