Monthly commentary / 30.9.2024

Vontobel Fund – Euro Corporate Bond

Marketing document for institutional investors in: AT, CH, DE, ES, FI, FR, GB, IT, LI, 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

Welcome to a new month and the September market review. Historically, while September has often been a weak month for risk markets, but this year defied expectations. Despite a brief shake-up following revised non-farm payroll numbers, the S&P 500 Index ended the month at an all-time high. A key factor behind the resilience of risk assets has been the prospect of further rate cuts, with no immediate signs of a hard landing on the horizon. Little appears poised to disrupt this upward trajectory.

As the easing cycle continues, major central banks once again cut rates, with the US Federal Reserve (Fed) joining in. On September 18, the Fed reduced the federal funds rate by 50 basis points (bps), bringing the range to 4.75%–5.00%. The Fed's updated "dot plot" projections indicate that more is to come: another 50bps by year-end, 100bps in 2025, and 50bps in 2026. This would bring the target range to a terminal rate of 2.75-3.00%.

The focus has now clearly shifted from inflation towards employment. Inflation is nearly back to target levels, with US headline inflation dropping to 2.5% year-on-year in August (from 2.9% in July), and core inflation steady at 3.2% (unchanged from the previous month). Core prices – excluding the lagging housing component – rose at a much slower pace of 1.8%, according to data from the White House.

On September 12, the European Central Bank (ECB) implemented its second 25-basis-point rate cut of the year, lowering the deposit facility rate to 3.50%. ECB President Christine Lagarde expressed confidence that inflation will return to the 2% target by 2025. The ECB's staff projections align with this outlook, predicting core inflation will drop from 2.9% this year to 2.3% in 2025, and eventually to 2.0% in 2026. Like the Fed, the ECB now seems more concerned about the economy than inflation at this stage, slightly lowering its gross domestic product (GDP) forecasts for 2024, 2025, and 2026, while cautioning that economic growth risks remained tilted to the downside.

French sovereign bonds underperformed in September amid rising concerns about the country's fiscal outlook, a fragmented parliament and slowing growth. For the first time since 2008, 10-year French OATs traded at higher yields than their Spanish counterparts. However, the impact on French corporates was minimal, and no new trades were initiated as a result.

Credit spreads closed the month broadly unchanged, with the reference benchmark closing at a government OAS spread of 120, just 1bp wider over the month. The automotive sector underperformed, widening by about 20bps due to various profit warnings and negative news (e.g., Stellantis eyeing job cuts, Volkswagen considering factory closures, potential fines over European climate goals, and competition from China). The energy sector widened by roughly 5bps, while other sectors were mostly flat. Higher-beta segments were mixed, with corporate hybrids widening by 8bps and BB-rated bonds by around 14bps. In contrast, Tier 2s were broadly flat, and AT1s outperformed, tightening by about 4bps.

Portfolio review

We have significantly reduced our exposure to the automotive sector, driven by a weaker outlook and potential rating pressure on certain issuers. In the primary market, we participated selectively in new issues across the seniority spectrum – always on a relative switch basis and keeping the overall risk level constant. New deals we participated in include financials (AT1, T2, Senior Non-Preferred), Corporate Hybrids and Senior unsecured bonds. We added two new names for diversification – one food services company and a capital goods issuer that we had previously held in the past.

We withdrew from some new deals that priced below our fair value estimates and observed that some of the tighter deals have struggled to perform post-pricing. It remains key to stay disciplined with regards to new issues.

Performance analysis

The Vontobel Fund – Euro Corporate Bond (I Share Class) outperformed its benchmark during the month of September. The performance was mostly driven by allocation, while selection was flat this month.

In terms of allocation, our overweight position in insurance and underweight in the automotive sector contributed positively to performance. We continued to reduce our exposure to the automotive sector throughout the month due to its ongoing weakness.

In terms of selection, we have seen a wide dispersion across our bonds. Banking and transportation were strong contributors, with banking benefiting from slide gains in AT1s, and transportation boosted by a few individual names. However, these gains were partially offset by weakness in automotive names that underperformed amid sector profit warnings and weaker outlooks. Within the telecom sector, telco hybrids underperformed, with one idiosyncratic name affected by fast money selling. Despite this, we believe the issuer's fundamentals remain solid, and we expect the bonds to recover once the flows become more balanced. Similarly, within utilities, hybrids lagged behind senior bonds in September.

Outlook

Despite the strong market rally year-to-date, there are several reasons to remain optimistic heading into year-end.
The Fed has joined the rate-cutting cycle, which, combined with a resilient economy and the possibility of a soft landing, should bode well for markets and risk assets - including corporate bonds and equities. Supply in the second half of the year is expected to be more limited, as much of it was front-loaded in the first half of 2024. Credit fundamentals remain solid, with only some idiosyncratic exceptions, but no signs of widespread deterioration.
At the sector level, we remain cautious about the automotive sector, which faces multiple headwinds (i.e., weak demand outlook, delay of EV purchases by customers, competition from China and potential rating pressure for some names). In contrast, we continue to favor the banking sector, which offers limited supply expectations, very strong credit quality/capitalization, and robust overall corporate fundamentals. We therefore keep screening for attractive opportunities.
We don't intend to increase risk or duration at this time but keep our exposure to the higher beta segment steady while seeking relative value switches.

Fund characteristics

Fund name	Vontobel Fund – Euro Corporate Bond
ISIN	LU0278087860
Share class	I EUR
Reference index	ICE BofAML A-BBB Euro Corporate Index
Inception date	13.7.2007

Historical performance (net returns, in %)

Time period	Fund	Ref. index
MTD	1.2%	1.2%
YTD	4.5%	3.9%
1 year	11.5%	9.7%
3 yrs p.a.	-1.6%	-1.4%
5 yrs p.a.	-0.1%	-0.4%
10 yrs p.a.	1.6%	1.2%
ITD p.a.	3.2%	2.9%

Time period	Fund	Ref. index
2023	8.5%	8.2%
2022	-15.2%	-14.1%
2021	-0.6%	-0.9%
2020	3.9%	2.8%
2019	8.8%	6.6%
2018	-2.9%	-1.3%
2017	4.1%	2.6%
2016	4.4%	4.8%
2015	0.9%	-0.4%
2014	9.8%	8.2%

Past performance is not a reliable indicator of current or future performance. Performance data does not consider any commissions and costs charged when shares of the fund are issued and redeemed, if applicable. The return of the fund may go down as well as up due to changes in the rates of exchange between currencies.

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.
- 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.
- 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.
- CoCo-Bonds may entail significant risks such as coupon cancellation risk, capital structure inversion risk, call extension risk.
- The sub-fund's investments may be subject to sustainability risks. The sustainability risks that the sub-fund may be subject to are likely to have an immaterial impact on the value of the sub-funds' investments in the medium to long term due to the mitigating nature of the sub-fund's ESG approach. The sub-funds' performance may be positively or negatively affected by its sustainability strategy. The ability to meet social or environmental objectives might be affected by incomplete or inaccurate data from third-party providers. Information on how environmental and social objectives are achieved and how sustainability risks are managed in this sub-fund may be obtained from vontobel.com/sfdr.

and the correct execution of the ESG strategy. As investors may have different views regarding what constitutes sustainable investing or a sustainable investment, the fund may invest in issuers that do not reflect the beliefs and values of any specific investor.

Past performance is not a reliable indicator of current or future performance.

Performance data does not consider any commissions and costs charged when shares of the fund are issued and redeemed, if applicable. The return of the fund may go down as well as up, e.g. due to changes in rates of exchange between currencies. The value of the money invested in the fund can increase or decrease and there is no guarantee that all or part of your invested capital can be redeemed.

Interested parties may obtain the above-mentioned documents free of charge from the authorized distribution agencies and from the offices of the fund at 11-13 Boulevard de la Foire, L-1528 **Luxembourg**, the facilities agent in **Austria**: Erste Bank der oesterreichischen Sparkassen AG, Am Belvedere 1, A-1100 Vienna, the representative in **Switzerland**: Vontobel Fonds Services AG, Gotthardstrasse 43, 8022 Zurich, the paying agent in Switzerland: Bank Vontobel AG, Gotthardstrasse 43, 8022 Zurich, the European facilities agent for **Germany**: PwC Société coopérative - GFD, 2, Rue Gerhard Mercator B.P. 1443, L-1014 Luxembourg, Email: lu_pwc.gfd.facsvs@pwc.com, gfdplatform.pwc.lu/facilities-agent/, the information agent in **Liechtenstein**: LLB Fund Services AG, Äulestrasse 80, FL-9490 Vaduz. Refer for more information on the fund to the latest prospectus, annual and semi-annual reports as well as the key (investor) information documents ("K(I)ID"). These documents may also be downloaded from our website at vontobel.com/am. A summary of investor rights is available in English under: vontobel.com/vamsa-investor-information. In **Spain**, funds authorized for distribution are recorded in the register of foreign collective investment companies maintained by the Spanish CNMV (under number 280). The KID can be obtained in Spanish from Vontobel Asset Management S.A., Sucursal en España, Paseo de la Castellana, 91, Planta 5, 28046 Madrid. **Finland**: The KID is available in Finnish. The KID is available in French. The fund is authorized to the commercialization in **France**. Refer for more information on the funds to the KID.The fund authorised for distribution in the **United Kingdom** and entered into the UK's temporary marketing permissions regime can be viewed in the FCA register under the Scheme Reference Number 466625. The fund is authorised as a UCITS scheme (or is a sub fund of a UCITS scheme) in a European Economic Area (EEA) country, and the scheme is expected to remain authorised as a UCITS while it is in the temporary marketing permissions regime. This information was approved by Vontobel Asset Management S.A., London Branch, which has its registered office at 3rd Floor, 70 Conduit Street, London W1S 2GF and is authorized by the Commission de Surveillance du Secteur Financier (CSSF) and subject to limited regulation by the Financial Conduct Authority (FCA). Details about the extent of regulation by the FCA are available from Vontobel Asset Management S.A., London Branch, on request. The KIID can be obtained in English from Vontobel Asset Management S.A., London Branch, 3rd Floor, 70 Conduit Street, London W1S 2GF or downloaded from our website vontobel.com/am. **Italy**: Refer for more information regarding subscriptions in Italy to the Modulo di Sottoscrizione. For any further information: Vontobel Asset Management S.A., Milan Branch, Piazza degli Affari 2, 20123 Milano, telefono: 0263673444, e-mail: clientrelation.it@vontobel.com. **Netherlands**: The Fund and its sub-funds are included in the register of Netherland's Authority for the Financial Markets as mentioned in article 1:107 of the Financial Markets Supervision Act ("Wet op het financiële toezicht"). **Norway**: The KID is available in Norwegian. Please note that certain sub-funds are exclusively available to qualified investors in Andorra or **Portugal**. **Sweden**: The KID is available in Swedish. The fund and its sub-funds are not available to retail investors in **Singapore**. Selected sub-funds of the fund are currently recognized as restricted schemes by the Monetary Authority of Singapore. These sub-funds may only be offered to certain prescribed persons on certain conditions as provided in the "Securities and Futures Act", Chapter 289 of Singapore. This document was approved by Vontobel Pte. Ltd., which is licensed with the Monetary Authority of Singapore as a Capital Markets Services Licensee and Exempt Financial Adviser and has its registered office at 8 Marina Boulevard, Marina Bay Financial Centre (Tower 1), Level 04-03, Singapore 018981. This advertisement has not been reviewed by the Monetary Authority of Singapore. The fund is not authorized by the Securities and Futures Commission in **Hong Kong**. It may only be offered to those investors qualifying as professional investors under the Securities and Futures Ordinance. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution and if you are in doubt about any of the contents of this document, you should obtain independent professional advice. This document was approved by Vontobel (Hong Kong) Ltd., which is licensed by the Securities and Futures Commission of Hong Kong and provides services only to professional investors as defined under the Securities and Futures Ordinance (Cap. 571) of Hong Kong and has its registered office at 1901 Gloucester Tower, The Landmark 15 Queen's Road Central, Hong Kong. This advertisement has not been reviewed by the Securities and Futures Commission.

This document is not the result of a financial analysis and therefore the "Directives on the Independence of Financial Research" of the Swiss Bankers Association are not applicable. Vontobel and/or its board of directors, executive management and employees may have or have had interests or positions in, or traded or acted as market maker in relevant securities. Furthermore, such entities or persons may have executed transactions for clients in these instruments or may provide or have provided corporate finance or other services to relevant companies.

The MSCI data is for internal use only and may not be redistributed or used in connection with creating or offering any securities, financial products or indices. Neither MSCI nor any other third party involved in or related to compiling, computing or creating the MSCI data (the "MSCI Parties") makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and the MSCI Parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to such data. Without limiting any of the foregoing, in no event shall any of the MSCI Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Although Vontobel believes that the information provided in this document is based on reliable sources, it cannot assume responsibility for the quality, correctness, timeliness or completeness of

Vontobel Asset Management AG
Gotthardstrasse 43, 8022 Zürich
Switzerland
T +41 58 283 71 11, info@vontobel.com
vontobel.com/am