Oriflex BP Regeling
Oriflex Obligaties
Stichting Pensioenfonds Atos Origin
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BLACKROCK

General Comment on Market Developments

The "front-loading" of rate hikes continued in Europe in September, with the ECB raising rates by a historic 75bps in the face of persistently high inflation. The ECB committed to raising rates further, but how much and for how long remain key questions facing investors – and will be dependent on incoming data. Downward revisions to its growth forecasts accompanied the policy move, although in contrast with market expectations, a recession is not the Bank's base case. Over the month, German 10-year rates rose from 1.54% to 2.11%. Sovereign spreads ended the month little-changed, with the spread on 10-year French debt unchanged at 61bps, and on 10-year Italian debt rising 5bps to 240bps.

A 'mini budget' announced by UK Chancellor Kwarteng tabled the biggest set of tax cuts in 50 years, at a time when the Bank of England (BoE) is aiming to bring down inflation by curbing activity. This monetary and fiscal discord alarmed markets, sparking an aggressive sell-off in UK assets and a crisis of confidence in the UK bond markets. 5-year UK government bond yields traded above their Italian and Greek counterparts, while 30-year yields breached 5% momentarily, a psychological level and post '08 high. The BoE subsequently intervened to restore stability, temporarily stepping in to buy long-dated bonds and triggering a 100bp rally in 30-year bonds. The purpose of the BoE's move will be "to restore orderly market conditions" with the size dependent on "whatever scale is needed", in increments of £5bn in conventional 20y+ gilts. With purchases set to continue until 14th October, importantly, the BoE will also delay its planned sales of gilts to end-October - an ostensible shift to quantitative easing (QE) rather than the planned move to quantitative tightening (QT).

Italian voters went to the polls in September, electing a right-led coalition government headed by Giorgia Meloni (Brothers of Italy). Brothers of Italy's main economic policy message is for a bigger role for the state, protection of national champions, government ownership of strategic assets and for national interests to be defended above EU interests. Meloni has taken a more fiscally conservative stance recently, warning against excessive fiscal deficits. Pending large Next Generation EU (NGEU) disbursements create a major incentive for the next Italian PM to stick to the rule-book and not clash with the EU, at least in the near term. The key steps to watch are the choice of the finance minister and the new government's first budget law.

Euro area Inflation surprised to the upside in September, rising to 10.0% YoY, up from 9.1% YoY in August. Core inflation also came in strong at 4.8% YoY, as inflation continues to broaden out to food and service prices. Energy inflation also increased on the month, driven in part by higher fuel prices in Germany as household support measures ended, as well as increases in household energy bills across the euro area (with France and Spain the notable exceptions).

European composite PMIs fell to 48.2 in September, down from 48.9 in August and in line with expectations. Manufacturing continues to be the weak spot, with new orders and future output both down significantly on the month. PMIs also confirmed the German economy is headed for recession, if not already there, with the composite falling to 45.9. Indicators also showed that price pressures remain high, with rising energy prices causing a renewed acceleration of input cost inflation in both manufacturing and services. Supply bottle necks continue to improve however, slowly unwinding a major headwind for the manufacturing sector.

At the industrial corporate level, news flow remained limited but almost universally downbeat. Kion saw its BBB- rating placed on credit watch negative at S&P, thereby indicating a material risk that the company becomes a fallen angel only a year after having attained IG status. Elsewhere, profit warnings from UK retail (including Boohoo, Next, Co-op) and a profit warning from Akzo Nobel added to the weak sentiment.

The Bloomberg Barclays Euro-Aggregate Corporate index delivered a total return of -3.32% in September, of which the excess return was -0.79%. At the index level, spreads widened 26bps to 228bps, with financials underperforming corporates.

Performance

Credit Allocation (-): Allocation to credit beta detracted from performance given the overweight spread duration position and the move wider in credit spreads.

Security and Sector selection (-): Allocation to Utilities, Communications, and Consumer Cyclicals detracted from performance, although this underperformance was partially offset by alpha from underweights in Capital Goods and Transport. The hybrid allocation was the main driver of underperformance from the Utilities sector.

Duration and Yield Curve (-): The fund's duration trades detracted, driven by a small long in front-end UK rates. A short in German rates contributed, however. Inflation strategies were positive, with a short in UK inflation performing as markets moved into risk-off mode at the end of the month.

Omvang fonds

Waarde begin van de periode	€103,289,567
Waarde eind van de periode	€96,503,606

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	-4.99%	-17.42%	-5.37%	-1.72%	1.98%
Benchmark	-5.07%	-16.72%	-5.27%	-1.65%	1.67%

Outlook

We remain confident the recent sell-off in duration is unsustainable and ultimately central banks won't reconcile policy actions with this path. Already evident at the beginning of October, we've witnessed a significant fall in global rates after US data disappointed. As we move closer to the point where the tangible impact to industry and consumer activity from inflation gains greater significance, we believe central banks will dampen recent hawkish rhetoric. Already evident, a dovish hike from the RBA suggested higher rates are beginning to impact the economy with Australia holding a greater portion of variable rate mortgages than other developed economies. The UK shares a similar elasticity to rising interest rates and therefore we are long the front end, recent market pricing suggesting over 200bps of hikes are priced across the last two meetings of 2022. In Europe, forwards suggest long term monetary policy is priced to remain restrictive with 5Y5Y above 3%, something we fail to see materializing after near term volatility is removed. While we see good value in investment grade credit over the medium-term, we tactically take a more cautious view. Commentary from corporates has indicated a recent, and fairly rapid, slowdown in consumer demand. While IG corporates remain in a fundamentally strong position, we anticipate further weakness in equities and thus a dent to investor sentiment in credit markets in the short term. We are therefore cautious on sub-investment grade and subordinated bond risk. We continue to see value in up in quality sectors including supranationals and covered bonds. Close to their historic wides, the issues provide excellent carry opportunities with negligible credit risk for agencies encompassing explicit sovereign guarantees. We remain focused on issuer selection, favouring the banking sector which provides more attractive valuations alongside some degree of insulation from inflationary pressures. Dispersion in sector performance is likely to grow as the industrial impact from energy prices evolve whilst absence of QE schemes magnifies investor sentiment towards sectors/issuers.