CREDIT MARKETS SPECIAL | EUR CORPORATE BONDS | HYBRIDS

# Hybrids: Return/risk profile remains in demand

As in 2024, hybrid bonds are outperforming senior corporate bonds YTD. This trend is likely to continue for the time being. The sectors dominating the hybrid market (e.g. utilities, telecoms) are not directly affected by US tariff policy. Green hybrids already account for almost 30% of all hybrids. We do not currently see a 'greenium'.

**Analyst:**
Peter Kaufmann, CFA
peter.kaufmann@erstegroup.com

**EUR Non-Financial Corporate Hybrids: Market data***

| | IG Hybrid | HY Hybrid |
|---|---|---|
| Yield (%) | 4.1% | 4.5% |
| Mod. Duration | 3.6 years | 3.3 years |
| Spread vs Bunds (basis points) | 192 | 239 |
| Total Return ytd | 3.3% | 3.3% |

*Source: Market data provider, Erste Group Research*
*Data as of: 07/16/2025*
**Yield, duration and spread averages based on the first call dates of the hybrid bonds*

Contents



**Major Markets & Credit Research**
Rainer Singer (Head)

**Sub-Sovereigns & Agencies**
Ralf Burchert, CEFA, CESGA

**Financials & Covered Bonds**
Heiko Langer
Carmen Riefler-Kowarsch

**Corporate Bonds**
Peter Kaufmann, CFA
Bernadett Povazsai-Römhild, CEFA, CESGA
Elena Statelov, CIIA



## Overweight of defensive sectors offers advantages

The spread widening following US President Trump's announcement of high 'reciprocal' tariffs on 2 April ('Liberation Day') was more than reversed after the temporary reduction in tariff rates. Hybrid bonds initially reacted to Trump's tariff announcements with sharp spread widening. However, in economic terms, the majority of the outstanding hybrid bond volume would only be indirectly affected by high US tariffs. This is because hybrid bonds are mainly issued in defensive, non-export-dependent sectors (utilities and telecoms account for around 51% of hybrid volume). This should make them attractive to investors in times of trade disputes and economic weakness.

The strong performance of the previous year (just under 8% total return for IG hybrids) will not be repeated in 2025, as the potential for spread narrowing is lower and the ECB's cycle of interest rate cuts is likely to be over for the time being. Risk premiums are likely to already anticipate a good part of the expected economic recovery. The yield spread between hybrid and senior bonds is at its narrowest in years. Nevertheless, there are many reasons to believe that hybrid bonds will continue to outperform senior bonds, at least until the end of the year. However, the main reason for this is likely to be their subordinated nature and thus higher yields, rather than further spread tightening. Over a 12-month horizon, performance in line with their current average yield seems realistic for IG hybrids.

IG-rated oil & gas hybrids appear undervalued compared to IG hybrids from utilities and telecoms due to their slightly better average ratings. Investors seem to price in transformation risks in the oil & gas sector. At around EUR 20bn, more hybrids have already been issued this year than in the entire years of 2022 and 2023, which were marked by interest rate hikes. It is quite possible that new issues will exceed redemptions in 2025. Conditions for issuers have improved significantly, partly due to spread tightening.

## High proportion of utilities, thus high proportion of green bonds

Diversified hybrid bond investors are generally also heavily invested in green bonds. Green bonds now account for almost 30% of the rated hybrid bond market. At ~23% to date, the share of green hybrid issues in total hybrid issuance volume is still well below last year's level, which set a new record at over 41%. Utilities currently account for 70% of outstanding green hybrid volume, with telecoms accounting for 16%. We see no clear indication of a 'greenium', i.e. a lower risk premium for green hybrids compared to conventional hybrids. This also means that investors in green hybrids should not suffer any disadvantages in terms of returns.

## Hybrids: Advantages in trade conflict

US trade policy has been biggest factor influencing spreads so far this year

The most important factor influencing credit risk premiums this year to date has been US trade policy. As in other corporate bond segments, hybrid spreads initially widened sharply following the announcement of high 'reciprocal' tariffs by US President Trump on April 2. Since their temporary reduction shortly afterwards and the start of negotiations, risk premiums have been falling steadily. Currently, they are lower than at the beginning of the year.

Hybrids outperform senior bonds

IG- and HY-rated hybrid bonds have outperformed senior IG (+1.8%) and HY corporate bonds (+2.9%) since the beginning of the year, with returns of +3.3% each. Their subordination and therefore relatively high yields were key factors here. The easing of the EU-US trade conflict, the slight brightening of economic indicators and the four key interest rate cuts by the ECB contributed to spread narrowing in all corporate bond segments. However, the hybrid market is also characterized by its defensive sector structure, which means that it should not be as badly affected by tariffs as the corporate bond market as a whole.

Yield spread between hybrid and senior bonds has narrowed, particularly since 2024

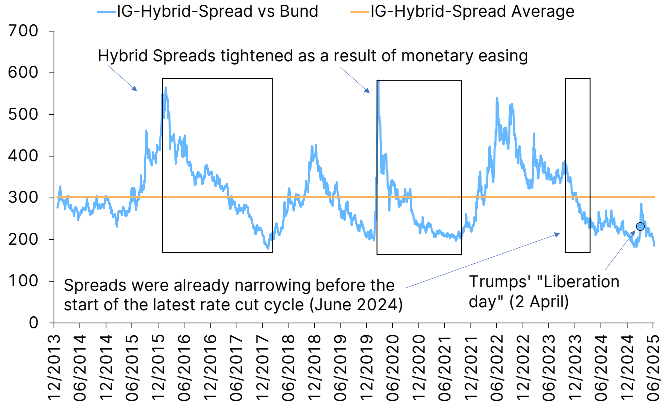
The yield spread between IG-rated hybrid bonds and senior IG bonds has narrowed steadily since 2024 (see chart on the right). We consider the further potential for spread tightening to be limited.

### Hybrid issuers: Majority not directly affected by tariffs

(Partially) immune to trade disputes?

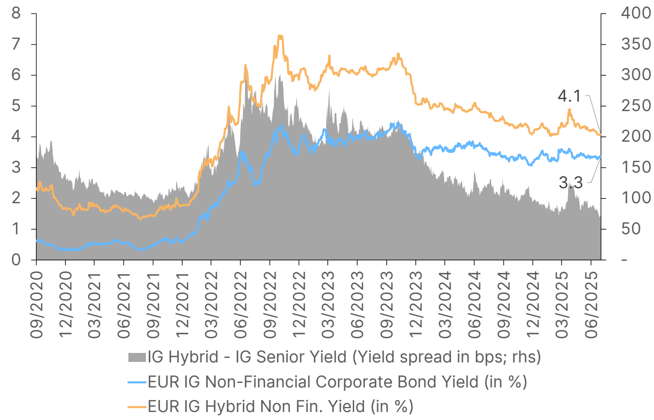
A renewed escalation of the trade dispute with the US could lead to significant spread widening in the short term, as was the case in April. However, as defensive, non-export-dependent sectors play the leading role in the hybrid market, this would only marginally increase credit risk. We therefore expect only a temporary widening of spreads in this case. If the Israel-Iran conflict flares up again, rising oil & gas prices are likely to keep spread widening in oil & gas hybrids (hybrid market share: 21%) within limits.

**US tariff policy caused temporary spread widening**
IG hybrid spread to Bunds, in bp



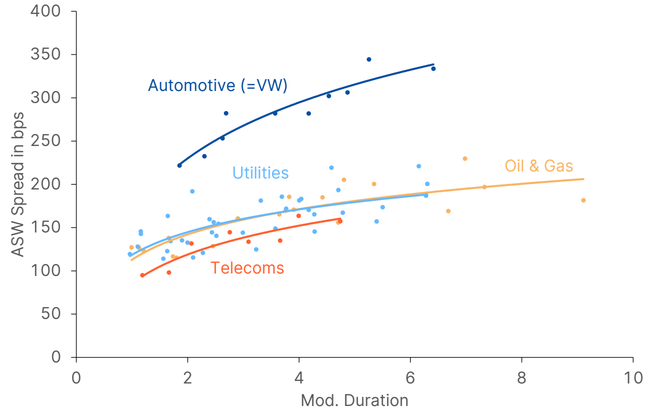

*Source: Market data provider, Erste Group Research*

**Yield spread (grey) vs. overall market has narrowed**
IG yields: hybrid bonds vs. overall corporate bond market



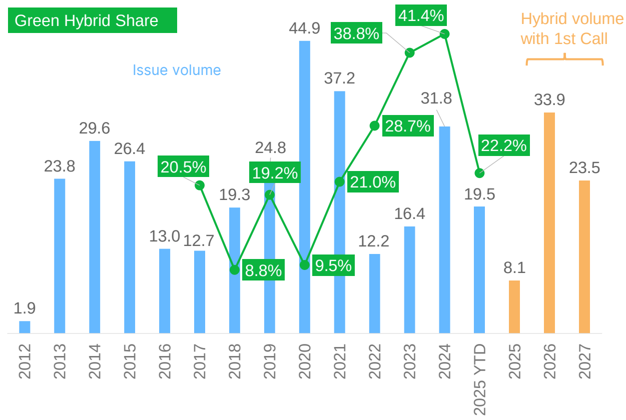

*Source: Market data provider, Erste Group Research*

**VW hybrid spreads reflect challenges**
IG hybrids: ASW spreads by sector




*Source: Market data provider, Erste Group Research*

**Green hybrid share to date below previous year's level**
EUR corporate hybrid issuance and maturing volume




*Source: Market data provider, Erste Group Research*

VW: largest EUR hybrid issuer (and third-largest green hybrid issuer) with relatively high risk premiums

In the IG hybrid segment, Volkswagen (VW) hybrids continue to stand out, with the highest spreads by some distance. With volume of around EUR 12 bn, VW is the largest hybrid issuer ahead of TotalEnergies (EUR 10 bn) and represents approx. 10% of the outstanding rated EUR non-financial hybrid volume. The high spreads are probably mainly due to known challenges (switch to electric mobility, increasing competition in the important Chinese market, software investment requirements, trade conflicts). Moody's downgraded VW from A3 to Baa1 in March 2025 (outlook: stable). A further downgrade and loss of the hybrids' IG rating would increase VW's financing costs, which is why the incentive and pressure on the group to prevent this is high. Compared to similarly rated hybrid bonds from other sectors, VW spreads appear attractive.

Oil & gas hybrid spreads reflect transformation risks

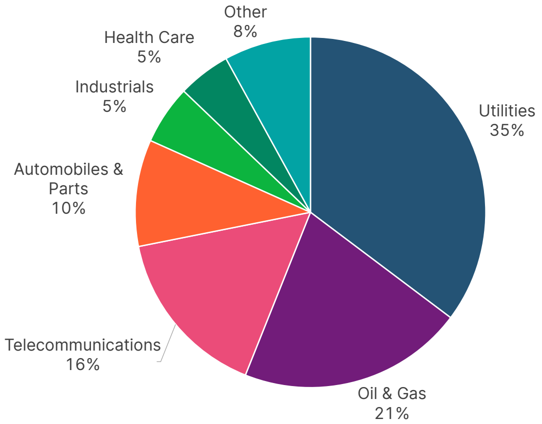
Utilities and oil & gas companies have almost identical spreads on average. Due to the slightly stronger average rating in the oil & gas sector (TotalEnergies hybrids are rated A), the oil & gas segment appears to be undervalued compared to utilities and telecoms, which all have BBB ratings. With relatively high oil & gas spreads, investors appear to have been pricing in transformation risks for several years now. In any case, the credit metrics for the oil & gas sector remain very strong to date.

Little potential for spread narrowing

Like credit risk premiums in general, hybrid spreads correlate with the economic outlook. If the EU and US can reach a stable trade agreement and the Eurozone economy improves, hybrid spreads should also narrow slightly. However, the link to the economy is also weaker in this case due to the dominance of defensive sectors. Hybrids from the oil & gas and automotive (VW) sectors could still see the strongest positive reaction.

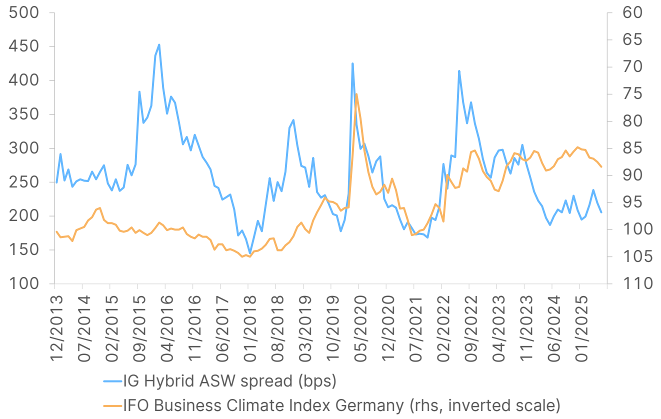
Looking ahead to the next 12 months, performance in the hybrid segment as a whole appears realistic at around the current yield in an uncertain environment.

**Utilities & telecoms account for >50% of hybrid market**
Sector weights in rated IG & HY non-fin. hybrid market




*Source: Market data provider, Erste Group Research*

**Better business climate contributes to spread narrowing**
IG hybrid ASW spreads (bp) (lhs) vs. IFO business climate




*Source: Market data provider, Erste Group Research*

## Primary market trends

Utilities and oil & gas companies dominate primary market so far this year

With issue volume of around EUR 20bn, more hybrids have already been issued this year than in the entire years of 2022 and 2023, which were marked by interest rate hikes. In 2025, utilities (31% of issue volume) and oil & gas companies (20%) are currently dominating the primary market. In Austria, real estate developer UBM (EUR 65 mn), oil and gas company OMV (EUR 750 mn) and fiber manufacturer Lenzing (EUR 500 mn) refinanced hybrid bonds.

Net new issuance volume within reach in 2025

This year's issue volume (EUR 20 bn) is already almost equal to the bond volume that has already reached its first call or redemption date. It is therefore quite possible that there will be net new issuance volume in 2025. The conditions for issuers have improved significantly from 2024 onwards.

Considering possible early refinancing activities for 2026, when hybrids with a nominal value of EUR 33.9 bn can be redeemed for the first time, an increase in the hybrid issuance volume this year compared to the very strong issuance year 2024 (issuance volume: approx. EUR 32 bn) cannot be ruled out.

By early 2026 at latest, there should be increase in hybrid real estate issues

31% of hybrids callable for the first time in 2026 originate from the utilities sector, 20% from the real estate sector and 17% from the oil & gas sector. Green hybrids account for around 15%.

The relatively high proportion of real estate hybrids with a first call date in 2026 (20%) reflects the boom in hybrid issuance in the real estate sector in the low interest rate environment of 2021. An increase in hybrid issuance volume from the real estate sector is therefore to be expected from 2026 at the latest.

## Green Hybrids

Green hybrid primary market share lower so far this year than in record year 2024

EUR 4.3 bn in green hybrid bonds have been issued since the beginning of the year. At just under 23%, the share of green issues in total issuance volume is still well below last year's figure, which set a new record at over 41%.

Unsurprisingly, utilities remain the most active issuers on the green hybrid primary market this year. RWE, EDP and Veolia issued bonds in May and June. In mid-May, VW, incidentally the third-largest green hybrid issuer, issued two green hybrids with total volume of EUR 1.9 bn.

The Austrian real estate company UBM placed the first EUR green hybrid of 2025 mentioned above at the beginning of May, albeit with relatively small volume (EUR 65 mn).

No 'greenium' apparent

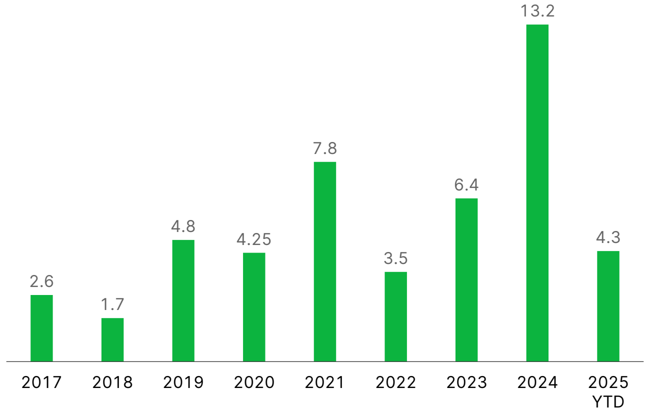
We assess the question of whether there is a 'greenium' on the hybrid market, i.e. a lower spread or risk premium for green hybrids compared to conventional hybrids, at the level of individual issuers. When comparing conventional and green hybrids from issuers such as VW, Iberdrola and EnBW, no greenium is apparent.

Example VW

Example VW (see chart on the bottom right): The hybrid tranche with a shorter duration placed in May currently does not have a significantly lower spread than the conventional hybrid with a comparable, slightly longer duration. The second green hybrid tranche placed in May with a long duration does have a relatively low spread for its term compared with the other hybrids. However, a meaningful comparison is not possible due to the lack of conventional VW hybrids with a similar duration.

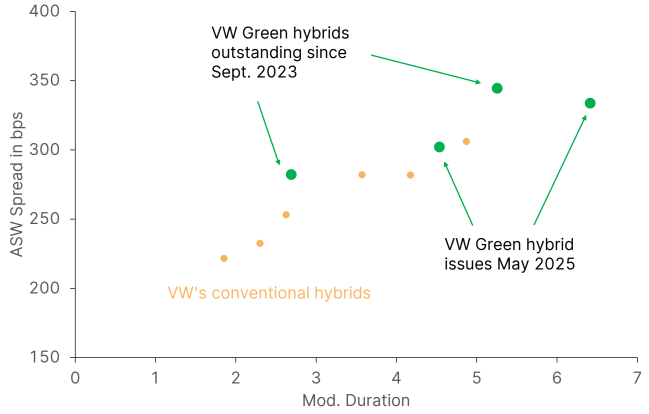
At Iberdrola and EnBW (see charts on the next page), conventional hybrid bonds do not show significantly wider spreads than green hybrids.

**2024 saw record high in green hybrid issues**
Green hybrid issue volume, in EUR bn




*Source: Market data provider, Erste Group Research*

**VW: no sign of greenium**
VW hybrids: ASW Spreads in bp vs. Mod. Duration




*Source: Market data provider, Erste Group Research*

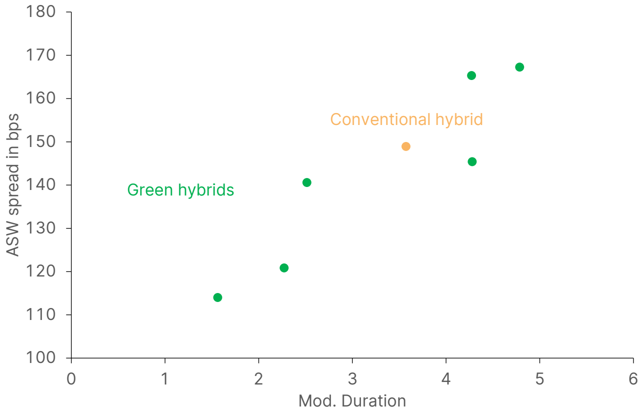
Will issuers weigh up costs and benefits of green hybrid issues more carefully in future? Is ‘greenium’ only for pioneers?

Only time will tell whether issuers will weigh up the costs and benefits of ‘green’ issues more carefully in future than they have done in the recent past. However, investor expectations that are already firmly established make it more likely that the green hybrid market will continue to grow, particularly in well-suited sectors such as energy and utilities. Based on our previous research, we believe that a greenium should be achievable primarily for issuers from sectors that have issued few green bonds to date and therefore offer investors new diversification opportunities.

Green hybrids do not mean lower returns for investors

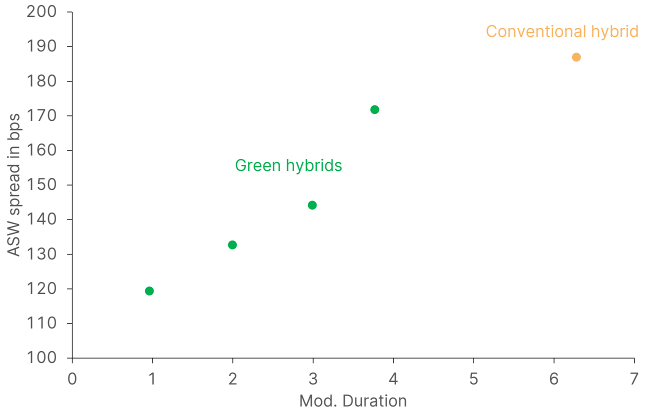
A preliminary conclusion can be drawn for investors: investments in green hybrid bonds are unlikely to entail lower returns or income compared with conventional hybrid bonds.

**Iberdrola: conventional hybrid spread is not wider**
Iberdrola hybrid bonds (BBB): ASW spreads in bp




*Source: Market data provider, Erste Group Research*

**EnBW: conventional hybrid does not ‘break the mold’**
EnBW hybrids: ASW spreads in bp vs. Mod. Duration




*Source: Market data provider, Erste Group Research*

# Contacts

## Group Research

| | |
|---|---|
| **Head of Group Research** | |
| Friedrich Mostböck, CEFA®, CESGA® | +43 (0)5 0100 11902 |
| **CEE Macro/Fixed Income Research** | |
| Head: Juraj Kotian (Macro/FI) | +43 (0)5 0100 17357 |
| Katarzyna Rzentarzewska (Fixed income) | +43 (0)5 0100 17356 |
| Jakub Cery (Fixed income) | +43 (0)5 0100 17384 |
| **Croatia/Serbia** | |
| Alen Kovac (Head) | +385 72 37 1383 |
| Mate Jelić | +385 72 37 1443 |
| Ivana Rogic | +385 72 37 2419 |
| **Czech Republic** | |
| David Navratil (Head) | +420 956 765 439 |
| Jiri Polansky | +420 956 765 192 |
| Michal Skorepa | +420 956 765 172 |
| **Hungary** | |
| Orsolya Nyeste | +361 268 4428 |
| János Nagy | +361 272 5115 |
| **Romania** | |
| Ciprian Dascalu (Head) | +40 3735 10108 |
| Eugen Sinca | +40 3735 10435 |
| Vlad Nicolae Ionita | +40 7867 15618 |
| **Slovakia** | |
| Maria Valachyova (Head) | +421 2 4862 4185 |
| Matej Hornak | +421 902 213 591 |
| Marian Kocis | +421 904 677 274 |
| **Major Markets & Credit Research** | |
| Head: Rainer Singer | +43 (0)5 0100 17331 |
| Ralf Burchert, CEFA®, CESGA® (Sub-Sovereigns & Agencies) | +43 (0)5 0100 16314 |
| Hans Engel (Global Equities) | +43 (0)5 0100 19835 |
| Maurice Jiszda, CEFA®, CFDS® (USA, CHF) | +43 (0)5 0100 19630 |
| Peter Kaufmann, CFA® (Corporate Bonds) | +43 (0)5 0100 11183 |
| Heiko Langer (Financials & Covered Bonds) | +43 (0)5 0100 85509 |
| Stephan Lingnau (Global Equities) | +43 (0)5 0100 16574 |
| Maximilian Möstl (Credit Analyst Austria) | +43 (0)5 0100 17211 |
| Carmen Riefler-Kowarsch (Financials & Covered Bonds) | +43 (0)5 0100 19632 |
| Bernadett Povazsai-Römhild, CEFA®, CESGA® (Corporate Bonds) | +43 (0)5 0100 17203 |
| Elena Statelov, CIIA® (Corporate Bonds) | +43 (0)5 0100 19641 |
| Gerald Walek, CFA® (Eurozone) | +43 (0)5 0100 16360 |
| **CEE Equity Research** | |
| Head: Henning Eßkuchen, CESGA® | +43 (0)5 0100 19634 |
| Daniel Lion, CIIA® (Technology, Ind. Goods&Services) | +43 (0)5 0100 17420 |
| Michael Marschallinger, CFA® | +43 (0)5 0100 17906 |
| Nora Varga-Nagy, CFA® (Telecom) | +43 (0)5 0100 17416 |
| Christoph Schultes, MBA, CIIA® (Real Estate) | +43 (0)5 0100 11523 |
| Thomas Unger, CFA® (Banks, Insurance) | +43 (0)5 0100 17344 |
| Vladimira Urbankova, MBA (Pharma) | +43 (0)5 0100 17343 |
| Martina Valenta, MBA | +43 (0)5 0100 11913 |
| **Croatia/Serbia** | |
| Mladen Dodig (Head) | +381 11 22 09178 |
| Boris Pevalek, CFA® | +385 99 237 2201 |
| Marko Plastic | +385 99 237 5191 |
| Bruno Barbic, CFA® | +385 99 237 1041 |
| Davor Spoljar, CFA® | +385 72 37 2825 |
| Magdalena Basic | +385 99 237 1407 |
| **Czech Republic** | |
| Petr Bartek (Head, Utilities) | +420 956 765 227 |
| Jan Bystřický | +420 956 765 218 |
| **Hungary** | |
| József Miró (Head) | +361 235 5131 |
| András Nagy | +361 235 5132 |
| Tamás Pletser, CFA® (Oil & Gas) | +361 235 5135 |
| **Poland** | |
| Cezary Bernatek (Head) | +48 22 257 5751 |
| Piotr Bogusz | +48 22 257 5755 |
| Łukasz Jańczak | +48 22 257 5754 |
| Jakub Szkopek | +48 22 257 5753 |
| Krzysztof Tkocz | +48 22 257 5752 |
| **Romania** | |
| Caius Rapanu | +40 3735 10441 |

## Group Markets

| | |
|---|---|
| **Head of Group Markets** | |
| Oswald Huber | +43 (0)5 0100 84901 |
| **Group Markets Retail and Agency Business** | |
| Head: Martin Langer | +43 (0)5 0100 11313 |
| **Markets Retail Sales AT** | |
| Head: Markus Kaller | +43 (0)5 0100 84239 |
| **Group Markets Execution** | |
| Head: Kurt Gerhold | +43 (0)5 0100 84232 |
| **Retail & Sparkassen Sales** | |
| Head: Uwe Kolar | +43 (0)5 0100 83214 |
| **Markets Retail Sales & PM SK** | |
| Monika Pálová | +421 911 891 098 |
| **Markets Retail Sales HUN** | |
| Head: Peter Kishazi | +36 1 23 55 853 |
| **Markets Retail Sales CZ** | |
| Head: Martin Vlcek | +420 956 765 374 |
| **Markets Retail Sales & PM CRO** | |
| Head: Neven Radaković | +385 (0)72 37 1385 |
| Head: Tamas Nagy | +385 (0)72 37 2461 |
| **Markets Retail Sales & PM RO** | |
| Head: Laura Hexan | +40 7852 47110 |
| **GM Retail Products &Business Development** | |
| Head: Michael Tröthann | +43 (0)50100 11303 |
| **Group Treasury Markets** | |
| Head: Valentin Popovici | +43 (0)5 0100 85882 |
| **MM Trading** | |
| Head: Philippe Quintans de Soure | +43 (0)5 0100 84424 |
| **Collateral Trading, Management and Optimization** | |
| Head: Danijela Lukic | +43 (0)5 0100 84983 |
| **Interest Rates and FX Options Trading** | |
| Head: Martin Sramko | +43 (0)5 0100 84924 |
| **FX Trading & Corporate Treasury Sales** | |
| Head: Valentin Popovici | +43 (0)5 0100 85882 |
| **E-FX Trading** | |
| Head: Helmut Kroboth | +43 (0)5 0100 84652 |
| **CEE FX Trading** | |
| Head: Juraj Zabadal | +420 224 995 553 |
| **Markets Corporate Sales AT** | |
| Head: Martina Kranzl-Carvell | +43 (0)5 0100 84147 |
| **Markets Corporate Sales HUN** | |
| Head: Adam Farago | +361 237 8202 |
| **Markets Corporate Sales CRO** | |
| Head: Neven Radaković | +385 (0)72 37 1385 |
| **Markets Corporate Sales CZ** | |
| Head: Tomas Picek | +420 224 995 511 |
| **Markets Corporate Sales RO** | |
| Head: Bogdan Ionut Cozma | +40 731 680 257 |
| **Markets Corporate Sales SK** | |
| Head: Lubomir Hladik | +421 2 4862 5622 |
| **Group Securities Markets** | |
| Head: Thomas Einramhof | +43 (0)50100 84432 |
| **Institutional Distribution Core** | |
| Head: Jürgen Niemeier | +49 (0)30 8105800 5503 |
| **Institutional Distribution CEE & Insti AM CZ** | |
| Head: Antun Burić | +385 72 37 2439 |
| **Institutional Distribution DACH+** | |
| Head: Marc Friebertshäuser | +49 (0)711 810400 5540 |
| **Institutional Asset Management CZ** | |
| Head: Petr Holeček | +420 956 765 453 |
| **Group Institutional Equity Sales** | |
| Head: Michal Řízek | +420 224 995 537 |
| Werner Fürst | +43 (0)50100 83121 |
| Viktoria Kubalcova | +43 (0)5 0100 83124 |
| Thomas Schneidhofer | +43 (0)5 0100 83120 |
| Oliver Schuster | +43 (0)5 0100 83119 |
| **Czech Republic** | |
| Head: Michal Řízek | +420 224 995 537 |
| Jakub Brukner | +420 731 423 294 |
| Martin Havlan | +420 224 995 551 |
| Pavel Krabička | +420 224 995 411 |
| **Poland** | |
| Head: Jacek Jakub Langer | +48 22 257 5711 |
| Tomasz Galanciak | +48 22 257 5715 |
| Wojciech Wysocki | +48 22 257 5714 |
| Przemyslaw Nowosad | +48 22 257 5712 |
| **Croatia** | |
| Matija Tkaličanac | +385 72 37 21 14 |
| **Hungary** | |
| Nandori Levente | + 36 1 23 55 141 |
| Krisztian Kandik | + 36 1 23 55 162 |
| Balasz Zankay | + 36 1 23 55 156 |
| **Romania** | |
| Adrian Barbu | +40 7305 18635 |
| **Group Fixed Income Securities Markets** | |
| Head: Goran Hoblaj | +43 (0)50100 84403 |
| **Fixed Income Flow Sales** | |
| Head: Goran Hoblaj | +43 (0)5 0100 84403 |
| Bernd Thaler | +43 (0)5 0100 84119 |
| **Group Fixed Income Securities Trading** | |
| Head: Goran Hoblaj | +43 (0)50100 84403 |
| **Credit Trading** | |
| Head: Christoph Fischer-Antze | +43 (0)50100 84332 |
| **CEE Rates Trading** | |
| Head: Peter Provotiak | +420 224 995 512 |
| **Euro Government Bonds Trading** | |
| Head: Gottfried Ziniel | +43 (0)50100 84333 |
| **Group Equity Trading & Structuring** | |
| Head: Ronald Nemec | +43 (0)50100 83011 |
| **Group Markets Financial Institutions** | |
| Manfred Neuwirth | +43 (0)50100 84250 |
| **Group Financial Institutions** | |
| Head bis 30.4.25: Christian Wolf | +43 (0)50100 12776 |
| Head ab 1.5.25: Christina Linzer | +43 (0)50100 13049 |
| **Group Non-Bank Financial Institutions** | |
| Head: Michael Aschauer | +43 (0)50100 14090 |

## Disclaimer



Published by:

Erste Group Bank AG
Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Wien
Commercial Register No: FN 33209m
Commercial Court of Vienna

Erste Group Homepage: www.erstegroup.com