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

BLACKROCK

Market Review

America

In September, the Federal Open Market Committee (FOMC) decided to keep rates unchanged with the target range at 5.25-5.50%. The Survey of Economic Projections (SEP) revealed an upgraded growth outlook and maintained the possibility of one more hike this year. The dot-plot in the SEP was hawkish, with the Fed anticipating cuts of only 50 basis points (bps) next year, compared to the previous projection of 100 bps. This is also less dovish than the market expectation of ~80 bps. The SEP medians indicated a committee more convinced of a soft-landing narrative. The Fed raised its growth forecast for the year to 2.1%, reflecting solid recent data. Decisions will be made on a meeting-by-meeting basis.

As a result, US Treasury yields surged and the curve steepened, with the 10-year rate reaching its highest level since 2007 at 4.55% and the 30-year rate reaching 4.67%, driven by market expectations of higher rates for a longer period and elevated supply.

Across the globe, other major central banks are maintaining a hawkish stance. The European Central Bank (ECB) recently raised their key rates by 25 basis points (bps) each, bringing the deposit facility to 4.0%. The Bank of England (BOE) held the bank rate at 5.25%, the first meeting in 15 where there was no rate hike. The BOE also unanimously voted to increase the pace of Gilt Quantitative Tightening (QT) over the next year to £100 billion, up from £80 billion. The Bank of Canada held its key policy rate as expected at 5%. Meanwhile maintaining a hawkish tone by expressing concerns about broad-based strength and overall weak downward momentum of core inflation, prepared to increase the policy rate if needed. In contrast, the Bank of Japan (BOJ) maintained an ultra-low interest rate at -0.1% and continued its yield curve control (YCC) framework. The BOJ pledged to keep supporting the economy until inflation sustainably hits its 2% target, indicating that it is in no rush to phase out its massive stimulus program.

On the data front, August US Headline CPI popped came out at 0.63% MoM and 3.7% YoY, its largest sequential gain since June 2022. Core CPI came in at 0.28% MoM and 4.4% YoY. More than half of the Headline figure was driven up by a pick-up energy price (5.6%), while food posted more modest gains (0.2% MoM). US Core PCE inflation was also trimmed to 3.7% by year-end. GDP was unchanged at 2.1% for the second quarter, slightly higher than first quarter which was 2.0% annualized. Consumers were more cautious in their spending with Consumer spending, which accounts for about 70% of the US economy, revised lower to a 0.8% annualized rate, down from 1.7% in the previous estimate.

The oil price has surged above $90 per barrel, apart from the long-standing environmental challenges that drive oil prices high, several factors have contributed to this price jump. Supply constraints from OPEC+ and other producers, demand recovery from China and other major consumers, who are ramping up their oil consumption as they emerge from the pandemic and prepare for the Golden Week holiday. Additionally, sanctions, conflicts, or instability in some oil-producing regions such as Libya, Iran, Nigeria, and Venezuela have further impacted the price.

Europe

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 underperformance 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.

Omvang fonds

Waarde begin van de periode	€ 51,027,477
Waarde eind van de periode	€ 49,013,433

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	-2.69%	13.05%	8.32%	7.88%	8.64%
Benchmark	-2.10%	9.34%	7.69%	5.73%	7.74%

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Japan

JGB yields rose mainly over 5-20ye zone in September, and the 10yr yield ended the month 0.12% higher at 0.765%. Against the backdrop of weakness in the U.S. and European bond markets on the back of hawkish changes in the Fed’s dots towards maintaining higher policy rate for longer, and the increasing speculation regarding the BoJ's early exit from the negative interest rate policy, the domestic bond market experienced upward pressure on yields. The overall inflation ex-perishable food was +3.1% YoY in August and remained above the central bank's 2% target for seventeenth straight month as food prices continued to be high. The unemployment remained at 2.7% in August, maintaining the same level as July.

Emerging Markets

September was a negative month for Emerging Markets Debt as the asset class sold off due to a persistent rise in core rates. The 10-year US treasury yield reached its highest level since 2007. In the US, the Fed held its benchmark interest rate at a 22 year high of between 5.25% and 5.50%. Chairman Jerome Powell stated that further rate hikes are still possible, with the focus remaining on ensuring the inflation rate is brought back down to its target of 2%. The market viewed this as a hawkish pause and led to US treasury yields hitting 4.65% towards the end of the month.

Data published over the month showed Chinese economic activity sharply recovering, most notably the rebound in industrial production rose 4.5% year on year in August, accelerating from 3.7% in July. This was a welcome development given China’s modest growth since the reopening. JPMorgan announced the future inclusion of India into the Government Bond Index-Emerging Markets (GBI-EM). This follows years of discussion between relevant parties to include the 5th largest world economy into broad markets indices. The inclusion, which will begin in June 2024, will ultimately see India represent 10% of the GBI-EM. The National Bank of Poland announced a larger than expected cut of 75bps to the country’s benchmark interest rate at the beginning of the month, which was much more than the consensus 25bps. The upcoming elections in the country are touted to be the driving force behind the dovish move. Although disinflation has been seen in recent months, consumer price inflation sat at around 10% for August. Turkey continued its gradual normalisation of its monetary policy with a 5% hike, raising the country’s interest rate to 30%, whilst still needing drastic measures to cool inflation which is running at over 60%. Since Erdogan was reappointed in May, his newly appointed finance minister Şimşek has conducted a policy U-turn as rates have been increased by over 20%. In Mexico, the 2024 budget was announced, which comprised of fiscal easing and explicit support for state owned Pemex. The Mexican economy has shown resilience, despite elevated interest rates, as it has been supported by the strength of the US economy. Banxico held interest rates at 11.25% this month and indicated a likely prolonged pause.

Elsewhere in EM, Brazil cut rates by 50bps to 12.75%, citing further similarly sized cuts in upcoming meetings; South Africa held at 8.25%, with a hawkish tone coming out of SARB noting the upside risks of inflation; Indonesia held at 5.75% and stated an intention to hold for the remaining of 2023; Peru cut by 25bps to 7.5% after holding on the previous 7 decision meetings. Looking at returns, the JP Morgan EMBI Global Diversified index of US dollar sovereign bonds delivered a total return of -2.60%. Of this, the spread return was -0.05% and Treasury return was -2.55%. In local currency bonds, the JPMorgan GBI-EM Global Diversified index returned -3.37%, of which the FX component was -2.03% and the Rates component was -1.34%. In corporate bonds, the JPMorgan CEMBI Broad Diversified index delivered a total return of -0.78%, of which the spread return was 0.59% and Treasury return was -1.36%.

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