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

BLACKROCK

General Comment on Market Developments

The absence of an ECB meeting in August The ECB raised rates to an all-time high however signalled the hiking cycle was close to the end. Suggesting interest rates had reached a level which maintained for a long period of time would bring inflation back to the 2% target this narrative of a pause follows a similar path to other central banks. In updated forecasts, the ECB cut its growth forecast for the next 3 years and whilst inflation was revised up for 2023 and 2024, the 2025 predication was lowered to 2.1%

The market currently sees little chance of another rate rise in 2023 with more hawkish members of the ECB advising of another hike in December if inflation and wages pressure continues. Despite unemployment remaining historically low, pressures of the latter were reduced somewhat with latest eurozone hourly labour costs rising 4.5% in the second quarter, down from 5.2% in the first quarter and 5.9% in the 4th quarter of 2022. Although market narrative has changed to higher for longer and ECB have given no indication of cutting interest rates, markets currently forecast the first 25bps cut to occur mid-2024.

Concerns of future supply, higher neutral rate and increased momentum saw longer end US Treasury yields move higher. A theme which started in July, 10-year yields reached the highest level since 2007 (4.70%) after better-than-expected economic data accelerated the move. Feeding into Europe, the 10-year German Bund yield climbed close to 3% with underpeformance of longer end securities noticeable versus 2-year yields. Assisting the increase in European yields was Italy's decision to raise budget deficit forecasts with 2024 revised from 3.7% to 4.3%. With EU rules capping budget deficits at 3% of GDP likely to be reintroduced the potential conflict with Brussels saw Italian sovereign spreads widen.

The economic backdrop in Europe continues to suggest an economy facing increasing headwinds. Although sentiment indicators (Purchasing Managers' Index) increased marginally, they remain in contraction territory with new monthly orders witnessing a fourth consecutive monthly decrease, described as "the most pronounced since November 2020". Subsequent remarks by ECB chief economist Philip Lane that economic growth was "tilted to the downside" added further momentum to the likely path of economic data.

Inflation in the Eurozone hit a 2 year low with consumer prices rising by 4.3% in September, below expectations and August rate of 4.5%. Core inflation (stripping out energy and food costs) also came in below expectations at 4.3% aiding the argument for ECB to finish their rate hiking cycle.

Despite rising yields, European corporate investment grade spreads finished September marginally tighter. On an index level, spreads fell from 154bps to 152bps however this masked intra month activity with spreads reaching a low of 147bps before rising yields changed risk sentiment. In the traditional risk off move, the decompression of risk assets saw higher beta sectors (REIT's, cyclicals etc) and lower rated issuers underperform. Whilst BB assets outperformed A rated assets through September, from the 20th BB assets underperformed A's by 13bps.The rise in yields flattened the curve with only 8bps separating 1-10 year European corporates (4.50% - 4.58%), removing the inversion which was previously evident. For one of the few times this year, US IG underperformed European IG with more prominent rise in US yields having a greater impact on risk assets.

The passing of summer saw primary markets re-open although issuance fell below the historical average and market expectations. The positive technical helped offset some of risk-off sentiment with October also expected to be relatively light as corporates enter Q3 earnings blackout. Of the new issuance, more defensive issuers/utilities have performed well with higher new issue premiums assisting.

The Bloomberg Euro-Aggregate Corporate Index produced a total return of -0.86% in September, of which excess return was 0.29%.

Performance

Credit Allocation (+): Exposure to credit beta contributed to performance with spreads closing the month tighter despite the risk-off move in the second half of the month.

Security and Sector selection (+): Sector allocation in favour of Financials contributed to performance with subordinated Additional Tier 2 securities outperforming senior bonds, while an allocation to UK utilities detracted slightly given concerns about degree of future infrastructure investments seeing bonds underperform. Positions in high quality covered bonds also performed with fund liking this sector given strong valuations and fundamentals.

Macro (-): Duration strategies detracted over the month with long positions in European duration and US Treasuries impacted by rising yields in September. However, a short in Japanese rates offset some of the losses.

Omvang fonds

Waarde begin van de periode	€ 88,352,707
Waarde eind van de periode	€ 84,208,714

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	-3.40%	-1.44%	-7.58%	-2.24%	0.97%
Benchmark	-2.47%	-0.06%	-7.30%	-2.19%	0.67%

Outlook

It's very likely the ECB is at the end of their tightening cycle having indicated that at these levels, interest rates are high enough to bring inflation back to target. When combined with the rise in yields at the longer end of the curve, the additional tightening reduces pressure for the ECB to raise rates higher. We remain positioned to own duration, believing elevated interest rates are already beginning to influence consumer and corporate behaviour. Supported by forward economic data, expected fiscal discipline, falling demand for credit from households and China's failure to re-open, the obstacles to avoiding a recession are many. In the US, the recent sell-off has placed longer end yields close to 17-year highs and although economic data displays greater resilience, valuations provide an opportunity to incrementally build positions. Despite a strong labour market, unemployment began to rise from the low of 3.3% (to 3.8%) suggesting some slack is building. In credit, we maintain a preference for financials (banks) and non-cyclical sectors including communications and technology. Marrying fundamentals, valuations and technical, the rapid change in yields ensure investors are compensated for remaining up in quality with lower rated assets failing to compensate for the inherent risks economies face. In addition, interest rate volatility remains a key influence of spreads and thus are conscious of what may happen to risk assets if yields continue to rise. With primary supply above expectations year to date, we are of the opinion less issuance will be seen in Q4 and thus one variable supportive for credit spreads. High quality sectors including quasi-sovereigns and covered bonds are areas we like, not only due to their fundamentals but also valuations given spreads are at recent historical highs.