Italia
Funds PEOPLE

Corporate credit – why it makes sense to bet on the banking sector

The ECB's measures will benefit the weaker banks. That's the opinion of Francesco Castelli, portfolio manager at Banor Capital and manager of the Banor SICAV Euro Bond Absolute Return fund.

By Francesca Vercesi |17 March 2016

The banking sector was hit overly hard by the adjustment in January. But the banks can take some relief from the new measures announced by Mario Draghi, given that the benefits will go to the weaker institutions. That's the conviction of Francesco Castelli, portfolio manager at Banor Capital and manager of the Banor SICAV Euro Bond Absolute Return fund.

What's the strategy of the Euro Bond Absolute fund?

Euro Bond Absolute Return invests in corporate and high yield bonds, mainly in the European market. Our portfolio is not benchmark-based: all of the issuers are selected, by us, on the basis of fundamental considerations. We study each company carefully and examine their financial statements and business models, in close and constant contact with their management. We aim to produce positive yields while maintaining a low rate-risk exposure. Our portfolio is currently offering returns of over 5%, with a duration of just over 2 years.

What impact will Draghi's new credit measures have on the markets?

In our opinion, the decisions taken by Draghi will have a positive impact on the European market, especially as regards corporate bonds. On the one hand, we feel that this further rates reduction will have a limited impact. But on the other, we're agreeably surprised by the decision to inject even more liquidity (purchases of EUR 80 billion a month, compared with 60 billion previously) and especially to intervene directly on the corporate bonds market. This intervention by the ECB explicitly supports investors.

What's the best asset class right now to protect against volatility and see some performance?

The ECB's decisions cannot, unfortunately, resolve the problems of a global economy that's experiencing an evident slowdown. Talk of an economic recession in the USA is, in our view, too pessimistic. However, it's clear that the American market is experiencing a profits recession: a period in which American companies' returns are contracting after years of record expansion. Right now we'd advise a tactically prudent approach, with a good slice of liquidity on hand to use during reversals.

Non-performing loans: Italy Vs. Europe. Entry levels are interesting right now and the consolidation process is on-going. Is it worth a gamble? And if so, where?

The Italian banking sector is on course to consolidate and strengthen. However, several of the possible aggregations will be "stock for stock", possibly backed by a capital hike. These are not easy situations for anyone investing in shares. However, the completion of a process that strengthens the system will have indisputably positive effects for bank bond issues.

Corporate credit. Where are the opportunities?

We like the banking sector, which was hit overly hard by the adjustment in January. And we've noted that the measures decided by the ECB (especially the expansion of the targeted longer-term refinancing operations (TLTROs) programme) will directly benefit the weakest banks by offering them an immediate boost. We continue to view high yield issuers in less cyclical sectors with interest: the volatility in early 2016 increased their numbers and offered some good entry opportunities.