Another CPI 'Bomb'

- US Jan CPI enticed the market to price in more rate hikes and to speculate about a 50bps rate hike in March; duration products locked in another week of losses; weak 'Technicals' likely to persist in the near future
- All indicators within the credit space are pointing towards a downbeat risk-reducing direction; key for the Fund to stick to our thesis and not be tempted to time the market and buy the 'false dip'

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Table 1: Weekly performance overview

		Change			
	11-Feb-22	1 Week	2 Weeks	1 Month	YTD
EUR IG Corp spread (bp)	119	6	13	23	24
BBB	135	7	15	26	27
IG-ex BBB	48	5	7	10	9
EUR HY Corp spread (bp)	380	12	27	70	62
BB	295	17	26	58	54
Capital Structure spread (bp)					
Bank AT1	374	6	21	52	53
Bank Tier 2	174	10	22	44	44
Corporate Hybrids	250	7	7	29	51
Sub Insurance	212	13	20	45	46
ETF Total return					
EUR IG ETF (IEAC)		-0.5%	-2.7%	-3.1%	-3.8%
EUR HY ETF (IHYG)		-0.2%	-2.1%	-3.3%	-3.6%
USD IG ETF (LQD)		-0.5%	-1.9%	-3.7%	-5.8%
USD HY ETF (HYG)		-1.3%	-1.8%	-4.1%	-4.7%
***Cape Fixed Income Fund (EUR B Inst.)**		-0.6%	-0.9%	-1.4%	-1.6%
***Cape Fixed Income Fund (USD B Inst.)**		-0.6%	-1.0%	-1.4%	-1.5%

* as of Feb 11th 2022

		Change			
	11-Feb-22	1 Week	2 Weeks	1 Month	YTD
iTraxx Europe OTR (5 year, bp)*					
Main	67	2	7	17	11
Xover	326	11	40	77	52
Snr Fin	76	3	8	18	14
Sub Fin	142	3	14	30	20
CDX OTR (5 year, bp)*					
CDX IG	68	4	7	17	12
CDX HY	369	14	26	70	76
					*since index roll
Govt. bond yield (bp)					
10 year US yield	194	3	17	19	43
10 year Bund yield	29	9	34	36	48
10 year Gilt yield	155	13	30	41	57
10 year BTP yield	195	21	67	69	78
BTP - Bund spread	166	12	33	33	31

Source: Bloomberg, Bloomberg Barclays, Markit as of February 11th 2022

The US Jan CPI print brought an end to the short-lived rebound in risky assets including credit spreads. The price index has risen 7.5% yoy on the headline level with core at 6.0 yoy, both beating market expectations. Though energy (+27% yoy and not likely to fade in the near term) and used vehicles (+40% yoy which have started to stabilize) are the two categories that contributed the most to the final reading, more sticky items like shelter and medical care have been increasing steadily over the past 12 months, reflecting the broad-based inflation in line with the increasing wage pressures. The accelerated increase in pricing has enticed the market to speculate whether the Fed would attempt a 50bps rate hike in March, triggering another wave of volatility. UST 2yr yields jumped by ~20bps and 10yr by 5bps respectively, reaching >2% for the first time since 2019. Duration products locked in another week of deeply negative returns stemming to a large extent from their rates exposure. Continuous ETF-outflow YTD added further pressure to the asset class. We see these weak 'technicals' persisting in the near term, overshadowing the solid corporate fundamentals, which will reverse at some point once the market has been cleared and digested the new regime. But we think that this "buy-the-dip" comes only later this year.

All indicators / signals in the credit segment are essentially moving in the same direction. CDS indices spiked amid rates uncertainties and a downbeat sentiment. Positioning data shows risk unwinding from investors, similar to the cash bond market. Capital structure risks started to turn around during the first half of the week before the CPI print where the front end was also impacted by flows. For both IG and HY indices, implied volatility reached a new peak with a 12-month lookback and skew steepness remains at the higher end of the range, consistent with the overall risk averse picture we have seen elsewhere.

On the Fund level, we remain consistent with our recent communication of sticking to the front end of the credit curve, choosing higher carry and off-benchmark structures as a buffer to volatility and correlation. We do not attempt to time the market opportunistically or to buy the 'false dip' even though credit curves have steepened significantly from the 5-10y part. Though some opportunities (on the medium part of the credit curve) with a solid investment thesis have emerged after the selloff, which we could potentially pursue, we don't see any near-term catalyst for a positive valuation repricing to make an immediate investment and feel comfortable with a decent cash buffer.

Chart 1: US CPI breakdown

Table A. Percent changes in CPI for All Urban Consumers (CPI-U): U.S. city average

	Seasonally adjusted changes from preceding month							Un-adjusted 12-mos. ended Jan. 2022
	July 2021	Aug. 2021	Sep. 2021	Oct. 2021	Nov. 2021	Dec. 2021	Jan. 2022	
All items.....	.5	.3	.4	.9	.7	.6	.6	7.5
Food.....	.7	.4	.9	.9	.8	.5	.9	7.0
Food at home.....	.6	.4	1.2	.9	.9	.4	1.0	7.4
Food away from home (1)..	.8	.4	.5	.8	.6	.6	.7	6.4
Energy.....	1.6	1.9	1.2	3.7	2.4	.9	.9	27.0
Energy commodities.....	2.4	2.5	1.2	4.7	4.2	1.3	-.6	39.9
Gasoline (all types)....	2.5	2.5	1.1	4.6	4.5	1.3	-.8	40.0
Fuel oil (1).....	.6	-2.1	3.9	12.3	3.5	-2.4	9.5	46.5
Energy services.....	.7	1.2	1.2	2.4	.2	.3	2.9	13.6
Electricity.....	.2	1.0	.6	1.4	.2	.5	4.2	10.7
Utility (piped) gas service.....	2.2	1.6	2.9	5.9	.3	-.3	-.5	23.9
All items less food and energy.....	.3	.2	.3	.6	.5	.6	.6	6.0
Commodities less food and energy commodities....	.4	.4	.3	1.1	.9	1.2	1.0	11.7
New vehicles.....	1.5	1.2	1.3	1.3	1.2	1.2	.0	12.2
Used cars and trucks....	.0	-1.2	-.5	2.5	2.4	3.3	1.5	40.5
Apparel.....	.1	.3	-.7	.6	.7	1.1	1.1	5.3
Medical care commodities (1).....	.2	-.2	.3	.6	.1	.0	.9	1.4
Services less energy services.....	.3	.1	.2	.4	.4	.3	.4	4.1
Shelter.....	.4	.2	.4	.5	.5	.4	.3	4.4
Transportation services	-.9	-1.2	-1.0	.2	.7	.0	1.0	5.6
Medical care services...	.2	.2	.2	.4	.3	.3	.6	2.7

1 Not seasonally adjusted.

Source: US Bureau of Labor Statistics as of January 2022

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