Oriflex BP Regeling
Oriflex Obligaties
Stichting Pensioenfonds Atos Origin
Eerste Kwartaal 2024

BLACKROCK

General Comment on Market Developments

The ECB kept interest rates unchanged in March although markets expect the first cut to occur in June after inflation and growth forecasts were revised lower. Rhetoric from President Lagarde supported pricing with comments of “we will know a little more in April, but we will know a lot more in June” suggesting the central bank is not in an immediate rush to ease policy. Strong wage growth was cited by hawkish members as reasons to delay rate cuts. Whilst one of the most lagging economic indicators, the trend of quarterly 2023 data demonstrated slowing pressures with latest indeed wage data in the eurozone dropping to a 4-month low (3.7%).

The market expects the ECB to begin cutting interest rates in June with approx. 175bps of easing priced over the next 2 years. European rates enjoyed a better March with central rhetoric and economic data supporting the narrative of a resilient economy, rather than one re-accelerating. Ten-year German bund yields fell by around 12bps to 2.30%, with risk-on sentiment supporting the performance of periphery assets with Italian-German 10-year spread falling to 1.16% at one point during March. One underperformer was France with spreads to Germany increasing after the country’s budget deficit widened to 5.5%, missing the 4.9% forecast. In Europe, fiscal responsibility remains key with interest rate costs in France expected to outweigh spending on national education and military in 2027 based on current estimates.

Forecasts for German growth were reduced given the fall in exports and weaker domestic demand. Although slight improvements are expected from last year, this is a low benchmark with Germany the worst performing major economy (based on growth) in the world during the 4th quarter of 2023. Economists see the combination of underwhelming domestic demand, repercussions of higher energy costs impacting the manufacturing sector alongside tighter fiscal policy as the catalysts for weak growth in 2024.

The latest inflation data was supportive for the ECB to begin cutting rates with French and Italian data coming in below expectations. In France, inflation fell to its lowest level (2.3%) since 2021 with slower annual price rises witnessed across all areas. We await eurozone numbers although initial country readings are supportive for inflation in the region slowing to 2.5%. Service inflation is likely to remain an area of focus for the ECB given the labour-intensive nature of the sector and recent rise in wage growth.

Credit markets enjoyed another good month with soft landing narrative and performance of equity markets helping spreads tighten further. European Investment Grade (IG) Credit spreads fell to 113bps and although 12bps through their 10-year average, US IG by comparison trades close to 40bps through the equivalent range. Higher beta financials were the best performing sector, eliminating some of the recent underperformance versus industrials with compression remaining a key theme in 2024 as BB’s outperformed BBB’s. Technicals remain a tailwind with investors adding exposure to the asset class and although primary issuance is higher than 2023 year to date, we expect volume to subside later in 2024 as current markets accelerates new issue activity.

Performance

Credit Allocation (+): Exposure to credit beta contributed to performance with active DxS positive through March.

Security and Sector selection (+): The sector allocation in favour of Financials contributed. The preference for Banks over cyclical corporates contributed, with financials the highest performing sector. Within non-financials, positive alpha through overweight allocations to Technology, Utilities and Communications outweighed the detraction from underweights to more cyclical sectors, such as Capital Goods and Transportation.

Macro (+): Duration strategies contributed to performance via a long in 10-year Europe and US. Central Banks staying with the rhetoric of interest rate cuts in 2024 and economic data questioning the fragility of the economy helped bond yields close the month lower.

Omvang fonds

Waarde begin van de periode	€ 88,349,539
Waarde eind van de periode	€ 86,260,268

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	-0.95%	4.75%	-4.72%	-1.74%	1.19%
Benchmark	-0.70%	3.90%	-4.98%	-1.47%	0.82%

Outlook

We remain long duration across our funds with volatility providing the opportunity to tactically trade positioning as valuations adjust. Easter weekend provided a timely reminder to the swings which can still occur with German 10-year yields rising by 10bps due to a strong PCE inflation report in the United States. We have rotated some exposure into US rates having primarily held European rates expressions in 2024 with recent underperformance, current valuations providing attractive entry points. From a fundamental perspective, consumer spending momentum in the US is narrowing ensuring a smaller cohort of individuals are driving the economy with non-farm payroll revisions a timely reminder to how quickly labour-market perceptions can change. In Europe, we still like the belly of the curve with medium term expectations suggesting interest rates will be held above the perceived neutral rate (rate at which economy neither grows nor slows) for the foreseeable future. In credit the bias remains to be up in quality. Compression is a key theme in 2024 and therefore the benefit of moving down in credit quality is minimal at this juncture. Whilst strong technicals are a tailwinds with investors moving back into Fixed Income given the yields on offer, the change in valuations from previous months does require investors to be prudent. We continue to favour financials over industrials and find attractive opportunities in high quality Supranational and Covered Bond sectors of the market. These are areas where following indigestion of addition primary supply, spreads trade through covid wides. We expect this to fade and as investors become more aware of current valuations providing alpha generating opportunities.