Confidence must be earned

Amundi ASSET MANAGEMENT

Bonds are back: credit markets in focus in 2023

January 2023

AMUNDI INSTITUTE INFOGRAPHIC

Credit is attractive again after the great repricing

The transition towards a market less governed by central banks will entail **3 phases**

1 Great repricing

Central banks abruptly tighten monetary policy to fight inflation. Strong market reaction and volatility; limited visibility.

2 Adjustment phase

Readjustment of the yield curve. Market attention gradually shifts from inflation to growth; high uncertainty.

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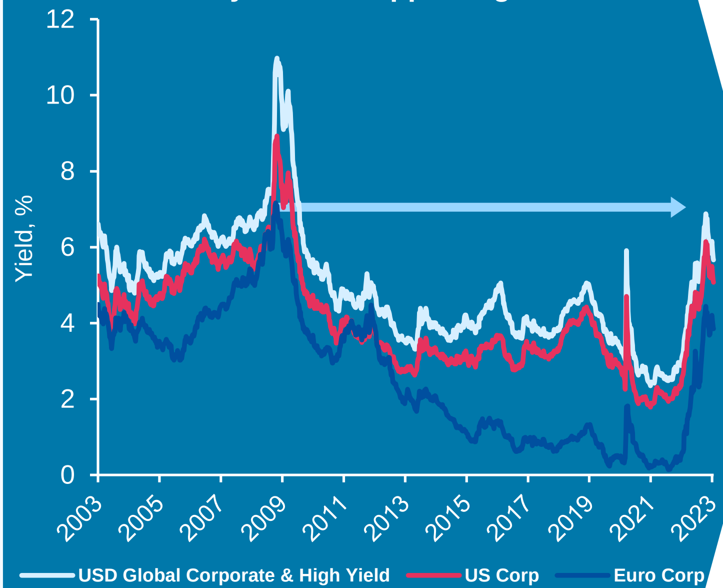
3 Return of visibility

Less uncertainty about inflation and growth. Monetary policy is less abrupt and more predictable, rate volatility fades. Credit spreads are fully adjusted. Attractive entry points.

Stay cautious on duration | **Bonds are back** | **Add risk**

Credit market yields are appealing



Source: Amundi Institute, Bloomberg. Data is as of 20 January 2023 and refers to ICE BofA indices.

After 2022's great repricing, global credit is back in focus. Investment Grade is favoured for the first part of the year. Entry points for high yield will likely materialise in H2, when uncertainty on monetary policy fades.

Monica DEFEND
Head of Amundi Institute

Amaury D'ORSAY
Head of Fixed Income

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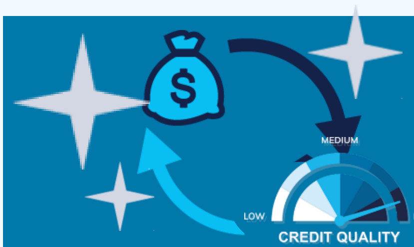
Supporting themes for global credit in 2023

Improving technical backdrop

- Technicals' dynamics were similar in the United States and Europe, with flows and positioning improving recently and more support, on a relative basis, for IG against HY.
- We expect net supply to increase in 2023, but this should still be modest by historical standards.
- We expect ECB quantitative tightening -- expected to start in March -- to have limited impact on markets.

Healthy balance sheets

- Since 2020, corporates have generally strengthened their balance sheet position.
- In 2023, corporates will have to deal with higher funding costs at a time of lower growth and inflation, but a benign redemption schedule makes these challenges manageable.
- Investment-grade issuers should remain resilient, thanks to high average maturities and the low average cost of debt, while high-yield default rates are likely to rise.



Attractive valuations, but focus on quality

- Valuations for euro investment grade remain attractive despite recent spread tightening. Here, we favour euro-denominated credit and financials over non-financials. We are also positive on euro-subordinated debt.
- Recent tightening of high-yield spreads makes us relatively cautious, but we see opportunities, probably in the second part of the year.
- Selection will be key to detect sectors and names able to navigate the sluggish growth environment and to capture the rebound that will follow later.

"After a challenging 2022, the technical backdrop is improving in 2023, amid attractive yields, with investment grade favoured by investors."

Valentine Ainouz
Head of Global Fixed Income Strategy, Amundi Institute

Gilles Dauphiné
Deputy Head of Fixed Income

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Net Zero in credit: How to align towards Net-Zero (NZ) ambition

1. ESTABLISH NZ SCOPE OF APPLICATION
2. IDENTIFY NZ AMBITIONS & DEFINE METRICS
3. DETERMINE NZ CATALYSTS & STRATEGY
4. MONITOR, REPORT & ENGAGE ON NZ PROGRESS

How to build a Net-Zero portfolio: a bottom-up approach

Issuer screening

Paris-aligned benchmark universe

← **Continuous engagement** →

Carbon reduction

- Carbon intensity and decarbonisation objective

Temperature

- SBTi target[1]
- Exclude temperature >4°C

ESG screening

- Energy transition score
- Just Transition score
- Exclude F and G ESG-rated issuers

Fundamentals

- Long-term value approach focusing on divergences between fundamentals and spreads

Top-down views

Net-Zero portfolio

[1] Science-Based Target initiative.

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