Oriflex BP Regeling
Oriflex Obligaties
Stichting Pensioenfonds Atos Origin
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BLACKROCK

General Comment on Market Developments

The ECB kept interest rates unchanged and despite reducing its inflation forecasts for 2023 and 2024, advised pressures remained in the region. Pushing back against the notion of rate cuts in the first quarter of 2024, President Lagarde advised borrowing costs should remain at "sufficiently restrictive levels for as long as necessary". In addition, there was an adjustment made to the reinvestments of maturing securities in the ECB's PEPP program, announcing a reduction in reinvestments from July of €7.5bn a month before ending completely at the end of 2024.

The tone of the meeting differed from earlier rhetoric from the Fed with chair Jerome Powell striking a much more dovish stance. Advising rate increases were "not the base case anymore" alongside projections from 17 of 19 Fed policy makers seeing rates lower by the end of 2024, bond markets rallied materially in December. Yields fell globally as markets priced additional interest rate cuts in 2024 and lower longer end yields.

In Europe, 170bps of cuts are priced with 10-year Germany now below 2% having reached 3% in October. The anticipated easing was supportive for periphery assets with Italian-Germany 10yr spreads around 20bps tighter to 160bps. Despite the rally, medium term expectations in Europe are still towards the higher end of the perceived neutral range (1.5% - 2.5%) with 5y5y (pricing of ECB rate for 5 years starting in 5 years' time) around 2.50%.

Forward looking economic data disappointed with euro area sentiment surveys (PMI's) missing expectations. Although the magnitude of miss was immaterial, the trajectory of data poses risks to consensus expectations of a growth rebound in 2024. This thesis was further supported by German data (Ifo) also disappointing to the downside. Perhaps worrying for the ECB, there was weakness amongst energy-intensive manufacturing firms despite the recent fall in commodity prices. There was a small upward surprise in euro area consumer confidence given falling inflation relative to nominal wage growth however overall, this measure remains subdued.

Eurozone inflation continued to fall with headline 2.4% and core inflation unchanged at 3.6%. Although more volatile components (airfares and clothing & footwear) were the main factors driving core inflation lower, virtually all measures of underlying inflation are decelerating. Whilst risks to higher inflation have diminished, the evolution of the labour market in terms of unemployment and wage growth will play an important role in the future trajectory. The recent public sector wage deal in Germany will embolden ECB hawks, with the agreement for 3 million workers showing positive real wage growth with back loaded components also included.

Risk markets enjoyed a strong rally into year-end driven by a dovish fed, falling yields and very little primary supply given December is traditionally a quiet month for issuance. Spreads on European investment grade corporates fell to 137bps and now track relatively close to the longer-term average (130bps), although dispersion within the index remains close to 5-year highs as elevated interest rates impacts issuers and sectors unevenly. As to be expected, higher beta sectors/issues outperformed with financials leading performance. Whilst lower yields have negative connotations for bank net interest margins, the fundamentals will benefit from lower rates given the reduced possibility of balance sheet deterioration from bad loans. The demand for risk was further highlighted by high yield assets materially outperforming investment grade assets (BB – BBB spreads contracting by 40bps). In Europe the credit curve remains relatively flat with the belly of the curve (5-10yr) providing some additional compensation given anticipated future supply (both primary and ECB Balance Sheet based).

Performance

Credit Allocation (+): Exposure to credit beta contributed to performance. The active spread duration was moderately positive, while an overweight DxS position also contributed as the higher beta parts of the market outperformed.

Security and Sector selection (+): The sector allocation in favour of Financials contributed given the sector outperformance versus non-financials. Within non-financials, an allocation to Utility hybrids from IG issuers and to senior bonds in the Communications and Energy sector delivered strong active performance, outweighing the detraction from the underweight to Transportation.

Macro (+): Duration strategies contributed overall via longs in the UK via the front-end of the curve. A duration long in Europe held at the beginning of the month, and a cross-market long in US and Australia vs Canada also worked.

Omvang fonds

Waarde begin van de periode	€ 84,208,714
Waarde eind van de periode	€ 88,349,539

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	9.11%	7.54%	-5.24%	-0.74%	1.72%
Benchmark	7.22%	7.15%	-5.50%	-1.11%	1.26%

Outlook

The rally in both duration and risk markets during the last 2 months of the year was material. In European markets, the DAX and EU Sovereign Bonds finished the year up 24% and 10% yet returns up to the 27th October was less than 4% and -1% respectively. As a result, it's important to assess the degree of market moves and where valuations currently are in both macro and credit markets. Macro markets have significantly re-priced forward interest rate curves with base case central banks will begin an interest rate cutting cycle as early as March. Pricing close to 150bps of easing through 2024, an argument can be made this is aggressive when considering inflation is above target and labour markets remain tight. With longer end yields also rallying materially and momentum diminishing the argument of 'higher for longer' we have moved duration positioning slightly underweight. The release of further economic data during January will provide greater insight to the future path of central banks and we believe waiting for markets to re-price based off these developments will provide improved entry points for duration expressions. Within credit markets yields remain attractive, both in absolute terms and when observing where real yields are from a historical basis. January is traditionally a month where issuers return to the markets increasing the volumes of primary supply in the markets. We expect selectivity to remain key as winners and losers emerge from higher interest rates impacting consumer and corporate behavior differently. We continue to remain defensive, favoring up in quality opportunities (investment grade, senior tranche of the capital structure) with a tilt towards European banks. We remain cautious over cyclical sectors, aside from select high-quality exposures where pricing has already materially adjusted, given the deteriorating macro-outlook in Europe and valuations failing to compensate for this uncertainty.