Candriam Money Market Euro

Market Overview

After a month of debt-ceiling soap opera, the question surrounding the US government's default is no longer a matter of “if”, but rather how much market turmoil it will endure before President Biden and House Republicans, led by Speaker McCarthy, reach an agreement. After a temporary shift from the initial date of 26 April, President Biden and Speaker McCarthy announced that they had reached a tentative compromise. The final bill suspending the debt limit until 1 January 2025, has been approved at the 12th hour in the last days of the month. But does it mean we are out of the woods yet?

Pockets of concern are very much alive, starting with the macro scenario. With the Fed not convinced of a recession or risk to financial stability, the ECB minutes revealed a discussion that remained centred around inflation, although inflation concerns are easing and could boost consumer spending in the second half of the year. Growth prospects remain highly uncertain as reflected by Q1 GDP releases in Europe. Sector-wise, the focus is still on real estate where spreads are yet to recover.

In China, May activity growth data is likely to show more evidence of China’s struggle to keep the economy on track for recovery after the initial post-Covid reopening boost seen in Q1.

While the debt limit imbroglio has been front and centre in recent weeks, the turmoil in the banking sector remains an important factor for the economic outlook. The situation seems to have stabilised compared with the acute stress that emerged mid-March around the failures of Silicon Valley and Signature Banks. While sentiment has gone through some swings in the interim, due to the 1 May closure of First Republic, declines in bank stocks have largely been stemmed and emergency borrowing from the Fed has levelled off.

Despite the uncertain macro backdrop, appetite for EUR credit remained very upbeat, with non-financials printing as much as €58bn in May, the strongest month of the year so far and with a 75% increase YoY, this is a sharp pick-up. Indeed, within IG, YTD issuance has reached €147bn (vs €120bn in 2022) while it so far stands at €32bn for High Yield (vs €11bn last year). Although they fell behind at the start of the year, Autos caught up in May (€13bn). However, this strong appetite should not overshadow the fact that some sectors still face difficulties to come in primary (e.g. REITs with only €5bn issued YTD).

Credit spreads (ICE BofA 1-3 Year Euro Corporate Index) widened by 13 bps to a level of 147 bps. The US 5yr rate ended the month at 3.48% (-9 bps), while its German counterpart ended flat at 2.27% and the Italian 5yr rate performed to 3.55% (-10 bps). The Euribor 3 months increased to 3.75% (+26.5 bps) while the Euribor 12 months rose to 3.94% (+6 bps). Yield curves remained strongly inverted.

Portfolio Highlights & Strategy Review

The overall structure of the fund remains the same, with a neutral stance on credit and a defensive stance on rates. We continue to prefer shorter maturities, while favouring quality and liquidity.

The WAM and WAL of the fund are at 25 and 160 respectively.

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Fund Outlook

We are closely monitoring the economic impact of the war in Ukraine, changes to sanctions on Russia, inflationary pressures, financial stability, and the evolution of monetary policies of major central banks. These will likely remain key drivers for financial markets over 2023 and the uncertainty surrounding them will likely support volatility as sharp, two-way market reactions are driven by incremental news-flow. We are therefore paying close attention to downside risk and favour high-quality, liquid assets while remaining selective in our investments. We rely on our rigorous in-house, bottom-up analysis and hold a preference for companies with strong ratings and low leverage.

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