

## Castelli (Banor): “Yields are back on fixed income”

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“At current levels, the conditions exist for attractive yields without too much risk exposure”. **Francesco Castelli, head of fixed income at Banor Capital**, thus summarised the brokerage firm's position on fixed income. Even if there is no shortage of distinctions within a very diverse asset class.

**Let's start with the macro scenario. The ECB and the Fed don't seem likely to stop raising rates, even though they know that this approach increases the risk of recession. When do you think they'll stop?**

“Although they have been moving at the same pace in recent sessions, I think they will take a different stance from now on. In the United States, where inflation has more structural causes, such as rising wages, we might see the Fed continue with rate hikes for most of 2023, whereas the ECB might stop earlier as the economic climate worsens and if energy prices level off”.



Francesco Castelli, head of fixed income at [Banor](#) Capital

**This means that there is very little room left for further bond devaluations, and they have had a very difficult year so far.**

“Exactly. In fact, they are probably already discounted in the prices. Against this backdrop, we as a manager are accumulating bonds in our balanced portfolios because we see the prospect of good returns with low risk”.

**Can you give any examples?**

“In terms of individual securities, there is Intesa Sanpaolo's perpetual CoCo bond, which yielded 3.04% at the beginning of the year and now earns around 9.30%, or Peugeot's retail customer issue maturing in 2023, which rose from 1.51% to 5.37% in the same time span.

**Do you see any opportunities in government issues?**

“Yes, of course with lower risks, and therefore lower returns. Today, the ten-year BTP yields over 4%, which is not to be sneezed at compared to the historical averages”.

**So no risk with Italian issues?**

“The risk is already priced in by the spread, which stands at over 200 points against the German Bund. When it comes to the reliability of the government, the market is agnostic. Immediately after her election victory, Giorgia Meloni proclaimed “responsibility” on the public finances front. The path towards the NRRP is already mapped out, and the market is watching to see that she takes it”.

BANOR CAPITAL

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**Where do you see value in corporate issues?**

"We look for solutions that provide a good yield without too much risk. Here, I would like to point out that the risk of volatility is inevitable in times as uncertain as these, while the risk of mass default has to be managed".

**Do you see any real risks in this sense?**

"Not at the moment, no. Insolvency rates remain low, but a long recession will inevitably pose a threat to issuer reliability. This is why we prefer triple-B investment grade bonds, which offer an annual yield of around 4.5%. We also like bank subordinates, which yield more than 5% on average and depend on the new-found soundness of issuers".

**With what duration?**

"The corporate bonds in our portfolios have an average duration of two and a half years. Again, this is an assessment that weighs the expected return against the risks".