Interesting opportunities on the credit market in the service sector | Fabrizio Biondo's latest market view

We publish translated into English this press release taken from Bluerating with the latest outlook by our Portfolio Manager Fabrizio Biondo. The original article in Italian can be found at this link: https://bit.ly/3xXrkFA

> *The credit market is no longer as attractive as it was in autumn and does not fully reflect the risks of declining growth and shrinking profitability. However, interesting opportunities remain to be selectively seized, especially in the services sector*

This is the view of **Fabrizio Biondo**, portfolio manager of the **Lemanik Active Short Term Credit** fund.

The most relevant fact that has emerged in these first weeks of 2023 is the **marked divergence** between central bankers, who are concerned that monetary policy is not yet sufficiently tightening, and the market consensus, which projects rate cuts in the second half of the year in spite of still very robust macro data and labor markets. **We are sympathetic to the first position**, hoping that the central bankers' actions match their words, keeping their guard up on inflation and avoiding a rapid return to stimulus in an economy still close to full employment.

There are **three risk factors** that could change the picture. The monumental interest rate hikes that have occurred since last year (more than 21,000 basis points globally, 300 basis points for both the Fed and the ECB in the past 7 months)

could prove too heavy a burden for the global economy in the second half of the year, an eventuality that the market now seems to underestimate. In addition, among the risks we see a stabilization of core inflation at levels that are not sustainable for central bankers, or the risk that their relaxation could produce a second inflationary wave (as in the 1970s). Finally, in third place, we place the risk of an escalation in the geopolitical landscape, with the use of unconventional weapons in the Russian-Ukrainian conflict, or a possible involvement of China."

We remain moderately constructive on rates (U.S. more than European). Assuming that the hikes so far are sufficient to destroy a significant portion of demand, as appears from the leading indicators (at recessionary levels), inflation should continue to fall, and with it rates. Should they not be sufficient, and inflation rears its head again, we trust that central banks will intervene vigorously, on pain of losing control of expectations.

> *"In this context, we consider investing on the short end of government bonds (1-2 years) an attractive, low-risk investment, given the relatively close peak of monetary policy and their short duration," Biondo concludes.*

"The long end of the government curves will remain volatile, but could potentially touch lower levels in the second half of the year, especially if the Fed refrains from early rate cuts. Relative to credit, **we believe the short end of the high yield markets is very attractive**, especially in the 18-36 month area, where the current refinancing wave is securing many companies on the liquidity front and extending the average maturity of debt."

Fabrizio Biondo

Fabrizio Biondo is a
CFA certified manager and has more than 20 years of experience in Fixed Income with a strong specialisation in credit and fundamental analysis of the debt structure of sovereign and corporate issuers.

View Fabrizio Biondo’s complete profile