

“Lonely at the top: Super Senior tranches offer record carry relative to iTraxx Main.”

Executive Summary

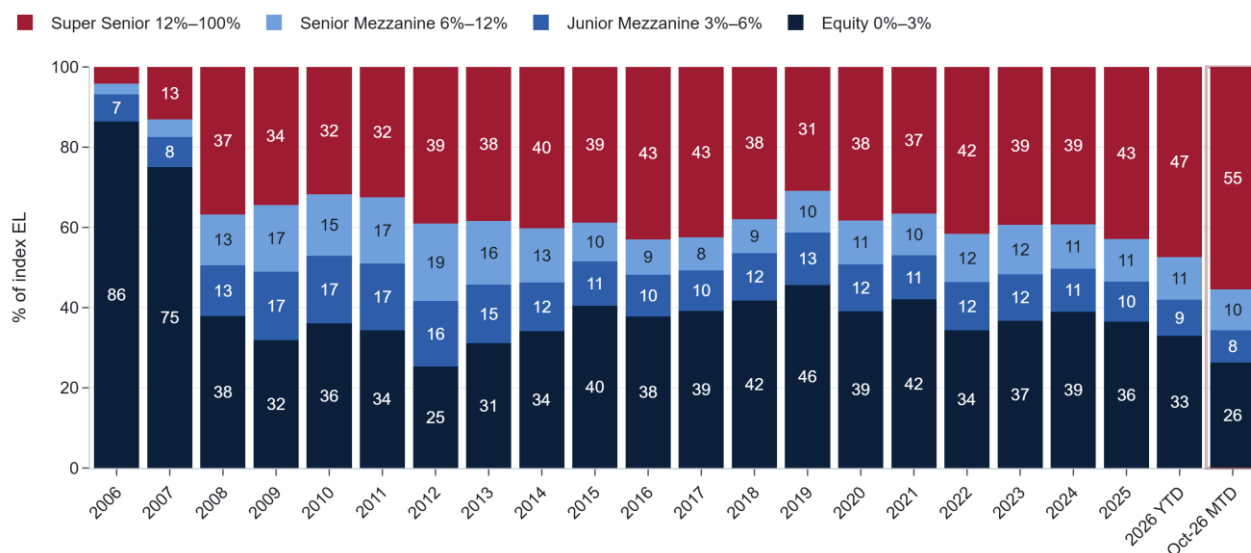
- Super Senior Tranches spreads capture a historically high proportion of the Index expected loss. (Fig. 1, 2, 3)
- European Core Govies yields are at an attractive level due to inflation expectations and fiscal trajectories. (Fig. 4)
- Govies constitute in most adverse scenario a protection at this level of yield, but stagflation scenario.

1. An Unprecedented Shift in the Distribution of Credit Risk Across iTraxx Main Tranches

The distribution of expected losses across iTraxx Main tranches has undergone a significant transformation in recent years, with an increasing share of the index's total expected loss being allocated to the Super Senior (12–100%) tranche, at the expense of both Equity (0–3%) and Mezzanine (3–6%) and (6–12%) tranches.

Fig 1: Average share of index expected loss by year and the current month

Averages of daily shares. Highlighted bar = month-to-date; latest year = year-to-date

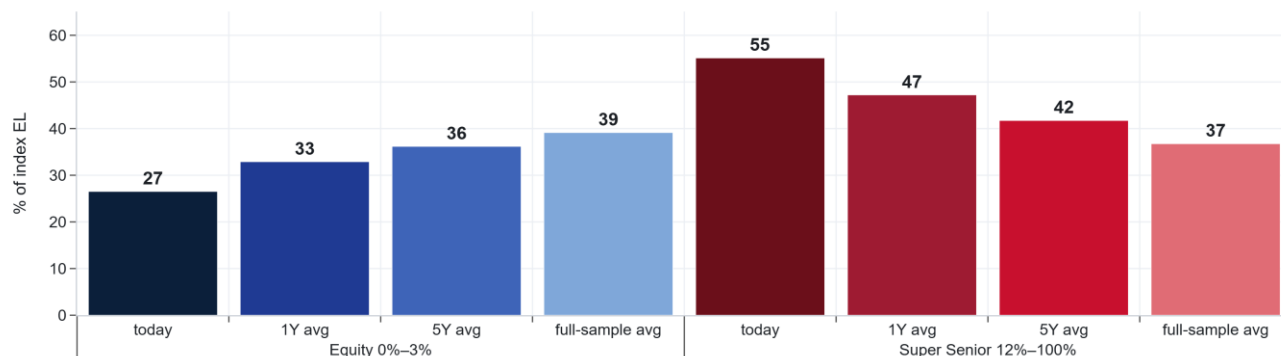


Source: Selwood AM France, Bloomberg [Oct 2006 – 13 Oct 2026]

From 2023 begun a sustained decline in Mezzanine share of expected losses. From early 2024 onwards, the trend extended to Equity tranches, as credit conditions improved, spreads tightened significantly, and several weaker constituents migrated to high yield and were subsequently removed from the iTraxx Main index. With fewer immediate default candidates and attractive premia, Equity tranches became increasingly appealing to investors seeking higher returns, resulting in sustained buying interest, tighter spreads and a declining share of expected losses.

Fig 2: Share of index expected loss: Equity vs Super Senior, today vs history

Darker = more recent (today, 1Y avg), lighter = longer history (5Y avg, full-sample avg)

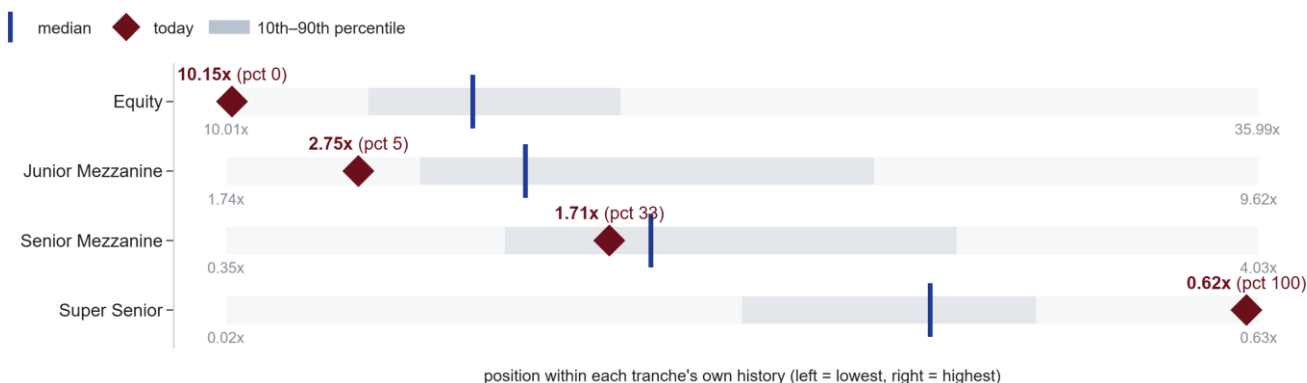


Source: Selwood AM France, Bloomberg [Oct 2006 – 13 Oct 2026]

The September index roll further reinforced this trend, with a significant improvement in the overall credit quality of iTraxx Main (IG) constituents encouraging investors to move down the capital structure towards more junior tranches. As a result, fewer actors are willing or able to absorb the Super Senior risk that dealers are seeking to offload, exacerbating the supply-demand imbalance and contributing to increasingly attractive pricing for the (12–100%) tranche.

Fig 3: Tranche spreads relative to iTraxx Main: Super Senior at its highest, junior tranches at their lowest

Tranche 5Y spread / Main 5Y spread, Oct-2006 – Oct-2026. Grey = full range, darker = 10th–90th pct, blue = median, red = today



Source: Selwood AM, Bloomberg, iTraxx Europe Main 5Y tranches [Oct 2006 – 13 Oct 2026]

2. European Government Bonds – Attractive Yields Driven by Inflation and Fiscal Pressures

Following Russia's invasion of Ukraine in 2022 and the subsequent disruption to oil and gas supplies, inflation surged across Europe, forcing the European Central Bank to embark on a monetary tightening cycle, raising its deposit facility rate from -0.50% to 4.00%, before gradually easing it back to 2.00% by early 2026. More recently, the conflict involving Iran has once again put significant pressure on energy supplies from the Middle East, disrupting oil transportation through the Strait of Hormuz and pushing Brent crude above \$100 per barrel. With the experience of 2022 still fresh, central banks have reacted more swiftly to renewed inflationary pressures, adopting a more hawkish stance, with the ECB's policy rate now standing at 2.50%.

Fig 4: Euro-area 5Y government bond yields vs OIS

Yields and deposit rate in %, spreads vs 5Y OIS in bp. 5Y OIS = EONIA OIS – 8.5bp until Oct-2019, €STR OIS after.

EUR Benchmark: 1/3 DE, remaining 2/3 equally weighted among Austria, Belgium, Finland, France, Netherlands

— Germany — France — Netherlands — Austria — Finland — Belgium — EUR 5Y Benchmark ECB deposit facility rate



Source: Selwood AM France, Bloomberg, ECB Data portal [Oct 2007 – 16 Oct 2026]

In parallel, deteriorating fiscal trajectories across developed markets have added further upward pressure on sovereign yields, including in countries traditionally perceived as the safest borrowers. Germany's announcement in March 2025 of a massive fiscal stimulus and infrastructure programme of approximately €600 billion marked a significant shift in its fiscal policy, contributing to a repricing of German government bonds. More broadly, the traditional perception of government bonds as risk-

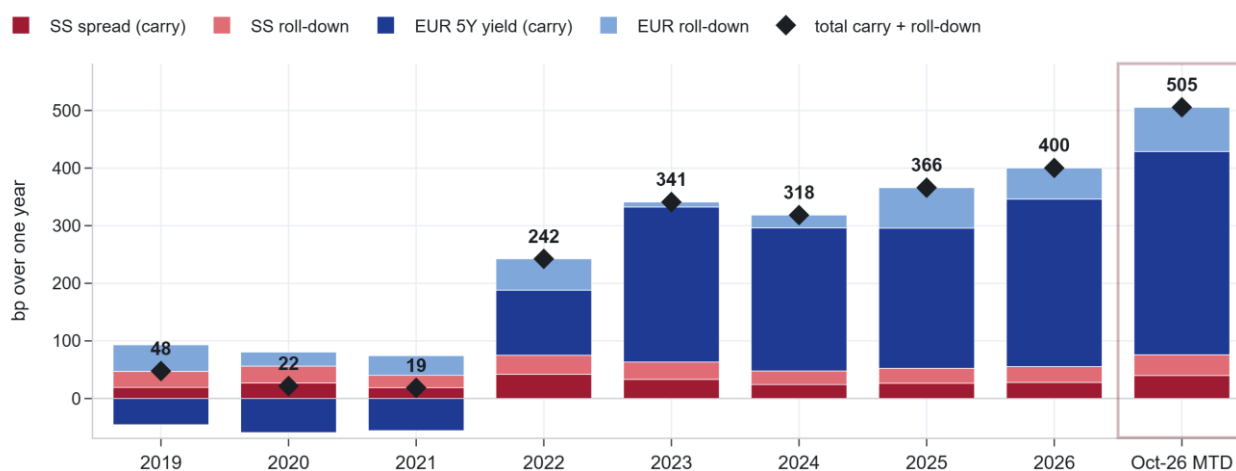
free assets is increasingly being challenged, as investors demand additional compensation for sovereign credit and fiscal risks. While this repricing is particularly visible across the French yield curve, it is also evident in core European sovereign markets through the widening spread between government bond yields and corresponding Overnight Index Swap (OIS) rates. As a result, European government bonds, particularly in the five-year segment, now offer what we believe to be attractive yields, reflecting both higher interest rate expectations and an increased sovereign risk premium.

3. Conclusions

While iTraxx Europe Main 5Y spread around 65bp (as of 16/10/2026) may not be particularly attractive, the combination of elevated Super Senior premia, favourable credit roll-down and attractive sovereign bond create what we believe to be an interesting carry and roll-down opportunity, with the Super Senior component currently offering historically high levels of spread relative to the Main index (i.e., Super Senior Tranche spread / Main spread), a position that leverages the Super Senior tranche and mix it with an European basket of government bonds can offer a carry and roll down level similar to those seen in March 2020 (~ 600 bp) and October 2022 (~ 800 bp), as clearly shown in Fig 6.

Fig 5: Super Senior (1x) + EUR govies: carry and roll-down by year

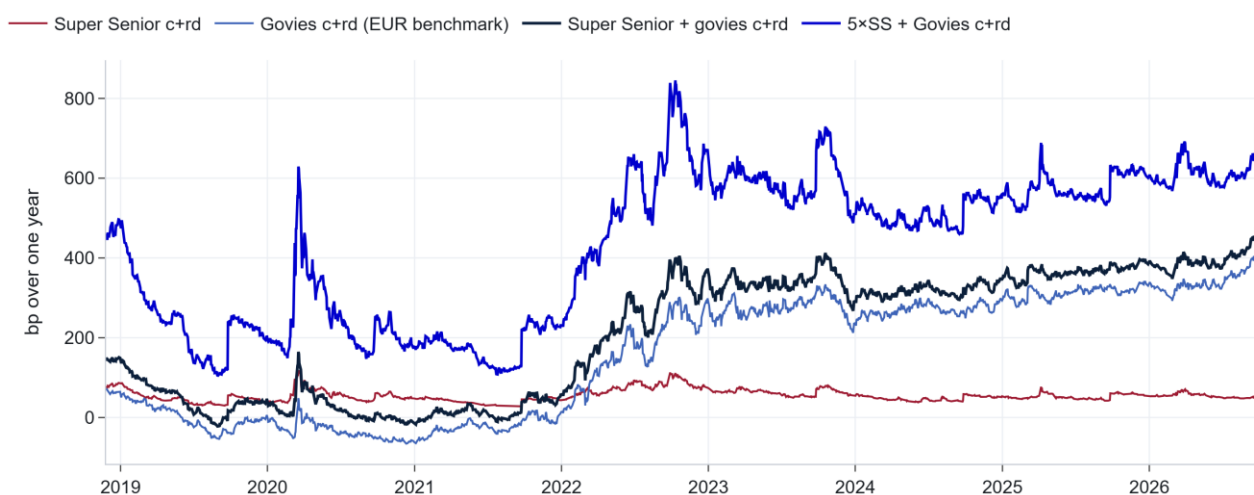
Yearly averages of daily values; last bar = current month to date. Red = Super Senior (spread carry, roll-down), blue = EUR 5Y (yield, roll-down)



Source: Selwood AM, Bloomberg, iTraxx Europe Main tranches, 5Y/4Y government yields [Nov 2018 – 13 Oct 2026]

Fig 6: Carry + roll-down over time: Super Senior + govies (EUR benchmark)

bp over one year, EUR benchmark = 1/3 DE, remaining 2/3 equally weighted among Austria, Belgium, Finland, France, Netherlands



Source: Selwood AM, Bloomberg, [Nov 2018 – 13 Oct 2026]

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