

An uncertain time

The market

The credit market had a challenging start to the first quarter, as developments in Iran weighed on sentiment. January and February began on a positive note, with strong economic data supporting risk assets. However, this changed towards the end of February, when military strikes led to sharply higher oil prices and increased volatility in financial markets.

The global economy started the first quarter on a stable footing, with moderate growth and gradually declining inflation. However, this shifted as oil prices rose significantly, nearly doubling over the course of the quarter.

The sharp increase heightened the risk of a stagflationary scenario, with lower growth and higher inflation occurring simultaneously, which put pressure on the credit market.

Corporate fundamentals remain solid. Most companies maintain strong profit margins and stable leverage levels. Interest coverage – the ability of earnings to cover interest expenses – has improved further. This indicates that companies retain a robust capacity to service their debt, even as interest rates have risen.

At the same time, many companies have taken advantage of favorable market conditions in 2025 and early 2026 to increase their cash holdings, providing an important buffer in a more uncertain environment.

Developments varied across sectors. The energy sector experienced significant volatility due to fluctuating prices, while technology and several cyclical sectors faced pressure from both financing conditions and longer-term structural changes.

Corporate bond issuance was high at the beginning of the year, particularly in the investment grade segment. Activity was driven by investors holding large cash balances. A significant portion of issuance was related to refinancing existing debt rather than raising new debt, which limited net supply and supported the credit market.

However, demand gradually weakened as geopolitical uncertainty increased and both credit spreads and interest rates moved higher. Inflows into corporate bond funds declined throughout the quarter and were primarily directed toward funds with shorter durations.

The portfolio

Portfolio returns were negative in the first quarter.

The negative performance was driven by a widening of credit spreads combined with rising interest rates. The ongoing coupon income provided some offset, but it was insufficient to fully compensate for the losses.

The return analysis shows that the least negative contributions came from companies with the highest credit ratings (AA–AAA) within the investment grade segment. Within investment grade, bonds with shorter maturities performed best during the quarter. In terms of capital structure, senior debt outperformed subordinated debt.

The portfolio's positive excess return relative to the benchmark can primarily be attributed to an overweight in financials and to the selection of capital securities. Participation in new issues also contributed positively.

An underweight in real estate and industrial sectors contributed positively, while an underweight in communications had a negative impact.

The outlook for corporate bonds at the beginning of the second quarter remains solid. Following higher interest rates and wider credit spreads in the first quarter, yields are now at levels comparable to those seen in the summer of 2024.

Higher yields also improve reinvestment opportunities as coupons are paid and bonds mature. This is particularly relevant in the investment grade segment, where companies continue to exhibit strong fundamentals and where technical market conditions remain supportive.

Strategy

Responsible Corporate Bonds invest in global companies. The bonds are selected from companies with stability or improvement in their creditworthiness and have attractive loan terms. These are good and solid companies with a mature business model and a strong market position. The financial profile is characterized by moderate indebtedness and stable cash flow generation. The investment strategy is based on disciplined risk management with prudent risk diversification across sectors, credit ratings, types of debt, regions, and maturities.

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