

Flexible, with the focus on European markets. This fund can invest in equity and bonds issued by both European and non-European companies and in investment funds, options and futures with a view to protecting portfolio value or increasing the level of investment. Investment decisions are based on in-depth analyses of companies and due diligence on the ground.

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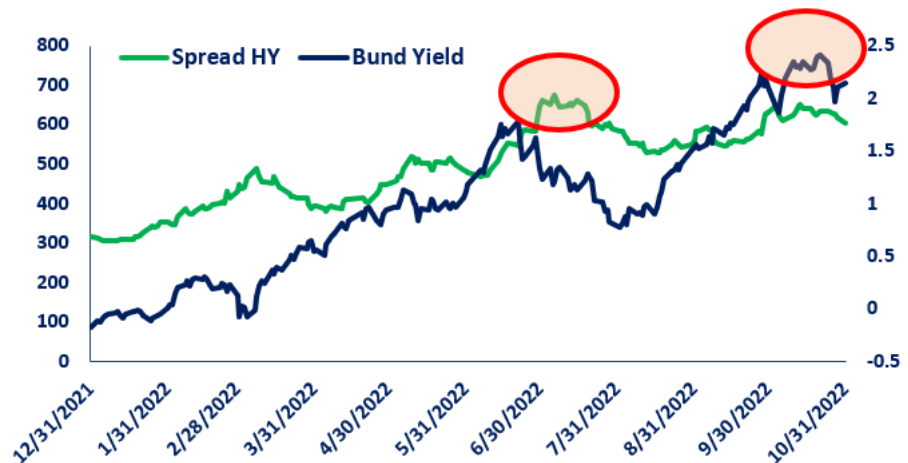
Decoupling

The first part of this year saw an epic correction in fixed income, with government and credit investments affected on a similar scale.

The last few months have not offered any positive news in terms of durations exposure: the inflationary context remains incredibly challenging. While the energy and commodities component is now bringing a negative contribution to monthly inflation, the core component is accelerating. Wages, while below headline inflation, continue to grow fast and are forcing central banks to tighten further.

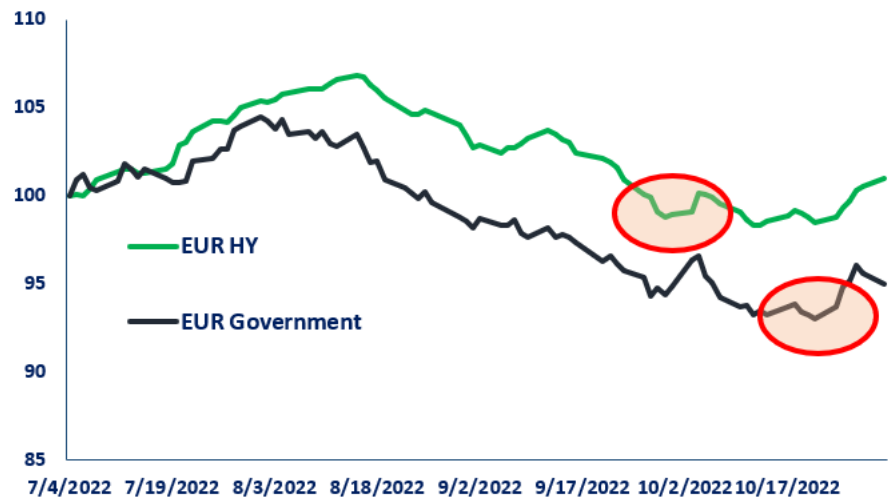
On the other hand, some positive signs for fixed income are finally emerging: while interest rates continue to raise, credit spreads are already stabilizing and, while elevated, remain below the level seen in July.

Market participants seem to have already discounted a disastrous scenario and are now becoming more constructive on the default probability in Europe.



Interestingly, the stabilization in spreads has been able to survive a further round of increases in interest rate expectations. High inflation and a resilient economy are keeping central banks under pressure. In the US, signs of slowdown are still minor (outside of the housing market). In Europe, however, the risk of a recession has now become a more likely outcome. The recent commentary offered by the ECB expressed a lot of prudence: M.me Lagarde abandoned the precommitment on future rate hikes and mentioned the clear signs of slowdown in the European economy.

When looking at total return indices, this development is reflected in a tentative inversion in the negative trend for government bonds (blue line). As for High Yield bonds (green line) we noted that they have been stabilizing for 3 months now. A recovery in government bonds could possibly contribute to a year end rally in credit securities.



This more constructive scenario has induced us to reduce the liquidity we hold in the portfolio and increase the level of investment above 95%. We are investing heavily in subordinated financial bonds, with a 20% exposure to AT1 CoCos and a duration in excess of 4.5 years and a portfolio yield in excess of 8%.

We believe this sector offers a very interesting risk reward, with high spreads and a very limited exposure to default risk.

FRANCESCO CASTELLI – BANOR CAPITAL

Head of Fixed Income at Banor Capital and
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