



For professional clients only. Capital at risk.

Active Fixed Income at a Glance

The latest monthly views from the Active Fixed Income team

February 2024

In summary



The LGIM credit scorecard



Key market moves



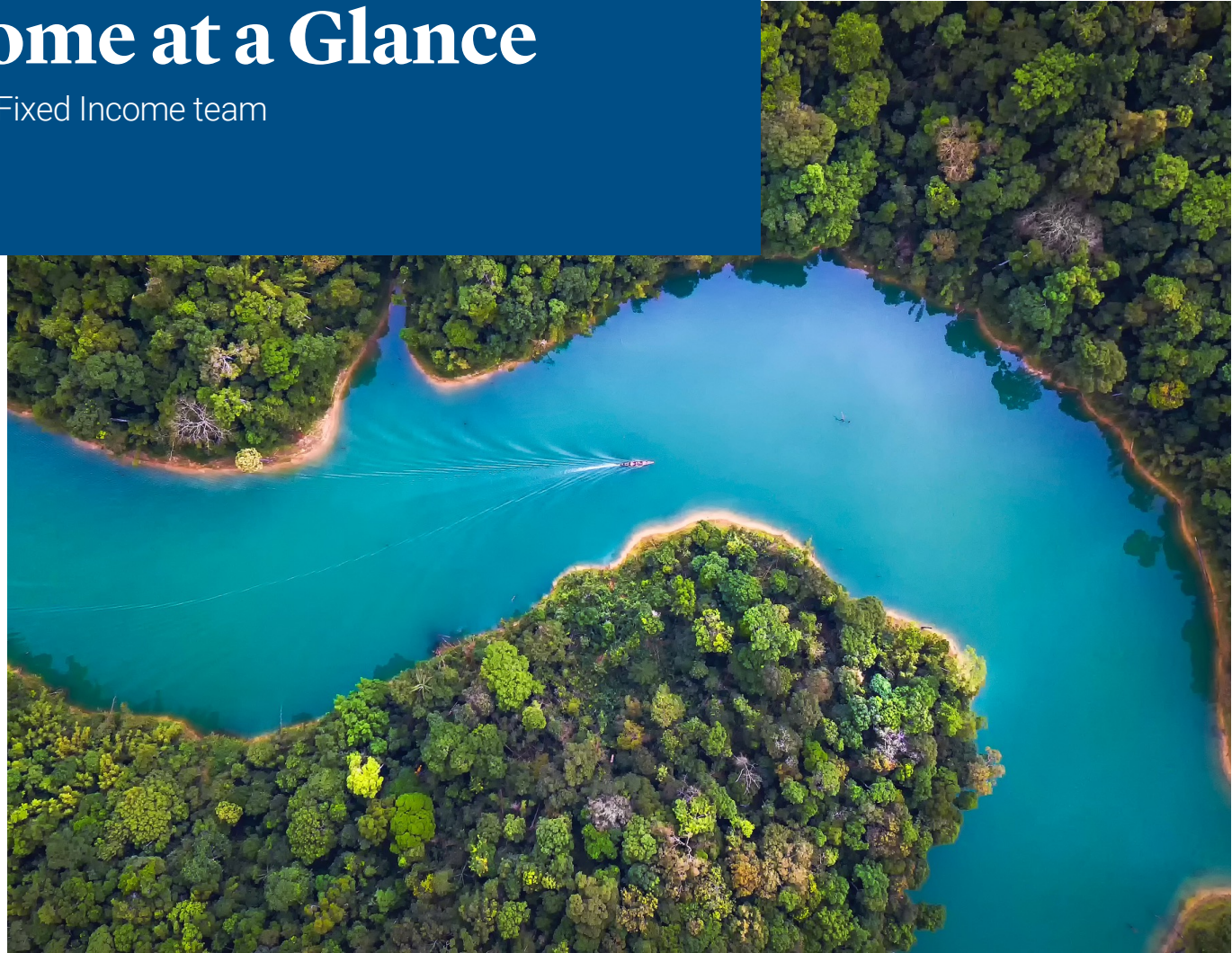
Valuations: Spread percentile analysis



Insights from the Active Fixed Income team



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The value of an investment and any income taken from it is not guaranteed and can go down as well as up. You may not get back the amount you originally invested. Assumptions, opinions and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.





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Outlook

Economic momentum has been more resilient than expected, fuelled by robust consumption and ongoing tailwinds from US fiscal policy. **Spreads have continued to tighten** and leave little compensation for recession risks, but our Active Fixed Income teams have acknowledged the **strength of demand for credit**, which has been evidenced by the smooth absorption of a heavy new issuance volume across most markets and we maintained **neutral to overweight positions in January**.

Changes in scores

Our scores express the team's expectations for excess (credit) returns over a one- to three-month horizon. The scores range from -3 to +3.



Upgraded:

- Global credit (from 0 to +1)



Downgraded:



Unchanged:

- US credit (0)
- UK credit (+1)
- EUR credit (-1)
- Emerging market debt (EMD) (+1)
- Global high yield (GHY) (+2)

Source: LGIM as at 31 January 2024 - can be subject to change at any point.
Definitions of scores can be found in the appendix.

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▲ Upgraded ▼ Downgraded ■ Unchanged

Strategy	Score	Last Month	This month	Investment view	Strategy positioning
Global credit	-3 -2 -1 N +1 +2 +3		▲	<ul style="list-style-type: none"> Expect the 'peak policy rates' narrative to continue to support inflows into global credit markets Increased credit risk appetite score to +1 	<ul style="list-style-type: none"> US credit spreads are in tight percentiles relative to history, so increased our US credit underweight/EUR credit overweight Maintain long duration and preference for high-quality credit exposure
US credit	-3 -2 -1 N +1 +2 +3		■	<ul style="list-style-type: none"> Economic momentum more resilient than expected, but lower income households and smaller firms feeling the pain of 'higher for longer' Positive technical backdrop to remain a dominant driver in the short term 	<ul style="list-style-type: none"> We believe valuations are relatively unattractive Remain neutral as we see elevated risk of continued strong inflows into the asset class in advance of a Fed pivot and a record \$6tn in cash in money market funds
UK credit	-3 -2 -1 N +1 +2 +3		■	<ul style="list-style-type: none"> Bank of England signalling rates to remain on hold for now, with risks to inflation balanced, and improved US growth prospects Large new issuance volume but good absorption points to strong demand 	<ul style="list-style-type: none"> Constructive on credit, but selective in new issuance participation Rotating out of rich non-financials into attractively priced financials Duration position cut to flat from overweight
EU credit	-3 -2 -1 N +1 +2 +3		■	<ul style="list-style-type: none"> Balancing soft-landing consensus with inflation still well above target Questioning constructive demand and flows picture with lower rates and lack of buying from ECB 	<ul style="list-style-type: none"> Rotating out of issuers which have benefited from spread compression Duration marginally short, given sizeable rate cuts priced in
EMD	-3 -2 -1 N +1 +2 +3		■	<ul style="list-style-type: none"> Limited concerns about systemic defaults or rating downgrades High probability of US rates being lower this year, alongside negative net issuance, should lead to positive total returns 	<ul style="list-style-type: none"> Reducing duration – however, still maintaining overweight versus benchmark Rotating out of investment grade into high yield Continue to have short-dated carry trades
GHY	-3 -2 -1 N +1 +2 +3		■	<ul style="list-style-type: none"> Expectation of defaults remains low, supported by strong corporate fundamentals Spreads have tightened but, we believe, prices are still low and yields attractive 	<ul style="list-style-type: none"> Maintaining our overweight to single B rated credits and reducing our off-benchmark allocation to investment grade Reducing EMD underweight

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Market commentary: January 2024

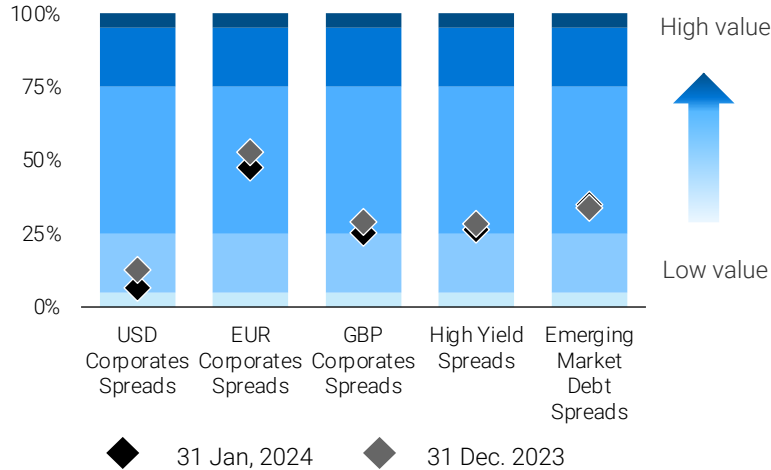
Fixed-income market total returns were flat to negative in January, with strong economic data dampening hopes for imminent rate cuts from the US Federal Reserve (Fed). The strengthening of the soft-landing narrative was supportive of investment-grade corporate spreads, which tightened throughout the month, offsetting losses caused by the sell-off in government bond yields. This was despite a heavy seasonal issuance at the start of the year and the spotlight falling on US commercial real estate and regional bank asset quality at the end of the month.

By contrast, high-yield credit spreads underperformed, but this followed a strong end to 2023, and total returns were flat thanks to a lower exposure to duration compared to investment-grade indices. Concerns around Chinese growth and a strong US dollar were headwinds for emerging market debt, with strong issuance putting pressure on investment-grade issuers.

Key market moves

	January 2024 (%)						YTD 2024 (%)		
	Duration (yrs)	Spread (bps)	Yield (%)	Spread change	Total return	Credit return	Spread change	Total return	Credit return
Investment Grade									
U.S. Corporates	7.2	96	5.1	-2.7	-0.2	0.4	-2.7	-0.2	0.4
Euro-Aggregate Corporates	4.5	131	3.6	-5.1	0.1	0.5	-5.1	0.1	0.5
Sterling Corporates	6.4	132	5.4	-5.0	-1.1	0.3	-5.0	-1.1	0.3
Global Aggregate Corporates	6.2	111	4.7	-3.8	0.0	0.4	-3.8	0.0	0.4
EM USD Aggregate	6.3	301	7.1	1.4	-0.6	-0.2	1.4	-0.6	-0.2
Global High Yield	4.1	432	8.3	2.2	0.1	0.1	2.2	0.1	0.1

Valuations: Spread percentile analysis



Source for key market moves: Bloomberg Barclays index returns are USD hedged for global indices and in local currency for the others as at 31 January 2024. Source for spread percentile analysis: Bloomberg. Historical ranges based on spread data since 31 December 2006. For the definition of credit returns and total returns, please refer to the appendix.

Past performance is not a guide to the future. Capital at risk. The value of an investment and any income taken from it is not guaranteed and can go down as well as up; you may not get back the amount you originally invested.



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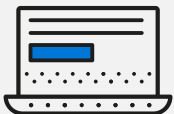
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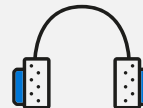
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Insights from the Active Fixed Income team



Thought leadership

Colin Reddie, Head of Active Strategies, and team discuss inflation, diversification, securitised products and more in the [Q1 2024 Active Insights](#) report.



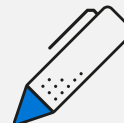
Listen on LGIM Talks

Hear our Active Fixed Income [outlook](#) for 2024, with Colin Reddie, Head of Active Strategies.



LGIM blog

Our Global Economist, James Carrick, looks at the likely path of UK interest rates [here](#)



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Appendix – scoring methodology and definitions



At our monthly investment strategy meeting, each credit team provides a risk assessment for their respective credit markets, arriving at a score within a range of **-3 to +3**.

The meeting typically involves discussion around the following topics:

- **Macroeconomic factors** – where we are in the economic cycle, rising/falling inflation
- **Monetary policy** – are central banks loosening or tightening financial conditions?
- **Technicals** – supply/demand dynamics for credit
- **Corporate fundamentals** – assessment of overall health of corporate balance sheets

Teams score independently of each other, although through debate and discussion forums they may influence the way they think about certain topics relative to their own markets.

Scores are expressed as a view of an individual market rather than a view relative to other markets.

Definitions

Total returns: returns inclusive of capital appreciation or depreciation and accrued interest (credit returns + returns from changes in government bond yields)

Credit returns: capital appreciation, or depreciation, driven by the change in the bond's credit spread and returns from accrued interest.

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Contact us

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Key risks

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