Oriflex BP Regeling
Oriflex Obligaties
Stichting Pensioenfonds Atos Origin
Eerste Kwartaal 2022

BLACKROCK

General Comment on Market Developments

After dropping sharply in February in response to the Russian invasion of Ukraine, yields rose again in March as central banks confirmed their more hawkish stance, in response to soaring inflation. The yield on the 10-year German bund rose from 0.13% at the end of February to 0.55% at the end of March. Market pricing of rate hikes from the ECB rose significantly, with 52bp of hikes now priced by the end of 2022. Sovereign spreads saw some retracement from the February highs however, with the spread on 10-year French and Italian debt falling by 4bp (to 43bp) and 8bp (to 149bp) respectively.

While the ECB kept key interest rates unchanged and reaffirmed the decision to end the pandemic emergency purchase programme (PEPP) in March 2022, in a move that surprise many market commentators, the pace of the monthly net purchase reduction in its asset purchase programme (APP) has been accelerated for the second quarter of this year. Purchases in Q3 will depend on incoming data, and if there are no negative surprises they would expect to end APP in Q3. APP will now amount to €40bn in April, €30bn in May and €20bn in June (compared to the path communicated in December 2021 of €40bn in Q2, €30bn in Q3 and €20bn thereafter). The ECB also decoupled the end of asset purchases from the timing of the first interest rate, now expecting that adjustments to interest rates will happen “some time” rather than “shortly” after the end of net purchases under the APP in an apparent move to increase flexibility. Significantly, the ECB unveiled meaningful changes to the growth and inflation outlook, particularly for 2022 where growth expectations were revised down from 4.6% to 4.2%, and inflation expectations were revised upwards from 1.7% to 3.2%. According to Lagarde, the ECB expects inflation to be close to the 2% target in the long-term in all scenarios.

March PMIs (Purchasing Managers Index) remained in expansionary territory, coming in at 54.5 versus market expectations of 53.8. The service sector continued to benefit from reopening post Covid-19, which offset the weakness related to the invasion of Ukraine. The release also showed however that the invasion of Ukraine led to price pressures rising again, and worsened supply chain related delays. New exports fell for the first time in 21 months and the forward looking ‘future output’ also fell more significantly than the headline index. The PMIs indicate that so far, the impact of the invasion of Ukraine on Euro Area activity is limited but point to a worsened outlook compared to February.

Inflation prints continued to surprise to the upside, Eurozone inflation coming in at 7.5%. At the country level, German inflation rose to 7.6% YoY in March, up from 5.5% in February, Spain to 9.8% from 7.6%, and France to 5.1% from 4.2%. Rising energy prices remain the main driver behind the increases, although food and commodity prices have also risen significantly in recent months.

Credit spreads retraced some of the February weakness in March, falling from 144bps to 129bps. The Bloomberg Barclays Euro-Aggregate Corporate index delivered a total return of -1.20%, of which the excess return was 0.98%. Financials outperformed non-financials, unwinding some of the supply-driven underperformance of the sector seen earlier in the year. Flows returned to Euro investment grade credit in March, as risk sentiment improved, and investors took note of the attractive valuations.

Performance

Euro Investment Grade issuance remained low in March in comparison to previous years, with companies preferring to wait for further improvement in market conditions. This is in contrast with the US Investment Grade market, where issuance has been high in 2022.

Credit Allocation (+): Allocation to credit beta aided returns as credit spreads retraced the weakness seen in March. As credit curves flattened, an overweight allocation to senior long-dated bonds also contributed to performance.

Security and Sector selection (+): The largest contributors were the Industrial and the Utilities sectors. An allocation to hybrids within the Energy sector aided performance, as did an overweight to high quality Consumer Goods, Communications and Natural Gas issuers. Financials were the biggest detractor, although an overweight in high quality Banking contributed to performance.

Duration and Yield Curve (+): The fund’s underweight in European and US duration contributed positively as yields rose again in March as central banks confirmed their more hawkish stance, in response to soaring inflation

Omvang fonds

Waarde begin van de periode	€120,353,824
Waarde eind van de periode	€ 112,625,175

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	-5.99%	-5.99%	-0.12%	1.00%	3.33%
Benchmark	-5.28%	-5.28%	-0.01%	1.01%	3.00%

Outlook

The sharp spike in credit spreads year-to-date has brought significant value back to the EUR IG market. Fundamentals remain strong, with European corporates being cash rich and having de-levered significantly over 2021.

While the ECB plan to taper additional purchases of corporate bonds, supply expectations have adjusted in response and we see the technical picture as relatively positive over 2022, accounting for ECB redemptions and investor flows.

We expect the market focus to continue shifting away from the Russia-Ukraine crisis and towards central bank policy and are therefore positioned for further retracement in credit spreads. The volatility in markets has increased relative value opportunities between sectors, issuers and currencies.