BANOR
SICAV

EURO BOND ABSOLUTE RETURN

INVESTOR LETTER – OCTOBER 2022

A mid-yield credit fund, with a focus on low duration opportunities. The strategy focuses on the European Credit market, with a duration exposure below 3 years and an average credit exposure in the BBB-BB range. Our bottom-up selection process incorporates an ESG consideration with a "best-in-class" approach.

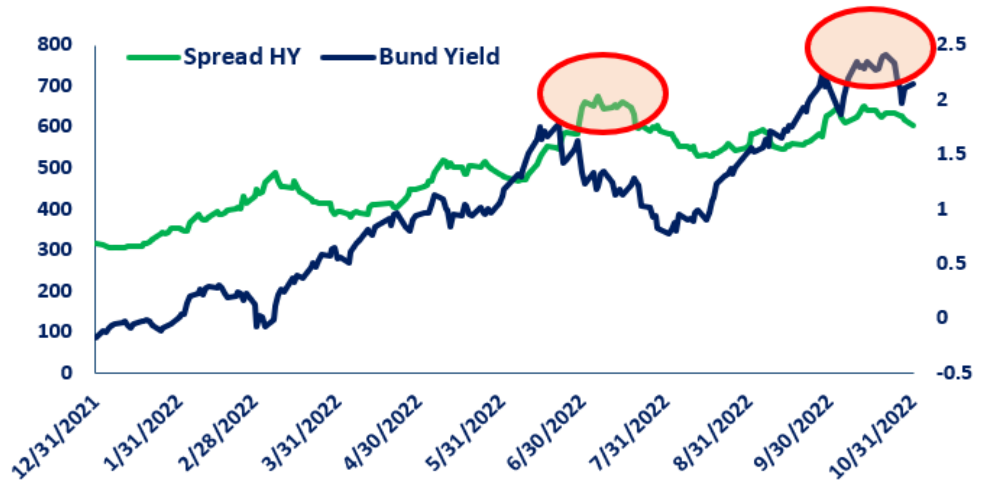
Decoupling

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 growth 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.

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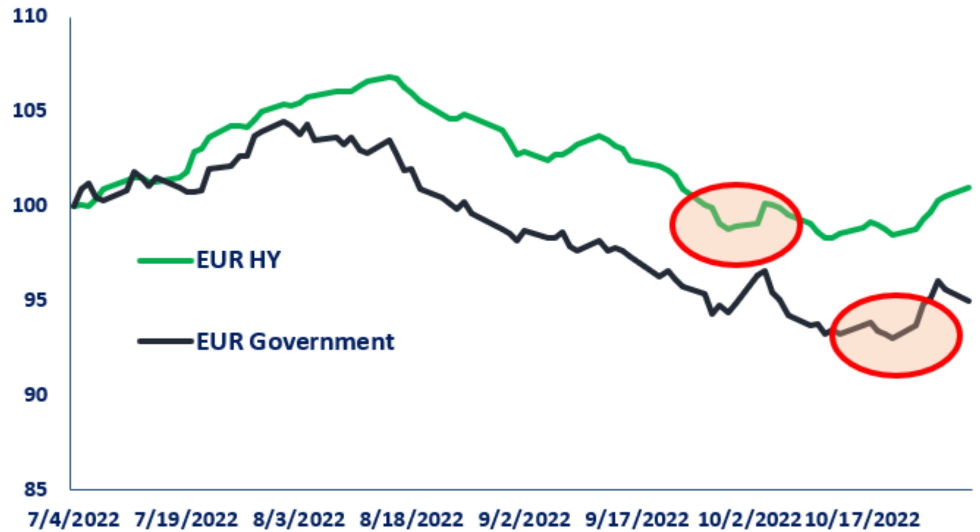
In accordance with article 8 of EU regulation 2019/2088, the fund promotes environmental, social and governance characteristics in accordance with European regulation. Notably, the fund's investment process excludes companies having low practice or standards in these sectors, or those with a high long term sustainability risk.



This more constructive scenario has induced us to reduce the liquidity we hold in the portfolio and increase the level of investment. Duration has moderately picked up reaching 2.6 years. Despite a cautious exposure in terms of credit risk (with high yield bonds contributing for less than 45% of the portfolio), our portfolio yield is now in excess of 6.5%.

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