

 GlobalCapital

GC | Live

Corporate Hybrid Capital

A source of stability

Special Report April 2026



SPONSORED BY:

 BBVA



BNP PARIBAS

 MUFG



Structured for your strategy.
Executed with certainty.

Capital Markets Expertise. *Built Around Your Objectives.*

In today's evolving funding environment, issuers need more than execution — they need a strategic partner.

BBVA Corporate & Investment Banking combines capital structuring expertise, deep hybrid market capabilities and global investor connectivity to deliver complex transactions with certainty across markets.

Your strategy. Structured and delivered.

Corporate hybrid capital: a mature market?

Corporate hybrid capital has had an extraordinary time in the past six months. In the European market, spreads over issuers' senior debt have contracted to record tightness that no one previously thought possible, amid a rampant bull run for credit of all kinds.

In the process, sub-senior spreads reached levels at which specialist hybrid investors had to question whether they were still being adequately paid.

Market participants have marvelled over it, but been unable to foresee anything that could stop the bulls.

When *GlobalCapital* gathered leading issuers, investors and investment banks for a GC Live expert briefing on the subject on March 24, participants had got their answer. The war in the Middle East had global effects on credit and interest rates, knocking credit spreads wider.

Jon Hay, *GlobalCapital*: The past few weeks since the war in the Middle East began have obviously been a test for the corporate hybrid market. How has it performed?

Leonardo Vagaggini, Enel: We started to issue hybrids in 2013, and now have more than €10bn

outstanding, so we have quite an interest in the asset class.

We were quite wise, and also lucky, in having come to the market before this conflict, because we issued €2bn of hybrids on the very first day available in January. We are quite used to taking this approach to derisk as soon as possible, especially

when it comes to the riskiest asset class, hybrid capital.

But as speakers pointed out, the widening of hybrid spreads had been remarkably limited – less than for many other asset classes.

Not only that, companies were still bringing major hybrid deals to market during these stressed conditions – and achieving successful execution. What's good for issuers is not necessarily bad for investors, either. Although spreads are much tighter than before, they still see value relative to other bond formats, since the standard European structure has proved it will make issuers stick to their first call dates.

To the question whether hybrid capital is a mature market, specialists therefore gave a resounding 'yes' – though they still expect further growth and innovation.

Now we are seeing a market that has repriced risk a bit, especially in hybrids. Investors are discounting a more volatile period and some extension risk.

But overall, the tone is quite positive. We have seen also some

Discussion participants



Jon Hay, corporates, markets and sustainability editor, *GlobalCapital* [moderator]

Giulio Baratta, global co-head of investment grade finance, head of corporate debt capital markets, BNP Paribas

Sandra de las Cavadas, managing director, head of utilities, energy and TMT, Europe and Asia DCM, BBVA

Jens Rueber, managing director, head of investment grade capital markets, EMEA, MUFG

Robin Usson, senior research analyst, global investment grade credit, Neuberger Berman

Leonardo Vagaggini, head of capital markets, Enel

hybrid deals in the European market in the past few weeks. So it's just a repricing. Hybrid is a mature asset class, I would say.

GlobalCapital: Has the repricing been more or less than you would have expected?

Vagaggini, Enel: It's pretty well in line. On our hybrids, we are seeing 40bp, 50bp of widening in yield terms, but it's mostly driven by rates, especially the five year swap rate.

GlobalCapital: Robin, you're watching your portfolio take a bit of a battering, perhaps?

Robin Usson, Neuberger Berman: Actually, I think the title of this panel is spot on, and I agree with it. The corporate hybrid market has matured.

And truly that maturation happened during the 2022-23 rates normalisation cycle. Before and during that, the market viewed corporate hybrid as a long duration, rate-sensitive asset class.

What we saw during that period of rising interest rates is that the structure of the European-style hybrid, which loses equity content at the first call date, actually works.

We have a track record that, unless there is significant credit deterioration, the loss of equity content creates a strong incentive for issuers to call and replace hybrids.

So with that backdrop, I think the market so far during the Middle East war has performed as I would have expected.

We've seen a lower drawdown of the corporate hybrid asset class,

versus high yield, versus double-B bonds, versus subordinated financials, even versus euro long duration bonds.

In fact, the drawdown of corporate hybrid has been similar to euro investment grade corporate bonds.

So I think the market has become more sophisticated in assessing the true risk profile of the asset class, which is — absent any credit deterioration — a pretty short duration asset class.

Jens Rueber, MUFG: Coming to the topic of the panel, is it a mature market? Is it standardised? Is it a sophisticated market? We at MUFG think it is — all of which we see in the volumes we've seen in the last two years, and also this year.

The market reaction and the repricing we have seen, as outlined by Leonardo, were broadly to be expected given the elevated yields offered by hybrids. We would expect sub-senior level to revert closer to normal levels should rates come down meaningfully.

The market has very established issuers. If you look at the top 25, they're all really big corporates. It's a strong set of issuers who make perhaps three quarters of the market, and have been issuing in a very consistent way.

The market is also a bit predictable: we know the reset dates of all the issuers, so we have a bit of an understanding of what to look forward to in the pipeline, in the second quarter and the second half of the year.

Sandra de las Cavadas, BBVA: The asset class has performed relatively well, given the volatility. The main

underperformance has come from the fact that rates have gone up, but spreads, particularly on investment grade instruments, have remained relatively contained. We've seen around 10bp to 15bp of spread widening in investment grade hybrids, which one could argue is not fully consistent with the level of volatility in today's market.

So to me, that says the asset class has been effectively stress-tested. We've gone through a rate cycle already, with most issuers doing the right thing and refinancing their hybrids, and that has given confidence to the investor base.

Clearly there is greater dispersion between sectors, but for defensive sectors, the performance we've seen is actually quite constructive and evidence of the maturity of the market.

Additionally, the fact that we've seen higher-beta transactions such as Stellantis [which issued €5bn-equivalent of hybrids rated Ba2/BB on March 10] or the SES 'SPACE' trade [€650m rated Ba3/-/BB on March 17], and that those transactions met very solid demand, is another very clear sign of the maturity of this market and sustained investor interest.

GlobalCapital: Yes, it's been interesting to see two major corporate hybrid deals come after this trouble has begun, but still no issuance from European financial institutions in euros. Giulio, what's your assessment of this month?

Giulio Baratta, BNP Paribas: The assessment on the asset class is very much in line with yours. Hybrids are part of the capital raising toolkit, which corporates regularly have in mind, maintain and increase the usage of.

The pricing dynamic, including over the past month, has been rational.

We perhaps need to discuss asset valuations in general, but the actual pricing of the subordinated capital stack is very rational. We've been commenting about very tight senior-subordinated spreads, but they are all staggered according to the business profile of the company.

So more regulated businesses are consistently very tight, and more cyclical ones are adjusting to wider pricing.

“Whether they were non-cyclical hybrids, investment grade rated, or cyclical hybrids, sub-investment grade rated, they have fared very well in secondary markets, compared with weaker bond peers”

Giulio Baratta, BNP Paribas





But all of them, even in the past month, have behaved in a way which was resilient, compared to the rating of the security. Whether they were non-cyclical hybrids, investment grade rated, or cyclical hybrids, sub-investment grade rated, they actually have fared very well in secondary markets, compared with weaker bond peers.

GlobalCapital: So I think there's a degree of consensus on the panel – everyone's defending the market and supporting it. One can almost conclude that the bull run is still there. The widening, as Sandra pointed out, has been so small that really, we're still in the same regime.

So let's address that a bit more. Senior-sub spreads are really exceptionally tight, looking at the market's history. Giulio, you've kind of made an argument for that. But Robin, what do you think if we'd been sitting here in January or February? Would you have been applauding the level of spreads?

Usson, Neuberger Berman: I won't get into at what level I see hybrid being good value, but one can ask: we've been at historical tightness, so are you compensated for the credit risk you're taking?

One could argue that absolute spreads are less compelling given how tight they are today, but tight spreads have been a feature of the whole credit market. So if you were to assess the value of corporate

hybrid, don't do it on an absolute basis, look at it on a relative basis versus other asset classes.

Even in January, February, March, without giving you any level, I think the value proposition of corporate hybrid is still there, relative to other asset classes.

GlobalCapital: That's interesting, so you wouldn't have been complaining about the pricing.

Rueber, MUFG: I think that view is widely shared by the investors we talk to.

GlobalCapital: Leonardo, have your decisions about issuing been influenced at all by the very tight pricing that's become available on hybrids?

Vagaggini, Enel: We do not think about hybrid as an opportunistic transaction, it's more something rooted in our capital structure.

We have, as I said at the beginning, €10bn of hybrid that represents a very high percentage of our overall debt. It's a huge and very important instrument that we use for general corporate purposes. So we approach hybrid issuance in a more strategic way, that fits the growth ambition of the company with the financial discipline that we put into our business.

GlobalCapital: I would like to think about the ways in which companies are using hybrid capital. Acquisition financing is one, but there are others – are issuers using it in different ways and even in innovative ways?

"We approach hybrid capital issuance in a more strategic way, that fits the growth ambition of the company with the financial discipline that we put into our business"

Leonardo Vagaggini, Enel





“We have seen a few issuers re-entering the hybrid market after a 10 to 15 year hiatus, just to make sure they can, and to get the organisation alongside them, accepting that hybrid is part of the toolkit”

Jens Rueber, MUFG

Baratta, BNP Paribas: You referred to acquisition finance; rating defence is another reason. Leo was mentioning what I would define as acceleration of an organic business plan, accommodating capex which may require a lot of cash investment up front, for a translation into Ebitda and cash flows down the line. That requires protecting the capital base temporarily before the investment starts yielding.

All of these are very sound uses for raising hybrid capital, as not necessarily a one-off, but part of the permanent capital toolkit.

These means are all very well tested and the asset class is understood by investors: it depends on the weighted average cost of capital, whether that is more or less convenient compared with other capital sources.

So hybrid capital is established. That's, I think, the point that the market is making for us nowadays, and I think it has been making it for a while.

Less frequent borrowers may also consider the use of hybrids but they would need to really assess them as a quasi-permanent piece of the capital structure, because removing them requires certain parameters to be met for the rating agencies. So hybrids can be a sticky piece in the capital structure.

De las Cavadas, BBVA: For me, the notable thing in companies' behaviour in 2026 has been the use of hybrids for balance sheet management. On acquisition financing it's not new, and is now being used in a much more systematic way. From the outset, companies are considering hybrids

as part of their financing toolbox to fund large acquisitions.

But what is really standing out is how they're being used beyond that – for balance sheet optimisation.

We were involved in SES's 'SPACE' hybrid, acting as joint global coordinator and structuring agent, an innovative structure that achieved 100% equity content, and there was also the Stellantis inaugural €5bn transaction.

The common denominator is how issuers are using hybrids to strengthen their capital structures, and both transactions were very well received by the investor base.

So the key takeaway is that investors are clearly understanding and supporting corporates that use hybrids to reinforce ratings and optimise their balance sheets.

GlobalCapital: The Stellantis one is particularly interesting because it's an example of companies using it as they would use an equity raise. Stellantis needed the capital to protect its investment grade ratings after changing its electric vehicle strategy.

Rueber, MUFG: If we break down the sectors where the issuers come from, roughly two thirds of issuance comes from utilities, energy companies and TMT.

Some are using it for balance sheet management. We have also seen a few issuers re-entering the hybrid market after a 10 to 15 year hiatus, just to make sure they can, and to get the organisation alongside them, accepting that hybrid is part of the toolkit.

And as Sandra said, we've also seen a few event-driven

announcements recently where the expectation is that the hybrid is an important tool to raise liquidity alongside senior debt, whether in euros or dollars.

So I think most corporates using the hybrid market are very sophisticated. Utilities, of course, need it particularly for their ever-expanding capex programmes, which we see across the continent.

GlobalCapital: Leonardo, perhaps you can tell us what was the purpose of your deal in January, and set it in the strategic context for Enel.

Vagagnini, Enel: The main reason was to refinance hybrid capital that was due in 2026. Of course, thanks to the amazing demand we received – about €14bn for two tranches – we were able to set our historic tightest level in terms of sub-senior spread, 90bp. It was a quite a big achievement for us.

So taking profit from that, we also increased our hybrid layer a bit.

GlobalCapital: That was planned beforehand?

Vagagnini, Enel: It was not – we profited from the pricing and demand we had received. It was just around €600m, so nothing much.

But it's the solidity we want to have with this asset class that for us is really important. For us, it's 100% equity accounted, because we issue perpetual instruments, but of course, also having the possibility of 50% of rating agency equity credit is important in the capital structure.

GlobalCapital: Robin, we've been talking about the different purposes companies use hybrids for. Does that matter to you? When you're considering a deal, how much are you thinking about the business purpose?

Usson, Neuberger Berman: Two things matter in the analysis. When I look at a new corporate hybrid or an existing one, the use of proceeds is not necessarily what I look at.

Obviously it matters, but it's really the credit profile of the company, the credit fundamentals, as well as the structure risk.

Why do these two things matter? The way the European-style hybrid deals with structure risk is to lose equity content at first call date.

Now you do have a few exceptions in Europe, and you have the US market which is different. But really that loss of equity content is what creates a strong incentive for the issuer to call and replace at first call date.

So we want to see that, and really what the market has realised with the 2022-23 rates normalisation cycle is that unless there is credit deterioration, the extension risk and coupon deferral risk, seen as options for the issuer, are actually quite out of the money.

They only become in the money when you have significant credit deterioration, like we've seen in the real estate sector.

Because of that, I would also expect the volatility of prices to be lower than in the past.

It's the same thing as option volatility – you use implied volatility versus realised volatility. The market used to price implied structure risk that was never realised.

But going forward – and what we're seeing so far – there will be lower market volatility at the asset class level, because that perception of risk has lessened.

But what you will probably see is more idiosyncratic volatility for names that have credit deterioration, where you will start pricing the extension risk and coupon deferral risk.

GlobalCapital: Are you worried at all that if the senior-sub spread, at the outset, is very tight, it could diminish the incentive to call arising from the loss of equity credit?

Usson, Neuberger Berman: I'm looking at you, Leonardo...

Vagaggini, Enel: Well, we do not incur this type of risk. We are quite honest with investors. So we tend to respect the call date of the instrument, even if the levels for an extension are quite appealing.

Usson, Neuberger Berman: You need to look at it, I guess, within your whole capital structure?

I've been tracking the market pricing of equity content throughout the cycle, and outside March 2022 to March 2024, the economics have always favoured issuing a hybrid, over issuing 50% debt and 50% equity, even during Covid – so even during other market stress, except when it was a rates normalisation cycle.

“We haven't yet seen evidence, in the primary or secondary market, of a consistent better performance or pricing benefit from structures rated one notch below senior”

Sandra de las Cavadas, BBVA



So I think if issuers without any credit deterioration stop calling, then the whole asset class will be much more expensive for issuers.

Baratta, BNP Paribas: I also don't think there is an issue in terms of issuers not calling, unless it's a very credit-stressed situation.

But maybe I can ask you a question, Robin: when we look at big capital stacks with a lot of hybrids outstanding, the refinancing becomes a livelier topic for the company's funding official. Once you have €8bn, €10bn outstanding and your average non-call period is five years, minus a year or a year and a half for prefinancing, you're effectively in the market all the time for refinancing.

As and when markets become more volatile, it becomes more difficult to time deals to perfection. So are you ready for companies – clearly, with the blessing of rating agencies – to potentially delay refinancing exercises, under the faith that they are committed to keeping a hybrid capital stack outstanding over time, including not calling some of their bonds?

Usson, Neuberger Berman: My answer is no. Look, what we saw in 2022-23 as well is that companies were focused on the all-in yield, which was impacted by rates.

But if you look at spreads, yes, they were wider, but companies were still looking at the economics versus issuing equity and debt. It was still favourable to hybrids.

And the whole point I am making is that I think we will see tighter spreads in future versus historical

levels. I'm not saying that we won't ever see 200bp, 300bp spreads, but tighter spreads will be a feature of the fact that issuers have been respecting the convention of calling at first call date.

Companies issue hybrids to manage their ratings, investments, their balance sheets. And we have settled on a structure, the loss of equity content, that is a sweet spot between issuers and investors.

So overall, I think companies should and will call and refinance their hybrids at the expected time.

De las Cavadas, BBVA: A key point throughout the period of rising rates was that companies were generally very transparent about their intentions and disciplined in their approach.

To your point as well, Leonardo, I think you did very well, because one of the lessons from the previous hiking cycle was that timing can be challenging, and issuers had to navigate more volatile market conditions, at times accessing the market in less favourable pricing conditions.

I think those lessons have largely been taken on board. For issuers where hybrids are a strategic part of their capital structure, there is now a clearer focus on de-risking early and using issuance windows when they are available.

And that's something that, looking ahead, remains important: being clear in communication and proactively managing the hybrid stack.

GlobalCapital: The new rating criteria are not new anymore. They've had time to settle in. So

what conclusions can we draw from how companies have been willing to use them?

De las Cavadas, BBVA: Let's differentiate between Europe and the US. In Europe, I would say the [effect of the] new methodology has been incremental rather than transformational.

In the US, it's been more of a game changer, particularly with some utilities both refinancing their preferred shares with junior subordinated bonds and increasing their use of hybrids to fund large capex programmes, taking advantage of the new Moody's criteria to achieve 50% equity content on a structure where they can deduct the coupon.

Obviously, this is a very enticing structure for US companies.

In Europe, we've seen Moody's new criteria allowing hybrids to be rated only one notch below senior debt mainly used by issuers that were issuing dated hybrids. We haven't seen perpetual issuers adopting the new Moody's structure, so the impact has been incremental.

And we haven't yet seen evidence, in the primary or secondary market, of a consistent better performance or pricing benefit from structures rated one notch below senior.

Obviously, for issuers, it is a free option – so why not consider it?

Particularly for issuers that might, with this minus one notch structure, achieve a full set of investment grade ratings on their hybrids, which is really the key to unlocking meaningful pricing benefits.

Or for issuers on positive outlook, where hybrids might return to fully investment grade.

But overall, we are not seeing a broad-based wave of adoption of this structure at this stage.

Vagaggini, Enel: One of the requirements of Moody's to apply only one notch down from senior rating is to have a shorter maturity. We issue perpetual instruments to get the equity treatment from an accounting perspective. So it wouldn't work for us.

Rueber, MUFG: As you say, it's incremental. It hasn't been taken up by everyone. But it's also down to issuers' preference. It's very specific to their rating, background, to the shareholders and what their plans are for their stock.

GlobalCapital: Sandra made an interesting point, Robin, in a way saying that if Moody's say something that previously was two notches below senior and is now only one notch down, the investors don't really believe that, because it's the same instrument. And why would they change their mind just because Moody's has?

And yet, they care whether it's investment grade, and that is important to them. So what's your perspective on those two points?

Usson, Neuberger Berman: All the new features allowed by Moody's revised methodology, namely the shorter tenor, the five year cap on coupon deferral and the ordinary as opposed to deep subordination – all of that is helpful and creditor-friendly. But it doesn't really change the risk profile of the asset class, right?

If you lose equity content at first call date, I'm pricing this to first call dates. I don't really care about the back end.

What would matter, I guess, is if we saw the same repricing of extension risk as in 2022-23. I'm not necessarily expecting it, but if we do, then we could see lower downside volatility on the new structures, not because of the ordinary subordination structure or capped coupon deferral, because those will only matter if there is significant credit deterioration.

But if you price in extension risk, then with the new structures you're pricing to 30 years instead of perpetuity. So in that context, your downside risk should be lower.

But I guess I'm waiting for the track record for this – whether this effect of lower downside risk on shorter maturity hybrids is actionable as well during a market downturn. You would need to account for transaction costs if you try to trade on it, and then you haven't that many capital structures where you can play between the two instruments.

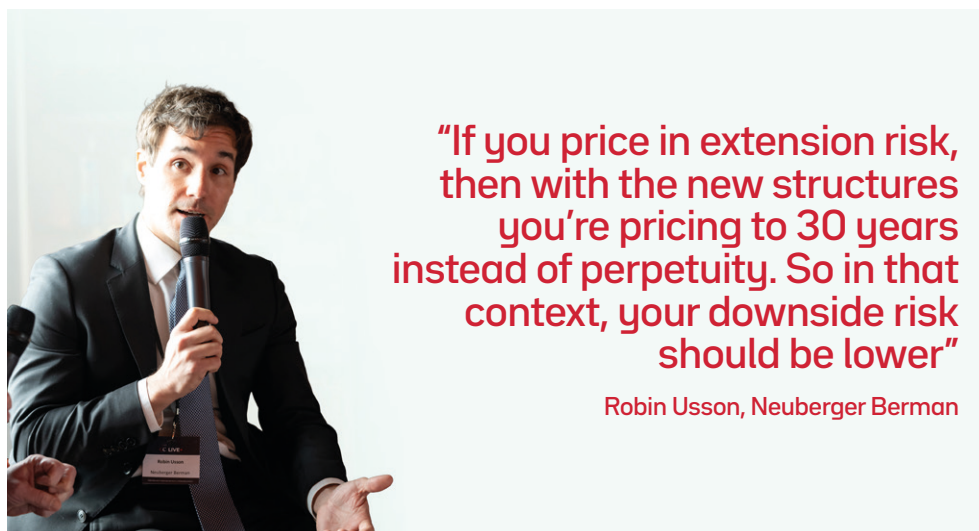
GlobalCapital: Thank you. I'm going to give the last word to Giulio – can you give us a forecast for hybrid capital in two years' time. How is the market going to be different from now?

Baratta, BNP Paribas: It's going to be bigger as an asset class. I am very convinced about that. It is an asset class which is established and growing. It continues to be innovative.

There's a marked difference between what we talk about today in terms of methodologies, which is, to me, finessing structures and maybe opening the products to new markets, like the American one. Maybe five years back, we were talking about methodologies as a threat that could discontinue an asset class which was promising.

I think that this is going to be the trend. This is a liquid asset class sitting in between senior debt and equity and typically delivering appealing weighted cost of capital to corporates.

You will talk about private credit a little later this morning, and there we find similar quasi-equity solutions, but as a public, granular, liquid, established piece of capital, hybrids are here to stay. ©



“If you price in extension risk, then with the new structures you're pricing to 30 years instead of perpetuity. So in that context, your downside risk should be lower”

Robin Usson, Neuberger Berman