



# Structured credit

## Sourcing protection against rising interest rates



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**Floating rate, high carry, low credit risk and short spread duration bonds – investment grade asset-backed securities provide a unique solution for investors.**

- Just a few days into the new year and rates are back in focus for market participants following the release of the minutes from the Fed's December meeting, which showed officials increasing the preference for a faster path of rate hikes and a shrinking of the balance sheet.
- While interest rate hikes are typically unwelcome news for fixed rate bonds, floating rate assets become more appealing to investors in such an environment.
- Much of the asset backed and securitised credit market is floating rate, therefore assets in our portfolios are more insulated from rising interest rates.
- In addition to the floating rate nature of the asset class, securitised credit assets are typically shorter spread duration (1–5yr). This means in periods of market volatility, these securities tend to have less mark-to-market volatility versus similarly rated but longer-dated corporate bonds (5–10yr).

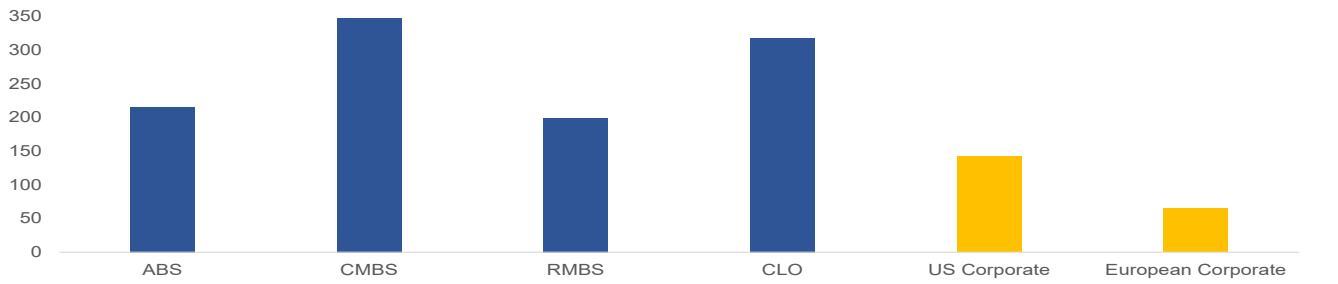
### Example spreads – AA bonds



Source: Bloomberg OAS vs. Libor, as at 6 January 2022.

Notes: Spreads in euro terms. Corporate bonds are fixed rate; ABS/CMBS/CLO assets are floating rate.

## Example spreads – BBB bonds



Source: Bloomberg OAS vs. Libor, as at 6 January 2022.

Notes: Spreads in euro terms. Corporate bonds are fixed rate; ABS/CMBS/CLO assets are floating rate.

- It's important to note the underlying credit quality of these investments is also very high. When assessing securitised credit securities, we are fundamentals-first investors and analysing the collateral pool of each asset – from mortgages to auto leases to credit cards – is an important first step in our investment process. Generally speaking, underwriting standards have been robust and collateral pool performance has been commensurately strong. At the same time, overall bond leverage is lower, creating a large and potentially attractive opportunity set from which to base our asset selection.

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