LO Selection
The Global Fixed Income Opportunities
Newsletter

Global Fixed Income • Fixed Income 31 August 2024

FIXED INCOME MARKET OVERVIEW

After a sharp risk off drawdown to begin the month, fixed income recovered markedly to record a second successive month of strong performance in August. Return drivers varied across geographies, with high yield outperforming in Europe, whereas US saw more upside from duration, albeit also alongside compressing spreads. However this differential between regions was actually driven by EUR HY real estate, which saw massive outperformance. Outside of this, performance across regions in the credit space was more comparable.

Markets were violently jolted at the start of the month as a brutal carry unwind saw risk on carry positive positions upended. The exact trigger is debatable but the sell off was initially started following the Bank of Japan's hawkish rate hike, and then sent into overdrive by a very weak US labour market report. The latter saw a sharp increase in pricing of the speed and magnitude of the impending cutting cycle by the Federal Reserve, at one point pricing as much as 75bps of cuts by the September meeting, including an emergency cut. The sharp move rocked the popular USD vs JPY carry trade, spilling over into wider carry positive trades as unwinding accelerated. A natural loser of the carry unwind was short volatility positions, exemplified by the VIX which suffered a record intraday increase.

However, this carry unwind induced risk off episode was ultimately extremely short lived, with risk assets reversing intraday around a stronger than expected ISM services report, which reintroduced some perspective that the US economy wasn't dropping off of a cliff edge. This ultimately began a reversal in risk markets which was almost as swift as the initial shock. Credit spreads recovered entirely within a matter of days and continued to cyclical tights. Rates however largely held their gains despite some repricing of very front-end expectations after the overshoot. The diversifying nature of rates against credit was a welcome reminder to focus on the macro picture through such nature and that with growth now more in focus than inflation, duration has the potential to once again play an important role in portfolios as cuts progress.

On the macro picture, it was ultimately a continuation again of the recent trend, inflation continues to lose steam and return to target levels led by goods disinflation, but also slowing services. On the other hand, growth is trending lower but remaining robust, whilst labour markets are correcting to more natural levels. The triggering of the Sahm rule in the US labour market was a key focus of concern for recession signaling, but in reality, the move higher in the unemployment rate has come from increased labour supply rate than layoffs. Whilst this trend continues, marginally higher unemployment cannot be taken as an imminent recession signal.

This broad picture was affirmed by Fed chair Powell when speaking on the back of the Jackson Hole summit, confirming that he now sees it as time to lower rates, and that the speed and magnitude will spend on incoming data. His clear emphasis on the labour market now being the number one priority for the Federal reserve marks a clear shift in focus and should mean inflation data can take somewhat of a backseat in coming months, assuming no sudden sharp exogenous shock.

The events of the month reinforced rather than questioned our stance on fixed income, with a preference for duration remaining intact. We acknowledge increasing risks from diverging monetary policy backdrop and increased political uncertainty, but also take comfort in the swift recovery in credit markets following the carry unwind, underlining the appetite for credit remains strong and real money participants have sufficient cash to deploy to take advantage of buying opportunities. We remain focused on core fundamental trends, which as of now show slowing, but not collapsing demand, with earnings continuing to come in robust, albeit at slower growth rates the previous quarters.

TOP DOWN ACTIVITIES

No change in August. Last change back in July: On July 9th, a we have decided to increase of our exposure to Inflation-Linked bonds from 5% to 6.25%, moving from Neutral to overweight 1.25%. Decrease of our exposure to Cash from 5% to 3.75%, moving from Neutral to underweight 1.25%.

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BOTTOM UP ACTIVITIES

Government pocket

In August we kept our long duration position in 5-year Germany that we entered early July. The volatility shock at the start of August in addition to the FOMC's increased focus the maximum employment goal of their dual mandate provide a tailwind for sovereign fixed income. We also maintained our constructive stance on sovereign fixed income markets via a curve steepening position in the Eurozone.

High Yield pocket

We recently took profits on some new issues, namely Ceconomy (retail) and NWG (banks), which have performed well in recent weeks. We also reduced our credit protection position via the iTraxx CDS Xover at the peak of volatility in mid-August, as we felt that fears of a US recession were overdone.concerns of US recession were overdone.

Investment Grade pocket

Enstar is a US based global leader in non-life run-off insurance books management. The announcement of a take-private transaction by PE consortium provoked a sharp selloff driven by concerns around the potential new ownership structure. We felt the sell-off was overdone, especially as both Fitch and S&P had affirmed the ratings at BBB+ with a stable outlook post transaction and took the opportunity to invest in the bonds at attractive levels.

The bonds of Resorts World Las Vegas (RWLVCA) sold off on news that the Nevada Gaming Commission was to ask the Nevada Gaming Control Board (a State agency) to investigate allegations that RWLVCA failed to prevent suspected illegal bookmakers from taking part in gambling activities on its property. RWLVCA is rated BB+ & BBB- (S&P/Fitch) and is 100% owned by larger & better rated (Baa2/BBB (Moody's/Fitch)) resort & gaming group Genting BHD. Our expectation is that a fine will be paid which will be manageable and therefore took this opportunity to invest in the bonds at depressed levels.

We participated in the new new T2 bond of Volksbank Wien AG which came at an attractive yield of 5.5%. Volksbank is a member of Austria's cooperative banking sector where each member has a mutual support obligation which strengthens the overall structure. The business is diversified regionally across Austria and concentration risk is quite low. CET1 at 16.94% is one of the key strengths as well as its strong funding, liquidity and large depositor base which comfortably offset some of the risks such as the increased problem loans in commercial real estate.

PERFORMANCE AND CHARACTERISTICS

YTD 2024 review and performance:

SAA: Strong positive contribution.

All the segments are in positive territory on a year-to-date basis with Investment Grade corporate and Emerging Markets Hard Currency being the segments with strongest positive performance.

TAA: Slightly negative contribution.

Our underweight to China local currency until April 2024 and emerging markets hard currency contributed slightly negatively.

Portfolio Construction (PC):

Security selection: Strongly positive contribution.

The issuer selection in the corporate Investment Grade and the High yield pockets have been strongly positive for the portfolio since the beginning of the year. Within the corporate IG, we benefitted from our exposure to Real Estate, property and financials.

Overlay: Strongly positive contribution.

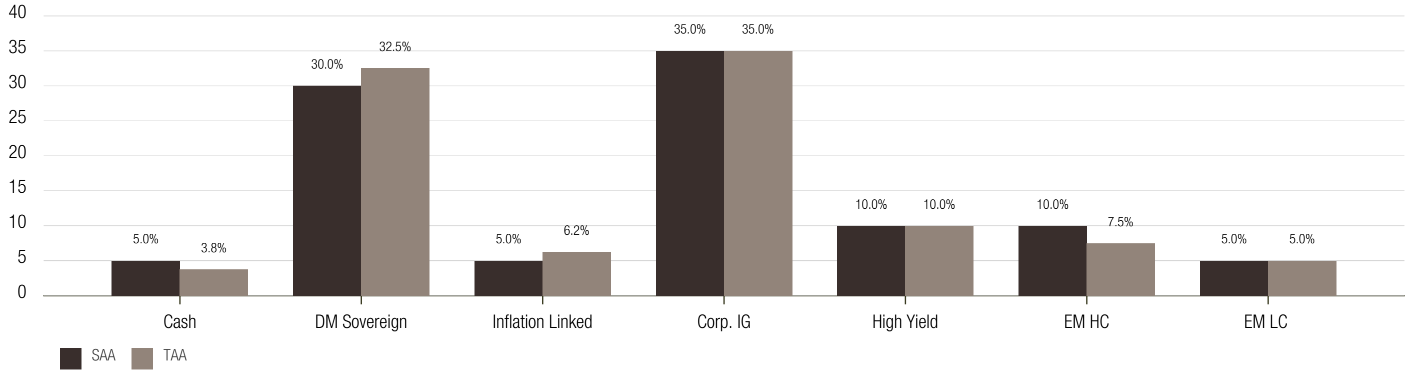
The strong positive contribution is essentially driven by tactical trades on bonds and active duration management.

PERFORMANCE

30.08.2024	INCEPTION	AUM	MONTH-TO-DATE	YEAR-TO-DATE	INCEPTION-TO-DATE	5 Year Ann. Return	10 Year Ann. Return
LO Selection The Global Fixed Income Opportunities Syst Hdg USD NA	04.11.2013	EUR 1140 mn	1.24%	5.09%	41.93%	2.14%	2.98%

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

FIG. 1 Current positioning



Source. LOIM, Bloomberg- For illustrative purpose only. Past perforamnce is not a guarantee of future results.

RISK AND REWARD PROFILE

1	2	3	4	5	6	7

Lower Risk Higher Risk

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.
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 prospectus, the articles of incorporation, the Key Information Documents (KIDs) and the latest annual report and semi-annual report. Please pay attention to the Appendix B "Risk Factors Annex" of the prospectus.

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 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.

Please refer to the prospectus and the PRIIPS/KIDs before making any final investment decisions. Before making an investment in the Fund, an investor should read the entire Offering Documents, and in particular the risk factors pertaining to an investment in the Fund, consider carefully the suitability of such investment to his/her particular circumstances and, where necessary, obtain independent professional advice in respect of **risks**, as well as any **legal, regulatory, credit, tax,** and **accounting consequences**.

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France. Representative: CACEIS Bank, Rue Gabriel Péri 89-91, 92120 Montrouge, Supervisory Authority: Autorité des marchés financiers (AMF).
Germany. Representative: DekaBank Deutsche Girozentrale, Mainzer Landstraße 16, D-60325 Frankfurt am Main, Supervisory Authority: Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).
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.
Netherlands. Representative: Lombard Odier Funds (Europe) S.A. – Dutch Branch, Parklaan 26, 3016 BC Rotterdam, Supervisory Authority: Autoriteit Financiële Markten (AFM).
Spain. Representative: All funds Bank, S.A.U. C/de los Padres Dominicos, 7, 28050, Madrid, Supervisory Authority: Comisión Nacional del Mercado de Valores (CNMV).
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