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

BLACKROCK

Omvang fonds

Waarde begin van de periode	€120,671,056
Waarde eind van de periode	€115,036,483

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	-0.17%	-0.36%	-0.66%	-0.60%	-0.39%
Benchmark	-0.19%	-0.38%	-0.61%	-0.55%	-0.30%

Investment Review

The Fund overperformed its benchmark over the quarter.

Market Overview

The ECB has kept rates unchanged but has turned hawkish, signalling a 0.25% rate rise at its next meeting in July. They have also wound down their quantitative easing programmes.

With the spread between Italian and German government bonds widening sharply over the past quarter, the ECB is facing a debt risk. An emergency ECB board meeting has been held in order to answer to this threat. The ECB could increase purchases of Italian bonds, if required, to counter fragmentation in the transmission of ECB policy across the eurozone.

Headline inflation in the Eurozone reached 8.1% in May 2022. However, core inflation is more steady at 3.8%.

The market has been more focussed on the impact of inflation rather than the slowdown in growth. This combined with hawkish ECB comments, has pushed the market to anticipate more rate hikes in Europe. Over the quarter the Euro overnight interest swap (OIS) curve has increased its probability of ECB tightening in 2022. At the end of June, the Euro OIS curve was pricing in the first ECB rate hike in July, with a cumulative 77 bps of tightening in 2022.

Overall, European money market rates moved higher with 3, 6 and 12-month Euro Commercial Paper (ECP) levels ending the quarter 30, 60 and 98bps higher respectively.

The BoE has been the first major developed market (DM) bank to kick-off the current hiking cycle, by increasing its policy rate for the fifth time to 1.25%, with two rate hikes of 0.25% over the quarter.

Inflation has been as the central bank expected in their last meeting early in May, after rising to a 40-year high of 9% in April. This, alongside solid labour market performance, may explain the divergence in voting on interest rates at the last meeting. With unemployment falling to an almost 50-year low and wage growth rising sharply (3.8% for April), the case for the MPC members to vote for a 50bp hike is gaining traction.

The BoE now expects inflation to rise to “slightly above 11%” in October, reflecting higher projected household energy prices following an expected further increase to the U.K. energy price cap.

Initial analysis of the multi-billion pound package to help households with the increase in energy bills showed it could boost GDP by around 0.3% and raise CPI inflation by 0.1% in the next 12 months, with some upside risks around these estimates.

Following the rate hikes, the UK money market curve moved higher, with ECP yields ending generally around 57-89 bps higher across the curve.

At the end of June, the Sterling Overnight Index Average (SONIA) market was pricing in a 50 bps rate increase at the next BoE meeting in August and a total of 271bps by the end of 2022.

The Federal Open Market Committee (FOMC) members voted to raise the target federal funds rate for the third, consecutive time. Unlike the prior two meetings, which concluded with increases of 25bps and 50bps, respectively, the committee raised the funds rate range by 75bps. The fed funds rate range now stands at 1.50%-1.75%. The 75bps increase is the biggest incremental move since 1994, and speaks directly to the committee’s continued desire to tighten financial conditions in an effort to quell persistently elevated measures of inflation.

The updated quarterly Summary of Economic Projections (SEP) moved higher, compared to the previous reading in March. With the median federal funds target rising to 3.4% by end of 2022, that would imply a further 175bps of tightening over the remaining 4 meetings. The pointed monetary policy tightening stance by the committee members juxtaposing a money market investment environment that is awash with ample levels of liquidity has created a pricing dynamic that the portfolio managers would categorize as being closer to peak dislocation.

While acknowledging the real possibility of a slowdown in growth expectations, the rhetoric amongst the committee members alluded to future decisions on monetary policy being closely linked to the near term inflation prints (realized inflation) as well as forward looking inflation expectations- the committee is resolved on having measures of inflation move towards its 2% stated objective.

Over the quarter, the U.S. money market curve moved higher, with ECP yields ending generally around 125-147 bps higher across the curve.

Outlook

The first half of the year has been difficult for the economy. Markets have had to face many concerns: the Russia/Ukraine conflict, surging inflation and central banks tightening.

The eurozone outlook continues to look uncertain; the Ukraine crisis has no end in sight and inflationary pressures are increasing. The hawkish European Central Bank (ECB) has increased peripheral risk, with Italian bond spreads widening.

Since December, the Bank of England (BoE) has lifted interest rates five times to take the base rate in the UK to 1.25%.

The main uncertainty is the outlook for the U.S. economy. The pace and magnitude of U.S. Federal Reserve (Fed) tightening creates the risk of a recession by the second half of 2023.

This new market environment has echoes of the early 1980s. The market is bracing for volatility in this regime. Central banks are rushing to raise rates to contain inflation that’s rooted in production constraints. They are not acknowledging the stark trade-off: crush economic growth or live with inflation.