BANTLEON SELECT CORPORATE HYBRIDS

Monthly Management Report: March 2024

Capital Markets: Review & Outlook

The bond markets were exposed to opposing forces in March. Initially, the ECB created a tailwind with the announcement of an imminent key interest rate cut. Subsequently, however, disappointing US inflation data caused hopes of monetary easing to fade again. However, the resulting headwind did not last long. On the one hand, the Bank of Japan dampened interest rate fears with a merely gradual turnaround in monetary policy. On the other hand, the Fed announced that it was still considering three interest rate cuts in the current year, despite the recent stronger rise in inflation. Against this backdrop, high-quality government bonds rose slightly month-on-month. Risk assets were boosted by the prospect of a less tight monetary policy. Additionally supported by economic signs of life (including some business climate surveys) and the ongoing AI euphoria, blue chip indices worldwide reached new all-time highs. At the same time, risk premia on the bond markets continued to fall for the most part. This was most notable in the case of subordinated bonds, followed by the investment grade segment and Pfandbriefe (covered bonds) and government-related bonds. High-yield corporate bonds were an exception, with widening spreads.

In the short term, the series of better-than-expected inflation data in the US could continue, which would further dampen hopes of monetary easing and create headwinds for bonds. In the medium term, however, core inflation should clearly head towards the Fed's 2% target. Accordingly, expectations of interest rate cuts should increase again and yields should fall. This development should be favoured by a slowdown in US growth momentum over the course of the year, which should have a noticeable impact on the global economy. With regard to the equity markets, the short-term prospects in view of the ongoing AI fantasy are positive on the one hand – but this is offset by negative market signals and the prospect of a medium-term slowdown in growth on the other.

Portfolio Management Report

In March, the positive trend for corporate hybrids continued unabated. Measured by the »ICE BofA Euro Non-Financial Subordinated Index«, risk premia narrowed by 13 basis points. This is the fifth month in a row with a double-digit narrowing. Combined with high interest rates and a decline in yields on German government bonds, the total return in March was 1.30%. Top-rated investment-grade corporate bonds achieved a return of 1.17%, with a decline in risk premia of 8 basis points – as measured by the »ICE BofA Euro Corporate Senior Index«. By contrast, the high-yield market, represented by the »ICE BofA Euro High Yield Index«, only recorded a return of 0.41%, as risk premia widened by 6 basis points. Activity on the new issue market increased again: *TenneT*, *Arkema*, *Telefonica* and *Orsted* placed hybrid bonds totalling more than EUR 3 billion. Due to the continued strong demand for corporate hybrids, these were issued without a noticeable premia and did not lead to a setback on the secondary market. Some investors had to satisfy their demand on the secondary market due to frequently oversubscribed order books. All in all, there were higher prices for both new issues and outstanding bonds. BANTLEON SELECT CORPORATE HYBRIDS HYBRIDS benefited from the participation and solid allocations. Apart from this, the positioning of the fund remained almost unchanged in March. The duration was 3.70% and thus above that of the benchmark. The yield on the first call date was 6.32%.

BANTLEON SELECT CORPORATE HYBRIDS has a good MSCI ESG rating of »AA«. (ESG Leader)