

IN FOCUS – February 2026

iTraxx[©] Main Equity Tranche: An all-time low in spread

The equity tranche of a credit index takes the risk on the first X% of any default losses on the underlying portfolio.

*For the iTraxx Main index (the primary European investment grade credit index), the equity tranche (0-3%) is a standardised product – traded & quoted daily, and recently hit an all-time low in spread. **We don't believe this will last...***

We hardly need to remind anyone...

Credit spreads (in the public markets) are at extreme tights.

Wherever you look – geography, sector, asset class. But they are not quite at *all-time* tights across the board.

For example, the iTraxx Main 5yr index spread has been around 50bps at the start of 2026. The tightest it has ever been is 21bps in 2005 during the credit boom pre-GFC, and the tightest post-GFC has been 44bps. So the index is tight, but not at historic tights.

How do other related (i.e. liquid public market IG) European credit instruments compare?

The iTraxx Main 5yr equity tranche

The equity tranche (0-3%) of the iTraxx Main 5yr is (crudely) an internally leveraged version of the index, and so the spreads of each asset generally move with a close relationship.

However, the equity tranche has de-coupled in recent times, and HAS recently traded at an all-time tight (see Figure 1 below) of c. 6.5%.

The reason for the de-coupling here is implied correlation – the higher the implied correlation across the credit index universe, the lower the spread in the equity tranche.

Currently implied correlation in iTraxx Main is at an all-time high, hence the all-time low in the equity tranche spread.

Figure 1



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A dislocation?

Well yes we think so, in two ways...

Firstly we think that the index spread is tighter than it should be, but this is something that happens every cycle so we shouldn't be too surprised (spreads swing from being too tight, to too wide, and spend far less time at a sensible middling level).

And secondly, more pertinently, as we face huge uncertainty in how the AI revolution will affect businesses, jobs, sectors and even whole economies, it seems very odd that an instrument is implying high expected correlation across a wide universe of large-cap companies – is it really the case that this disruption risk will affect all these companies in a similar way?

The equity markets certainly seem to have got the message more quickly – with the S&P500 recently exhibiting one of the highest 30-day realised dispersion in the last 20 years (see Figure 2 below).

In practice – ideas to monetise

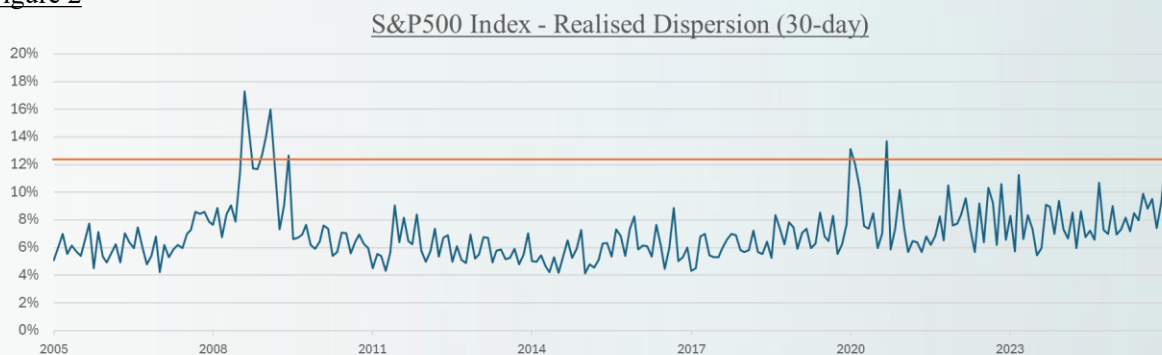
We currently like the iTraxx Main equity tranche 5yr instrument as a **short** risk position (i.e. owning protection) – a useful hedge to risk assets (e.g. equities): it's a low fixed cost if risk assets continue to rally, combined with high profit potential if the market sells off.

In our Active Directional strategy (which can go both long & short risk), we have been building a short risk position in this instrument and are currently at c. 40% short risk – and this will slowly build if conditions stay as they are.

Alternatively, as useful hedging instrument, we like the fully funded credit-linked note (CLN) which owns a basket of protection on the iTraxx Main 5yr equity tranche and:

- Redeems at 100 (par) at maturity (costless).
- Provides hedging coverage in a market sell-off (e.g. 20% drawdown in broad equity markets => CLN expected to rally c. 15%).

Figure 2



Source: Bloomberg

Haven Cove is an independent investment firm specialising in Liquid Credit. Contact us to discuss our platform & ideas.



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