Oriflex BP Regeling
Oriflex Obligaties
Stichting Pensioenfonds Atos Origin
Eerste Kwartaal 2023

BLACKROCK

General Comment on Market Developments

Markets were shaken in March as uncertainty in relation to the banking sector brought into question the economies fragility to higher interest rates. Beginning in the United States with Silicon Valley Bank and other regional banks, concern spread to Europe accumulating in UBS taking over Credit Suisse.

Government bonds displayed their diversification benefits with yields falling as investors sought safety. Ten-year German bund yields dropped materially whilst at the front end of the curve, investors re-assessed the degree of future interest rate hikes given the emergence of cracks in the financial system. The terminal rate of the cycle was revised lower with peak ECB deposit rate forecast falling to 3.50% (from 4.00%) although in contrast to US rates, no cuts are expected in 2023.

Despite the volatility in credit markets the ECB continued raising interest rates with benchmark deposit rate raised by 0.50% to 3.00%. A previous commitment to keep “raising interest rates significantly at a steady pace” was dropped although President Lagarde stressed future policy would be dictated by data, thus leaving the opportunity for additional tightening. Entering a new phase whereby monetary policy is used to control inflation and financial stability instruments to control financial stability, central banks are facing increased challenges if the path of interest rates are higher.

Eurozone inflation surprised to the downside (6.9% vrs 7.1%) however core (excluding energy and food prices) appears resilient, matching analysts estimates and increasing to a Eurozone high (5.7%). The latter remains a concern for the ECB with wages accelerating by 5.7% in the final quarter of 2022 and unemployment rate at an all-time low of 6.6%. The conflicting nature of economic data versus emergence of financial risks ensured interest rate volatility returned to the fore with 2-year German bond yields witnessing their largest daily move on record, falling 50bps after the collapse of Silicon Valley Bank.

In credit markets, developments in the banking sector drove investment grade (IG) spreads wider, initially reaching 205bps before closing March 172bps. Higher beta subordinated securities underperformed relative to senior bank issues with risk-off sentiment accelerating after the decision to write down Credit Suisse AT1 bonds in the takeover from UBS. Reassurances by central banks, diminishing risk of contagion and valuations saw investors return with financials spreads contracting through the second half of the month by over 40bps.

Additional focus on commercial real estate ensured REIT’s was the worst performing sector in European IG in March. A sector which has benefited from a period of ultra-low interest rates and grown significantly in the last 7-10 years, this is one area where tighter monetary policy will negatively impact underlying asset valuations. The decompression in risk assets ensured high quality sectors were insulated from the wider sell off with Supranationals the best performing sector in the month whilst EUR IG underperformed US IG from a spread perspective.

The Bloomberg Euro-Aggregate Corporate Index performance produced a total return of 1.00% in March, of which excess return was -0.90%.

Performance

Credit Allocation (+): Tactical exposure to credit beta contributed overall to performance. Portfolio risk was reduced at the end of February and increased in mid-March at much more attractive valuations and benefitted from the subsequent recovery in credit spreads. Hedges implemented via iTraxx Subordinated Financials and iTraxx Main indices also contributed to alpha over the month.

Security and Sector selection (+): Sector allocation decisions aided performance via an underweight in REITs and overweights to Utilities, Consumer non-Cyclical, and Communications as investors flocked to these more defensive non-financial sectors amid volatility.

Macro (+): The fund’s macro trades aided performance driven by a short in 5y5y European inflation.

Omvang fonds

Waarde begin van de periode	€89,136,959
Waarde eind van de periode	€89,838,145

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	1.68%	1.68%	-5.48%	-1.99%	1.39%
Benchmark	2.41%	2.41%	-5.50%	-2.08%	0.99%

Outlook

It’s a year since the Federal Reserve began tightening monetary policy with interest rates rising at an unprecedented pace in this period. Action from developed market central banks have correlated to these moves with economies beginning to feel the ripple effect of this action. Whilst there are idiosyncratic reasons for the demise of Silicon Valley Bank and Credit Suisse, it’s prudent to consider there will be more risk events as higher interest rates are absorbed into the real economy. Whilst the ECB appear resilient in the desire to raise interest rates further, there is reason to remain overweight duration further out the curve; government bonds demonstrated their diversification benefit when credit concerns intensified, investors are compensated from a yield perspective, and we believe the Fed is much closer to ending their tightening cycle. The extent to which government bond yields rallied in response to credit events demonstrated the importance of being invested at the start of a rally, and therefore there remains a bias toward owning duration. Events in March highlighted the end of a business cycle increases uncertainty with probability of idiosyncratic/systematic credit risks rising with stock picking ability assuming greater scrutiny. We see a strong case for a focus on bottom-up issuer selection and a relative value approach. We favour staying up-in-quality, with little decompression seen across the credit rating spectrum outside of the lowest rated CCC bonds. We maintain our preference for top tier national champion Banks, however pair our longs in cash bonds with hedges in iTraxx Senior and Subordinated Financials indices. Within industrials, non-cyclical sectors are preferred. From a cross-currency perspective, we continue to view EUR IG as cheap relative to USD IG, particularly considering the high USD hedging costs for EUR based investors, however pockets of value have emerged in select issuers, which we have taken advantage of over March.