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

Published 30 July 2025

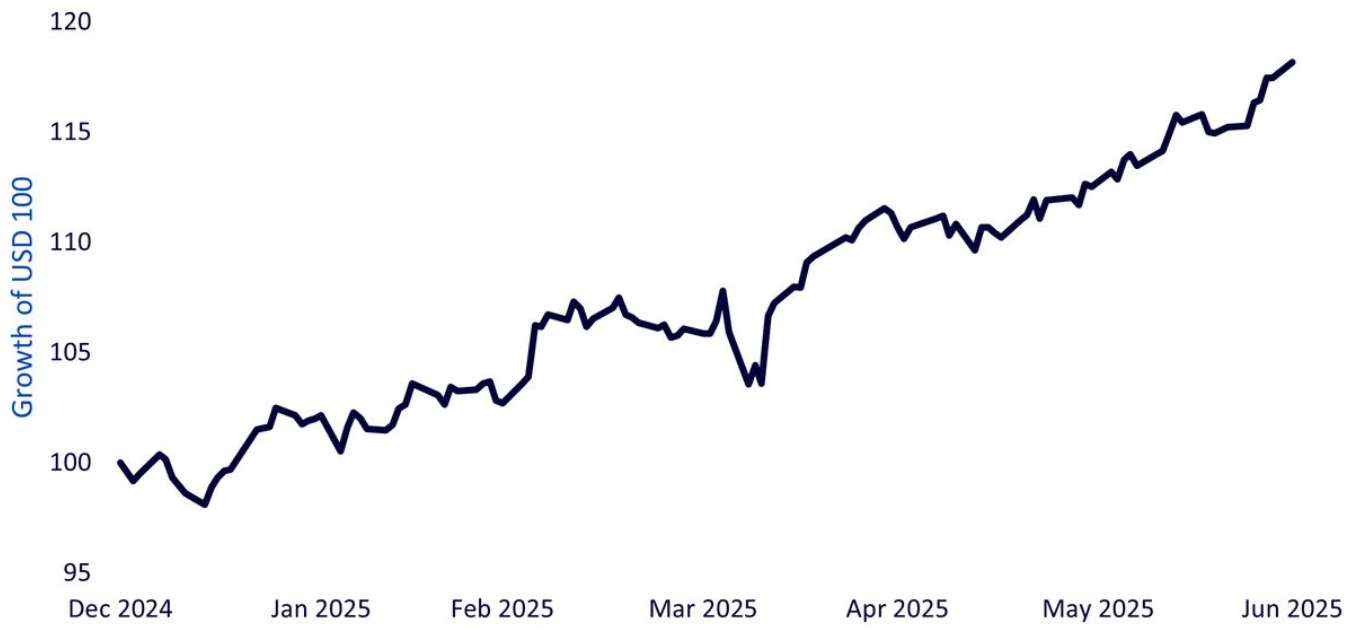
Ayush Babel
Director, Quantitative Research

Prof. Wim Schoutens
Professor at the University of Leuven, Belgium

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.

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.

Important Risks Related to this Article

IMPORTANT INFORMATION

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland. **Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority. WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request. This marketing communication has been prepared for professional investors, but the WisdomTree products set out in this document may be available in some jurisdictions to any investors, subject to applicable laws and regulations. As the product may not be authorised or its offering may be restricted in your jurisdiction, it is the responsibility of every person or entity to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdiction. Prior to any application investors are advised to take all necessary legal, regulatory, tax and investment advice on the suitability and consequences of an investment in the products. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and affer seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment. An investment in exchange-traded products ("ETPs") is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks. The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes. This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or

guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents. This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements. The products discussed in this document are issued by WisdomTree Issuer ICAV ("WT Issuer"). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland ("CBI"). WT Issuer is organised as an Undertaking for Collective Investment in Transferable Securities ("UCITS") under the laws of Ireland and shall issue a separate class of shares ("Shares") representing each fund. The Fund is described in a Key Information Document (KID) or Key Investor Information Document (KIID) for UK investors, and the prospectus of WT Issuer ("WT Prospectus"). A copy of the WT Prospectus and the KID / KIID is available, for EEA/UK only, in

English at www.wisdomtree.eu. Where required under national rules, the KID will also be available in the local language of the relevant EEA Member State. Investors should read the WT Prospectus before investing and should refer to the section of the WT Prospectus entitled 'Risk Factors' for further details of risks associated with an investment in the Shares. The summary of investor rights associated with an investment in the fund is available in English on WisdomTree Europe's website. WisdomTree Management Limited may decide to terminate the arrangements made for the marketing of its collective investment undertakings. In such circumstances, shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the fund free of any charges or deductions for at least 30 working days from the date of such notification.

WisdomTree AT1 CoCo Bond UCITS ETF The iBoxx Contingent Convertible Liquid Developed Europe AT1 Index is a product of S&P Dow Jones Indices LLC or its affiliates ("SPDJI") has been licensed for use by WisdomTree. S&P®, S&P 500®, iBoxx®, iTraxx® and CDX® are registered trademarks of S&P Global, Inc. or its affiliates ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"); and these trademarks have been licensed for use by SPDJI and sublicensed for certain purposes by WisdomTree. WisdomTree AT1 CoCo Bond UCITS ETF is not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates, and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability for any errors, omissions, or interruptions of the iBoxx Contingent Convertible Liquid Developed Europe AT1 Index. CoCos are complex securities and potential investors should not discount tail risk and the possibility of conversion. CoCos coupon payments are fully discretionary and hence can in theory be

skipped at any time. Notice to Investors in Switzerland – Qualified Investors This document constitutes an advertisement of the financial product(s) mentioned herein. The prospectus and the key investor information documents (KIID) are available from WisdomTree's website: https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports Some of the sub-funds referred to in this document may not have been registered with the Swiss Financial Market Supervisory Authority ("FINMA"). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent. For Investors in France: The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto. **For Investors in Malta:** This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority.

For Investors in Monaco: This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.