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

BLACKROCK

General Comment on Market Developments

Recession fears took centre stage in May, as economies showed increasing signs of slowing, and expectations for central bank policy tightening continued to increase on the back of broadening inflation risks. While the Eurozone Purchasing Managers Index (PMI) remained above 50 (in expansionary territory), the index fell from 54.8 in May to 51.9 in June, its lowest level since February 2021. Details of the PMI report indicate further weakness ahead, with the output component of the manufacturing PMI falling to 49.3, and the forward-looking new orders component falling 4 points to 44.7, signalling further weakness in manufacturing activity in the months ahead. Companies mentioned several factors for their gloomier outlook, including headwinds from the rising cost of living, concerns over energy and food supply amid the Ukraine war, tightening financial conditions, ongoing supply chain shortages (often linked to China's lockdowns), and a broader diminishing of economic growth prospects.

Despite the weakening growth backdrop, rates continued to move higher given persistently high inflation, led by the front-end of the yield curve. Markets are now pricing 145bp of rate rises from the European Central Bank (ECB) by the end of 2022, and 228bp by the end of 2023. The yield on the 10-year German bund rose sharply in the first half of the month, reaching a high of 1.77%, before retracing somewhat to finish the month at 1.33%.

The ECB meeting on 9th June pre-announced a 25bp hike to interest rates in July. Flexibility was left for subsequent interest rate hikes, with the ECB indicating more substantial hikes (e.g. 50bp) may be warranted if the medium-term inflation outlook persists or deteriorates. In response to this more hawkish tone from the central bank, Sovereign spreads rose substantially with the spread on 10-year Italian government debt rising to 242bp amid fears of fragmentation within the Eurozone. This led the ECB Governing Council to convene at an ad hoc meeting on June 15th, committing to flexibility in reinvesting redemptions coming due in the PEPP portfolio, with a view to preserving the functioning of the monetary policy transmission mechanism, and a commitment to a new a new anti-fragmentation instrument. Ultimately, Sovereign spreads stabilised with the spread on 10-year Italian government debt ending the month lower at 193bps.

Headline Euro area inflation (HICP) rose to a new record of 8.65% year-on-year in June, slightly above consensus, with Food and energy once again driving the strength. Core inflation eased slightly however, falling to 3.7% YoY, largely driven by German transport subsidies which will unwind in September.

Credit spreads shot higher in June, with the spread on the Bloomberg Barclays Euro Corporate Index rising 46bps to 218bps. Aside from the Covid-19 related market crisis in early 2020, these are the highest spread levels since 2012. The Bloomberg Barclays Euro-Aggregate Corporate index delivered a total return of -3.49%, of which the excess return was -2.47%. Spread moves were driven by fears of a recession and exacerbated by outflows from the asset class. While Q1 earnings were robust and companies are not yet citing margin pressure, investors now anticipate downgrades to full-year earnings guidance.

Decompression was seen across Euro IG credit, with REITs and cyclical sectors underperforming. Representing around 7% of the Bloomberg Barclays Euro Corporate Index, the REIT sector accounted for 20% of EUR IG corporate issuance in 2021, leading to investor concerns over the ability of issuers within the sector to access funding in the weak market environment. Across the asset class, spread curves flattened, with short-dated bonds underperforming as investors looked to raise cash.

Performance

Credit Allocation (-): Allocation to credit beta detracted from performance given the overweight spread duration position and the aggressive widening of credit spreads.

Security and Sector selection (-): Allocation to corporate hybrids from high quality investment grade issuers detracted. Sector positioning aided active performance, as the fund was running underweights to REITs and Capital Goods which underperformed the broader market.

Duration and Yield Curve (+): The fund's duration trades were neutral, as the fund runs a neutral duration position. Inflation trades were positive however, via a short in UK inflation where pricing corrected significantly in June.

Omvang fonds

Waarde begin van de periode	€112,625,175
Waarde eind van de periode	€103,289,567

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	-7.54%	-13.08%	-3.74%	-0.71%	2.50%
Benchmark	-7.38%	-12.27%	-3.61%	-0.62%	2.20%

Outlook

Expectations for the future path of ECB interest rate hikes in 2022 softened in June as recession fears flattened the front end of the curve. We believe the ECB will follow previous guidance and raise the deposit rate 25bps in July and 50bps in September with elevated inflation enough to offset immediate growth concerns. This would leave close to 65bps of forecasted hikes for October and December meetings which we believe is a closer representation of fair value. We are likely to remain overweight duration further out the curve with market narrative changing to concerns about growth and eurozone curve displaying inconsistencies with UK and US rates path. The increasing risks to growth and implications for demand have seen commodity prices drop swiftly and inflation markets come under severe pressure. Although we are likely to see growth deteriorate in the near term, the uncertainty concerning gas supply from Russia and China re-opening may cause further upward pressure on inflation with front end levels attractive. We await further guidance from the ECB as to their anti-fragmentation tool, remaining underweight Italy in the short term. BTP-Bund spreads have fallen significantly since the announcement, leaving room for retracement if program details disappoint the market. Credit spreads shot higher in June. Spread moves were driven by fears of a recession and exacerbated by outflows from the asset class. While Q1 earnings were robust and companies are not yet citing margin pressure, investors now anticipate downgrades to full-year earnings guidance. Decompression was seen across Euro IG credit, with REITs and cyclical sectors underperforming. Representing around 7% of the Bloomberg Barclays Euro Corporate Index, the REIT sector accounted for 20% of EUR IG corporate issuance in 2021, leading to investor concerns over the ability of issuers within the sector to access funding in the weak market environment. Across the asset class, spread curves flattened, with short-dated bonds underperforming as investors looked to raise cash.