



CREDIT INSIGHTS

INVESTING IN UNCERTAIN TIMES: HOW ABSOLUTE RETURN CREDIT STRATEGIES STAND OUT

In a volatile market environment, absolute return fixed income strategies can offer compelling opportunities for investors seeking to reduce correlation with traditional benchmarks without losing sight of short- to medium-term investment horizons.



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The first quarter of 2025 saw a wave of unprecedented turbulence in the financial markets. After a post-Covid period shaped by abundant liquidity and central bank intervention to curb inflation, we have entered a new phase defined by geopolitical issues.

The initial months of Donald Trump's second term have confirmed this paradigm shift, raising crucial questions for investors: as the era of US dominance appears to be waning, **who will be the winners of tomorrow?** New centres of influence and growth are already taking shape. As asset managers, it is our job to identify them and act swiftly to capitalise on them.



CREDIT MARKET FUNDAMENTALS REMAIN INTACT

These upheavals have sparked considerable volatility in the markets since January. However, credit markets have held up better than equities, where reactions have been particularly strong. Overall, companies have been able to push back the debt wall and face limited short-term solvency issues.

While credit-related uncertainties do exist, they are more sector-specific. Some segments may face headwinds in the coming months and years, such as renewable energy, following Donald Trump's decision to halt numerous large-scale projects, or companies heavily exposed to US tariffs, like those in the automotive industry, which could see their profitability erode.

ABSOLUTE RETURN STRATEGIES OFFER RESILIENCE IN VOLATILE TIMES

In this environment, absolute return strategies appear to have clear advantages. By allowing investment unconstrained by any benchmark or asset class and by utilising the various levers of credit to generate return through both long and short strategies, they can capture opportunities in calm and volatile markets alike. Credit analysis, the behaviour of credit, interest rate and inflation derivatives, the yield curve and seniority in the capital structure all provide fertile ground for constructing resilient and diversified strategies.

While absolute return funds should always be part of a portfolio diversified across different asset classes, they really come into their own in certain market configurations, such as when markets are clouded by uncertainty, where absolute return investors can make agile decisions to capitalise on volatility while limiting capital loss.

BLENDING EXPERTISE AND AGILITY

Due to these specific characteristics, implementing a successful absolute return strategy requires a management team that is well equipped in terms of data collection and analysis, and which also has a strong grasp of issuer fundamentals across multiple dimensions. It also demands a high level of responsiveness and stellar risk management.

At LBP AM, our **LBPAM ISR Absolute Return Crédit I** fund returned 8.42%¹ in 2024, delivering results comparable to those of the high yield segment. Year-to-date in 2025 (as of end-April), the fund is up 1.15%. Once again, we have outperformed the high yield segment, which has experienced sharp falls.

1. Past performance is not a reliable indication of future returns, and this product carries a risk of capital loss. The value of your investment may rise or fall.

In 2024, LBPAM ISR Absolute Return Crédit I achieved an annual performance of 8.42%, compared with 3.80% for its benchmark, the €STR, capitalised daily; in 2023: 8.49% vs +3.28%; in 2022: -3.43% vs -0.02%; in 2021: 0.67% vs -0.49%; and in 2020: 2.78% vs -0.47%. Data as at 30/04/2025.

SEEKING RETURN IN 2025

Two major developments have shaped the start of this year: the soft landing of inflation and mounting geopolitical uncertainty. That is why strategies that outperformed in 2024 may not necessarily shine in 2025. To protect our portfolio, diversification and robust risk management have been key.

Looking ahead, **very active portfolio management will be crucial** in the coming months, notably to manage the effects of Donald Trump's decisions on the core business and profitability of certain issuers, the increasing influence of actors such as China and some European countries, and the resolution of conflicts. 2025 promises to be an eventful year but should offer structural opportunities for our absolute return strategies.

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The main risks associated with LBPAM ISR Absolute Return Crédit are the risk of capital loss, credit risk, interest rate risk and liquidity risk. This list is not exhaustive; further details on the risks associated with investing in LBPAM ISR Absolute Return Crédit are available in the prospectus and key information document.

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LBP AM

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