



Sentiment & Market Analysis

UK STERLING CORPORATE BOND (GBP)

MARKET OVERVIEW

UK Market Analysis

The UK fixed income market is currently navigating a complex landscape, shaped by a cautious monetary policy stance from the Bank of England (BoE), inflationary pressures, and geopolitical uncertainties. The BoE's cautious approach to easing monetary policy is evident in its series of gradual rate cuts, with the base rate expected to reach 3.5% by the end of 2025. This contrasts with the more aggressive easing measures adopted by the Federal Reserve and the European Central Bank. The BoE's cautious stance is driven by a projected rise in inflation to 3% in early 2025, fueled by higher energy prices and a persistent high level of services inflation. This inflationary pressure is causing real yields to remain low, which could potentially discourage investment in fixed income instruments. In the government bond market, the yield trends are influenced by the BoE's monetary policy and inflation expectations. The yield curve, while currently upward sloping, could potentially flatten if the BoE continues to cut rates. This could impact the returns on longer-dated bonds. Furthermore, the UK government's borrowing and issuance activity could increase due to the growing host of spending priorities competing for limited fiscal space, as highlighted in the Autumn Budget.

European Union Market Analysis

The fixed income market landscape is currently shaped by a complex interplay of factors, with monetary policy, inflation expectations, and credit market dynamics taking center stage. Starting with rates and policy, the current monetary policy stance across major central banks remains accommodative, with interest rates held at historically low levels in an effort to stimulate economic growth. Market-based inflation expectations suggest that investors anticipate a gradual rise in inflation over the medium term. This is reflected in the shape and movement of the yield curve, which has steepened in recent months, indicating higher long-term rates relative to short-term rates. However, real yields, which take into account inflation, remain negative in many developed markets, presenting a challenging environment for income-seeking investors. Turning to the government bond market, sovereign bond yields have been trending upwards, driven by expectations of higher inflation and stronger economic growth. Government borrowing remains elevated as fiscal authorities continue to support their economies through the pandemic. Primary auction performance has been robust, reflecting strong investor demand for safe-haven assets amid ongoing market uncertainty. In the credit market, spread dynamics between investment grade and high yield bonds have been fluctuating, reflecting changing risk appetites among investors.



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PORTFOLIO PERFORMANCE ANALYSIS

During the period, the portfolio increased in value outperformed the benchmark. This portfolio was moderately short in duration (4.08 years) vs the benchmark (4.24 years). The issuer selection effect was significantly positive. The Credit effects was positive suggesting the portfolio manager selected better credits. For Curve effects there were a meaningful negative curve decision. Allocation effects indicated negative allocation decisions.

Issuer Performance

During the period, a majority of the issuers detracted, the largest detractors were Centrica Plc and Walmart Inc. The largest relative outperformer was GSK Plc.

Considering in greater detail the UK issuers in aggregate, the return was neutral versus the benchmark. We were overweight and the impact on returns was close to neutral, with a positive net contribution and we maintained a large long position of 9.06 years for a delta of 4.98 years.

Shares of GSK Plc surged following the release of favorable data from a late-stage trial for its respiratory syncytial virus (RSV) vaccine targeting older adults. The vaccine displayed strong efficacy in preventing lower respiratory tract disease, a prevalent health issue among this demographic. The positive trial results suggest potential market opportunities for GSK's vaccine, addressing a significant health concern and potentially boosting the company's overall financial performance.

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Sources:

FinMason

Deloitte Economic Overview (public)

LLM: Claude Anthropic Summary

New articles:

FT.com (public)

CNBC (public)

Reuters (public)

Components required:

AI infin8 proprietary techniques

Natural Language Processing NLP, Understanding NLU, Generation NLG, Query NLQ, Machine Learning, Large Language Model(s), eXplainable AI Generation, Prompt engineering, Guardrails, platform, data