ADVERTISING COMMUNICATION

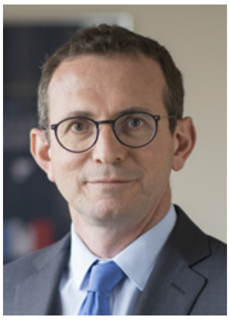
OUTLOOK & CONVICTIONS

ASSET MANAGEMENT | H2 2024

EDMOND DE ROTHSCHILD

SUMMARY

POLITICAL VOLATILITY AND OPPORTUNITIES



BENJAMIN MELMAN
Global Chief Investment Officer

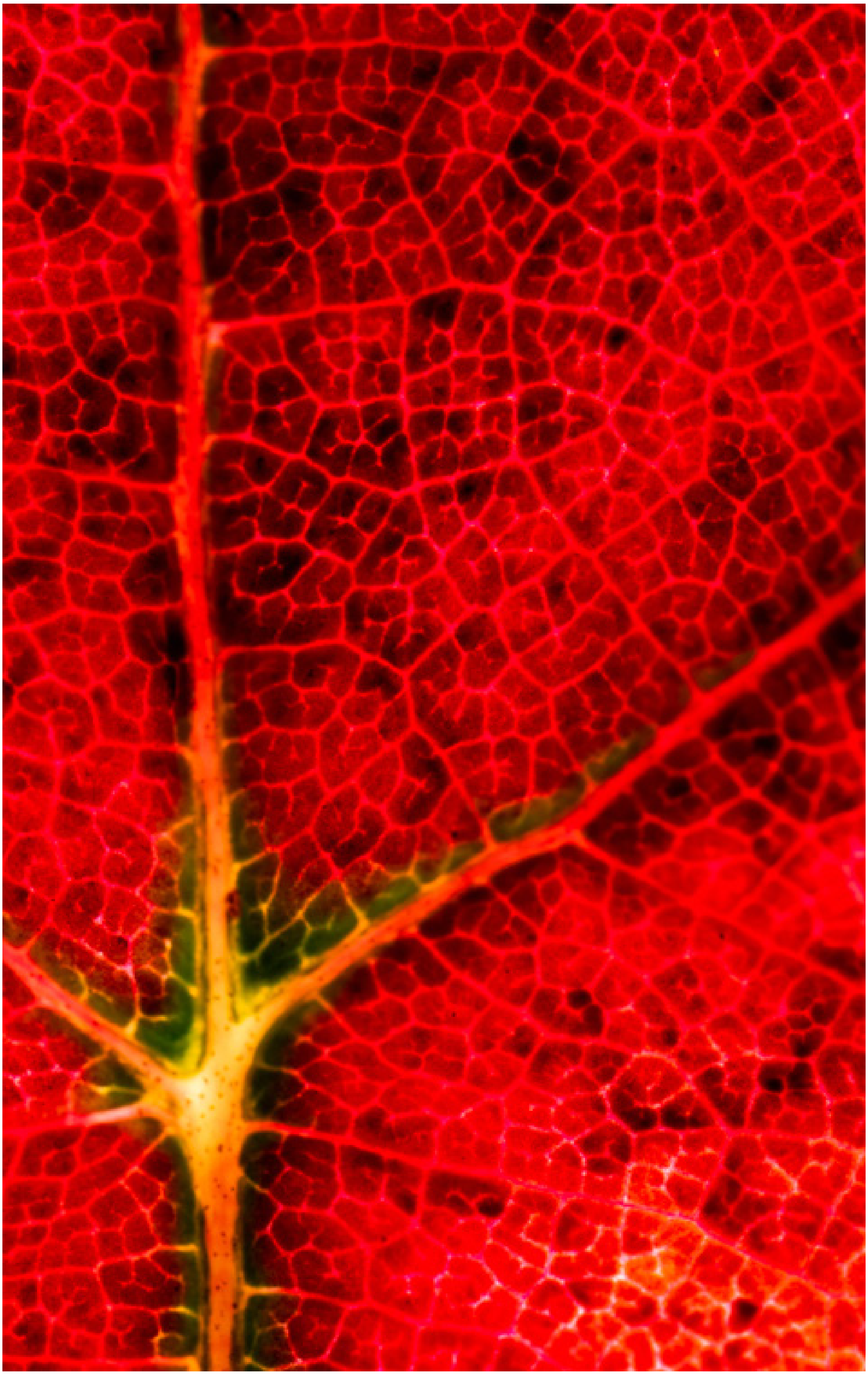
While the US economy remains full of surprises and rather difficult to decipher, it is likely that the much-awaited slowdown is already underway, triggered by reduced fiscal stimulus – already palpable in the first quarter, the gradual and inevitable growth of the debt burden for the private sector due to refinancing, and vanishing excess savings among American households. In any event, the stimulus policies in China and rising real wages in Europe have helped to stabilise these two main regions, which had been ailing.

THE ECONOMIC ENVIRONMENT IS ALMOST IDEAL

The economic environment is more favourable than anticipated for capital markets, and poses no serious threats for three reasons: disinflation remains steady despite its non-linear trajectory; the US labour market has finally begun to ease (supported by a substantial influx of immigrants); interest rate cuts have begun in Switzerland, Canada and Europe and should be initiated before the end of the summer in the US, knowing that the Federal Reserve, despite all the surprises, has ruled out the option of a further rate hike.

In our latest publication, we reminded readers that historically, equity markets have always delivered positive – and frequently robust - performances in periods of economic landing ahead of a first rate cut in the US. This trend certainly applies more to large caps than to small caps. The prospect of monetary easing, starting from decent levels, still suggests that the central bank will manage the slowdown effectively and avoid a recession.

Looking at the performances recorded year-to-date, history appears to be repeating itself, strengthening our belief that considering the strength of the global economy, it makes sense to remain well exposed to equities (we have been tactically shifting between neutral and over-exposed



since the beginning of the year). When the Fed first lowers its key rates, we shall have time to review the economic outlook and reset our main allocation decisions. For the time being, confidence prevails!

Despite the more erratic nature of US inflation this year, the economic environment is promising, at last. Even prior to the upcoming presidential election, the global political agenda has been providing its share of surprises and fuelling volatility across capital markets, such as in Mexico and India. The European elections brought relatively little change to the Parliament's structure. However, only the outcome of the current negotiations will offer meaningful insights into how these results will translate politically.

COULD THE FRENCH POLITICAL CRISIS TURN INTO A EUROPEAN FINANCIAL CRISIS?

At the time of writing, the results of the French election are still unknown. If the RN wins or in the event of a 'hung Parliament', it is possible - though unlikely - that the new government will seek to embark upon a deficit digging programme. But this will not prevent Brussels from opening an Excessive Deficit Procedure, and credit agencies may continue to downgrade France's rating.

The OAT-Bund spread could widen a little further, but a major crisis seems avoidable, particularly if the prospect of a deficit reduction is postponed and not buried, if Brussels and Paris reach an agreement over the mid-term. One could even imagine a favourable scenario in the event of a 'hung Parliament' and further political reshuffling, that could lead to an alliance between "government" parties on the left, centre and right, that would allow the country to pursue its initial commitment to lower the public deficit.

We had planned to overweight European assets thanks to the alignment of increasingly positive factors: a stronger than expected economy, ongoing disinflation, supportive ECB. Particularly as the prospect of the US Presidential election could generate some 'wait and see' attitude among market players in the US. We have therefore reviewed our position and are now waiting for more clarity on the political balancing act in France and on its implications for Europe.

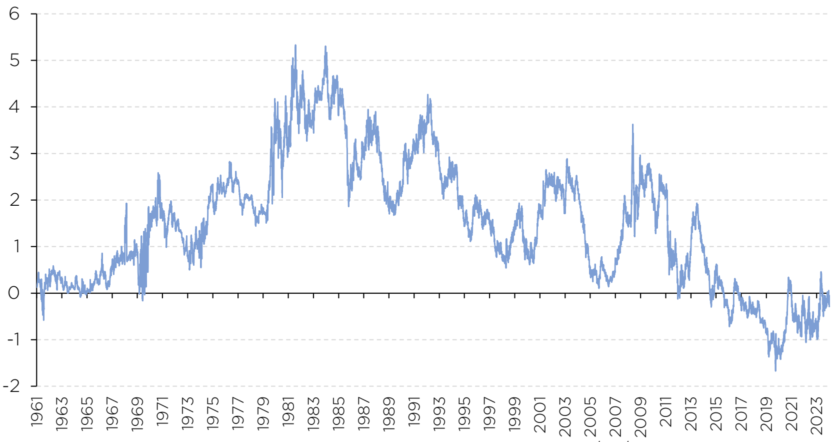
THE US PRESIDENTIAL ELECTIONS ARE ON THEIR WAY!

Donald Trump's return to the White House would have implications for capital markets:

► Negative for long-duration sovereign bonds, due to an inflationist policy involving a crackdown on immigration and plans to deport 11 million undocumented immigrants, as well as new import taxes and a fiscal policy that would not lower, but rather increase the country's substantial public deficit.

Furthermore, the term premium on the US bond market remains historically low and several factors could lead to a rise (shrinking of the Fed's balance sheet, evident drop in Treasury bond purchases from China).

US term premium since 1961



Source: Edmond de Rothschild Asset Management. Bloomberg, data at 18/06/2024. The data presented relate to past years and are not a reliable indicator of future performance.

► Positive for equities, notably thanks to the return of a deregulation policy and plans to renew the tax cuts he had initiated in 2016, including a possible squeeze on corporate taxes. However, while it is difficult to assess the pressure that would be exerted on long-term rates, if long-term yields were to rise too fast, this would have adverse effects on equity markets.

In all likelihood, the re-election of Joe Biden would have little impact for capital markets.

SECOND QUARTER INVESTMENT POLICY

One year ago, the economy raised many questions, as disinflation remained timid, and the US feared a recession. However, political difficulties were rather contained. The issues have since reversed. While the economic environment is now looking rather promising, this is being overshadowed by political problems. The only constant has been the continued deterioration of the geopolitical environment. This means there may be some volatility – triggered by the French political crisis or by Trump's possible return to the White House. The good news is that markets can sometimes over-react to political crises, and this may generate some attractive opportunities.

Longer term, while it is difficult at this stage to issue an opinion on a political and geopolitical turnaround, it will be important to assess ongoing risks and search for pockets of resilience. Clearly, there is a link between drifting public finances in countries like the United States and France and the rise of populism, with mainstream governments striving to address economic and social concerns but failing to achieve their political objective.

And yet, it seems very unlikely that the public debt trajectory could reverse if populist governments come to power. While the United States is protected by its status as the world's reserve currency, and France by its Euro membership, this protection is only partial and may only postpone - rather than overrule - a market sanction. Finally, on the geopolitical front, other than the unresolved conflicts in Ukraine and in the Middle East, concerns over Taiwan are bound to surface, as according to experts, China would have the military capacity to invade from 2025 or 2027. We shall come back to these points.

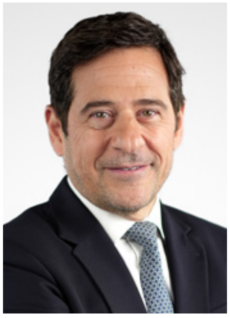
We are therefore confident on both equities and bonds. Regarding the latter, we are considering lowering our exposure to long maturities – but as late as possible, to account for the election. Indeed, if the slowdown is quick to materialise in the US, all fixed income markets would benefit.

Within equity markets, while major geographical decisions (US versus Europe) will be largely determined by the above-mentioned political issues, we have a preference for Big Data and Healthcare, and for European small caps which are trading at highly attractive valuations, considering the brighter economic environment and the monetary easing that has already been initiated.

In bond markets, we continue to prefer carry strategies and hybrid debt (corporate and financial) and plan to raise our exposure to emerging debt once the Fed's pivot signal is strong enough.

> Within equity markets, major geographical decisions (US versus Europe) will be largely determined by the outcome of the French parliamentary elections.
>
> On the bond markets, it is preferable to reduce exposure to long maturities, but as late as possible, in view of the elections.
>
> Carry strategies and hybrid debt (corporate and financial) are to be favored while waiting to increase exposure to emerging debt, once the Fed's pivot signal is sufficiently clear.

BOND MARKETS: BETWEEN RESILIENCE AND RESPONSIVENESS



ALAIN KRIEF
Head of Fixed Income

As the first half of 2024 drew to a close, all did not go exactly to plan for fixed income markets due to sovereign yields. However, the carry rate from credit risk premiums delivered as expected.

The issues that are causing investor concern have not changed, though. When will inflation reach the 2% target that is so dear to central banks? What is the timing and magnitude of the much-awaited rate cuts? What is the current and future pace of growth, as central banks normalize monetary policies that are still overly restrictive?

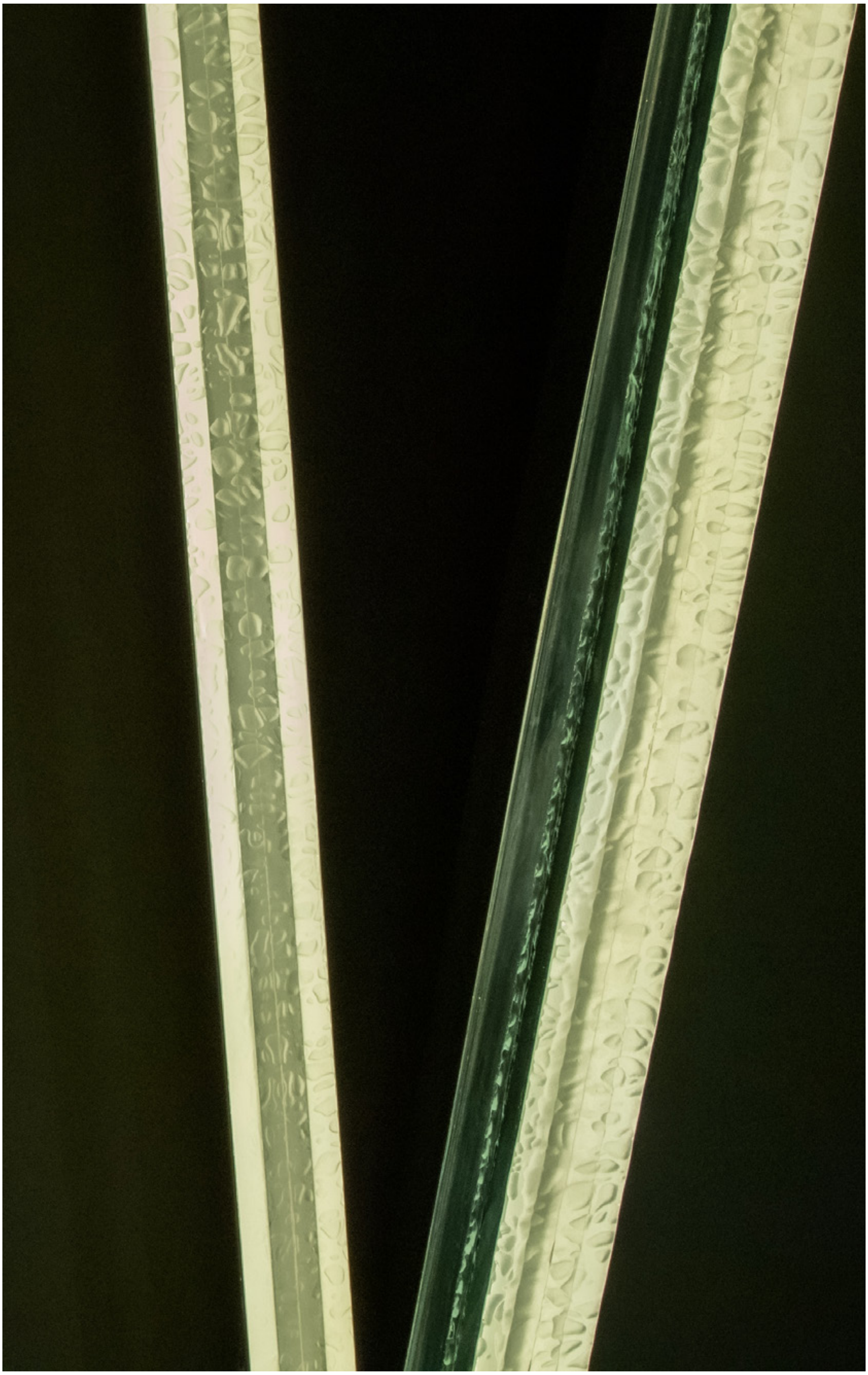
We also knew that 2024 would be a year of elections throughout the world, marked notably by the US Presidential election in November. And that was without President Macron calling snap general elections in France.

WE RECOMMEND A DUAL APPROACH: A LONG-TERM STRUCTURAL STRATEGY AND A TACTICAL SHORT-TERM STRATEGY

Geopolitical risks have always generated anxiety and volatility for financial markets, but it is rare for the latter to make an about-turn and move drastically in the opposite direction.

However, investors should also account for the fact that volatility may remain at high levels, with the possibility of sharp peaks. It is therefore **necessary to apply a double approach based on the implementation of two strategies: a long-term structural strategy, and a more tactical short-term strategy**. In France, after Parliament was dissolved, the

FIXED INCOME



political risk initially weighed on OATs and we observed a widening spread between France and Germany. This spread rose from 47 to 80 bp after the general election was announced.

Due to a spill-over effect, other "peripheral" spreads versus Germany also widened, including Italy - where the spread rose from 133 to over 150 bp. The surge in volatility which is inherent to events of this type then causes credit risk premiums to widen across the fixed income market, with disparities between different credit segments. For example, the iTraxx Xover index (synthetic credit default swap index on High-Yield corporate debt) rose to 330 bp, up 40 bp. In the banking sector, spreads on Cocos (Additional Tier 1) widened by almost 66 bp, while senior banking debt widened by 20 bp, with French banks a little more impacted initially.

French political risk is causing concern and weighing on credit markets due to worries over the public deficit if far-right or far-left parties win the elections.

Political risks (the above-mentioned risk in particular) call for the implementation of hedging strategies - preferably liquid, to ensure they can be unwound at any time. These cautious strategies tend to be temporary. Credit markets offer their own tools, including interest rate and credit default swaps (derivatives).

GEOPOLITICAL RISKS ARE NOT OBSCURING INVESTORS' MAIN CONCERNS

However, the current uncertainties and volatility fuelled by political risk in France are not entirely overshadowing the market's main concerns: inflation, growth and central bank action.

Sovereign yield curves have not normalized yet in the United States and in Europe, and the 2% target that is dear to Central Banks has not yet been achieved.

Indeed, bond investors have over-estimated the weakness of the economy and may suffer, as inflation seems reluctant to fade. In the United States, the report on non-farming payrolls (NFP) in May delivered a combination that bond investors were not prepared for – 272,000 jobs created in May and average hourly wage increases over the past 12 months, after three consecutive falls that had allowed the Fed (US Federal Reserve) to assume inflation was about to be tamed.

Interestingly, the Federal Reserve had indicated that the job market was reverting to a better balance, causing some concerns over economic growth. This explains the bond rally and rising plays on interest rate cuts. Bond investors flocked to positions likely to benefit from a faster pace of Fed rate cuts, causing 10-year yields to fall more than 30 basis points in just a few days before the publication of the job report. However, the May data put an end to these "hopes" as both the job market and the economy continued to show signs of resilience.

More recently, the Atlanta Fed updated its Q2 GDP forecasts to 3.11% following the NFP data, up from 1.8% on June 3rd.

Today, faced with rising average hourly earnings and growth data, investors' concerns have shifted back to the Fed's mandate on inflation.

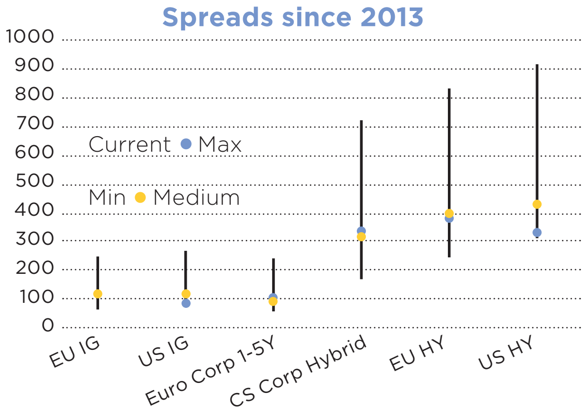
This should be seen as a warning for bond investors, as survey data indicate that companies are still able to pass on higher prices to their customers. Continued strength in the labour market may support consumer spending, meaning inflation will be difficult to tame.

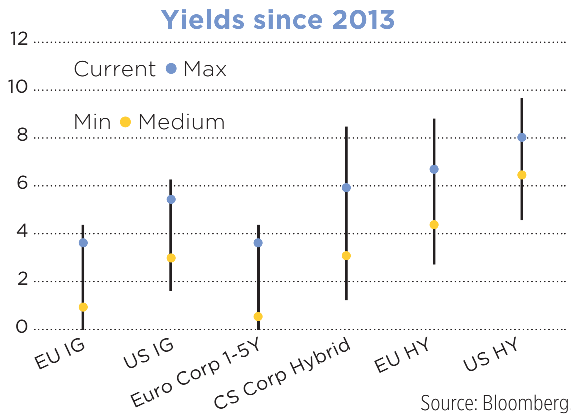
If one of the consequences of resilient inflation is to keep sovereign yields at high levels, the resilience of growth - and to a certain extent, strong job data - are positive factors for credit markets. This is why we are observing credit risk premiums plunging to historically low levels.

IS THE CREDIT MARKET TRADING AT FAIR VALUATIONS?

Before answering this question, it is important to remind our readers that the total returns (sovereign + spread) delivered by corporate bonds are still very far from their historical lows.

The current yield-spread balance is somewhat obscuring the low spreads. And we know that if we move away from this unstable equilibrium, either interest rate cuts would make up for the widening spreads, or yields maintained at elevated levels would support the current compression of spreads. We are therefore maintaining our positive views on credit, notably on **corporate hybrids (non-financial subordinated debt)**, on **quality High-Yield (BB), and on subordinated banking debt**, despite the current volatility. Without forgetting **emerging debt**, which is benefiting from the current concerns over Europe and from resilient growth in the US. The strength of the dollar and oil prices are no longer hurdles for investing in this asset class.





Source: Bloomberg.

In the first half of 2024, the carry rate from credit risk premiums delivered as expected.

French political risk is causing concern and weighing on credit markets due to worries over the public deficit if far-right or far-left parties win the elections.

Despite the current volatility, corporate hybrids (non-financial subordinated debt), quality high yield (BB), subordinated banking debt and emerging debt remain particularly attractive segments.

EUROPEAN EQUITIES

EUROPEAN EQUITIES: CAPITALISING ON DIVERGENCES

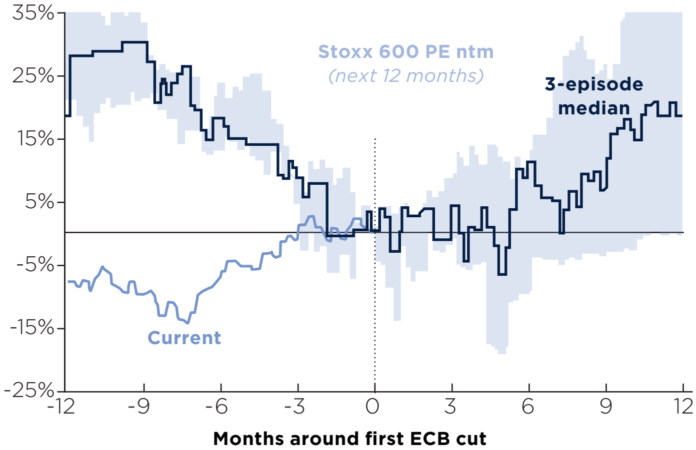
CAROLINE GAUTHIER
Co-Head of Equities

Monetary policies, economic cycles, corporate earnings momentum, shareholder returns, valuations... rarely have European and US markets moved in such different directions. The current environment is offering European equities a unique chance to stand out from their US counterparts. Investors should not overlook this opportunity!

CYCLES ARE DISCONNECTED, WITH EUROPE IN A STRONGER POSITION

This was a rare occurrence, nevertheless justified by the faster easing of inflation: the European Central Bank chose to lower its key rates before the Fed. This much-awaited monetary policy pivot has kick started a new easing cycle to support the European economy – which was already looking a little brighter. Though fragile and still rather contained, the recovery has begun in Europe, while conversely, the US economy - which had been booming until now - is starting to run out of steam and could start to slow down in the second half of the year. Notwithstanding any potential impact from the political upheavals on either side of the Atlantic and any further geopolitical risks,

Stoxx 600 valuations rise by an average of 19% in the year following the first rate cut

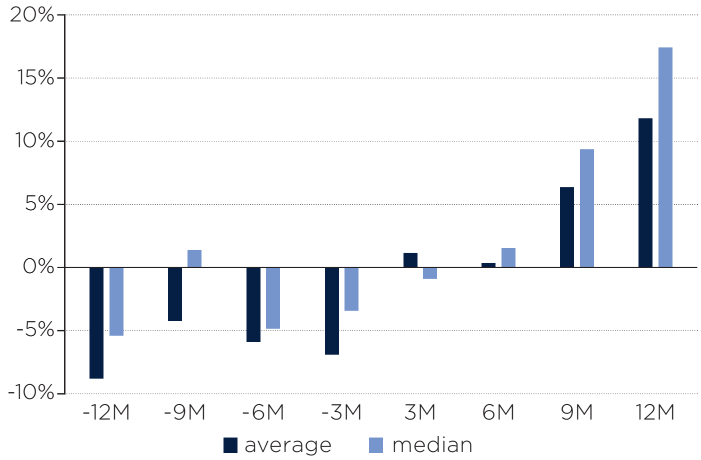


Source: Goldman Sachs, study since 1994.

Europe remains in a "Goldilocks"[1] scenario that is favourable to equity markets, both for corporate earnings and asset re-ratings.

Historically, the ECB's first rate cut triggers an expansion of Stoxx 600 multiples and the outperformance of small caps.

Relative outperformance of Small Caps vs. Large Caps after 1st rate cut



Source: Bloomberg, Datastream, Kepler Cheuvreux, study since 1992.

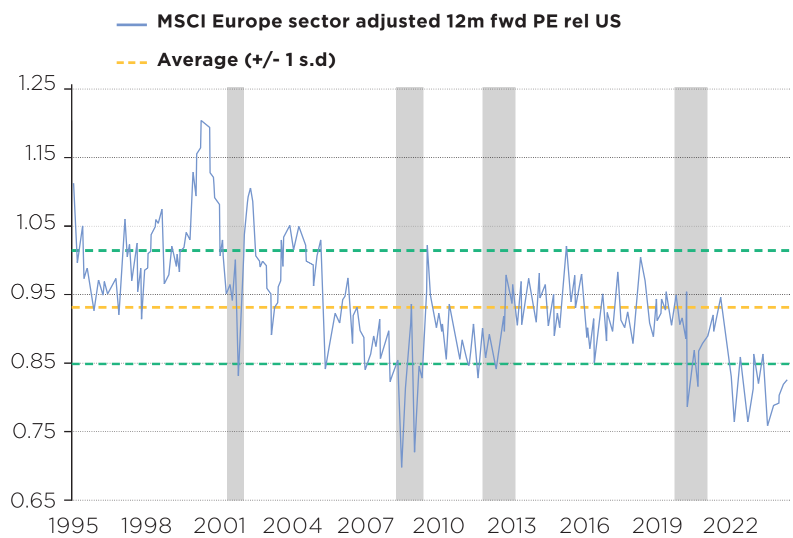
FOR THE FIRST TIME, SHAREHOLDER RETURNS ARE HIGHER IN EUROPE

Despite the multiple crises that have shaken the region over the past five years, Europe's economic landscape has undergone deep transformations and the region's companies have shown remarkable resilience. Reflecting their capacity to adapt and their frequently under-estimated growth, corporate cash flows are expected to rise to a 20-year high, 33% higher than in 2019, pre-Covid. When it is not spent on investments or acquisitions, this excess cash is returned to shareholders as either dividends or stock buybacks. Importantly, European companies are delivering record-high total shareholder returns, beating the US market. This is unprecedented! Stoxx 600 companies are now returning 5% to their shareholders (dividend yield of 3.5% and 1.5% in buybacks) compared to under 4% for S&P 500 companies (dividend yield of 1.5% and 2.2% in buybacks)[2].

With corporate earnings proving resilient, and as long as the political sphere does not interfere - knowing that the dividend payout rate remains below its historical average - this elevated shareholder return should continue to act as a substantial tailwind for performances.

In addition, European equities, readjusted to account for sector weights, continue to trade at a high discount relative to US stocks: 18% versus a historic average of 10%.

While a higher risk premium would seem justified in Europe considering the current (geo) political challenges, today's discount remains excessive and has only been observed previously in times of recession. Yet at present, the scenario is more conducive to an acceleration of the economy.



Source: UBS.

Nevertheless, we acknowledge that undervaluation alone is not enough: a catalyst is also required. In our view, this positive catalyst is the earnings momentum.

THE EARNINGS MOMENTUM IS SHOWING WIDER DISPERSION

Throughout 2023, mega-caps concentrated most of the stock market's performance, both in the US and Europe. However, since the end of the first quarter this year, this polarization has tended to abate in Europe, while the 5 largest market caps continue to dominate the US market.

This shift in the market leadership reflects two opposite trends, which are now becoming apparent on the earnings momentum. The upward revisions observed in the wake of a robust Q1 earnings season are much more widely dispersed in Europe, covering different sectors, while in the US, they virtually only apply to the 5 largest market caps. Excluding these stocks from the S&P 500 index, the 495 remaining companies have even revised their earnings downward for this year.

Europe offers a potential for diversification that stock pickers - like us - can leverage by building balanced portfolios, including reasonably priced growth stocks poised to benefit from the new rate cutting cycle, and laggards - taking care to stick to quality stocks.

Small caps, after two false starts in 2023 and in the spring of 2024, should also benefit from a more favourable rate environment and the expected economic upturn. However, European stock markets will only resume their upward trajectory if this improvement is confirmed. The uncertain political situation in France could, admittedly, tarnish this scenario - bearing in mind that France only weighs 10% of the Eurozone stock market (MSCI EMU and MSCI EMU Small caps Equal-Weighted).

To sum up, despite the political and fiscal uncertainties, Europe's economic fundamentals remain strong. Attractive valuations, support from the ECB, and generous shareholder return policies have created a favourable environment for conviction-driven investors able to diversify their portfolios.

1. "Goldilocks" scenario, where growth is «neither too cold nor too hot», accompanied by a decline in inflation and a more accommodating monetary policy.

2. Source: Goldman Sachs

Though fragile, the recovery has begun in Europe, while conversely, the US economy - which had been booming until now - is starting to run out of steam and could start to slow down.

The 1st ECB rate cut historically triggers an expansion in Stoxx 600 multiples, as well as an outperformance of small caps over the following 12 months.

Since the end of March 2024, the extreme concentration around the largest caps has tended to dissipate in Europe, allowing performance to spread to the rest of the market.

A NEW PYRAMID OF NEEDS?

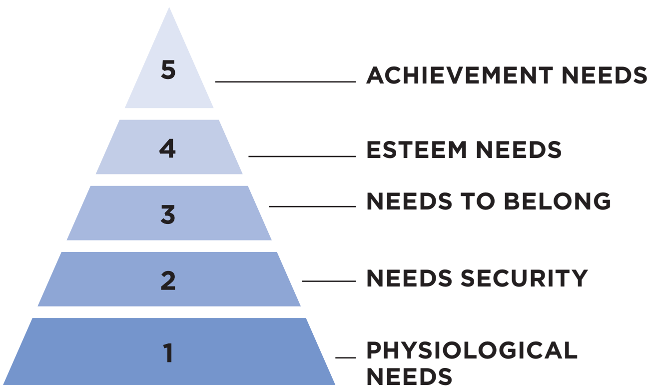
JACQUES-AURÉLIEN MARCIREAU
Co-Head of Equities

Abraham Maslow is an American psychologist widely known for his theory of "the hierarchy of needs" – starting from the most elementary physiological needs (food, water), followed by safety, belonging, self-esteem and finally, self-actualization. The Covid crisis and the disruption to global supply chains served as a reminder to investors and residents of Western Europe that we could temporarily move down several floors of the pyramid.

Although listed equity markets have been not classified according to a "hierarchy of needs", one thing is certain: equity indices have been hovering at the very top of the pyramid for many years. Luxury players, internet giants, and "disruptive" companies have attracted most attention and risen to become huge index weightings. These sectors share a common feature: they rely on happy globalization, centred around commerce and leisure. The direct upshot is a rise of private wealth and the potential for companies to enjoy better visibility.

However, forward-looking investors cannot simply rely on the winning recipe of the past thirty years as their only scenario. These past three decades saw the fall of the Berlin wall, the decline of leading ideologies, the lowering of customs barriers, accelerated globalization and advancing peace.

The era we are heading towards is looking quite different, and will alter the structure of our economies, our behaviour, and ultimately, lead to a sharp rotation among "stock market champions". Preparing our savings for a world of rising conflict, populism, and adaptation to climate change implies diversifying investments across the Maslow pyramid: this means allocating a substantial portion of assets to the essential companies that enable our societies to remain resilient. These are the companies that are invisible and overlooked when all is going well.



The defence industry, in the context of the Ukrainian conflict, offers a striking example ***[MSCI Aerospace & Defence index up +45.13% since 24/02/2022]****.

Our interest in the theme goes even further: critical infrastructure, healthcare, and importantly diagnostics ***[GS Tools and Diagnostics index up +107.34% from 17/03/2020 to 21/06/2021, dates that match the beginning and end of lockdown measures in France]****, cybersecurity, water management and energy are segments investors should clearly focus on.

In our view, taking an interest in the foundations of our society offers three main benefits: on the one hand, these are long-standing assets, with low sensitivity to the cycle, and frequently delivering steady shareholder returns. On the other, their diversification potential is valuable for investors exposed to index heavyweights, whether European or American. Finally, their presence in portfolios offers attractive upside potential for investors, considering their current valuations and long-term outlook.

Although this thematic approach remains clearly promising, we believe it can only be effective if - and only if - it relies on i) strict stock selection based on extremely thorough valuation discipline; ii) active management of the risks borne by this type of asset. These two principles are also the key tenets of our conviction-driven approach to equity management.

***Past performance is no guarantee of future performance and is not constant over time.**

2024: CORPORATE HYBRID BONDS ARE BACK IN FAVOUR



BENJAMIN CONQUET
Product Specialist
Fixed Income

ALEXANDER EVENTON
Portfolio Manager
Corporate Hybrids

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Portfolio Manager
Corporate Hybrids

After two years of negative net issuance, the momentum on the corporate hybrid bond market has recovered sharply, with almost 13 billion euros[1] issued so far in 2024. The segment size is currently over 200 billion euros[2], similar in magnitude to the better-known Banking Coco market or the BB High-Yield corporate bond segment in Europe. What are the main features and benefits of this unique asset class? To what extent is the current economic environment conducive to the hybrid bond market?

CORPORATE HYBRID BONDS: A PARTICULARLY ATTRACTIVE RISK/RETURN COMBINATION

Before we begin, a few definitions may be required. A corporate hybrid bond is a debt instrument issued by a non-financial company that combines the characteristics of bonds (payment of a coupon) and of equities (long or perpetual maturity, equity accounting treatment under IFRS, and 50% equity treatment for the S&P rating agency). Issuers of hybrid debt tend to be high-quality companies, with stable cash flows and robust credit profiles (generally Investment Grade).

Historically, corporate hybrid bonds have delivered similar returns to those of BB rated High-Yield bonds, while displaying a credit risk closer to Investment Grade and a volatility profile that is midway between the two. These bonds are therefore in a 'sweet spot', sitting between the Investment Grade segment, with its lower yield and longer duration (around 4.5 years today) and the High Yield sector, which comes with lower duration but is also more volatile and bears greater credit risk. Hybrid bonds deliver a yield of almost 6% at the moment, with a modified duration of 3 and an average BBB credit rating.

THE MACROECONOMIC ENVIRONMENT HAS BECOME FAVOURABLE FOR HYBRID BONDS

Since October 2023 and the end of the interest hiking cycle announced by central banks, the environment has turned favourable for the asset class, as reflected in the large inflows from investors keen to capture attractive yields before interest rates are lowered. Corporate issuers took advantage of the re-opening of the primary market and renewed investor appetite for hybrid bonds to issue 13 billion euros through around 20 deals. Some of these issuers, and notably Orange, even began to prefinance bonds callable in 2025 and 2026. The size of order books – largely oversubscribed - and their impact on coupons are straight-forward indicators for measuring investor appetite. Indeed, it is not unusual for bonds to be 5 to 10 times oversubscribed.

In this respect, Alstom offers a striking example: in May, the company issued a 750-million-euro perpetual bond callable in 2029. The order book rose to over 8 billion euros – plethoric demand which lowered the coupon from 6.75% to 5.875%[3].

We also believe that the European Central Bank's recent decision to initiate a key rate cutting cycle, lowering the deposit rate from 4% to 3.75%, will undoubtedly support investor appetite for risk assets, dampening the relative attractiveness of money market investments.

Finally, the core scenario - whereby inflation should continue to retreat and lead to a soft landing - is particularly encouraging for the yield outlook on hybrid bonds, with investors able to capture the carry yield and the potential improvement, or at least stability, in credit spreads.

SOME ISSUERS ARE BEHAVING DIFFERENTLY

Rocked by the storm in 2022 and 2023 and following several failures to redeem the capital at the call date, the real estate hybrid segment has enjoyed a positive momentum over the past 10 months. The use of tenders/exchanges (voluntary swaps) by real estate issuers as a way of avoiding a non-call and thereby retaining the equity percentage associated with their hybrid debt was a major positive catalyst.

Indeed, this manœuvre enabled them to support their senior credit rating and gave them more time to sell some assets and strengthen their liquidity. The real estate sub-sector has performed very well since the beginning of year and still offers opportunities in our view, particularly as several of these issuers have recently returned to the market with classic senior bonds.

Nevertheless, these changes in issuer behaviour remain marginal. Other than within the real estate segment, all issuers redeemed their bonds on the first call date. Note, however, that some issuers left the segment with their heads high (no longer needing any equity content) and simply redeemed their hybrid debt without issuing a new tranche (including Danone and Bertelsman).

AN ASSET CLASS ATTUNED TO SUSTAINABILITY CRITERIA

Furthermore, and rather counter-intuitively considering the weight of the utilities and energy sectors within the universe, hybrid corporate bonds display relatively favourable environmental, social and governance (ESG) characteristics, including a growing percentage of "green bonds" - the proceeds of which are used to finance sustainable development initiatives.

While 10% of all new hybrid issuances fell under the "green" category in 2020, the percentage soared to 40% in 2023 and to over 55% in 2024[4]. Interestingly, green bonds often bear lower coupons than their non-green counterparts. Issuers are therefore encouraged to continue using these instruments to raise new capital.

FAVOURABLE TECHNICAL FACTORS IN THE MONTHS TO COME

Finally, the issuances expected in 2024 – around 24 billion euros – are more or less aligned with the calls planned for the year. As a result, the pool should remain stable at around 200 billion, which combined with inflows, will act as a technical tailwind for the asset class.

In this environment, we are expecting yields to edge lower over the next six months as a result of normalising extension risk on one hand, and lower risk-free rates on the other. Meanwhile, the 6%[5] carry yield borne by the asset class continues to offer compelling opportunities, notably considering its Investment Grade-type credit risk.

1. Source: Bloomberg, data as of 31st May 2024.
2. Source: Bloomberg, data as of 31st May 2024.
3. Source: Bloomberg, data as of 31st May 2024.
4. Source: Bloomberg, data as of 31st May 2024.
5. Source: Bloomberg, data as of 31st May 2024.

GLOSSARY:

- **Investment Grade securities** are bonds issued by companies whose default risk ranges from very low (repayment almost certain) to moderate. They correspond to a rating scale ranging from AAA to BBB- (Standard & Poor's rating).
- **High-yield securities** are corporate bonds with a higher default risk than Investment Grade bonds, and offering a higher coupon in return.
- **Coco** (contingent convertible bonds): subordinated debt format.
- **IFRS standards** dictate how information is to be provided, including the presentation of the income statement, balance sheet, cash flow statement and explanatory notes.
- **Call date** is the date on which the issuer has the option of redeeming the bond before maturity.
- **Tender**, or **«voluntary swaps»**, refers to the fact that the potential buyer asks shareholders to offer him the shares at a specific price.
- **A non-call** refers to the fact that the issuer is prohibited from redeeming the securities before a given date.
- **Green Bonds** are non-bank bonds issued by a company or public entity to investors, with the aim of financing projects that contribute to the ecological transition. Green Bonds differ from conventional bonds in that they provide detailed reporting on the investments they finance and the green nature of the projects financed.
- **Soft landing** refers to a cyclical slowdown in economic growth that ends without a period of recession.

Corporate hybrid bonds have delivered similar returns to those of BB rated High-Yield bonds, while displaying a credit risk closer to Investment Grade.

The European Central Bank's recent decision to initiate a key rate cutting cycle will undoubtedly support investor appetite for risk assets.

Despite a slight fall in yields expected over the next six months, the hybrid corporate bond carry yield borne by the asset class continues to offer compelling opportunities, notably considering its Investment Grade-type credit risk.

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