

Aegon European ABS update

How ABS is navigating the current risk-off backdrop

26 March 2026

Geopolitical developments remain highly uncertain, and it often takes just a few posts on X (or Truth Social) to send oil markets moving sharply in either direction. While the situation is very fluid, we can still form a much more informed view of the fundamental credit risk this poses to our ABS holdings.

Overall, we entered this period of volatility with a well-positioned and fairly conservative portfolio and while returns have been negative, the drawdown has been limited at around -20bps MTD. ABS spreads have been relatively resilient, with only modest widening, particularly when compared with corporates and other risk assets. The market response has been risk off but orderly. Higher beta parts of the market, and mezzanine tranches in particular, have shown greater sensitivity, while senior ABS and investment grade ABS have remained well supported. Primary issuance in ABS is still continuing and clearing levels are not materially wider compared to February, as the primary market remains open and secondary markets liquidity continues to be good.

It is important to note that the fund's underlying risk exposure is predominantly to the European consumer. Even if our base-case scenario does not materialize and the conflict continues for an extended period, the European consumer is generally well placed to absorb significant economic shock. Savings rates remain high across Europe, house prices have risen significantly over recent years, and the labour market is robust.

Sustained higher energy prices would clearly weigh on the economy, which should eventually translate into some weakness in the more cyclical, energy intensive sectors. However, labour shortages in non-cyclical sectors such as healthcare, education and government services should help dampen the overall impact on employment. Typically, European consumers have had little difficulty financing their debt as long as they remain employed.

This is one of the main reasons ABS remains relatively insulated- there is limited direct exposure and minimal direct linkage to Middle East geopolitics or energy supply chains. Short duration and floating rate structures help reduce mark to market volatility versus long duration corporate bonds. At the same time, demand for high quality, spread stable assets remains robust, especially among investors seeking defensive carry in more volatile markets.

We expect volatility on the corporate credit side to remain elevated, which matters for the portfolio given our exposure via our CLO investments. CLO holdings currently account for close to 25% of the fund (March 2026).

Broader credit markets have clearly reacted to the geopolitical shock:

- Global investment grade corporate spreads have widened, marking the largest move in several months following the escalation involving Iran and the wider region. Bloomberg corporate credit index OAS for example moved from 63 at the end of January to 92 over swaps currently (March 2026).
- CDS indices and risk premia have also moved wider across regions, as investors reassess geopolitical tail risks alongside the inflationary impact of higher energy prices.

This sets the backdrop against which ABS has been trading, as spread moves have so far been limited and contained. While ABS spreads have widened, the spread moves are more pronounced in higher beta sectors, such as CLOs, and further down the capital stack (BB/B) with credit curves steepening. Senior tranches, and consumer-related ABS have seen modest widening, despite the broader risk off tone. Consumer linked ABS, including auto and consumer loans, has seen some softening in secondary bid ask levels, but has been no disorderly repricing. While issuance is lower compared to February, the primary market is still functioning, with recent European ABS transactions pricing successfully and orderbooks still well covered. Looking at the Bloomberg Pan European Floating rate benchmark (this benchmark does not have exposure to CLOs but solely to IG-rated RMBS/ABS), OAS has widened modestly from 65 at the end of January to 69 currently (March 2026).

In CLOs, there has been some more pronounced widening. AAAs remain well supported particularly relative to single name corporate credit. Demand from banks and insurers for floating rate, high quality paper has continued to anchor the top of the capital structure, even as broader credit markets turned risk off. At the same time, primary markets are in a wait-and-see mode, with some deals being placed, but at wider new issue concessions than were seen in February. There is a clearer spread reaction in mezzanine CLOs, with BB and B tranches widening more noticeably. This reflects the higher beta to underlying loan spreads and greater sensitivity to volatility in the leveraged loan markets. Importantly, the widening appears to be price driven rather than flow driven as there is still no evidence (so far) of forced selling, and secondary liquidity remains available, even though bid ask spreads have widened. Regarding the underlying loan market, there has been some softening, driven by risk-off sentiment and renewed inflation concerns linked to higher oil prices. However, there has been no freeze in loan liquidity, and the move remains modest compared with previous geopolitical shocks. While a materially weaker economic backdrop would impact this sector, our stress tests show that all the bonds we hold in the portfolio can withstand an economic shock that is significantly more severe than the Global Financial Crisis. We therefore remain confident in the underlying credit quality of all our holdings.

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