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

BLACKROCK

General Comment on Market Developments

Interest rates in the eurozone reached their highest level since 2001 after the ECB raised rates by 25bps in June. In just under a year, the deposit rate has risen from -0.50% to 3.50% with market fully pricing another hike in July after President Lagarde commented rates “still have ground to cover”. Labour market strength saw the ECB revise their core inflation forecasts upward with 5.1%, 3% and 2.3% expected in 2023, 2024 and 2025 respectively. The ECB also confirmed it will halt reinvesting the proceeds of its €3.2tn asset purchase program in July, an action which is expected to assist shrinking their balance sheet by €25bn a month.

Driven by resilient economic data and sticky inflation (specifically in the UK), rates increased through June. European curves flattened (2s10s around -80bps) with almost 50bps of additional hikes priced by the market. Two-year German yields are around 3.20% although remain below year-to-date highs (3.34%) reached prior to disruption in the banking sector. Despite the increase in yields, periphery spreads are resilient, German-Italy contracting with expectations of limited issuance for the remainder of 2023 assisting Italian bonds.

Evidence of inflation and higher rates impacting the real economy are becoming more apparent after the Eurozone fell into recession over winter. The bloc contracted by 0.1% in Q1 after shrinking in the final three months of 2022. Largely a result of activity in Germany, recent data demonstrates 8400 firms were pushed into insolvency in the first half of the year, up 16.2% y/y and the largest increase in more than 20 years. In addition, German house prices fell by a record 6.8% as financing costs and economic uncertainty drove down demand. In survey-based indicators, both services and manufacturing Purchase Managers Index disappointed, with the former most noticeable given the rotation of consumer demand into this sector.

Inflation remains elevated, however there are some positive signals from the latest round of eurozone data. From a headline perspective, HICP fell from 6.1% in May to 5.5% however further downside is anticipated with base affects of energy inflation yet to have full impact and inflation rate of food, alcohol and tobacco declining (down from 12.5% to 11.7% in June). Although core inflation rose from 5.3% to 5.4% and services jumped from 5.0% to 5.4%, the latter was completely due to the base affects from the German reduced transportation ticket introduced in 2022, and thus not something which should concern the ECB.

Despite the number of members on the ECB’s rate-setting governing council, messaging has remained fairly in line and underlying hawkish tone noticeable. Perhaps influenced by events within the UK market where inflation remains at 8.7% or a strong labour market and fears of a wage-price spiral, there is a resilience to continue raising rates with market priced accordingly.

In credit markets, spreads on investment grade European corporates compressed, finishing the month at 165bps, 9bps tighter than end of May. Improved risk sentiment with equities higher and reduced issuance versus May were the platforms for spreads to perform with 4 out of 6 months in 2023 witnessing positive excess returns. Performance was spread across all sectors with higher beta REITs, Banks and retailers outperforming as more defensive sectors (pharma, communications) and chemicals lagged. The latter a result of profit warnings from companies within the sector, depressed demand domestically and from China was cited with projected Q2 and H2 earnings revised down materially.

The compression in risk saw lower rated assets outperform with BB’s 29bps tighter and BB-A spread approaching the 5-year average. European investment grade performance lagged its US counterpart although on a currency hedged basis European Corporate IG yields provide additional compensation by almost 70bps. The Bloomberg Euro-Aggregate Corporate Index produced a total return of -0.58% in May, of which excess return was 0.40%.

Performance

Credit Allocation (+): Basis trades delivered positive performance, with the fund running a long in cash bonds versus hedges in iTraxx Main and iTraxx Senior Financials. Cash bonds outperformed over the month supported by inflows into the asset class and low supply. A small cross-currency allocation also aided returns, with USD credit outperforming Euro credit over the month on an excess return basis.

Security and Sector selection (+): Security selection was the main driver of returns, with select new issues and an allocation to corporate hybrids performing well. An overweight to the Banking sector and underweight to the REIT sector were both positive for fund returns. Within non-financials the allocations to Communications and Consumer Non-Cyclical were the top performers and more than offset the negative contribution from the underweight to Retailers and Capital Goods.

Macro (+): Macro trades contributed through a long in 30-year and 10-year European rates and a short in European inflation. A long in UK rates detracted, however.

Omvang fonds

Waarde begin van de periode	€89,838,145
Waarde eind van de periode	€88,352,707

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	0.34%	2.03%	-5.88%	-1.72%	1.44%
Benchmark	0.05%	2.46%	-6.01%	-1.91%	1.02%

Outlook

We retain a bias to own duration and although hard data is resilient, deteriorating soft data and corresponding lags make it likely cracks in the economy will soon become evident. China re-opening has failed to create the expected demand and with greater fiscal responsibility forecasted, the traditional engines of growth are absent. The increase in nominal wages has been a variable challenging our view although we believe employee wage bargaining power will ease as inflationary pressures reside. This is already evident in Germany where minimum wages rose by 15% recently although under new proposals, an increase of only 3.4% would occur in 2024. Translating this hypothesis into tradeable expressions, we prefer owning duration in the UK market where rates have risen materially. The BOE has already raised rates in 13 consecutive meetings with just over 100bps of additional hikes priced. For an economy where the real economy (through the mortgage market) demonstrates a greater elasticity to higher interest rates than other developed markets, we believe this degree of tightening provides a threat to future growth. In credit, we are likely to remain defensive with rhetoric from the chemicals sector a reminder to underlying risks within the corporate sector. Second quarter earnings will provide further insights into fundamentals and although resilience is a recent theme, de-stocking and easing supply chains are headwinds to demand. Remaining up in quality with a preference for Banks, Supranationals and defensive Industrials (i.e. non-cyclicals, communications), diminished primary supply in July and August is a near term supportive technical.