Market analysis

At the start of this year, the growth outlook for the global economy was still fairly positive, but it has since deteriorated. In fact, it seems as if the question that financial markets are asking has changed from “Is there going to be a recession?” to “How deep is the recession going to be?”. On the other hand, growth is still expected for the year as a whole. According to Bloomberg consensus estimates, the global economy will grow by 3.2% in 2022 and 2023, although those expectations had been a bit higher at the start of this year.

The lower expectations are due in large part to the war in Ukraine, which in addition to huge geopolitical uncertainty has led to caution among businesses and consumers, particularly in the eurozone. For the eurozone, the growth outlook (according to Bloomberg consensus estimates) has dropped by 1.4% and 0.6% since the start of the year. At the moment, growth of 2.8% and 1.9% is expected for 2022 and 2023 respectively. In terms of economic strength, the US appears to be in better shape. Unemployment is still low (3.6%), wages are on the rise (6%) and consumer spending is still increasing (for the second quarter, it seems to be heading for year-on-year growth of 4%). In spite of this, the outlook for the US economy has also deteriorated.

Finally, the cooling economy in China, due to its zero-Covid policy and problems in the property market, poses a risk to the global economy. Although lockdowns (in Shanghai and Beijing, among other cities) are starting to be scaled back, it will be difficult for China to abandon its zero-Covid policy in the short term. That would lead to a sharp increase in Covid cases (because a substantial number of people in China have never had Covid, and because Sinovac, the local vaccine, offers relatively poor protection against the virus), while economic growth would continue to suffer (because as infections increase consumers would go out less, and thus spend less money, even if lockdown measures are lifted).

All things considered, it might be a good thing for growth forecasts for the next few years to fall even further as developed economies cool, policy rates rise, and inflation and uncertainty remain high.

For most bond markets, the second quarter of 2022 was a lot like the first, with sharply increasing interest rates and thus negative returns on bonds. In the eurozone, long-term interest rates rose by 75–100 basis points. This means that over the first six months of 2022, interest rates rose by around 150–200 basis points in total. The German 10-year interest rate rose to 1.8% in mid-June, and finished the quarter around 1.3%, after falling in the last weeks of June. The Dutch 10-year interest rate ended June at around 1.7%, after rising above 2% in the middle of the month, the highest level since early 2014.
Elsewhere in the eurozone, interest rates followed similar patterns to those seen in Germany and the Netherlands, with interest rates on ‘peripheral’ (particularly Italian) government bonds experiencing slightly (but not much) larger increases than those on government bonds in ‘core’ eurozone countries. Outside of the eurozone, interest rates rose less sharply, by around 50–75 basis points for American, British and Australian 10-year government bonds. Only in Japan did long-term interest rates remain virtually unchanged throughout the first half of the year.

Fund strategy and results

The second quarter was characterised by high volatility, low liquidity and a market that had difficulty judging growth and inflation forecasts. This volatility was particularly noticeable with regard to ECB members who, until well into May, were still following a path of “calm and steady reduction of extremely loose monetary policy”, but then at the peak of inflation projections shifted to an accelerated reduction, while just at that moment the markets were starting to worry about declining economic growth.

Ultimately, interest rates on German 10-year government bonds rose around 80 basis points in the second quarter, but this was still 40 points below the temporary peak in mid-June. Interest rates on long-term bonds rose slightly more, making the curves steeper. Swap rates increased faster, with medium-term maturities increasing fastest of all, which led to the flattening of the swap curve and wider swap spreads. In principle, these irrational, contradictory movements in the shape of the interest rate curves can be explained by a technical, but also psychological effect that was very dominant in the first half of 2022. After years of extremely loose monetary policy, during which many people eventually lost faith in higher policy rates, it seems that 2022 will be a year of major change. Now that policy normalisation has been priced in, many market participants have been forced to adjust their interest rate policies. Over the past six months, broker chats have been filled with flow information about the opening of payer swaps by companies that want to hedge against higher future borrowing costs, and banks/investors doing the same because more and more consumers are extending their mortgages (see below left), the number of new mortgage loans with longer terms is persistently high, and finally, because of a model-based factor at play in mortgage portfolios. As interest rates and rate expectations rise, the likelihood of early repayments decreases, and the interest-rate sensitivity of a mortgage portfolio increases. To mitigate this risk, you guessed it: payer swap positions have been opened again. The majority of these actions have occurred in relation to 10 and 15-year maturities, so it’s not surprising that the swap curve now looks like it does (see below right). The big question is when these flows will stop, or at least slow down. As soon as this happens, 1) the interest rate curve will become much steeper for long-term maturities and 2) the swap spread will tighten considerably. Without specifying an objective and measurable magnitude or date, normalisation will begin as soon as the pricing-in of higher policy rates ends. This may be brought about by a combination of lower growth and declining inflation in the direction of monetary policy objectives. That growth will be weak for the next few quarters is a certainty, that inflation will fall is also certain (by far the biggest cause of the current high inflation is supply-side issues), but the speed of the fall is unknown, as is its endpoint. Will this endpoint be below, at or above the 2% set by the ECB (and other central banks) as an objective? An important indicator for the ECB is the 5-year inflation projection. At the end of April, this was above 2.50%, but towards the end of the quarter it fell to 2.00%, driven by the growing fear of recession.

The fund performed better than the benchmark in the second quarter, although the positive result was cancelled out on paper by valuation differences between liquid and illiquid loans on the final day of the quarter. Several basis points were gained from the underweighting in interest-rate sensitivity in the face of rising interest rates. The fund also benefited from the steeper interest rate curve, because it was underweight in government bonds with the longest maturities. The contribution from country/issuer selection was neutral, while the fund was exposed to more credit risk than the benchmark, and credit spreads increased. The loss from this top-down positioning was offset by good issuer and issue selection, while a yield spread between high and low coupon bonds was exploited and good maturity positions were taken for each individual issuer. This effect was particularly noticeable in the major benchmark countries of Germany, the Netherlands, France and Belgium. Negative contributions came from positions in CEE bonds and semi-government bonds. During the quarter, the underweight position in interest-rate sensitivity was reduced, the curve positions remained intact, and the overweight position in credit risk was maintained by exchanging bonds with shorter maturities for slightly longer-term bonds, for several issuers.

In the second quarter of 2022, interest rates rose significantly and interest rate curves steepened. Credit spreads increased in anticipation of tighter monetary policy, while inflation projections fell. After expenses, the fund had a quarterly return of -10.63% compared to -10.55% for the benchmark; a negative relative performance of 8 basis points, which is a distorted result due to valuation differences.

Outlook

Expectations from financial markets regarding central bank policies have changed significantly over the past few months. Until recently, the feeling was still that “the central banks are one step behind”; now, a series of interest rate hikes are expected from both the ECB and the Fed (and from most other central banks) until the end of this year at least, which would take the base rate in the US to around 3.5% by the end of 2022 (it is currently 1.5–1.75%), and in the eurozone to around 1% (currently still -0.5%). If the financial markets had their way, further interest rate increases would also be in the pipeline for 2023.

In the wake of the base rate forecasts, capital market interest rates also increased in recent months, though that applies more to short-term than long-term rates. Financial markets are obviously assuming that the current high inflationary pressures will not continue for long, partly due to the robust intervention expected from central banks. With a 10-year swap rate of around 2.5% and a 30-year rate that is still below that, it appears there is still room for upward interest rate pressure, particularly for longer maturities, although significantly less room now than six months ago, when both 10-year and 30-year rates were still barely above 0%. For US government bonds, where both short- and long-term interest rates are now around 3–3.5%, the potential for higher rates seems to be exhausted for now.

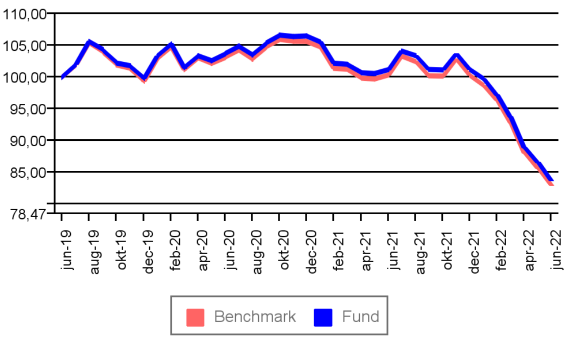
Based on the forecast that there is still a little upwards interest rate risk, at least in the eurozone, government bonds still do not appear to be a very attractive investment category, although the entry points are significantly better now than they were at the start of this year. The forthcoming interest rate hikes by central banks (and the continuing economic and geopolitical uncertainty) are actually an argument in favour of maintaining an above-average cash position.

Investment strategy

The objective of the ASR Pensioen Staatsobligatiefonds 10-15 Jaar is to offer an investment in a diversified portfolio of Investment Grade fixed-interest securities and long-dated instruments, primarily issued by governments and denominated in euros. The investment policy aims to generate a target return over a three-year period that at least equals the return on the established representative benchmark, after deduction of all costs applicable to this mandate. The fund is managed in compliance with the ESG policy drafted by the Manager.

Historical indexed return

Indexation based on returns of not more than 3 years



Return *)	Fund	Benchmark
1 month	-3,28 %	-3,11 %
3 months	-10,63 %	-10,55 %
6 months	-17,31 %	-17,25 %
1 year	-17,27 %	-17,28 %
3 year	-5,74 %	-6,00 %
5 year	-1,27 %	-1,36 %
Since start (*)	2,33 %	2,12 %
YTD	-17,31 %	-17,25 %
Sinds start	2,33 %	2,12 %

(*) period exceeding 1 year is annualised and is net based

Essential fund information

NAV calculation	Daily
Date of incorporation	30-09-2013
Performance calculation started on	02-01-2014
Fund administrator	ASR Vermogensbeheer N.V.
Fund manager	Marèn Klap
Entry charge (maximum)	0,15 %
Exit charge (maximum)	0,15 %
Ongoing Charges Ratio (OCR)(*)	0,20 %
Country of domicile	NL
Currency	EUR
Benchmark	Composite
ISIN	NL0012375182

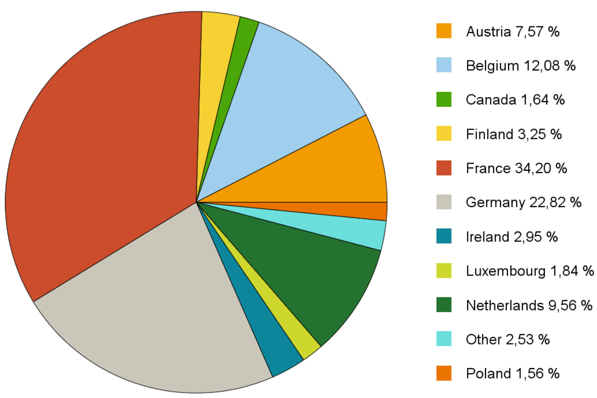
(*) The Ongoing Charges Ratio (OCR) consists of the management fee (0,10%) and the service fee (0,10%) (excluding costs which can be allocated directly to transactions) and the costs of the underlying investments.

Fund facts and prices

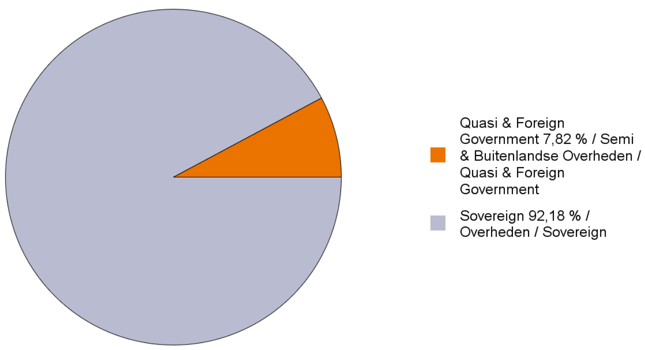
Total assets (x 1,000)	€ 420.558,20
Number of outstanding units (x1,000)	6.984,61
Net asset value per unit	60,21
Highest price in period under review	61,88
Lowest price in period under review	57,94
Dividend	None

10 largest holdings	ISIN	Country	%
FRANKRIJK 5.5% 25/04/2029	FR0000571218	France	4,76 %
FRANKRIJK 4.5% 25/04/2041	FR0010773192	France	4,30 %
FRANKRIJK 2.5% 25/05/2030	FR0011883966	France	3,57 %
DUITSLAND 0.25% 15/02/2029	DE0001102465	Germany	3,55 %
DUITSLAND 0% 15/05/2036	DE0001102549	Germany	3,24 %
BELGIE 4.25% 28/03/2041	BE0000320292	Belgium	3,18 %
FRANKRIJK 1.25% 25/05/2034	FR0013313582	France	2,84 %
DUITSLAND 0% 15/05/2035	DE0001102515	Germany	2,65 %
FRANKRIJK 5.75% 25/10/2032	FR0000187635	France	2,60 %
FRANKRIJK 0.75% 25/05/2028	FR0013286192	France	2,56 %

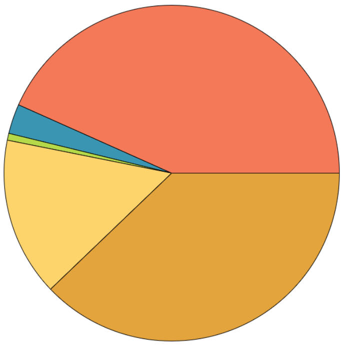
Country concentration



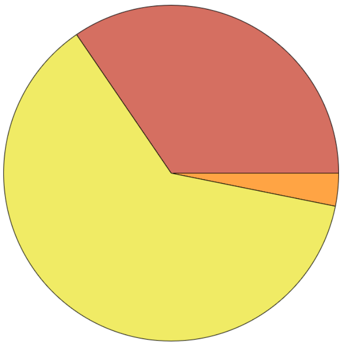
Industry concentration



Duration



Rating



Fund Governance

Als institutionele belegger toont a.s.r. haar maatschappelijke verantwoordelijkheid onder meer door toepassing van ethische en duurzaamheidscriteria in haar beleggingsbeleid. Alle beleggingen die beheerd worden door ASR Vermogensbeheer N.V. worden gescreend op basis van het a.s.r. SRI-beleid (Socially Responsible Investment), zoals sociale en milieuaspecten. Landen en ondernemingen die niet hieraan voldoen worden uitgesloten. De screening van ondernemingen is gebaseerd op externe, onafhankelijke research van Vigeo Eiris (www.vigeoeiris.com/en/vigeo-eiris-rating/) conform Arista standaarden. Daarnaast is er een externe, onafhankelijke certificering door Forum Ethibel forumethibel.org/content/home.html) via een halfjaarlijkse audit van de beleggingsportefeuille van ASR Vermogensbeheer N.V.

Bij het beheer van vermogen selecteert a.s.r. op basis van best practices en products volgens de ESG-criteria (Environmental, Social en Governance). Dit betreft alle beleggingen in landen (staatsleningen) en in ondernemingen (aandelen en bedrijfsobligaties) die het best scoren en passend zijn binnen de beleggingsrichtlijnen. Daarnaast investeert a.s.r. in bedrijven die een duurzame bijdrage leveren aan de maatschappij.

Ook hanteert a.s.r. een strikt uitsluitingsbeleid ten aanzien van controversiële activiteiten van landen en ondernemingen. Dit betreft bijvoorbeeld producenten van controversiële of offensieve wapens, nucleaire energie, de gokindustrie, tabak en kolen. Tevens eist a.s.r. dat bedrijven voldoen aan internationale conventies op het gebied van milieu, mensen- en arbeidsrechten. Voor de beleggingen in staatsleningen sluit a.s.r. landen uit die slecht scoren in de Freedom in the World Annual Report en de Corruption Perception Index. ASR is ondertekenaar van UNPRI en UNGC. Tevens voldoet a.s.r. aan de Code Duurzaam Beleggen voor verzekeraars van het Verbond van Verzekeraars, die sinds 1 januari 2012 van kracht is.

Sustainability Policy

a.s.r. is an institutional investor that show its social responsibility, for instance by applying ethical and sustainability criteria to investment selection. All assets under management by ASR Vermogensbeheer N.V. are screened using the a.s.r. SRI (Social Responsible Investment) policy, such as social and environmental aspects. Countries and corporations that do not meet these requirements are excluded. The screening of corporations is based on external independent research by Vigeo Eiris (www.vigeoeiris.com/en/vigeo-eiris-rating/) certified to the independent ARISTA standard. Furthermore, the ASR Vermogensbeheer N.V.'s asset portfolio is externally and independently certified by Forum Ethibel (forumethibel.org/content/home.html) in semi-annual audits.
a.s.r's asset management selects investments based on best practices en products according to ESG-criteria (Environmental, Social and Governance). This applies to all investments in countries (sovereign debt) and in corporations (shares and corporate bonds) that score the best in and are appropriate to the policy guidelines. Furthermore, a.s.r invest in corporations that make sustainability contributions to society.
a.s.r. also have a strict policy excluding controversial activities of countries and corporations. This applies to producers if controversial or offensive weapons, nuclear energy, the gambling industry, tobacco and coal. Furthermore, a.s.r. require that corporations comply with international agreements concerning environment, human and labor rights. For sovereign debts investments a.s.r exclude countries that score low in the Freedom in the World Annual Report and the Corruption Perception Index. a.s.r have signed the UNPRI and UNGC. Furthermore, a.s.r. comply with the Code Duurzaam Beleggen (Code for Sustainable Investing) for the insurance industry issued by the Vereniging van Verzekeraars (Union of Insurers), that came into force January 1, 2002.