

# LO Selection

## TargetNetZero (USD) Credit Bond

### Newsletter

Sustainable Fixed Income • Fixed Income

30 September 2024

#### OVERVIEW OF THE FIXED INCOME MARKET

The bull run continued for fixed income in September with the fifth straight month of positive performance, as a continued cutting-cycle-fueled rally in rates lifted all fixed income assets. Investment grade benefitted most thanks to the balance of rates and credit markets, which continued to exhibit a return of diversifying properties. At a sector level there was quite some dispersion, with pessimistic outlooks from notable autos manufacturers seeing the sectors substantially underperform, while yet again HY real estate saw substantial outperformance, being highlighted by markets as the big winner from cutting cycles amidst still cheap valuations. September was ultimately a month of central bank cuts and broadly dovish signaling. Led by the Fed, the focus firmly shifted away from inflation concerns towards concerns around a weakening labour market. US non-farm payrolls for August was on the soft side, which clearly didn't sit well with Fed officials on the back of having 800k jobs removed from the prior year's employment statistics following August's revisions. The result was the Fed starting their cutting cycle with a 50bp cut to interest rates, surprising dovishly versus economist expectations of 25bps, but actually in line with market pricing by the time the meeting arrived. Nevertheless, the move clearly underscored the Fed's desire to get things moving at pace, and perhaps an admission that cuts should have begun at their July meeting. That said, growth metrics point to little chance of an imminent slowdown in activity, with growth for the quarter continuing to track at healthy levels. Less urgency was shown across the Atlantic in Europe, where economies are seemingly in much more pressing need of monetary support. The ECB and UK both held rates despite flatlining growth. While the latter does indeed have a stickier inflation problem to contend deal with, Eurozone inflation is now well below target in many nations. After the Fed's more dovish delivery, President Lagarde did seem to confirm that more easing would be coming in November, although the lack of initiative places the block at a much greater risk of falling well behind the curve. Elsewhere, a new round of stimulus was launched by Chinese authorities in an attempt to reboot faltering activity. Indeed, the package was much larger and targeted than prior attempts and looks to directly address major structural damage caused by the misjudged deleveraging of 2021/22.

Markets approved and responded with a violent rally in both onshore and offshore risk assets. Time will tell if the programme will be sufficient, but it will certainly need to be followed with fiscal measures more direct to the consumer's pocket, which has been severely depleted since the onset of the pandemic in 2020. Geopolitical risks increased in prominence in the middle East through the month, as Israel's conflict turned to further focus on neighbouring Lebanon with targeted attacks on Hezbollah members and infrastructure. This marked quite a severe escalation in the breadth of the conflict in the region, and increase the probability of a direct confrontation with Iran. We still believe this to be against the interest of all parties, but acknowledge that these developments make the chance of an accident in the region higher and worth monitoring.

#### PERFORMANCE AND CHARACTERISTICS

The relative performance is negative versus its benchmark for the month of September. Our underweight exposure on the higher rated bonds had a marginal impact on the relative performance. The sector allocation contribution impact was neutral during the period. The security selection was positive notably in the financial sectors. The relative performance is negative versus its benchmark year-to-date. Our underweight exposure on the higher rated bonds had a neutral impact on the relative performance. The sector allocation contribution to relative performance has been slightly negative during the period. The security selection was slightly negative since the beginning of the year.

#### OUTLOOK

We continue to favour duration, although our conviction has dropped somewhat with a lot of cuts priced into markets already and still robust growth dynamics in the US. That said ongoing cutting cycles should continue to support the asset class. We hold our preference for high quality high yield to access spread and carry with robust fundamentals as we don't consider a slowdown to be imminent.

#### SUSTAINABILITY

Draghi's Report on EU competitiveness - Sustainability reporting

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framework. Mario Draghi, former ECB President, delivered his Report on the future of European competitiveness to the President of the European Commission. Ursula von der Leyen confirmed her support of the fundamental principles of the report, first of which ensuring the long-term competitiveness shifting away from fossil fuels and towards a clean, competitive, and circular economy.. The Report argued that EU's sustainability reporting and due diligence framework could be "a major source of regulatory burden, magnified by a lack of guidance to facilitate the application of complex rules", which entailed a "major compliance cost for companies in the EU". . The EU should simplify its sustainability reporting and due diligence framework as part of efforts to rescue the bloc from economic underperformance and promote its competitiveness internationally, according to Draghi's Report.ECB and European

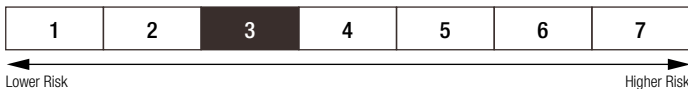
Commission focus on nature. In a statement by the European Central Bank (published by Elderson, vice-chair of the ECB's supervisory body), central banks should consider as part of their mandate how to manage nature-related risks which could represent material financial risks. Central banks should "deepen [their] understanding of how nature-related financial risk affects the economy and the financial system", including legal implications with the rise in nature-related litigation. Elderson concludes saying that "the economy and the financial sector are vulnerable to nature-related risks.". Speaking at a Nature Conference in Munich, European Commission president Ursula von der Leyen has called for a nature credit market, a market-based system to encourage farmers and industry to conserve nature and restore lost biodiversity by putting a price on ecosystems.

**PERFORMANCE**

30.09.2024	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE	5 Year Ann. Return	10 Year Ann. Return
LO Selection - TargetNetZero (USD) Credit Bond NA	28.02.2014	USD 107 mn	1.25%	5.58%	29.64%	1.49%	2.41%
ICE BofA 1-10 Year US Corporate Index (USD)			1.29%	5.99%	35.65%	2.10%	2.89%

Past performance is not a guarantee of future results. Performance is presented net of fees. AUM as of the date of the table.

**RISK AND REWARD PROFILE**



The following risks may be materially relevant but may not always be adequately captured by the synthetic risk indicator and may cause additional loss:

**Credit risk:** A significant level of investment in debt securities or risky securities implies that the risk of, or actual, default may have a material impact on performance. The likelihood of this depends on the credit-worthiness of the issuers.

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**Operational risk and risks related to asset safekeeping:** In specific circumstances, there may be a material risk of loss resulting from human error, inadequate or failed internal systems, processes or controls, or from external events.

Before taking any investment decision, please read the latest version of the

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Incorporation of extra-financial risks into the investment decision process may result in underweighting of profitable investments from the sub-fund's investment universe and may also lead the management of the sub-fund to underweight investments that will continue to perform. Sustainability risks may lead to a significant deterioration in the financial profile, profitability or reputation of an underlying investment and may therefore have a significant impact on its market price or liquidity.

The Fund has been classified as a financial product subject to Article 8 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial sector (the "SFDR"). The Fund promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices.

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The articles of association, the prospectus, the Key Information Document ("PRIIPS/KIDs"), and the subscription form are the only official Offering Documents of the Fund's shares (the "Offering Documents"). No party is authorised to provide information or make assurances that are not contained in the Offering Documents.

### Access to documents in country of registrations:

The PRIIPS/KIDs are available in one of the official languages of your country and a Prospectus is available in English, French, and Italian.

The PRIIPS/KIDs and the Prospectus together with the Articles of Incorporation and the last annual and semi-annual financial report are available on [www.loim.com](http://www.loim.com) or can be requested free of charge at the registered office of the Fund or of the Management Company, from the distributors of the Fund or from the local representatives as mentioned below. These Offering Documents are provided for information and illustration and is not a contractually binding document or an information required by any legislative provisions and is not sufficient to take an investment decision.

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**Liechtenstein.** Representative, LGT Bank AG Herrengasse 12, 9490 Vaduz, Supervisory Authority: Finanzmarktaufsicht Liechtenstein ("FMA").

**Luxembourg.** Commission de Surveillance du Secteur Financier (CSSF), 291, route d'Arlon, L-1150 Luxembourg; [www.cssf.lu](http://www.cssf.lu).

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