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

BLACKROCK

Market Review

America

In June, the unemployment rate saw its first deviation this month increasing 0.3% up to ~3.7% while the labor force participation rate was unchanged at 62.6%. Hiring continued to be robust in the US as June's nonfarm payrolls print marks the 14th consecutive month where payrolls have surpassed surveyed expectations. After ten consecutive rate hikes over the past 1.5 years, the Fed decided on their first pause during June's FOMC meeting leaving the target range between 5% and 5.25%. Following the announcement, they hawkishly revised the end of year fed funds target range median dot-plot projection to end between 5.50% and 5.75%, suggesting two additional rates hikes for the year. These movements brought the 2024 and 2025 year-end ranges higher, endorsing the higher for longer narrative the Fed has communicated. Additionally, Chair Powell highlighted the difficulties the Fed is facing in managing monetary policy alongside the ambiguity of the lagged effects, potential credit tightening, and the resiliency of the overall macro economy in the United States. Later into the month, CPI printed slightly above consensus, driven by used car prices, with core CPI increasing while headline CPI slowed over the month. Core CPI remains above 5%, slightly lower than last month.

The US 10-year Treasury opened at 3.60% and increased throughout the month, closing 24bps higher in yield at 3.84%. US rates stayed in range for the month of June. Following the CPI print, front-end yields initially sold off while hawkish updated dots indicated more hikes. Rates later eased following the Fed's press conference but the narrative of higher for longer rates is still likely to stress risk assets more than previously expected. The 2yr yield saw a consistent increase before ending May at 4.88%. The 10yr note pushed higher, but at a smaller magnitude, bringing the 2s10s curve to a monthly low of -107bps. The 5s30s curve flattened by 42bps, reaching -30bps at month end.

Europe

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.

Omvang fonds

Waarde begin van de periode	€ 48,955,728
Waarde eind van de periode	€ 51,027,477

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	5.41%	16.17%	12.10%	9.14%	9.68%
Benchmark	4.04%	11.68%	9.97%	6.81%	8.08%

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UK

Another tough month for the UK as gilt yields continued to gap higher, almost a déjà vu of May. We witnessed the thirteenth consecutive rate hike by the Bank of England (BoE), inflation continuing to outpace expectations, and GDP print below estimates. Macro was largely the story once again while credit was relatively muted compared to the moves seen in gilt yields, as UK 2y yields surpassed 5% for the first time since 2008. The market has gone from pricing the BOE being forced to cut rates next year to now hiking another 130bps after inflation beat expectations for the fourth month in a row. Monthly data continues to prove the BoE is unlikely to cool their tightening anytime soon.

The start of the month saw UK GDP grow by 0.5% YoY vs exp 0.6% while MoM was in line with expectation at 0.2% growth. Inflation once again surprised to the upside with core at 7.1% YoY vs expected 6.8%, its highest rate for 31 years. Headline inflation was unchanged from the previous month at 8.7% YoY vs expected 8.4%. Energy bills and food prices remain the main culprit for high inflation, while experts believe food prices are due to fall in the coming months. The biggest event for the month was the BoE's Monetary Policy Committee (MPC) hiking rates 50bps to 5%, the highest since September 2008 in a 7-2 vote, beating market expectations of a 25bp hike as inflation continued to surprise to the upside in both core and headline components. The UK is now the only country in the G7 with rising inflation, all the while UK government debt exceeded 100% of GDP for the time since 1961.

Japan

JGB yields declined moderately across the curve in the month. 10yr yield ended the month 3.5bp lower at 0.395%. While there was moderate upward pressure on yields in the U.S. and European bond markets on the back of the central banks' continued hawkish stance, in contrast, the Bank of Japan continued to maintain its easing policy, resulting in a small decline in yields in the domestic bond market.

The overall inflation ex-perishable food was +3.2% YoY in May, and remained above the central bank's 2% target for fourteenth straight month as food prices continued to be high. The unemployment rate remained relatively low at 2.6% in May.

Emerging Markets

June was a positive month for Emerging Markets Debt as the asset class benefited from broader risk-on sentiment. Market action was influenced by receding global recession fears and a more favourable global inflation outlook. In the US, the Fed held its benchmark rate at a target range of 5% to 5.25%, following a historic 10 consecutive increases dating back to March 2022. Markets had priced in the pause, so instead investors focused on chairman Powell's intentions to implement further rate hikes later in the year.

In Russia, Putin faced his biggest internal issue since the beginning of the war in Ukraine, as a potential coup led by the Wagner Group was muted at the eleventh hour with an agreement brokered by Belarussian President Lukashenko. Manufacturing activity in China contracted for the third month in a row. Policy makers considered options to stimulate the country in a bid to get closer to its 2023 GDP growth target of 5%. Earlier in the month the People's Bank of China cut interest rates but have not yet engaged in major fiscal stimulus which looks to be needed to kickstart the world's second largest economy. Nigeria's newly elected president Bola Tinubu implemented two notable reforms since being elected in May, scrapping the petrol subsidy which has cost the country an estimated $10bn a year as well as abandoning the country's currency policy of propping up the naira against the US Dollar, Zambia struck a deal to restructure $6.3 billion in debt owed to governments abroad including China, in a breakthrough for indebted nations around the world that have faced lengthy negotiations with their creditors. Egypt is advancing in the privatization of its state-owned enterprises amid growing economic difficulties which have been exasperated by the global pandemic in 2020, with positive news coming from the potential asset sale of a $2bn power plant. The government wants to increase private sector investment contribution from 30% to 65% by 2025. Argentinian inflation is at a 3-decade high of 114%, as the country begins its run in to government elections in October, with confidence in the left leaning Peronist coalition cratering close to 1 point. Markets seem to be optimistic about a new business friendly government which could be elected in time to turn the economy around in 2024.

Looking at returns, the JP Morgan EMBI Global Diversified index of US dollar sovereign bonds delivered a total return of 2.23%. Of this, the spread return was 3.24% and Treasury return was -0.97%. In local currency bonds, the JPMorgan GBI-EM Global Diversified index returned 3.26%, of which the FX component was 1.66% and the Rates component was 1.59%. In corporate bonds, the JPMorgan CEMBI Broad Diversified index delivered a total return of 1.08%, of which the spread return was 1.75% and Treasury return was -0.66%.

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