Newsletter – Fixed Income Markets

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Within a few weeks, the COVID-19 epidemic caused a shock of unprecedented violence in the fixed income markets. In fact, risk premiums, particularly in the high yield segment, reached in record time a level not seen since the great financial crisis of 2008. High yield spreads widened by 550 basis points (bp), reaching a level close to 900 bp at the peak of the market on 18 March.

At the peak of volatility, the fixed income market dislocated. Three examples can illustrate this:

- Short bonds, regardless of their quality, had become impossible to sell, reflecting massive redemptions from short bond funds to arbitrate on other asset classes.
- The credit curves of high-yield issuers reversed significantly, indicating extreme stress on their ability to refinance. The market began to value the High Yield segment in view of the probability of default.
- Sovereign debt has not been used as a safe haven. The issue was to generate liquidity at all costs through the few assets available and without capital losses. As a result, the strongest sovereign securities were sold, and rates rose.

In order to reduce the shock wave, Central banks have announced exceptional measures. The Fed very quickly reduced its key rate to 0.25% in March by making two successive cuts of 50 and then 100 bp. The institution accompanied this decision with an almost unlimited asset purchase plan, including credit bonds for the first time.

The ECB also reacted strongly by launching an emergency pandemic procurement programme of €750bn until the end of the year. This comes on top of the €120bn announced earlier this month and the €20 billion per month programme resumed last November.

The States also unveiled major plans to support the economy. This is notable in Europe where lessons on governance seem to have been learned from previous crises, but the issue of the health dimension remains unpredictable, particularly regarding the development in the United States.

Impacts on our management

As far as R-Co Conviction Credit Euro is concerned, while we were patient at first, we then started to invest. We removed the fund's hedges and bought bonds very selectively through a few high-yield securities that had been particularly affected by the situation but for which we have strong convictions.

We are currently taking advantage of opportunities in the Investment Grade segment, notably through the reopening of the primary market where high-quality companies are refinancing with very attractive issue premiums. Airbus, rated A2/A+, for example, issued a 5-year bond with a yield of 1.72% on March 31. Such a bond had a negative yield before the crisis.

Finally, the last point to emphasize is that we try to keep a liquidity pocket in the portfolio so that we do not have to sold in unfavourable conditions, when participants tend, in times of high volatility, to withdraw from the market. Indeed, liquidity has been particularly affected by the crisis we are currently experiencing, and it is often difficult to sell bonds under good conditions. We are convinced that this extreme volatility is a source of opportunities, but we continue to analyse the situation with caution.

Completed writing on 1st april 2020

Recommended investement period: 3 years

The risk level of this UCITS is 3 (including volatility between 2% and 5%) and mainly reflects its positioning on private debt products while being sensitive between 0 and +8. The historical data used to calculate this indicator may not be a reliable indication of the future risk profile of the UCITS. The risk category associated with the UCITS is not guaranteed and may evolve over time, both upwards and downwards. The lowest category does not mean risk-free. Thue UCITS is not capital guaranteed. Other significant risk factors not taken into account include adequately by the indicator: credit risk, liquidity risk, impact of techniques such as derivates. The occurrence of any rof these risks may result in a decrease in of the net asset value of the Fund. For more information on the risk profile and its main contributors, please refer to the prospectus.

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