

LO Selection

TargetNetZero (USD) Credit Bond

Newsletter

Sustainable Fixed Income • Fixed Income

30 November 2024

FIXED INCOME MARKET OVERVIEW

After a turbulent October, and through a month filled with political headlines, fixed income posted robust performance at an aggregate level in November. There was however marked differentiation between EUR and USD markets, with EUR markets outperforming in the government bond space but underperforming in credit as spreads moved wider toward month end. Sectoral trends were also driven by the US election result, with industrials and autos leading the tightening in the US at the expense of EUR counterparts, with EUR autos continuing to suffer after experiencing some reprieve in October. The US election headlined a busy macro month, with Donald Trump and the Republican party securing a "red sweep" across the presidency, house and senate. While Trump had the edge in betting markets heading into the vote, the scale of the Republican wave was quite unexpected. In the lead up to voting day, markets had moved to price towards this result with higher yields and rallying risk assets domestically, on the assumption of a mix of expansionary fiscal policy with disregard of fiscal deficits and increased trade tariffs. However, post-election, the selection of cabinet nominees who have voiced support for more fiscally prudent policies, particularly Scott Bessent Treasury Secretary, has been taken positively by markets, and saw rates move lower alongside continued strength in US risk assets. However, the news flow on trade tariffs remained volatile post-election in a reminder of the headline risk that came with Trump's first term. The use of trade tariff threats as a negotiation tactic will very much continue to be part of Trump presidency, and rhetoric since his victory has highlighted Mexico, Canada and China to be at threat, with concerns also spilling over into European risk assets. European assets additionally had their own bout of political headlines as German chancellor Scholz called a snap election for February. Whilst the ultimate outcome might bring some much-needed coherency to Germany's political front, it freezes any chance of policy advancement at a time when the economy continues to stumble as their fiscal business model is suffering. France also faced a fresh bout of political headwinds towards the end of the month, resulting in the government's resignation following a no-confidence vote due to the rejection of the proposed budget. Politics aside, macroeconomic developments also supported duration following the pre-election sell off, with the Fed delivering

another 25bp cut after a soft labour market report (albeit weather and strike affected). Growth data also showed signs of weakening in the US after a post summer rebound, whilst inflation continued a short-term uptick but maintained a longer-term downtrend. If anything, the months events should act as a reminder that the future path of inflation will be driven by both fiscal developments as well as the longevity of underlying growth momentum. Eurozone economic data continued to come in weak but has perhaps showed signs of bottoming in its weakest areas. Geopolitical risk spiked higher in the Ukraine-Russia conflict, with Ukraine's use of US-supplied longer-range missiles to target Russian territory after receiving clearance from Washington. The use of western supplied missiles to hit Russian occupied territory has been touted as a red line by Putin, and as a response the Russian president signed a decree lowering the threshold to trigger use of the country's nuclear arsenal. Whilst this appears to be a deterrent rather than an imminent escalation threat, the events saw a spike in volatility, so headline risk from the conflict remains. With rates actually lower now than pre-election despite the perceived 'worst-case scenario' for rates of a 'red sweep' materializing, we continue to favor duration heavy assets. But without seeing an imminent risk to spreads, despite being at tight levels, we prefer to access duration via high quality credit to collect extra carry to compensate for flat/inverted rate curves. We maintain a neutral allocation to high yield but emphasise a continued focus on selecting quality, particularly in Europe which faces ongoing growth and refinancing risks.

PORTFOLIO ACTIVITY

BP CAPITAL MARKET PLC, BPLN 6 1/8 PERP . ITR: 2.07, CIR: 4626
NATWEST GROUP, NWG 7.3 PERP . ITR: 1.91, CIR: 888

PERFORMANCE AND CHARACTERISTICS

The relative performance is negative versus its benchmark for the month of November. Our underweight exposure on the higher rated bonds had a positive impact on the relative performance. The sector allocation contribution impact was neutral during the period. The security selection was detrimental with a weak selection in Financial sectors. The relative performance is negative versus its benchmark year-to-date. Our

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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.

SUSTAINABILITY

COP16: Key outcomes agreed at the UN biodiversity conference . The 16th Conference of the Parties (COP16) to the Convention on Biological Diversity (CBD), held in Cali, Colombia, concluded with several significant outcomes:- Creation of a permanent body for Indigenous people ensuring their active participation in conservation, sustainable use of biodiversity, and equitable benefit-sharing. - Establishing a new global biodiversity fund (Cali Fund) aimed at ensuring equitable sharing of benefits arising from genetic data.- Only 22% of countries submitted new national biodiversity strategies and action plans (NBSAPs) by the summit's deadline, highlighting significant gaps in commitments to the Kunming-Montreal Global Biodiversity Framework.. While COP16 showcased incremental progress and greater inclusivity, challenges such as inadequate funding commitments and the urgency to halt biodiversity loss persist. The summit's discussions on finance revealed deep divisions between developed and developing countries, with many developed nations falling short of their commitments, leading to calls for

more substantial action and accountability in future negotiations.COP29 reached global agreement on carbon markets. The 29th Conference of the Parties (COP29), held in Baku, Azerbaijan, in 2024, delivered mixed outcomes across various climate action areas. . One of the key accomplishments of COP29 was the "historic" advancement in establishing international carbon markets, endorsed by the UN. COP29 saw the adoption of updated rules for international carbon markets under Article 6 of the Paris Agreement. These rules enable countries to trade emissions credits, but concerns persist over the credibility and environmental integrity of the mechanisms. Despite the positive feedback, there are still concerns about potential loopholes in unilateral agreements, the accountability of carbon credit issuers, and the necessity for strong social and environmental safeguards to prevent greenwashing and maintain the credibility of carbon markets in the future.. Overall, COP29 made incremental advances but left critical decisions unresolved, shifting the focus to COP30 for further progress on global climate goals. Efforts to establish a Just Transition Work Programme, which supports communities affected by the shift to clean energy, stalled over financing and global versus national implementation debates. The conference highlighted progress in funding the Loss and Damage mechanism, with additional pledges from several countries. However, these contributions remain far short of the estimated needs

PERFORMANCE

30.11.2024	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	31.08.2021	USD 107 mn	0.76%	4.72%	-0.46%		
ICE BofA 1-10 Year US Corporate Index (USD)			0.79%	5.28%	1.04%		

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

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