



WHERE ARE THE OPPORTUNITIES IN CORPORATE BONDS NOW?

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Bonds are back – but with changeable forecasts for inflation, and lurking geopolitical tensions, credit selection is more important than ever for fixed income investors. We spoke to five corporate bond managers from across Generali Investments ecosystem to understand where they're finding opportunities and avoiding pitfalls in today's global corporate bond markets.

2024 has proven to be far more bullish than markets were expecting. The pricing out of a hard landing has led to a risk asset rally, with strong high yield credit performance since the start of the year, together with new record highs in equity markets.

But are risk markets resilient – or complacent?

“The key question for investors is whether risk assets can continue to shine, even without the support of quick and bold rate cuts, and with lurking risks in the background”, say the Market & Macro Research Team at Generali Asset Management. “Ukraine has struggled to defend its positions, Trump has talked NATO down and threatened massive tariffs hike on China. The European elections in June may confirm the rise of the populists. In this context, investor sentiment and positioning may reflect nascent complacency.”

In this complex credit environment, detailed, robust security selection as well as an accurate assessment of risk-reward is essential, as portfolio managers from across Generali Investments explain.

European investment grade is strikingly resilient

For Fabrizio Viola, Portfolio Manager at Generali Asset Management and a specialist in investment grade European credit, the resilience of quality corporate bonds is striking despite the recent rally.

“While credit spreads have tightened, they remain above pre-Covid levels, offering an optimal habitat for quality corporate bonds”, says Viola.

“With central banks about to start an easing cycle but without drastic cuts expected, this represents a sort of insurance for investors to explore the lower rating territory with a decent amount of confidence. Yields for generic Euro investment grade bonds are still close to 4% for a duration of 4.5 years. The curve continues to be slightly inverted so one can capture even greater returns in the short-end of the curve. So, absent any major shocks or strong rebalancing, we consider high grade credits can continue to represent an optimal carry solution, with periodical sell-offs acting as buying opportunities.”

Viola favors financials, particularly insurance, banks, and selected senior real estate solutions, anticipating a deleveraging trend in the coming months. But he cautions that “recent strong performances and long investor positioning could force some new opportunistic issuance, so we remain vigilant about bond selection and apply strong screening on an individual issuer level.”

Special situations in European high yield remain good hunting ground

Meanwhile, Benoist Grasset, Portfolio Manager at Generali Asset Management who specializes in premium European high yield, favours a barbell approach to high yield and investment grade.

“I don't see much room for error in the high quality (high BBs) portion of European high yield at this stage and the performance of some of the recent new issues has shown a lack of enthusiasm at current valuations. Right now strong BBs look particularly tight on average versus both investment grades and some single Bs”, explains Grasset.

“If there is upside near term, it is in areas that have lagged and can benefit from both investors having to deploy inflows and from a potential growth improvement. Special situations and credit stories in the Bs/CCCs space remain a hunting ground for risk in names that either have catalysts or liquidity to go through a cycle.”

Benoist points out that while investors have sought higher quality high yield in recent months, investment grade flows have gone in the other direction, with more investors going down in quality.

“Historically growth has driven rating trade decisions but today one can take advantage of these market dislocations to build a portfolio that is not too heavily dependent on growth and with attractive carry. I therefore favour a barbell approach that allocates to high quality IG with lower quality HY. Of course, credit selection is highly critical with this approach.”

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Long-short credit dispersion opportunities abound

Another approach to capture market dislocations comes from **Simon Thorp**, CIO of Corporate Credit at Aperture Investors, who manages a global long-short credit strategy. For Thorp, increased volatility and market inefficiencies can provide ripe hunting ground for long-short credit opportunities. He highlights the attractiveness of yields across various sectors, especially in leveraged finance.

“Looking ahead over the next 1-2 years, the most likely scenario appears to be a further reduction in interest rates, potentially reaching as low as 3.5% in the US. We believe this trend favours credit investments as they typically perform well in environments with declining rates”, explains Thorp.

“However, the high degree of macro uncertainty is making it challenging for markets to efficiently price credit, presenting an enticing opportunity for active bond managers. At a micro level, we perceive that opportunities are abundant, particularly in areas such as the upcoming maturity wall which should create long-short dispersion opportunities, duration curves, and spreads, which are currently very tight.

In terms of appealing sectors and geographies, private filers can offer opportunities that require networking and patience, often presenting smaller deals that can provide differentiation in portfolios,” says Thorp.

“Meanwhile, US debt remains attractive thanks to robust yields, while in Europe, diversification opportunities arise from different currencies and unique instruments like AT1s issued by European banks”.

Combining duration and spread exposure

Turning to an unconstrained manager’s view, **Mauro Ratto**, Co-Founder and Co-Chief Investment Officer at Plenifer Investments, champions total flexibility as a strategy for a time when performance drivers can be tricky to identify.

“Investors in benchmark products tend to focus heavily on yield to maturity. However, the relevance of the spread versus the yield to maturity is minimal, especially in tight spread environments. The seemingly attractive total returns may obscure the fact that one is essentially buying duration more than spreads,” explains Ratto.

“In this context, uncertainty about the future actions of central banks adds another layer of complexity. Unconstrained strategies can therefore allow for an advantageous combination of duration and spread exposure.

Our strategy involves moving down the capital structure rather than along the credit curve. For instance, we favor junior debt of strong, high-quality companies, such as hybrid bonds, which offer relatively short-term calls and attractive returns compared to investment grade bonds.

We also find opportunities in banks, particularly in environments of higher rates or inflation. Additionally, we like certain parts of emerging markets, particularly Latin America, focusing on quality names in the crossover space.

A multi-strategy approach allows us to capitalize on opportunities that may not be readily apparent in benchmark products,” concludes Ratto. “We also explore special situations and investments in convertibles, leveraging our team’s experience and expertise to navigate diverse market conditions effectively.”

Strong yields offered in responsible credit

Finally, another important lens comes from **Stanislas de Baillencourt**, Head of Fixed Income and Asset Allocation at Sycomore Asset Management, who is in charge of responsible SRI credit. With inflation pressures decreasing and credit spreads at reasonable levels, Baillencourt is positive on attractive yields found in sustainable credit.

“With inflation pressures decreasing, rate normalization expected, and credit spreads at reasonable levels, there is good visibility for corporate credit as a whole, which is benefiting socially responsible credit as well. Indeed, SRI issuers enjoyed better than expected results in 2023, reflected in a record number of ratings upgrades, fueling spread compression and strong performance for these bonds,” explains Baillencourt.

“Primary markets are also reopening with attractive pricing and a growing number of Sustainability Linked Bonds (SLB), show commitment of issuers to improve their ESG profiles. From that point of view, 2024 is set to be a dynamic year with a lot of opportunities for SRI credit.

We favour mid-dated bonds – between two years and five years maturity – and prefer quality intermediate credit, such as BBB and crossover BB ratings, which offer interesting value,” says Baillencourt. “Together with strong requirements in terms of sustainable investment and the various SRI labels – Towards Sustainability (Belgium), Umweltzeichen (Austria), France’s SRI label, FNG (Germany) – this combination enables delivery on extra-financial targets.”



FUNDS IN FOCUS

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-  APERTURE INVESTORS SICAV CREDIT OPPORTUNITIES
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-  PLENISFER INVESTMENTS SICAV DESTINATION VALUE TOTAL RETURN [\(Find out more\)](#)
-  SYCOMORE SELECTION CREDIT
[\(Find out more\)](#)

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