

Why 2025 could be a breakout year for bank contingent convertible bonds

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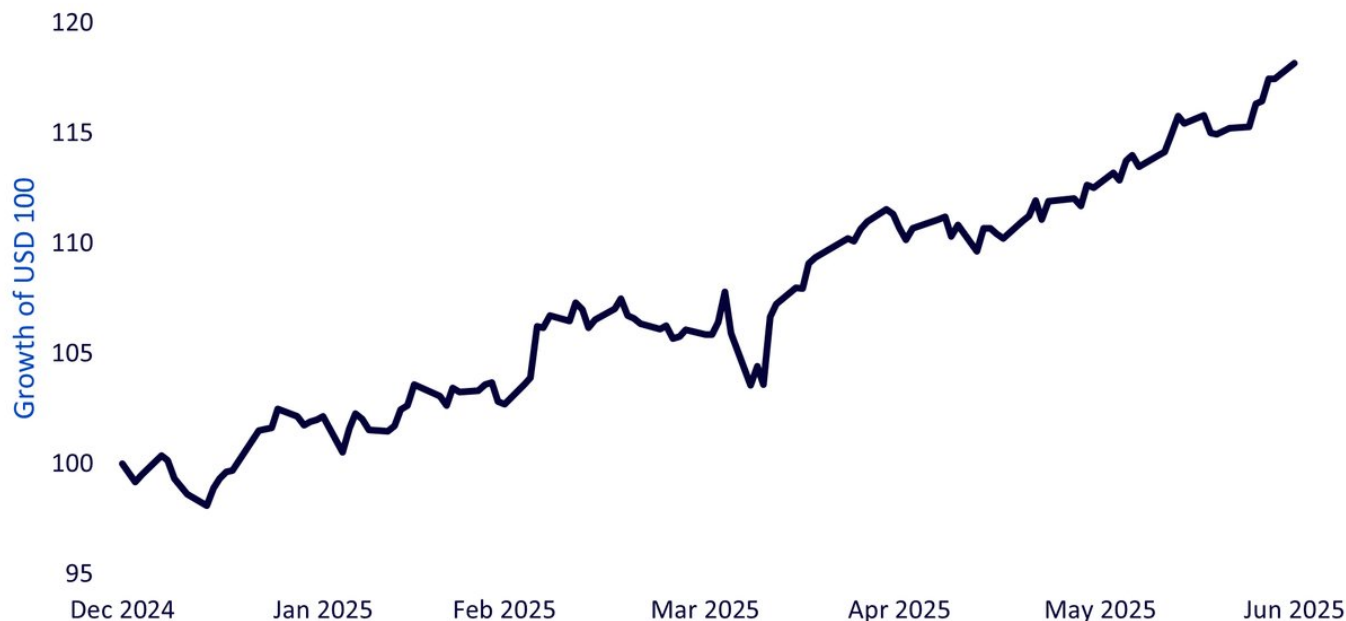
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Key Takeaways

- Resilience amid volatility – Despite macroeconomic tremors, most notably the April tariff shock from the Trump administration, the AT1 market rebounded sharply, proving its ability to digest short-term disruptions. The bounce-back by June reflects growing investor confidence in the asset class's stability.
- Fundamentals are firmly in place – European banks continue to post strong capital positions, earnings, and risk profiles. This solid footing and calm investor responses to geopolitical tensions suggest that AT1s are no longer the "fragile niche" they once were but a durable, mainstream asset class.
- Technical tailwinds support the second half – A record-breaking EUR 32 billion in AT1 issuance in H1 2025 was met with strong investor demand. With lower expected supply ahead, technicals look even more favourable. Strategic refinancing and limited summer issuance set the stage for continued performance into year-end.
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The first half of 2025 offered a textbook example of how far the Additional Tier 1 (AT1) market has come regarding depth, maturity, and resilience, and the year kicked off with January and February extending the strong rally seen throughout 2024. However, that momentum gradually faded by March, culminating in a sharp but short-lived sell-off after the Trump administration's 2 April announcement of new tariffs. What initially looked like a significant setback swiftly became an outstanding buying opportunity. The market rebounded with surprising strength from mid-April, pushing AT1 indices firmly into positive territory by the end of June. This recovery not only underscored the resilience of European banking fundamentals but also demonstrated how the asset class has evolved in its ability to weather macroeconomic shocks.



As shown in Figure 1, the ETF has mirrored the broader AT1 market's journey: a strong rally, a brief correction post-April tariff announcement, and a robust recovery into mid-year. A weaker dollar added to the performance of the EUR hedged share class of the ETF.

This chart encapsulates the AT1 market's ability to digest volatility and come out stronger. The ETF's rebound after the early April correction reflects investor confidence in the fundamental strength of European bank capital structures, confidence that appears well-placed given the sector's earnings and capital resilience.

Looking ahead, it's quite difficult to pinpoint clear negative catalysts. The fundamental backdrop remains impressive, with European banks reporting robust capital positions, solid profitability, and sound risk management. These conditions alone offer a compelling case for AT1s. However, perhaps even more striking is how the AT1 markets have handled geopolitical uncertainty. Even amid rising tensions involving the US, Israel, and Iran earlier this year, the market didn't flinch. In fact, both Piraeus and BNP Paribas managed to smoothly complete AT1 deals during that same period. The orderly execution and strong investor appetite that followed suggest this market is more resilient than ever.

From a technical standpoint, the upcoming months could be especially supportive. Summer is traditionally a quieter period for issuance, and the expectation of significantly reduced supply in the second half of the year adds another tailwind. What's particularly notable is the sheer volume of issuance already achieved in the first half of the year – EUR 32 billion in European AT1s, a figure that surprised even seasoned market participants. And yet, this isn't driven by deteriorating fundamentals or funding stress. Instead, it reflects strategic refinancing and an eagerness from issuers to lock in favourable terms, supported by sustained investor demand. The fact that most of these new bonds have traded above their reoffer levels only confirms that appetite remains healthy.

All told, the second half of 2025 presents a compelling opportunity for continued strength in AT1s. Robust banking fundamentals, manageable supply conditions, and an ongoing search for yield in a challenging rate environment all point to a market poised for steady performance. While geopolitical risks can't be ruled out, recent history suggests that the AT1 space is more than capable of absorbing such shocks, especially when its foundation remains as solid as it is today.

In many ways, 2025 is shaping up to be a record-setting year not just in terms of issuance but in showcasing the maturity and resilience of the AT1 asset class. If the first half was a test, the market passed with flying colours. The second half may very well build on that success.

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