1
00:00:04,920 --> 00:00:08,400
The second quarter of 2026 was dominated
by the interaction

2
00:00:08,400 --> 00:00:12,640
between the Middle East energy shock
and central banks’ response to inflation,

3
00:00:12,640 --> 00:00:16,280
which has once again
become a concern across many sectors.

4
00:00:16,280 --> 00:00:20,120
Markets gradually abandoned
the expected scenario of interest rate cuts,

5
00:00:20,120 --> 00:00:23,520
particularly as the European Central Bank

6
00:00:23,520 --> 00:00:26,520
and the Federal Reserve
sought to demonstrate their proactive

7
00:00:26,520 --> 00:00:30,080
stance in addressing these risks
to price stability.

8
00:00:30,080 --> 00:00:34,320
In early June, the release of stronger
than expected US employment figures,

9
00:00:34,320 --> 00:00:39,560
combined with a renewed surge in oil
prices, led to a rise in bond yields.

10
00:00:39,560 --> 00:00:44,880
The quarter's most significant event
occurred on 11 June, when the ECB raised

11
00:00:44,880 --> 00:00:48,080
its key policy rates by 25 basis points,

12
00:00:48,080 --> 00:00:50,680
marking its first increase in a year.

13
00:00:50,680 --> 00:00:55,520
The ECB thereby reaffirmed its commitment
to maintaining price stability

14
00:00:55,520 --> 00:00:58,680
without signalling an aggressive
tightening cycle,

15
00:00:58,680 --> 00:01:02,880
contrary to what its earlier communication
at the beginning of the conflict

16
00:01:02,880 --> 00:01:04,680
had suggested.

17
00:01:04,680 --> 00:01:08,680
In our view, this approach appears more appropriate
to the current environment.

18
00:01:08,680 --> 00:01:11,400
Towards the end of the period,
the first Fed meeting, chaired

19
00:01:11,400 --> 00:01:15,160
by Kevin Warsh,
attracted significant market attention.

20
00:01:15,160 --> 00:01:20,000
While rates were left unchanged,
the tone was more hawkish than expected,

21
00:01:20,000 --> 00:01:25,120
and communication with markets is likely
to become considerably less transparent.

22
00:01:25,120 --> 00:01:27,840
Fed policymakers

highlighted the resilience

23
00:01:27,840 --> 00:01:30,840
of the US economy
and the persistence of inflation,

24
00:01:30,840 --> 00:01:35,760
prompting investors to price
in at least one rate hike before year-end.

25
00:01:35,760 --> 00:01:39,560
Credit markets remained resilient,
supported by corporate earnings

26
00:01:39,560 --> 00:01:41,680
that confirmed solid fundamentals

27
00:01:41,680 --> 00:01:45,000
even though debt valuations
are already expensive.

28
00:01:45,000 --> 00:01:48,440
In a nutshell, the quarter was marked
by significant tensions,

29
00:01:48,440 --> 00:01:52,680
with major central banks
remaining firmly focussed on inflation.

30
00:01:52,680 --> 00:01:55,800
Hopes
for rapid interest rate cuts have faded

31
00:01:55,800 --> 00:01:58,560
and the fixed income environment continues
to be characterised

32
00:01:58,560 --> 00:02:03,640
by restrictive monetary policies,
despite an improvement in geopolitics.

33

00:02:03,640 --> 00:02:07,280
In this context, fixed income
volatility has recently reduced,

34
00:02:07,280 --> 00:02:10,280
but it remains elevated
compared to the long-term average,

35
00:02:10,280 --> 00:02:14,240
and it has been above equity volatility
since the beginning of the conflict.

36
00:02:14,240 --> 00:02:16,160
We see this as a potential opportunity

37
00:02:16,160 --> 00:02:20,280
to capture distortions and also benefit
from the rise in term premium,

38
00:02:20,280 --> 00:02:23,200
thanks to the rise in rates
since the start of the year.

39
00:02:23,200 --> 00:02:26,920
Therefore, in our strategies
where we invest in sovereigns only,

40
00:02:26,920 --> 00:02:30,680
we keep a modest long duration
stance versus our benchmarks,

41
00:02:30,680 --> 00:02:34,400
after having taken profits in June
when yields came down rapidly.

42
00:02:34,400 --> 00:02:38,560
We tend to overweight euro sovereigns
versus US Treasuries as we believe

43
00:02:38,560 --> 00:02:42,280
there is more upside potential
given the growth dynamic differential.

44
00:02:42,280 --> 00:02:46,520
Inflation protection remains at the forefront
of investors' concerns.

45
00:02:46,520 --> 00:02:51,200
We feel that inflation will continue
to outperform given the increase in carry,

46
00:02:51,200 --> 00:02:54,240
which will likely persist
in the second half of this year.

47
00:02:54,240 --> 00:02:58,680
Also, real yields are still very positive,
around 2.5%

48
00:02:58,680 --> 00:03:03,840
in the US and 1.5% in Europe,
making these strategies very attractive.

49
00:03:03,840 --> 00:03:08,280
On credit, we have been building on our overweight
in corporate hybrids, which we think

50
00:03:08,280 --> 00:03:12,440
is currently the sweet spot in investment
grade and crossover credit.

51
00:03:12,440 --> 00:03:16,400
Corporate hybrids have underperformed
subordinated bank debt year-

52
00:03:16,400 --> 00:03:20,160
to-date as a result of a very heavy
new issue pipeline.

53
00:03:20,160 --> 00:03:23,080
Within euro high yield,
we are overweight on telecoms,

54

00:03:23,080 --> 00:03:26,880
real estate and health care
versus automobile and technology.

55
00:03:26,880 --> 00:03:30,240
On emerging market debt, we have revised
our view on local currency

56
00:03:30,240 --> 00:03:33,960
from very positive to neutral
after its strong performance.

57
00:03:33,960 --> 00:03:39,560
And we favour countries like Turkey and Egypt
where carry is significant.

58
00:03:39,560 --> 00:03:43,440
We also revised our view on hard
currency from neutral to a small positive,

59
00:03:43,440 --> 00:03:44,440
where we continue

60
00:03:44,440 --> 00:03:49,040
to prefer high yield over investment
grade and sovereigns versus corporates.

61
00:03:49,040 --> 00:03:51,840
And in terms of regions,
Latin America, emerging Europe

62
00:03:51,840 --> 00:03:55,320
and Africa versus Asia and the Middle East.

63
00:03:55,320 --> 00:03:58,280
This background of higher-for-longer rates
in developed

64
00:03:58,280 --> 00:04:02,720
markets is very supportive for money
markets and short duration strategies.

65
00:04:02,720 --> 00:04:05,960
They benefit from overall high
levels of yields and in addition

67
00:04:06,920 --> 00:04:10,640
the spreads are not usually lower
than for longer maturities.

68
00:04:10,640 --> 00:04:15,600
We are also able to add value by being
selective in this volatile environment.

69
00:04:15,600 --> 00:04:18,840
This is true for all short
duration strategies on credit

70
00:04:18,840 --> 00:04:20,720
and aggregate, for example.

71
00:04:20,720 --> 00:04:25,480
Being fully transparent, this market volatility naturally
generates volatility in performance

72
00:04:25,480 --> 00:04:29,800
for absolute return strategies
which compare against risk free rates,

73
00:04:29,800 --> 00:04:33,400
but we believe they could
potentially deliver in the long run.

74
00:04:33,400 --> 00:04:36,920
Finally, when it comes to longer
maturities, we have a different way

75
00:04:36,920 --> 00:04:41,400
of building those portfolios
which are income oriented.

76
00:04:41,400 --> 00:04:45,000

These are by definition rather
long in duration and credits,

77
00:04:45,000 --> 00:04:48,680
and they have performed extremely
well in this context.

78
00:04:48,680 --> 00:04:52,680
Overall, the second quarter has been full
of surprises and different reactions

79
00:04:52,680 --> 00:04:56,680
from central banks, and we see fixed
income potentially benefitting

80
00:04:56,680 --> 00:05:01,000
once again from a more supportive context
over the coming months.

81
00:05:01,000 --> 00:05:03,280
Thank you for watching
this video and see you soon.