



Opportunities in short duration government and investment grade bonds

November, 2022



Rising breakeven spreads present an attractive opportunity

Corporate Bond 1-3 Year

— BreakEven Spread IG 1-3 Euro Corporate (Spread / Duration)
— Yield to Worst (L1)



Source: Bloomberg as at 4 November 2022, Bloomberg Euro Aggregate Corporate 1-3Year Total Return Index

Mauro Valle, Head of Fixed Income at Generali Investments Partners*, explains why fixed income investors may have a chance to lock-in yields.

Long-term bond investors may want to consider capturing positive yields in short duration government bonds and investment grade credit. This is partly due to the uncertainty of the current environment. While the market is pricing further rate hikes from the ECB this quarter, financial markets are still unsure about where the final level of yields will settle, particularly on the short end of the curve. This uncertainty is due to two big question marks around inflation and growth, the central factors that drive bond pricing:

- Will inflation continue to decline or pick up again?
- Will we have a global recession and how bad will it be?

In my view, inflation should start to decline at the beginning of 2023, although the speed of the decline is uncertain.

This will depend on next quarter's growth: the economy will certainly be weaker but the magnitude of the slowdown is not yet clear. This trend could also impact the next consumer price reports, especially core CPI.

If clearly weaker growth combined with declining inflation forces the ECB to end its hiking cycle, investing in the short end of the yield curve therefore presents an opportunity for long-term investors to lock in attractive yields.

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In the (central) case of a peak in inflation over the next few months and a subsequent decline, the ECB will probably have to continue to hike but in the first few months of next year they will have to pause.

So while current yields may not reflect peak inflation, the level of compensation offered for the risks are now starting to be positive, and we are entering market valuations in which we consider short duration credit cheap from both a historical and relative perspective. We therefore believe that investments in the short end of the yield curve are not to be dismissed.

KEY TAKEAWAYS:

- We are likely in the final phase of the ECB's hiking cycle.
- If weaker growth combined with declining inflation forces the ECB to end its hiking cycle, the short end of the yield curve should benefit.
- Short-medium duration government and IG bond yields are pricing in recession risk more highly than equity and high yield, while offering greater resilience to default risk.





We are in the final phase of the hiking cycle and the impact of higher rates are now amortized by the carry of investing in the short-medium maturities of government and corporate bonds.

In terms of short duration government bond opportunities, considering Bund spread levels, we favour debt issued by peripheral European countries. Italian bonds are consolidating after recent political events and the focus of the next few months will be more about growth than political risk.

In addition, investment grade credit with medium maturities provide an attractive risk-reward, given they are pricing in recession risk much more highly than

equity and high yield, while offering greater resilience to default risk. In terms of short duration corporate bonds, we favour financials and hybrid subordinated bonds offering high single digit yields, from resilient investment grade issuers with strong balance sheets and easy access to financing from financial markets.

“ **In contrast to the conditions of the last 20 years, the risk-reward payoff in investment grade now presents a potential total return opportunity.** ”



Mauro Valle, CFA
Head of Fixed Income
and Fund Manager

- Fund manager of the GIS Euro Bond range
- Over 25 years of experience
- «AAA» rated by Citywire**

Our funds: Optimized yields vs interest rate risk and higher exposure to investment grade credit

Potential attractive returns without taking on additional high yield credit risk.

Generali Investments SICAV	Modified Duration (Years)	Yield to Maturity (%)	Average Coupon (%)	Excess Spread vs Benchmark (bps)	Average Credit Rating
GIS Euro Bond	7.82	3.52	1.65	60.87	BBB+
<i>Benchmark</i>	7.04	2.99	/	/	A+
GIS Euro Bond 1-3 Years	3.76	3.31	1.39	110.00	BBB-
<i>Benchmark</i>	1.72	2.42	/	/	A+
GIS SRI Euro Corporate Short Term	1.97	5.59	2.63	114.61	BBB
<i>Benchmark</i>	2.01	4.00	/	/	BBB+

Source: Generali Investments Partners SpA Società di gestione del risparmio, data as of 08.11.2022

With reference to the information on the single strategy management company, investment manager, costs and risks, please see next page.

With reference to the strategy 10 years track record, please download the factsheet by clicking to the relevant link on the next page.




**The investment team is subject to change. Source of award Citywire. A rating is drawn for illustration purposes only and is subject to change. For more information about the rating (methodology, universe taken) please refer to the following link: <https://citywire.com/americas/manager/mauro-valle/d5145>

MARKETING COMMUNICATION FOR PROFESSIONAL INVESTORS IN ITALY, FRANCE, GERMANY, AUSTRIA, SPAIN AND PORTUGAL

Full company name is Generali Investments Partners S.p.A. Società di Gestione del risparmio

Past performance does not predict future returns. Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results. There can be no assurance that the investment objective will be achieved or that there will a return on capital. Investment return and principal value may fluctuate, so the investor may have a gain or loss when shares or units of the sub-fund (as applicable) are sold.



Generali Investments SICAV (GIS)	GIS Euro Bond	GIS Euro Bond 1-3 Years	GIS SRI Euro Corporate Short Term
Fund Manager	Mauro Valle	Mauro Valle	Fabrizio Viola
ISIN (Eur B Acc.)	LU0145476148	LU0396183112	LU0438548280
AUM	€ 1,105.44 mil as of 31 Oct 2022	€ 846.18 mil as of 31 Oct 2022	€ 154.18 mil as of 31 Oct 2022
Inception date	2 April 2002	4 November 2008	15 July 2009
Benchmark	JPM EMU GOVERNMENT	JPM EMU GOVERNMENT 1-3Y (TR)	BLOOMBERG EURO AGG 1-3Y CORP. (TR)
Funds Currency	Euro	Euro	Euro
Domicile	Luxembourg	Luxembourg	Luxembourg
Entry / Exit Charge	5% / 1%	5% / 1%	5% / 1%
Ongoing Charge	0.56%	0.31%	0.53%
Management fees	0.40%	0.15%	0.35%
Performance fees	Not applied	Not applied	Not applied
Management Company	Generali Investments Luxembourg S.A.	Generali Investments Luxembourg S.A.	Generali Investments Luxembourg S.A.
Investment Manager	Generali Investments Partners S.p.A. Società di gestione del risparmio	Generali Investments Partners S.p.A. Società di gestione del risparmio	Generali Investments Partners S.p.A. Società di gestione del risparmio
Risk level SSRI	3/7 [Other significant risks not taken into consideration in this indicator include the following: Credit risk, Liquidity risk, Counterparty risk, Operational risk and depositary risk, Specific Securities-related risk, Sustainable finance risk.]	2/7 [Other significant risks not taken into consideration in this indicator include the following: Credit risk, Liquidity risk, Counterparty risk, Operational risk and depositary risk, Specific Securities-related risk, Sustainable finance risk.]	2/7 [Other significant risks not taken into consideration in this indicator include the following: Credit risk, Liquidity risk, Counterparty risk, Operational risk and depositary risk, Specific Securities-related risk, Sustainable finance risk.]
SFDR	Article 8	Article 8	Article 8
Factsheet	Download 	Download 	Download 

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