mirova
Investing in sustainability

Context & Positions

21st March 2020

Market context: panic was justified, as is nascent optimism…

In January, credit markets stood still. In February, they basically tiptoed around coronavirus aftermaths and economic implications. In March, they panicked as Western economic systems were basically shutting down the one after the other, with California and Bavaria amongst the latest regions having decided to opt for de facto lockdowns, sometimes combined with curfews.

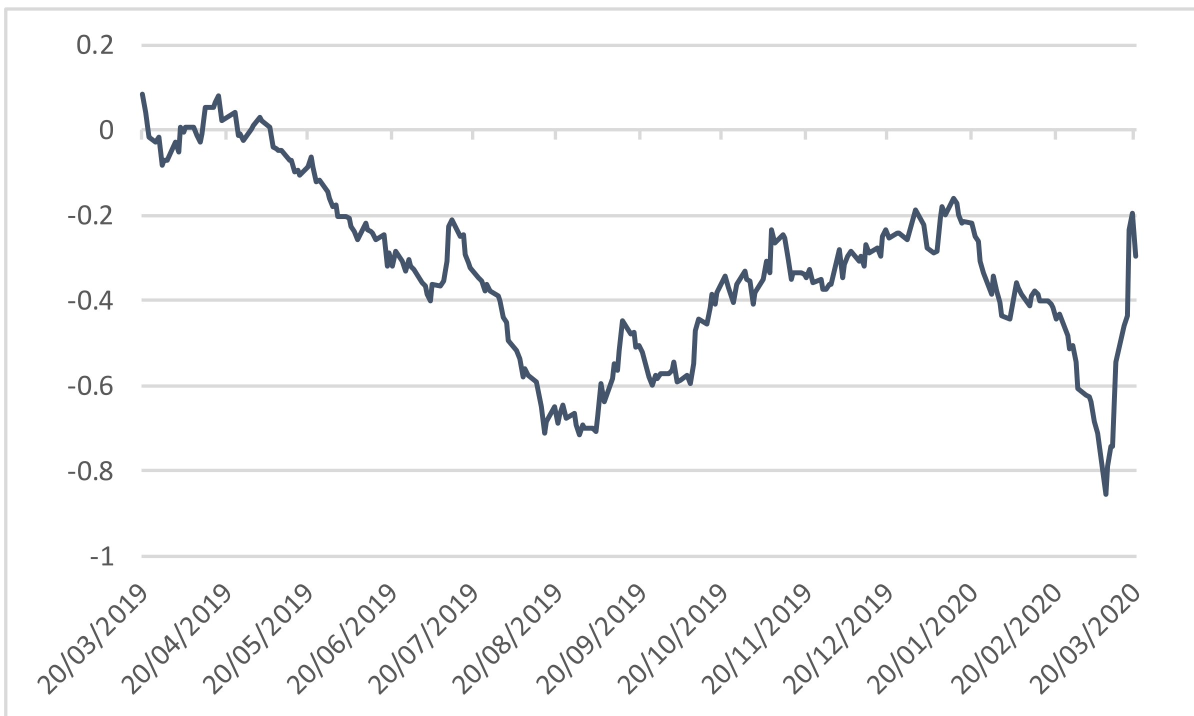
Spreads skyrocketed all across the credit universe (see graphs here below), peripheral sovereigns widened massively vs. the bund, and credit funds suffered from record withdrawals, especially those focused on HY, emerging issuers and short-dated papers. This is what has led the ECB – as we expected in our latest communication dated 13th March –to add a broader set of measures in emergency to reassure markets. After initial suspicion on whether this €750 bn, albeit "unlimited" (😉), Pandemic Emergency Purchase Programme would prove sufficient to face a crisis of such a large, almost unprecedented extent, a growing number of investors started to ponder how difficult it would result to resist the ECB strong bid on almost all segments of the IG € credit markets. Peripheral sovereigns started to stabilize, some credit index initiated a slight tightening trend, and new issues – e.g. those of the Netherlands'Unilever and France's Engie – met with tremendous success, attracting close to a combined €20 bn in demand last Friday. Is this the reliable sign of a long-lasting market rally now starting? Probably not yet, but the time is coming; we need to wait for technical factors to cease to drive flows, and for newsflow to turn less negative. All this confirms two aspects in our view:

- such rally is a very likely scenario, provided that the coronavirus does not resurface in the autumn and/ or that an efficient treatment is found and ready to be produced on a large scale;
- valuations are attractive and investors who have not panicked are growingly eager to profit from levels not seen for years.

Regarding the epidemic itself, it is far from the end of the tunnel, but we now know there is light at its end. The trigger for a historical market rally will not come from central banks, but from a sign that the pace at which the number of people infected start to really slow down in Southern Europe.

(lecpoas index source Bloomberg).

10-year yields experimented a historical drop due to risk aversion, fears of recession, central banks' cuts anticipations. All of a sudden, the prospects of soaring public deficits reversed the trend.



(lecpoas index source Bloomberg).

Our view: too late to panic, too soon to rally

Paradoxically, the situation is crystal clear: consumers no longer consume, travelers no longer travel, suppliers no longer supply… in a growing number of countries. In brief, economies are no longer working at full speed, for several weeks if not months. This is unprecedented and worrying, especially in the context of globalization, which is supposed to rely upon the lean process and heavy consumption levels. Little by little, investors are making their calculations and can reasonably assess the impact on valuations and risk levels, i.e. make their mind on what the worst-case scenario could look like. This is a prerequisite to any return to serene market operations. We thus stick to our opinion that the crisis has – logically so – fueled an accumulation of opportunities that investors should be prepared to seize, for those who have taken firm positions and those who have avoided panic selling. This view is even more valid with the ECB now ready to bid for corporate bonds with prospects for the institution to record significant capital gains in the following years.

We thus reiterate our views according to which portfolios that have not built up any kind of exposure to oil producers and related companies, neither to airlines, leisure companies and aerospace, should be the best placed to benefit from the rally, if any, once the coronavirus impact on the economies affected starts to recede. This is unavoidable yet not in view at this stage. We still think that remaining overexposed to defensive industries with regular revenue streams, hence steadier cash flow, will also be in a position to better preserve value during the helm of the crisis.

Mirova sticks to its core strategy: funding the companies designing, producing and marketing the services and products adapted to the low-carbon economy.

ECB (new) announcement in brief: Lagarde does much more

In addition to all the measures the ECB unanimously adopted and announced on the 12th March (asset purchase programme upped to €120bn, eased TLTRO 3 conditions and regulations on banks), Mrs Lagarde unveiled a new range of measures to help fight the coronavirus impact on markets, called the Pandemic Emergency Purchase Programme. This programme could amount to €750bn, up until year end, which will enable the Eurosystem to buy:

- **sovereign bonds** on the secondary markets;
  Mirova view: this is a really positive development per se, given that we consider that only national governments will have the means and channels to identify and address liquidity needs; however, at some point, the current limits dictated by capital keys will have to be removed to grant wider room for manoeuvre to some countries which are preparing to splash out huge amounts of money– this would require unanimity that only a long process can make live;
- **private debts** with maturities shorter than 30y (capped at 70% of one given singly issue);
  Mirova view: although the impact has not proved spectacular on spreads, the measure has the virtue to prove dissuasive as investors know there is a structural corporate bond buyer on the Street – the biggest of all;
- **commercial papers** on both secondary and primary markets.
  Mirova view: not the most commented action, albeit key in our view, given that it could have a positive side effect on banks of which the customer basis is increasingly tempted to draw on RCFs.

It must be understood that this package, combined with those already in place (whether active or not), leads toward a situation where debt markets are supported to the widest extent ever seen. There is still a bunch of alternative options left (QE3, possibility to buy ETFs, as the BoJ has long done), not to mention the fact the ECB has wisely kept its ability to cut rate further when the time to support economy restarting will come, presumably in two months.

The Senate blocks, the FED does

The Fed unleashed once again a set of numerous extraordinary measures with the greatest magnitude to address shortcomings in what seems now as an unlimited QE infinity with notably (to just mention a few) :

- **Supplementary quantitative easing on ABS** of many sorts (autos, student, credit card) and loans guaranteed by Small Business Administration
- **Supplementary quantitative easing on private corporate debt** with certain characteristics (e.g. tenor of 5 years or less) up to a 10% limit per issue and on ETF (likely no more than 20%)
- **Expanding its Commercial Paper Funding Facility to high-quality, tax-exempt commercial paper**
- **A “main street” SME-lending window to grant loans**
- **$300bn to support the “flows of credit” to employers consumers and businesses and two facilities set up to provide credit to large employers**

Previously, it had announced it would buy $500bn worth of Treasuries and $200bn in MBS while reducing rates and committing to do “whatever it takes”. The new move represents an open-ended commitment to the QE program. It nows commits to keep expanding its balance sheet as necessary, rather than a commitment to a set amount. We expect other central banks to follow into its footsteps, which would end up as positive for performances. Such measures are poised to more than mitigate outflows in our view.

The information provided reflects MIROVA’s opinion as of the date of this document and is subject to change without notice.

All figures in this document are provided by Mirova Front Office and Bloomberg.

Disclaimer Compliance :

This document is intended solely for professional clients as defined by MiFID. If it is not the case and you receive this document and/or any attachment by mistake, please destroy it and inform Mirova immediately.

Mirova Global Green Bond Fund , Mirova Euro Green and Sustainable Bond Fund and Mirova Euro Green & Sustainable Corporate Bond Fund are sub-funds of the Luxembourg SICAV Mirova Funds, approved by the Luxembourg Commission for the Supervision of the Financial Sector (the "CSSF"). Natixis Investment Managers International is the management company and has delegated financial management to Mirova.

These funds are the subject of a key investor information document (KIID) and of a prospectus. The KIID of the fund must be delivered prior to any subscription. The reference documents on the fund (KIID, prospectus and periodical document) are available at Mirova. You can obtain it on simple request and on the website www.mirova.com.

The investment presents a risk of capital loss. For more information, please refer to the prospectus on the fund available at MIROVA. You can obtain it on simple request or on the website www.mirova.com.

Otherwise, past performance is no guarantee or reliable indicator of current or future performance. Performance figures are calculated net management and running fees, included safekeeping fees and commissions.

This document is a non-contractual document for information purposes only.

This document does not constitute or form part of any offer, or solicitation, or recommendation to subscribe for, or buy, or concede any shares issued or to be issued by the funds managed by Mirova investment management company. The presented services do not take into account any investment objective, financial situation or specific need of a particular recipient. Mirova shall not be held liable for any financial loss or for any decision taken on the basis of the information contained in this document, and shall not provide any consulting service, notably in the area of investment services.

The information contained in this document is based on present circumstances, intentions and guidelines, and may require subsequent modifications. Although Mirova has taken all reasonable precautions to verify that the information contained in this document comes from reliable sources, a significant amount of this information comes from publicly available sources and/or has been provided or prepared by third parties. Mirova bears no responsibility for the descriptions and summaries contained in this document. No reliance may be placed for any purpose whatsoever on the validity, accuracy, durability or completeness of the information or opinion contained in this document, or any other information provided in relation to the fund. Recipients should also note that this document contains forward-looking information, issued on the date of this presentation. Mirova makes no commitment to update or revise any forward-looking information, whether due to new information, future events or any other reason. All financial information, notably on prices, margins or profitability, shall be indicative and shall be subject to change at any time, in particular depending on market conditions. Mirova reserves the right to modify or remove this information at any time without notice.

The information contained in this document is the property of Mirova. It may not be communicated to third parties without the prior written consent of Mirova. It may not be copied, in part or in whole, without the prior written consent of Mirova. The distribution, possession or delivery of this document in some jurisdictions may be limited or prohibited by law. Persons receiving this document are asked to learn about the existence of such limitations or prohibitions and to comply with them.

Non-contractual document, issued in march 2020.

Mirova
Portfolio management company - French Public Limited liability company
Regulated by AMF under n°GP 02-014
RCS Paris n°394 648 216
Registered Office: 59, Avenue Pierre Mendes France – 75013 – Paris
Mirova is an affiliate of Natixis Investment Managers.

Natixis Investment Managers
Portfolio management company - French Public Limited liability company
RCS Paris n°453 952 681
Registered Office: 43, Avenue Pierre Mendes France – 75013 – Paris
Natixis Investment Managers is a subsidiary of Natixis.

Natixis Investment Managers International
Portfolio management company - French Public Limited liability company
Regulated by AMF under n° GP 90-009
RCS Paris n°329 450 738
Registered Office: 43, Avenue Pierre Mendes France – 75013 – Paris
Natixis Investment Managers International is an affiliate of Natixis Investment Managers.