

GAM Star Fund plc – GAM Star Credit Opportunities (GBP)

Marketing material for professional / institutional / accredited investors

Macro backdrop

In October the fund showed resilience during a weak month for fixed income, as interest rates were rising. This was notably the case in the US, where strong economic data, combined with the fixed income market pricing in a Donald Trump win, meant that interest rates, as measured by the 10-year US Treasury bond yield, moved up by circa 50 basis points (bps). We also saw volatility within UK interest rates in part due to the UK budget announcement at the end of the month. Interestingly, credit spreads actually tightened during the month, reflecting the continued strong technicals of the credit markets. As such, the impact on corporate bonds of the move in interest rates was partially mitigated by spreads tightening.

Valuations and fundamentals

We have started seeing Q3 earnings being reported, and European banks continue to deliver very strong sets of earnings. Those mostly came ahead of analyst expectations, with a number of upgrades to guidance for the full year. Overall, the sector remains in a very strong position – high levels of capital, strong earnings and resilient asset quality – so credit-positive. For example, NatWest delivered an 18.3% return on tangible equity (RoTE) in Q3 2024, as profits were up 35% year-on-year and well ahead of consensus on a combination of strong revenue growth and costs that remained under control. Management raised its guidance for its RoTE to be in excess of 15% in 2024 on higher revenue guidance. Capital remained strong, with a Common Equity Tier 1 (CET1) ratio of 13.9% (+0.3% on the quarter), compared to the 10.5% minimum requirement, with approximately GBP 6 billion of excess capital. Non-Performing Loans (NPL) remained very low at 1.5% of loans.

Subordinated Debt

Due to the blackout period prior to earnings season, we only saw a few new Additional Tier 1 (AT1) bonds coming to the market. However, those new issues had strong demand. Within the secondary market, spreads continued tightening, notably within AT1 Contingent Convertible bonds (CoCos). We have also seen extension risk continue to fall and it is now currently below 10%.



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