AT1s: a grand cru year for a maturing market

Published 26 November 2025

Ayush Babel
Director, Quantitative Research

Prof. Wim Schoutens
Professeur à l'Université de Louvain, en Belgique

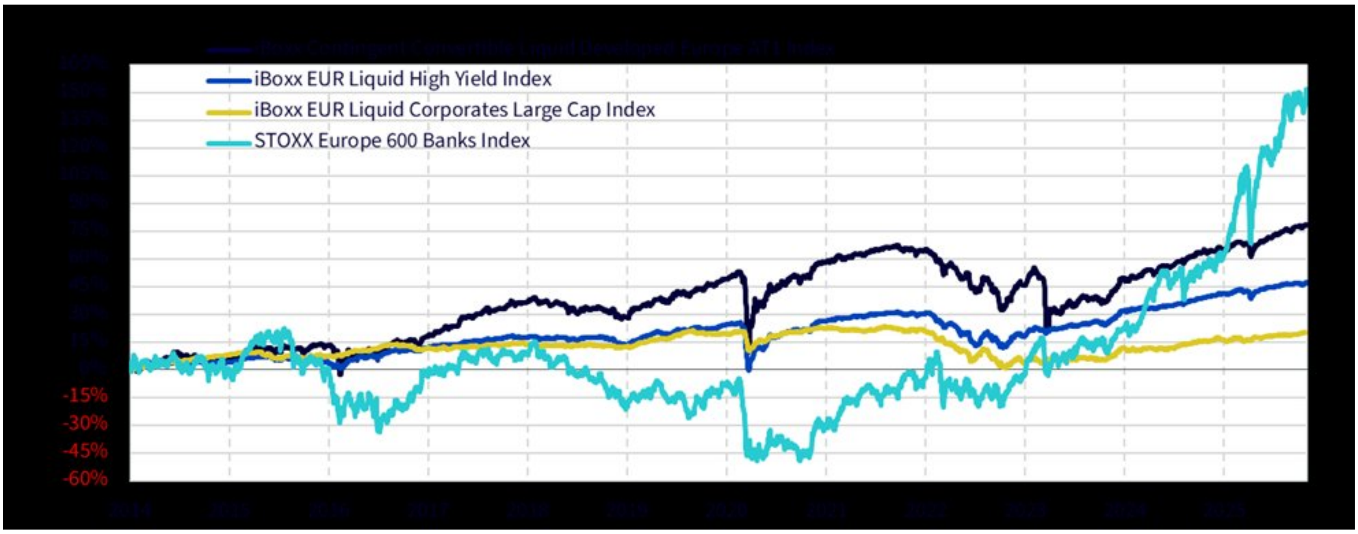
Key Takeaways

- 2025 confirmed that AT1s have matured into a core part of the fixed income universe. The market absorbed record issuance with strong institutional demand, showing genuine structural depth.
- Liberation Day tested this maturity. Volatility rose, but the sell-off was contained and investors bought the dip. CoCos remained notably more stable than European bank equities, reflecting confidence in the strength and regulation of European banks.
- While further spread tightening may be limited, AT1s still offer around 6% yield-to-worst and stand out as an attractive option for investors seeking higher income with controlled risk.

- Related Products WisdomTree AT1 CoCo Bond UCITS ETF - USD Acc Find out more

As we move through the final quarter, it's worth taking stock of what 2025 has delivered for AT1s. The year has shaped up to be a strong one. Perhaps not an all-timer, but certainly a grand cru given the macro noise and volatility across other asset classes. Figure 1 shows cumulative performance that reflects a market which has matured meaningfully over the past decade.

Figure 1: Cumulative Performance



A healthy primary market

Primary issuance remained robust throughout 2025. Order books frequently ran to more than ten times deal size, with the market absorbing elevated supply without strain. Outstanding AT1 volumes reached record highs. Yield appeal played a part, but this was not simply opportunistic money chasing carry, as institutional demand showed genuine depth. The investor base has evolved, with insurers and asset managers now participating consistently, signalling a structurally durable market rather than one reliant on anchor orders.

Extension risk: the market's coming of age

The bigger shift this year came around extension risk. Historically, bonds with thin back-end economics were penalised, yet in 2025 they led performance. When Deutsche Bank skipped a US dollar call in April, an event that would once have triggered contagion fears, the market barely flinched. Investors instead focused on robust capital levels, stable regulation and reset economics, concluding that extension was not a material concern. Whether that confidence reflects clear-eyed analysis or complacency is debatable, but it has unquestionably defined the tone of the year.

Liberation Day: a true stress test, calmly passed

Liberation Day offered one of the first stress tests for CoCos in several years. Spreads widened sharply at first, but the sell-off was notably contained by historical standards, and, importantly, investors bought the dip. This 'buy-the-dip' reflex was a defining moment as it revealed that AT1s have become an established institutional asset class rather than a speculative niche. What was particularly striking was the relative stability of CoCos compared with other asset classes, including European bank equities and broader credit markets. While bank stocks exhibited larger drawdowns, AT1s remained orderly. This showcased investors' confidence in the fundamental strength of European banks, which continue to operate with strong capital buffers and under rigorous supervision. The conversation around AT1s has clearly shifted from existential risk to relative-value positioning.

Contagion from the US: a sentiment story, not a structural one

Recent spread widening in European AT1s has reflected contagion from US regional banking stress, where private credit exposures, such as the First Brands case and other loan issues, have come under pressure. This is a purely US story. European and UK banks remain well-capitalised and tightly regulated, with none of the structural vulnerabilities of US regional lenders. The move in spreads appears to be driven more by sentiment than by fundamentals, and if that's the case, it presents selective entry opportunities for investors.

Outlook: maturity, stability and yield

Looking ahead to 2026, further spread tightening from current levels may be limited, given the already strong performance and tighter valuations. However, AT1s continue to offer an attractive yield of just under

6% (yield to worst as of 31 October 2025), supported by the solid capital position of the European banking sector.

The past year has shown that the AT1 market has truly come of age. Contingent convertible bonds are now a mainstream part of the fixed income toolkit, capable of withstanding periods of stress, rewarding long-term investors and can deliver a combination of yield and resilience.

For investors seeking higher income and diversification within their fixed income portfolios, AT1s provide an opportunity that blends income potential, stability and exposure to one of the most resilient banking systems globally.

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.

For professional clients only. The information contained in this document is for your general information only and is neither an oer for sale nor a solicitation of an oer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and aer seeking independent investment, tax and legal advice.

The application of regulations and tax laws can oen lead to a number of dierent interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and aer seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public oering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any ailiate, nor any of their respective oicers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.