Monthly commentary / 30.9.2024

Vontobel Fund – Global Corporate Bond

Marketing document for institutional investors in: AT, CH, DE, ES, FI, FR, GB, IT, LU, NL, NO, PT, SE, SG (Professional Investors only).

Investors in France should note that, relative to the expectations of the Autorité des Marchés Financiers, this fund presents disproportionate communication on the consideration of non-financial criteria in its investment policy.

Market developments
In September, financial markets defied the typical trend of weakness often observed during this month, with both global equities and bonds advancing. The rally was supported by dovish signals from central banks, improving US economic data, and significant stimulus measures from China. The S&P 500 Index gained +2.1%, marking its first September increase since 2019, while the Bloomberg Global Bond Aggregate rose +1.7%, its first September gain since 2016. US Treasuries also delivered a positive return of +1.2%, achieving their fifth consecutive month of gains – the best streak since 2010.
One of the key drivers behind September's recovery was a dovish shift from the US Federal Reserve (Fed). After a volatile mid-quarter period fueled by recession fears and a sharp market downturn, the Fed delivered a rate cut of 50 basis points (bps), its first since March 2020. This larger-than-expected cut reassured investors that the Fed was committed to preventing a deeper economic slowdown, prompting a more optimistic market outlook that pushed bond yields lower and supported risky asset prices over the month. The Fed's dovish pivot also caused a steepening of the US Treasury yield curve, particularly in the second half of the month: T-Bill yields dropped substantially by -20bps, while the 10-year Treasury yield rose by +13bps.
Additionally, US economic data improved in September, easing concerns about an impending recession. Initial jobless claims steadily declined, with the four-week moving average falling to its lowest level since May. The unemployment rate dipped to 4.2% in August, while non-farm payrolls added 142,000 jobs, further alleviating fears of a sharper economic downturn and helping stabilize markets month-end.
Finally, China played a significant role in September's market turnaround as well. Late in the month, the Chinese government announced major stimulus measures, which ignited a rally in Chinese equities. The CSI 300 Index surged by over +27% from mid-September to the end of the month, reaching levels not seen since August 2023. This rally boosted China-exposed stocks globally and added momentum to the broader market recovery, including high-beta bonds.
However, oil prices bucked the positive trend. Brent crude fell by -8.9%, its worst monthly performance since November 2022, closing the quarter with a steep loss of -16.9%. This decline was welcomed by bond investors, as it eased inflationary pressures and increased the likelihood of continued central bank easing. Meanwhile, gold and silver performed strongly, with gains of +5.2% and 8.0%, respectively.
In this positive context for risky assets, fixed income and credit delivered solid total returns. US Treasuries and Bunds posted similar positive performances of +1.2% but lagged behind the riskier segments of the fixed-income market. Global corporate bonds spreads tightened by -2bps, though performance varied by region. USD IG tightened by -4 bps, outperforming the EUR IG segment, which widened by +1bp. The underperformance of EUR IG was largely driven by general weakness in cyclicals, particularly in the European auto sector, which widened by an impressive +21bps in September at the index level (ICE BofA Euro Auto Group Index), due to profit warnings from several European automakers. Higher-beta segments underperformed overall, with global BBs moving marginally wider by +2 bps in September. Similarly, European AT1s and corporate hybrids each widened by +1bp.

Portfolio review
Primary market activity picked up further in September, though overall premiums were somewhat tight. As a result, we were more selective, participating only in a few new deals that offered sizeable premiums within financials, capital goods and telecommunications. In financials, we participated in new AT1 issues from solid European banks in both EUR and GBP, which were attractively priced. In the capital goods sector, we added a new name within the aerospace segment — an area currently experiencing strong momentum — via a scarce issuer in high demand that benefits from strong technical factors. In telecommunications, we participated in a new corporate hybrid from a solid European issuer.
In the secondary market, we took profits on some French RT1s and UK AT1s that had performed well, creating room for the new AT1s we onboarded in primary. Similarly, we sold some utility corporate hybrids that had rallied post-issuance and took profits on some US real estate bonds that had also delivered strong returns.

Performance analysis

For the month of September, the fund performed broadly in line with its reference index, net of fees.

The contribution from credit selection was overall flat for the month. Our bond selection in banking, healthcare, and transportation contributed positively. This was offset by our negative contribution in sectors such as telecommunications, utility and retail. The contribution from sector allocation was overall flat as well. The positive contribution from sectors such as banking (OW), transportation (OW) and telecommunications (OW), being offset by a negative contribution from technology (UW), insurance (UW) and financial services (UW).

In terms of regional exposure, a major part of the outperformance came from Europe, while North America and APAC (ex-EM) had a negative contribution. EM (hard currency) had a neutral contribution.

Outlook

As we move into October, market conditions are expected to remain dynamic, influenced by several key factors. Following the Fed's rate cut in September, we anticipate additional cuts and dovish signals in the coming quarters. At the time of writing, a significant factor for credit markets is that the US Futures market currently prices in another 187bps of Fed cuts by December 2025. We believe this rate-cut environment will provide strong support for spreads, not only in Q4 2024 but also over next year. However, we do expect some noise to come from the Fed adjusting its policy in response to incoming economic data, particularly regarding the labor market and inflation figures. The pace and number of rate cuts will remain uncertain, and we may experience tactical mean-reversion in rates trading in the short term. Rates volatility is likely to persist as markets digest central bank actions and updated macroeconomic indicators. However, as the trajectory of the Fed's cuts becomes clearer, we expect the US rate cuts to continue steepening, as seen after the initial 50bps cut on September 18.

Corporate fundamentals have shown a solid trend so far, but we expect more mixed results at some individual corporates, specifically within cyclicals. For example, the various negative news that hit the European car industry over the third quarter has triggered a streak of guidance cuts across the sector, like at Volkswagen, Stellantis, or BMW. However, aside from these specific events, we think corporate fundamentals at an aggregated level should continue to show generally solid credit metrics. The upward trajectory in rating upgrades should hence persist for a little longer, especially for BBB-rated companies that continue to show more positive-trending metrics than their single-A counterparts, the pace may nevertheless slow from earlier in the year.

On the technical side, the supply and demand dynamics are expected to shift slightly. The issuance of new bonds may slow down as we approach year-end. September having been an active issuance month, this could lead to a more subdued pace in October and after, leaving time for the recent issues to be absorbed by the market. On the other hand, demand/flows for corporate bonds are likely to remain robust, as global investors seek to lock in attractive yields before further rate cuts. This sets up a favorable technical backdrop for corporate bonds, supporting further spread tightening or at least limiting any potential spread widening in case of adverse events.

The high level of yield continues to make market valuations attractive. Global credit markets offer significant dispersion across sectors and names, making it a good environment for active portfolio managers. For the remainder of 2024, duration is expected to play a key role, especially if macroeconomic conditions deteriorate further. Amid the ongoing rate-cutting cycle, the carry of global corporate bonds remains a compelling driver of portfolio returns. Global corporate bonds continue to offer more than 2% of pick-up over the MSCI World Dividend yield.

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Fund characteristics

Fund name	Vontobel Fund – Global Corporate Bond
ISIN	LU1395537134
Share class	I USD
Reference index	ICE BofAML Global Corporate Index (USD hedged)
Inception date	9.5.2016

Historical performance (net returns, in %)

Time period	Fund	Ref. index
MTD	1.5%	1.6%
YTD	5.7%	5.5%
1 year	14.5%	13.2%
3 yrs p.a.	-0.8%	-0.4%
5 yrs p.a.	1.4%	1.4%
10 yrs p.a.	–	–
ITD p.a.	3.2%	2.9%

Time period	Fund	Ref. index
2023	8.8%	8.9%
2022	-15.0%	-14.0%
2021	-0.6%	-0.8%
2020	9.3%	8.2%
2019	13.6%	12.5%
2018	-1.7%	-0.9%
2017	7.6%	5.7%
2016	–	–
2015	–	–
2014	–	–

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Investment risks

— Securities with a lower credit quality means a higher risk that an issuer may fail to meet its obligations. The investment value may fall if an issuer's credit rating is downgraded.
— Using derivatives generally creates leverage and entails valuation risks and operational risks. Leverage magnifies gains but also losses. Over-the-counter derivatives involve corresponding counterparty risks.
— Asset-backed and mortgage-backed securities, and their underlying receivables are often intransparent. The sub-fund may also be subject to a higher credit and/or prepayment risk.
— CoCo-Bonds may entail significant risks such as coupon cancellation risk, capital structure inversion risk, call extension risk.
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