HELD-TO-MATURITY CREDIT BONDS : THE RIGHT TIME TO INVEST ?

Philippe Berthelot
Head of Credit & Money market

Corinne Gaborieau
Head of Corporate credit research

Emilie Huot
Credit portfolio manager

CREDIT YIELDS AT THEIR HIGHEST LEVELS COMPARED TO THE PAST 10 YEARS

2023 got off to a relatively favourable start for the credit market, boosting this asset class after a challenging 2022.
Among European bonds, absolute yields have reached their highest levels compared to the past 10 years. We are close to 4% in the euro investment grade segment and at almost 7% in the euro high yield market.
The macroeconomic context, characterised by a gentle slowdown combined with reassuring corporate fundamentals, is providing support for the credit market, particularly as the central banks are at the end of their rate-hike cycle.
We have a positive view of both the investment grade segment and the high yield market. For this reason, we believe that it makes sense to hold until maturity in 2026 credit bonds in a crossover universe in order to achieve an advantageous risk-return profile, with better carry than the investment grade segment while maintaining moderate volatility.
We remain highly selective, depending on trends in volatility and inflation, and the reaction from central banks.

This environment provides genuine opportunities to invest in credit, particularly via hold-to-maturity strategies. For investors, this strategy represents a valid means of capturing the current market conditions, while also benefitting from an investment which becomes less exposed to uncertainty and market volatility, and also interest rate risk, as the final maturity of the fund approaches.

COMPANIES WITH ROBUST BALANCE SHEETS

Earnings published by European groups during the latest reporting season were broadly in line with expectations. These latest healthy results are due chiefly to companies' capacity to mitigate the impact of higher commodities and energy costs, for the time being. Over the next few months, the economic situation could impact companies' credit quality, but only slightly, due to their currently robust balance sheets.
Over recent years, most companies have actively managed their debt levels and have been able to extend their maturities, in order to benefit from interesting financial conditions. The rise in interest rates will therefore have a gradual impact on financing costs. Refinancing deals have also enabled companies to strengthen their liquidity positions.
Over the short and medium term, we believe that most of the groups we cover in our investment universe will be able to cope with a possible downturn in the economic environment. Sectors exposed to discretionary consumption are likely to be the most heavily impacted, but without jeopardising the sustainability of their business models.
Lastly, the materiality of ESG* issues on credit quality is the other key factor that we are integrating into our analysis. Regulations and decarbonation objectives within our economies are forcing companies to act with greater transparency. This move enables material non-financial criteria to be taken further into consideration, which provides pertinent information regarding issuers' risk profiles and returns on bonds.

IDENTIFYING ENTRY POINTS AND QUALITY ISSUERS

A hold-to-maturity strategy aims to identify the best entry points, to set up a portfolio of issuers considered high quality and hold bonds until their maturity. As selecting issuers is a key factor, Ostrum AM has a major advantage : the size and the experience of our teams. With 12 credit portfolio managers and 23 credit analysts, including 2 sustainable bonds specialists, we have the experts required to find and seize upon the most promising financial and non-financial opportunities over the strategy's maturity horizon.
We build up a diversified portfolio, in terms of the number of issuers, business sectors and regions. This approach contributes significantly to risk management. We then manage the portfolio actively throughout the fund's lifespan : monitoring the securities held in the portfolios, reinvesting coupons and, if deemed appropriate, arbitrating positions.
To construct the current portfolio, we are chiefly prioritising the highest ratings in the speculative category, coupled with the investment grade segment which has become appealing again in 2023.
We believe that holding credit bonds - selected after an ESG screening - until maturity in 2026 offers a sound allocation diversification solution, in a crossover investment universe. It provides visibility on maturity and potential returns. Lastly, investors benefit from our hold-to-maturity know-how, with over 4 billion euros of assets under management.

* Environment, Social, Governance.**Any strategy implies risks, including a risk of capital lost.
Document for professional and non-professional investors. **Written on May 25th, 2023.**

Definitions & information

Investment Grade: Bonds issued by compagnies rated AAA to BBB- according to Standard & Poor's rating scale

High Yield, speculative category: Bonds issued by low rated companies (BB+ or lower)

ADDITIONAL NOTES

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