

# Rate volatility

- Sharp rise in bond yields
- Credit markets were resilient
- Maintain overweight beta positioning

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## Market developments

Markets experienced renewed volatility in April, marked by significant movements such as a nearly 50 bps increase in US government bond yields and 4-5% declines in stock indices. The sharp rise in bond yields was primarily fueled by the sustained strength in US economic data. Inflation data continued to exceed expectations, while retail sales and employment figures outperformed forecasts. However, various business surveys presented a more mixed outlook on future growth. Although European bond yields rose in sympathy, the increase was less pronounced, as indications of a resurgence in European inflation remained elusive. Spreads of subordinated financial debt widened around mid-April, though sentiment improved again in the final week of the month, ultimately tightening by 3 bps compared to the previous month-end.

## Portfolio positioning

### Maintain overweight beta positioning

The fund's beta was maintained at a level of around 1.1. We still believe European financials are the sweet spot within the broader credit market, hence we are happy to run a small-long beta position for the fund. Our top holdings within the banking sector are Deutsche Bank, CaixaBank and Raiffeisen Bank, while our top holdings within the insurance sector are Ageas, ASR and AXA. The fund continues to be underweight real estate as we are concerned with the outlook for the sector given upcoming refinancing needs, increased vacancies in commercial real estate and a decrease in property values.

### Portfolio changes

During the month we participated in six new issues, including Crelan, Crédit Agricole and Achmea. Through the secondary market we added Allianz, Sampo, AXA (RT1), CaixaBank (AT1), KBC and Deutsche Bank. In contrast, we

#### PORTFOLIO MANAGER'S UPDATE APRIL 2024

Marketing material for professional investors, not for onward distribution



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trimmed BPER Banca and Standard Chartered. Lastly, driven by relative valuations we switched bonds from the same issuer, including Lloyds, Commerzbank and Bankinter.

## Performance

### Credits outperformed treasuries

The benchmark's performance for the month came in at -0.58% (EUR) or -0.45% (USD). Underlying government bond yields rose, which had a negative impact on total returns. This was only partly offset by spread performance as index credit spreads tightened by 3 bps. The portfolio outperformed its benchmark by 11 bps (gross). Beta positioning added 3 bps as the beta was above one while credits outperformed Treasuries. Issuer selection also made a positive contribution (9 bps). Our banking holdings added 5 bps, while our insurance holdings detracted 2 bps. Our underweight in real estate added 3 bps as these names lagged. From an issuer perspective, the winners were Banco de Sabadell (+2 bps), Aroundtown (+1 bps) and Grand City Properties (+1 bps), while the laggards were ASR (-1 bps), Erste Bank (-1 bps) and Sogecap (-1 bps).

### Annualized performance Robeco Financial Institutions Bonds

30 April 2024

	Apr-24	3-month	YTD	1-year	3-year	5-year
<b>Robeco Financial Institutions Bonds (D EUR)</b>	<b>-0.47%</b>	<b>0.99%</b>	<b>1.90%</b>	<b>11.50%</b>	<b>-0.07%</b>	<b>1.81%</b>
Benchmark (hedged into EUR)	-0.58%	0.66%	1.33%	9.48%	-1.33%	0.70%
Relative performance	0.11%	0.33%	0.57%	2.02%	1.26%	1.11%
<b>Robeco Financial Institutions Bonds (DH USD)</b>	<b>-0.35%</b>	<b>1.36%</b>	<b>2.41%</b>	<b>13.59%</b>	<b>1.88%</b>	<b>3.80%</b>
Benchmark (hedged into USD)	-0.45%	1.04%	1.84%	11.47%	0.53%	2.59%
Relative performance	0.10%	0.31%	0.57%	2.12%	1.36%	1.21%

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## Outlook

### Race to the bottom

The ideal scenario for credit appears to be materializing, characterized by declining inflation and the likely avoidance of a recession. This soft landing scenario presents the most favorable conditions for credit. However, it is important to recognize the possibility of alternative scenarios, as these cannot be ruled out. We concur with the consensus view that there is a high probability of the Fed implementing three rate cuts and the ECB implementing even one more.

So, is there still value? We would argue that while spreads are tight, European investment grade and financials still present attractive value relative to other markets. Although financials have tightened considerably in absolute terms, they still appear attractive compared to corporate counterparts on a relative basis. We maintain that the long-term investment thesis for financials remains intact, given the improvements in capital ratios, liquidity and funding since the global financial crisis. Given that spreads have tightened quite a bit in the past months, we have moved up in quality, for instance by reducing the exposure to CoCos. That said, we still aim to have a beta positioning that is slightly above 1.

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