

Commentary

14 March 2023

Robus Capital warns against deceptive spring fever: It will not work without recession

The capital market year promises spring fever, which Mark Hoffmann, Portfolio Manager at Robus Capital, assesses as deceptive. Consumer confidence has proven more robust than suspected during the holiday shopping season, and energy prices are increasingly easing as well. "It's too early for spring sentiment. In the U.S. and Europe, inflation is continuously weighing on high levels. Even if central banks are still acting cautiously in view of the fragile economy, they will solve the problem. It remains to be seen when, but they will certainly act with all the necessary rigor. It won't work without a recession," says Hoffmann.

According to Hoffmann, the interest rate markets seem to share this assessment. "Last year, for the first time, a market expectation of 3 percent in Euribor peaked by 2023. That was almost a sensation after the long decade of zero interest rates. Just a few months later, a consensus expectation of 4 percent is already emerging, with an upward trend. In our view, this is realistic, and the ECB would have to continue on this course until 2024 to put a leash on the specter of inflation," says Hoffmann.

The Robus manager sees a contradiction to these expectations in the development of credit spreads: "After risk premiums were high at the turn of the year, albeit not at all-time highs, they have fallen by around 100 basis points to around 380 in recent weeks. This does not coincide with rising interest rate expectations, and here the battle of a crisis-weary market against central banks is revealed. Someone is going to lose out, and we don't expect it to be the central banks."

Hoffmann said the investor market eased somewhat in the first few weeks of the year after demand consistently outpaced supply in 2022. "The big drought in new issuance seems to be over for now. We saw IPOs and new bond issuances again in January and February, even in the high-yield segment, which usually only follows suit at the end of developments."

He said he himself has not used any of the new issues for the Robus funds. "We look for very special opportunities, which we scrutinize very closely based on our analytical models. We invest mainly in corporate bonds and syndicated loans with issue sizes of less than EUR 300 million. The overlap with a European high-yield index is around 30 percent. We are also very selective here because we generally trust our own analyses more than the standard research of banks or rating agencies, not only in contradictory times like these. Our advantage is that we have known our companies for many years in some cases and can assess them well, especially under these extreme conditions."

Thus, Hoffmann and the Robus team have already adjusted to the post-pandemic situation in the environment of rising interest rates and aligned the portfolio last year. "Especially with our floating-rate instruments, we also feel well positioned. If we assumed an interest margin of 3 percent and a Euribor of 1 percent at the time of purchase in 2022, the calculated return was 4 percent. If we use current Euribor expectations as a basis, that could almost double very quickly."

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About Robus Capital

Robus Capital was founded in 2011 as an institutional asset manager specialising in publicly traded and private corporate bonds and loans. Today, Robus Capital manages an investment volume of EUR 1 billion from offices in Frankfurt and London. Robus Capital manages several special funds and a mutual fund. The investment focus is on debt instruments of medium-sized companies such as bonds, syndicated loans and promissory note loans. Institutional investors (insurance companies, foundations, pension funds or family assets), who often have a corporate background themselves, are Robus Capital's main client group. Investments can be made in both the primary and secondary markets and are also made in special situations that are very complex and require in-depth analysis. Robus Capital's regional focus is Europe and in particular the German-speaking countries, Benelux and Scandinavia. As of: March 2023.

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