Financial Credit: The Risk-Reward Remains Attractive

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In this report

The first half of 2026 was volatile, with fast-changing macro assumptions, but financials remained resilient.

For banks, the key word remains stability, supported by stronger fundamentals rebuilt over the past ten years and very strong profitability.

In financial credit, spreads are expected to remain stable to slightly tighter, while the asset class continues to offer an attractive carry-versus-quality opportunity.

Risk-reward remains favourable, with a preference for older AT1 vintages over newer bonds with tighter reset spreads.

Stability remains the central theme

The first half of 2026 was dominated by many events and by fast-changing macro assumptions that were difficult to predict, but relatively easy to adapt to within our strategies. In this new world of higher interest rates, the key word for banks and financials remains stability.

This stability is underpinned by sound fundamentals that have been rebuilt over the past ten years, together with very strong profitability. Looking to the rest of the year, profits may, if anything, rise further in the second half, given the higher inflation and rates backdrop.

For financial credit, we expect spreads to remain stable to slightly tighter. In our view, the asset class offers an unparalleled carry-versus-quality opportunity, which is difficult to replicate in any other strategy globally.

Older AT1 vintages offer better value

The second half of the year is likely to remain rich in events. The midterm elections are difficult to predict and could change some of the assumptions we can make today. Even so, we remain comfortable with financials and with the broader backdrop for the same reasons we held a year ago.

Overall, the risk-reward for financials and banks remains very attractive. Our positioning remains average, meaning that we are not overstretching on longs.

We consider previous vintages of Additional Tier 1s to be more valuable than the bonds currently coming to market. New issues have tighter reset spreads, which would likely make them more volatile if market conditions change. However, the risk-reward remains favourable, and we remain comfortable and confident in the prospects for the investment strategy.