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For professional investors in Italy

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Fixed Income: sectors to focus on nowadays

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In a late economic cycle like the current one, with growing dispersion of performances and the expected increase of corporate refinancing activity starting from 2024, where to seek fixed income yield?

At Plenisfer we believe that corporate bonds can generate attractive returns, even taking a moderate level of risk, if you look across all the credit spectrum and carefully select individual opportunities at global level.

In particular, there are **European** and **US** quality issuers with a sustainable level of debt and able to generate high cash flows. We believe it should be preferred the short- to medium-term end of the yield curve where the credit spread combines with the highest interest rates in 15 years. In terms of ratings, this means focusing on the **crossover** area, i.e. on corporate bonds between triple B and double B.

In our opinion, energy, financial and telecommunications, as well as - albeit marginally- airlines, are among the sectors to look at for quality issuers today.

Energy operators are characterized by high liquidity: the reduction in investments in traditional energy sources, a direct consequence of the expected transition to alternative sources, combined with the expected oil price, configure a scenario of strong cash generation for the next 3/5 years. In this sector, we believe hybrid bonds are particularly attractive.

In the **financial** area, the recent price dislocation phenomena resulting from the Credit Suisse crisis have been reabsorbed. However, interest rates are structurally higher than in the past and this is a positive scenario for banks that benefit from higher interest margins. You can still select good opportunities in senior and junior bonds from different institutions.

Similar considerations apply to **telecommunications**. Where the selected issuers have excellent fundamentals and solid investment grade ratings, investing in hybrid securities, therefore junior in the capital structure, makes it possible to significantly improve returns without increasing the default risk of the portfolio.

Finally, **airlines** (airline companies) are now counting on strongly improving balance sheets after years of crisis and the recent pandemic. The process of streamlining costs in the sector has led to an increase in tariffs, pushing up the profitability of operators. In this sector, the most senior part of the capital, in some cases guaranteed by collateral, presents interesting opportunities. In addition, some of these companies are state-owned, which materially reduces the funding risk.

Looking at the **emerging markets**, a careful stock picking and a high, geographical and sectoral diversification are required. In this phase, the so-called "special situations" appear to be of particular interest in the area: there could be idiosyncratic opportunities that can even offer double-digit returns in countries such as Mexico and Argentina. In any case, the exposure on this area should also be assessed in the light of the related country risk.