Fixed Income Strategy Update

April 2024 – Executive Summary

1. Strategy Summary – April update

MACRO SCENARIO UPDATE

Economic growth is on the uptick, and inflation's rise is tempering. Central Banks responded by toning down their monetary easing signals. In the U.S., financial conditions have notably improved over the last year, diminishing the need for Federal Reserve rate cuts.

After a period of aligned monetary policies in response to the Covid crisis and then to the surge in inflation, **Central Bank actions are now diverging:** Japan has abandoned its negative interest rate policy, and the Swiss National Bank, along with several emerging market banks, has cut rates.

China's recent stimulus has stabilized its economy, although growth remains subdued compared to previous years.

Energy prices have increased due to persistent geopolitical tensions and stronger economic growth, rekindling inflationary pressures.

Source: GAMA

FIXED INCOME STRATEGY

- **Bonds:** In a rare occurrence, US front-end yields have now priced in fewer rate cuts than the Fed's recent forecast. Europe bonds reflect four 25bp cuts this year. **Our preference leans towards U.S. bonds.**
- **Developed credit:** After many months of tightening, credit spreads have started widening. We expect further underperformance of lower-rated credits as weaker companies struggle to refinance and investors demand a higher risk premium. In a low volatility environment, we prefer corporate hybrids.
- **Emerging markets:** We remain **overweight in EM local currency bonds** capitalizing on the ongoing cycle of rate reductions. Modest growth environments bolster emerging markets, particularly those with substantial real yields.
- **FX:** Elevated real interest rates and a strong economy have upheld the U.S. dollar. However, economic rebounds in Europe and China, alongside a global shift to lower rates, are likely to pressure the dollar downwards.

Strategy Summary*

DURATION	RATES	UW	N	OW	Fund.	Mom.	Val.	Sent.	COMMENTS
Very High	US Treasuries			G	○	○	🟢	◖	Higher inflation, resilient growth delays start of monetary easing
	EMU Core Government		G		◖	○	◖	◖	European survey data is improving and inflation is declining
	EMU Peripheral		G		○	◖	○	○	Neutral stance between Core vs. periphery, as weaker fundamentals seem priced into spreads
Medium	Swiss Confederation	G			◖	◖	◗	○	Low yielding Swiss bonds will underperform a global bond rally
	UK Gilts		G		○	○	◖	○	UK stagflation risk shifting towards higher recession risk on tighter conditions
	China (CNY)	G			◗	○	◗	◖	CNY at risk as US dollar remains strong
Very Low	Inflation-Indexed		G		○	◗	◖	○	Real yields are back to mid 2000 levels. Good protection against an inflation surprise

CREDIT RISK	CREDIT SEGMENTS	UW	N	OW	Fund.	Mom.	Val.	Sent.	COMMENTS
Very High	Developed Corporates		G		◖	◖	○	◖	Very sensitive to the risk of higher government bond yields, spreads are fairly priced
	Short-dated High Yielding			G	○	🟢	◖	◖	Attractive yields and spreads with high mean reverting feature; low refinancing risk
	Corporate Hybrids			G	◖	🟢	🟢	○	Will benefit from a moderate slowdown, extension risk limited, prefer quality
Medium	High Yield	G			◗	🟢	◗	◗	High Yield spreads are priced to perfection. Significant cyclical risks and a flat credit curve.
	Emerging Corporates		G		○	◖	◖	○	Emerging spreads over developed back to middle of the long-run range.
	Emerging Sovereigns	G			◖	◖	○	○	Tight valuations for highly rated issuers.
Very Low	Emerging Local			G	◖	◖	◖	◖	Attractive yields, central banks easing only slightly delayed, and weaker dollar

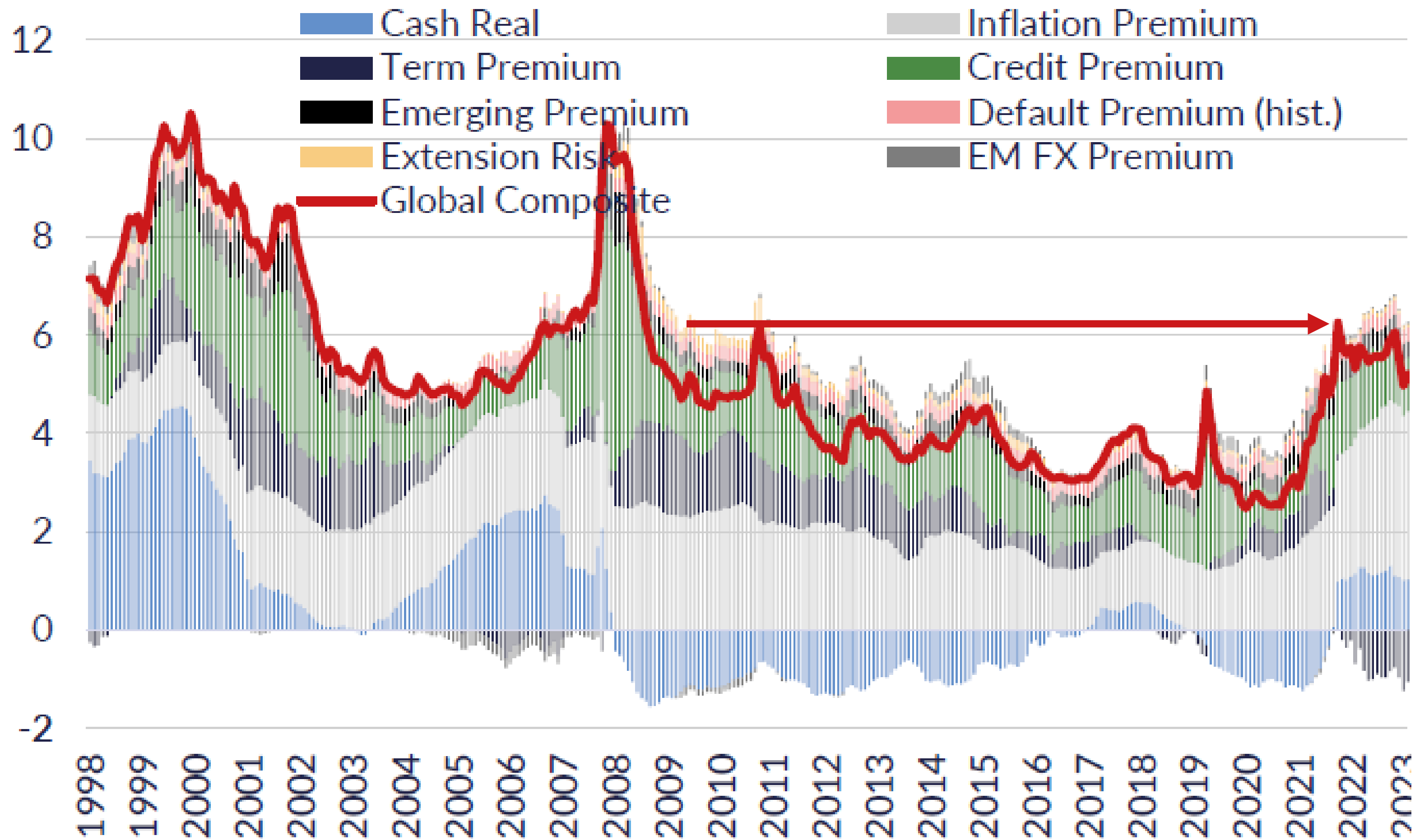
FX RISK	CURRENCIES	UW	N	OW	Fund.	Mom.	Val.	Sent.	COMMENTS
Very High	USD	G			◗	○	🔴	○	Fed easing only delayed. Pivot to easing and stable global growth negative for US dollar
	EUR		G		○	○	◖	○	Lower inflation, weaker growth will push the ECB to ease at a faster pace than the Fed
	JPY		G		○	◗	🟢	◖	BoJ should exit negative interest rates by Q2 but negative carry is a headwind
Medium	CHF		G		◖	◗	○	○	After the sharp move lower, Franc is no longer expensive
	GBP	G			🔴	○	○	○	UK negative growth dynamics + negative real yields key hurdles for GBP
	CNY	G			◖	◗	◖	◗	CNY under pressure from easier monetary policy and risk of higher US tarrifs
Very Low	Other Currencies			G					We like: BRL, MXN, NOK. We don't like GBP, NZD, AUD

*Source: GAMA, 6-12 months time horizon; G recommandations, Upgrade, Downgrade versus previous month

April 2024

Global Bond Composite*

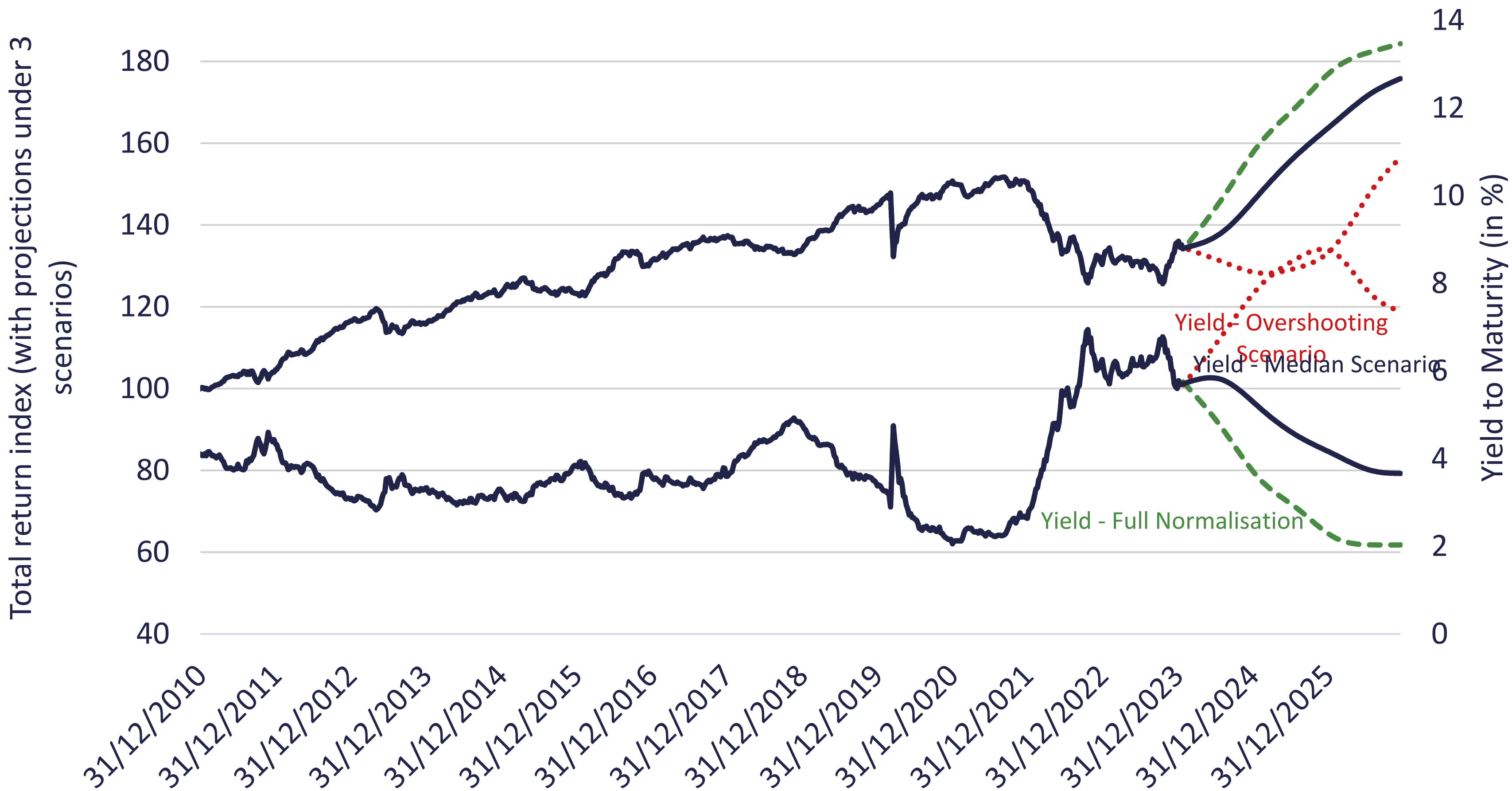
Highest risk premiums since 2009



Sources: Bloomberg, GAMA calculations, *Derived from 10 global different fixed income segments

Global Bond Composite*

Projected total returns under 3 yield scenarios over 3 years



Sources: Bloomberg, GAMA calculations, *Derived from 10 global different fixed income segments

Global Fixed Income Returns

Performance 2024: Global Aggregate = 0.0%, Global SAA 0.6%

Fixed Income Segments	2022	2023	YTD	1W	1M	3M
Cash	1.4%	4.9%	**1.3%**	0.1%	0.4%	1.3%
Short-term High Yielding	-3.2%	6.6%	**1.5%**	0.1%	0.6%	1.5%
Global Sovereigns	-10.8%	6.7%	**-0.2%**	0.4%	0.7%	-0.2%
Global Inflation-Indexed	-17.4%	4.6%	**-0.5%**	0.5%	1.1%	-1.8%
Global Corporates	-14.1%	9.1%	**0.1%**	0.4%	1.0%	-0.8%
Credit Opportunities	-8.0%	11.0%	**2.7%**	0.2%	1.1%	2.7%
Global High Yield	-11.0%	13.7%	**2.6%**	0.2%	1.4%	2.1%
Emerging Sovereigns	-17.4%	11.0%	**1.7%**	0.3%	2.0%	1.7%
Emerging Corporates	-15.0%	7.1%	**2.4%**	0.3%	1.0%	2.2%
Emerging Local Debt	-12.8%	10.1%	**-2.6%**	-0.2%	-0.4%	-2.6%
Convertibles	-16.6%	12.5%	**3.6%**	0.7%	1.8%	3.6%
Global Aggregate	-11.2%	7.1%	**0.0%**	0.3%	0.7%	-2.1%
SAA	-11.7%	8.4%	**0.6%**	0.2%	0.8%	0.3%

Fixed income markets – March 2024

- The Fed's dovish tone supported bond markets offsetting the higher core PCE over the past few months,
- Inflation-indexed continues its outperformance as inflation expectations have increased,
- Credit rallied during a holiday-shortened week.
- The US dollar strengthened against most currencies, hurting the EM local government universe.

Source: Bloomberg indices (hedged indices vs. USD, EM local segments excepted; expressed in USD on an unhedged basis). Data as of 1.04.2024

Key Investment Themes

- Bond yields have risen back to attractive levels
- Inflation-linked bonds are compelling at pre-GFC yield levels
- A soft landing is our base case but there are alternatives
- Bank reserves will start declining soon
- Correlation between bonds and equities is close to zero
- Financial conditions have eased

- Labour market is still robust, even though it is less tight
- Deficits are high, and political climate could lead to further spending

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