



## FIXED INCOME INVESTING *at a turning point*

BY BASTIAN GRIES, GLOBAL HEAD OF INVESTMENT GRADE & ASSET ALLOCATION  
AT ODDO BHF ASSET MANAGEMENT – DECEMBER 2023

**With central banks' monetary tightening cycle probably having reached a pivot, investors may be tempted to take on fixed-income exposure to exploit attractive entry points.**

Despite substantially higher interest rates, the markets have held up surprisingly well this year, and investors have achieved solid performances in risky investments, despite exacerbated systemic risks. Meanwhile, although monetary tightening has not yet produced all its effects, inflation is now headed downward, while remaining high. Central banks appear to have reached their pivot on raising interest rates, which is good news for bond markets, as it sets up a favourable environment for long-dated bonds.

### ASYNCHRONOUS TRENDS IN YIELD CURVES

While most observers believe the pivot has indeed been reached, it is important to keep in mind the noteworthy discrepancy between yield curves in various economic regions. This is due to various factors, including the downgrade in the US credit rating, the shift in Japan's sovereign-yield-curve-control strategy, and the unexpected increase in new US government bond issuance. All these factors have come on top of macroeconomic data and argue against a resynchronisation anytime soon. For example, leading economic indicators are improving slightly in the US, while continuing to weaken in the euro zone and remaining rather shaky in China. In short, we are in an uncertain environment, which is rather unusual at the end

of a cycle, but one that does not undermine the overall trend towards stabilisation, or even future declines, in interest rates. Indeed, as inflation continues to recede, central banks will naturally be encouraged to ease their monetary policies to keep them from inadvertently becoming overly hawkish.

### OPPORTUNITIES FOR EACH TYPE OF INVESTOR

Against this backdrop, it is worth recalling that a further slowing of the economy would set up an environment favourable to bonds. For, in such phases, bonds generally outperform other asset classes such as equities, especially when factoring in the significant adjustment in risk premiums and interest-rate trends over the past two years. With this in mind, and while economic growth is currently weaker in the euro zone than in the US, euro-denominated corporate bonds are more attractive than dollar-based ones, as they offer better risk premiums.

In light of the above, for investors who are relatively risk-averse, short-dated investment grade bonds (i.e., maturing in two or three years) offer many advantages. They offer yields comparable to market yields while having considerably less sensitivity to wide shifts in interest rates. Meanwhile, less risk-averse investors can also decide to take on more credit risk in opting for exposure to high yield bonds in order to target yields higher than 6%. Moreover, against a backdrop of stubborn recession risks,



**ODDO BHF**  
ASSET MANAGEMENT

the receding of inflationary pressures, and central bank pauses, it makes more sense than ever to gradually raise portfolio durations in order to exploit, in the medium term, yields that are now far more interesting.

Lastly, by sector, banks stand out with yields of about 4.5% and risk premiums that are still high compared to non-financial corporate bonds, but with lower sensitivity to interest rates. This is also true of AT1 subordinated bonds, which are best invested in via mutual funds and not directly.

In conclusion, the outlook for a stabilisation of interest rates and even monetary easing should be regarded by investors as a good time to reassess their fixed-income exposure in order to tap into the yield opportunities on offer.

*Completed in November 2023*

ODDO BHF AM is the asset management division of the ODDO BHF Group. It is the common brand of three legally separate asset management companies: ODDO BHF AM SAS (France), ODDO BHF AM GmbH (Germany) and ODDO BHF AM Lux (Luxembourg). This document, for market communication, has been drawn up by ODDO BHF ASSET MANAGEMENT SAS and is exclusively dedicated to clients categorized as professional (MIFID). It may not be circulated among the public. The investor is informed that the strategy presents a risk of capital loss, but also many risks linked to the financial instruments/strategies in the portfolio. The value of the investment through this strategy may vary both upwards and downwards and may not be returned in full. The investment must be made in accordance with investors' investment objectives, their investment horizon and their capacity to deal with the risk arising from the transaction. ODDO BHF ASSET MANAGEMENT SAS cannot be held responsible for any direct or indirect damages resulting from the use of this document or the information contained in it. This information is provided for indicative purposes and may be modified at any moment without prior notice. Any opinions presented in this document result from our market forecasts on the publication date. They are subject to change according to market conditions and ODDO BHF ASSET MANAGEMENT SAS shall not in any case be held contractually liable for them.