



Active Fixed Income at a Glance

The latest monthly views from the Active Fixed Income team

October 2024

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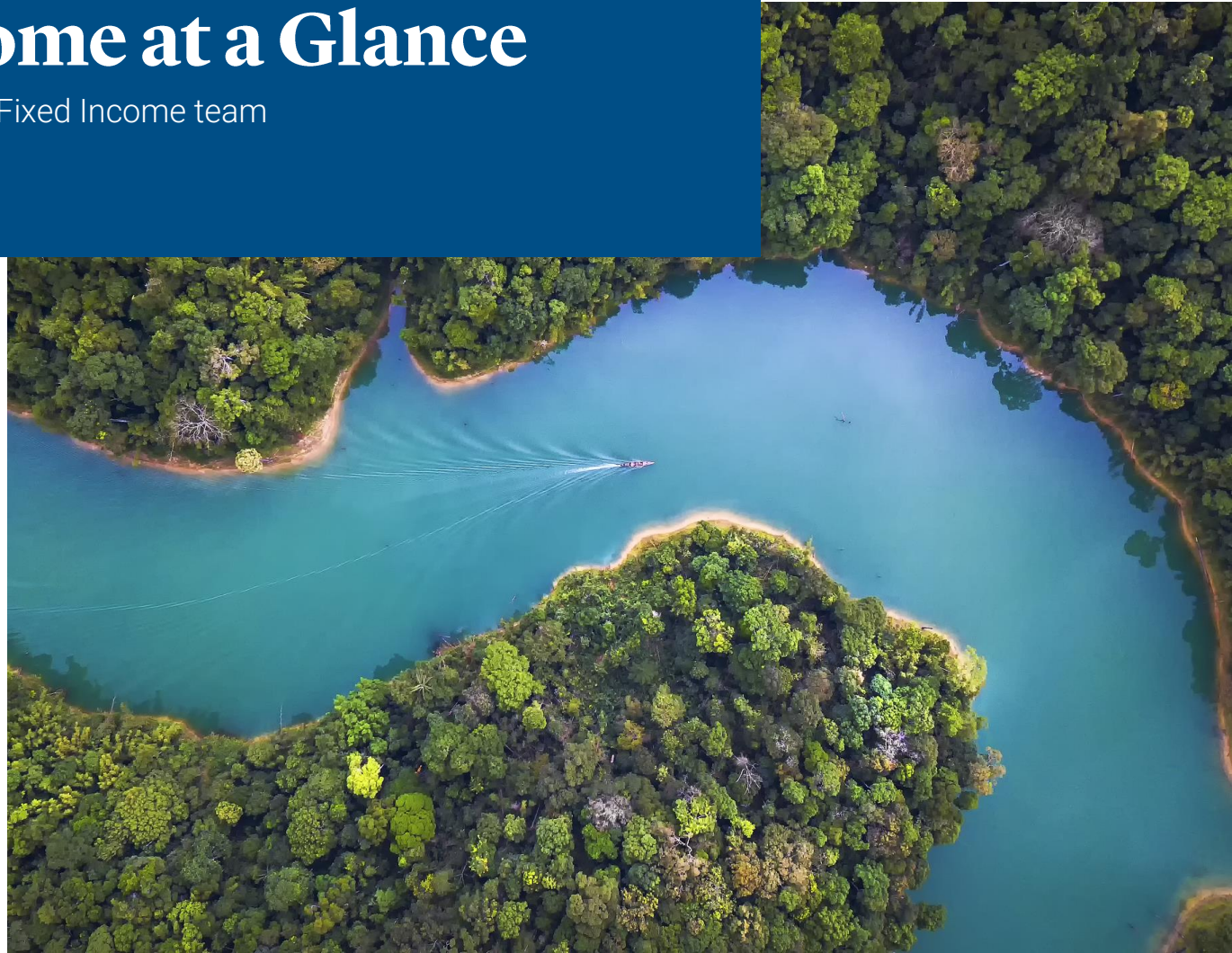
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Outlook

The US Federal Reserve's 50bps cut in interest rates, a rare occurrence outside economic crisis or market crunch scenarios, has loosened financial conditions both directly (through the slow transmission mechanism into the real economy) and indirectly (by inducing a rapid market rally). At this stage, a 'soft landing' is a stable consensus that we believe will take a fair amount of data to dislodge. China's stimulus package has also reduced downside risk, at least in that market - but credit market valuations are generally elevated, capping upside potential. Indeed, there is also downside risk if economic activity continues to decelerate. Under such circumstances, government bonds could return as an attractive hedge in broader portfolios.

Changes in scores

Our scores express the team's expectations for excess (credit) returns over a one- to three-month horizon. The scores range from -3 to +3.



Upgraded



Downgraded:



Unchanged:

- Emerging Market Debt (+1)
- Global high yield (GHY) (+2)
- EU credit (-1)
- UK Credit (0)
- US credit (0)
- Global credit (0)

Source: LGIM as at 11th October 2024 - can be subject to change at any point. Definitions of scores can be found in the appendix.

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The LGIM credit scorecard

▲ Upgraded ▼ Downgraded ■ Unchanged



Strategy	Score	This month	Last month	Investment view	Strategy positioning
Global credit	-3 -2 -1 N +1 +2 +3	■		<ul style="list-style-type: none"> Score remains neutral given the Fed's aggressive interest rate cut and stable consensus around a soft landing is a stable consensus. 	<ul style="list-style-type: none"> We maintained an overweight carry position and are inclined to slowly sell into strength if the rally in credit spreads persists, as some markets such as US Credit have reached the tight end of historical valuations.
US credit	-3 -2 -1 N +1 +2 +3	■		<ul style="list-style-type: none"> While our overall score has been relatively steady in recent months, we have been more tactical in playing the range in credit spreads, largely alternating between neutral and modestly overweight positioning. 	<ul style="list-style-type: none"> Spreads are now back to YTD tights as growth concerns have diminished as of late. Supportive technicals (slowing supply, resilient demand) and synchronized monetary easing by major central banks reduce the likelihood of meaningful spread widening in the coming weeks.
UK credit	-3 -2 -1 N +1 +2 +3	■		<ul style="list-style-type: none"> We see less attractive spread valuations on the back of new issues. Yields around 5% in a soft-landing environment continue to be supportive. 	<ul style="list-style-type: none"> We maintained a small overweight risk exposure with positive carry and favour an overweight in corporates & collateralised (single-A rated) versus financials.
EU credit	-3 -2 -1 N +1 +2 +3	■		<ul style="list-style-type: none"> We think the US soft landing consensus is fully in the price, but see signs of weakness for Germany and the global manufacturing sector. We expect more dispersions between sectors and issuers 	<ul style="list-style-type: none"> We're overweight in quality, reflecting our cautious positioning, with tilt towards single-A rated issuers versus BBBs. We're also overweight in financials versus underweight cyclicals, and have remained underweight autos following several profit warnings
EMD	-3 -2 -1 N +1 +2 +3	■		<ul style="list-style-type: none"> The soft landing scenario in the US should benefit EMD returns. Key uncertainties around this baseline view stem from the potential impact of US elections on the American markets. 	<ul style="list-style-type: none"> We reduced beta as we head closer to US elections and further reduced our Middle East exposure given rising escalations in the region
GHY	-3 -2 -1 N +1 +2 +3	■		<ul style="list-style-type: none"> Fundamentals: good in the US and EM, some concerns in Europe (France, Italy) We expect defaults to stay low (versus history) In a declining rates environment, we think yields is attractive and prices still low. 	<ul style="list-style-type: none"> We have maintained spread higher than the benchmark to capitalise on a good income earning environment Overweight EM as we find the yield attractive Underweight French and Italian corporates

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Market commentary: September 2024

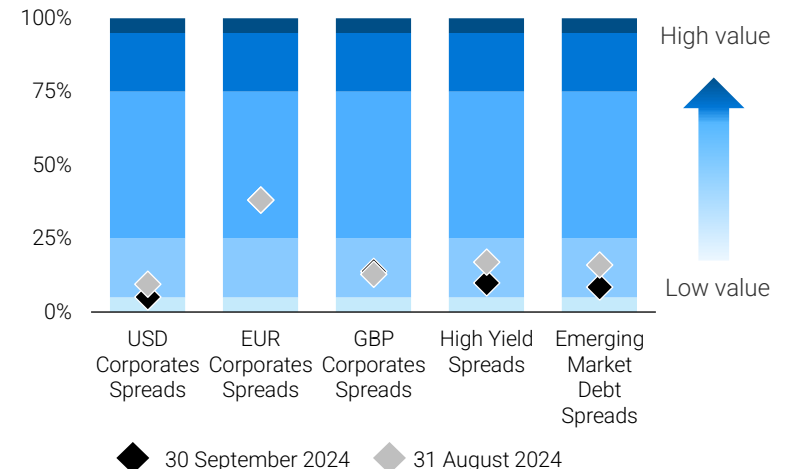
After a turbulent August, monetary policy returned to the forefront of the market narrative in September. In the US, the Federal Reserve (Fed) cut interest rates for the first time since 2020 and surprised markets with a larger-than-expected 50bps reduction. Many commentators had expected a smaller move given the continued health of US economic data. However, while the Fed exceeded expectations in September, it appears likely to revert to smaller adjustments in future. Elsewhere, there were a series of policy announcements in China, the latest in a long list of measures aimed at stimulating the economy. We remain sceptical as to the long-term effectiveness of the changes, given the need to tackle deeper structural issues. UK growth forecasts were revised upwards, although the outlook remains mixed, with several economic indicators continuing to stagnate.

Amid this backdrop, US credit, emerging market debt and global high yield outperformed in both total return and credit return terms, while European and sterling credit lagged.

Key market moves

Investment Grade	September 2024 (%)						YTD 2024 (%)		
	Duration (yrs)	Spread (bps)	Yield (%)	Spread change	Total return	Credit return	Spread change	Total return	Credit return
U.S. Corporates	7.3	89	4.7	-4.1	1.8	0.5	-10.0	5.3	1.7
Euro-Aggregate Corporates	4.6	117	3.2	0.5	1.2	0.1	-14.9	3.8	2.1
Sterling Corporates	6.3	121	5.3	0.7	0.3	0.0	-12.6	2.0	1.3
Global Aggregate Corporates	6.2	100	4.3	-2.3	1.6	0.3	-12.9	5.3	1.8
EM USD Aggregate	6.4	247	6.3	-5.7	1.8	0.6	-16.8	8.2	4.4
Global High Yield	3.9	364	7.3	-5.1	1.8	0.8	-14.1	9.5	5.6

Valuations: Spread percentile analysis



Source for key market moves: Bloomberg as at 30 September 2024; Barclays index returns are USD hedged for global indices and in local currency for the others. Source for spread percentile analysis: Bloomberg. Historical ranges based on spread data since 31 December 2006. For the definition of credit returns and total returns, please refer to the appendix.

Past performance is not a guide to the future. Capital at risk. The value of an investment and any income taken from it is not guaranteed and can go down as well as up; you may not get back the amount you originally invested.



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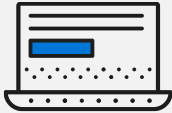
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Thought leadership

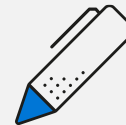
For the latest in our quarterly series of podcasts on the global fixed income market, LGIM's Head of Euro Credit Marc Rovers [gives us a detailed briefing](#) on where the European debt market is, and where it may be heading.



LGIM blog

[Is this China's 'whatever it takes' moment?](#)

[Never mind the ballots: CIO and and Co-Head of Global Fixed Income at LGIM America on the muted reaction to November's election may not last.](#)



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Source: LGIM as at 30 June 2024 - can be subject to change at any point.

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Appendix – scoring methodology and definitions



At our monthly investment strategy meeting, each credit team provides a risk assessment for their respective credit markets, arriving at a score within a range of **-3 to +3**.

The meeting typically involves discussion around the following topics:

- **Macroeconomic factors** – where we are in the economic cycle, rising/falling inflation
- **Monetary policy** – are central banks loosening or tightening financial conditions?
- **Technicals** – supply/demand dynamics for credit
- **Corporate fundamentals** – assessment of overall health of corporate balance sheets

Teams score independently of each other, although through debate and discussion forums they may influence the way they think about certain topics relative to their own markets.

Scores are expressed as a view of an individual market rather than a view relative to other markets.

Definitions

Total returns: returns inclusive of capital appreciation or depreciation and accrued interest (credit returns + returns from changes in government bond yields)

Credit returns: capital appreciation, or depreciation, driven by the change in the bond's credit spread and returns from accrued interest.

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Contact us

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Key risks

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