

*"It is crucial to recognize when it's time not to lose money."**

Executive Summary

- Outperformance of synthetic credit against cash credit during the month of May.
- iTraxx outperformed Euro Stoxx 50.
- Rates, credit and stocks show different narratives.
- Credit/rate carry, and credit roll down may be a safer option in this environment.

"Be fearful when others are greedy and greedy when others are fearful." Warren Buffett

* Commonly associated with Warren Buffett.

Synthetic credit beats cash indices.

Synthetic credit outperformed cash credit in the month of May. There are numerous explanations for this:

1. Primary issuance is at record high this year and in May in particular, therefore secondary issuance suffered a bit with the discount given in the new issues.
2. Client's positioning, today at ~€20B, went above its average long (~€17B) from the ~€10B low during March crisis. Mainly CTA adding positions (see below).
3. CTA's were active in May, selling against more cautious Real Money and Hedge Funds both buying. The collapse of volatility in spreads push CTAs to add risk (buying signal strengthening).
4. Since March there were outflows in credit funds that mainly impacted traditional cash credit funds.
5. Volatility in stocks and in credit decreased during April and May. Low volatility means less uncertainty and these favours carry, also through synthetic credit. As rates continue to exhibit a certain volatility, investors may continue to favour instruments with no to low duration.

Fig.1 shows tightening of ~-10bps of synthetic iTraxx Main 5Y against its equivalent in cash credit (spread to Govies of the ETF on iBoxx € Corp) during May. It should continue during the first half of June with the above factors likely to persist, at least up to central bank meetings (starting on 14th). We may reach levels unseen out of crisis, and this should push investors to reduce synthetic exposure to the benefit of cash index (maybe hedged in duration).

Fig. 1: iTraxx main 5Y spread (High-Close-Low)



Source: Selwood AM France, Bloomberg.

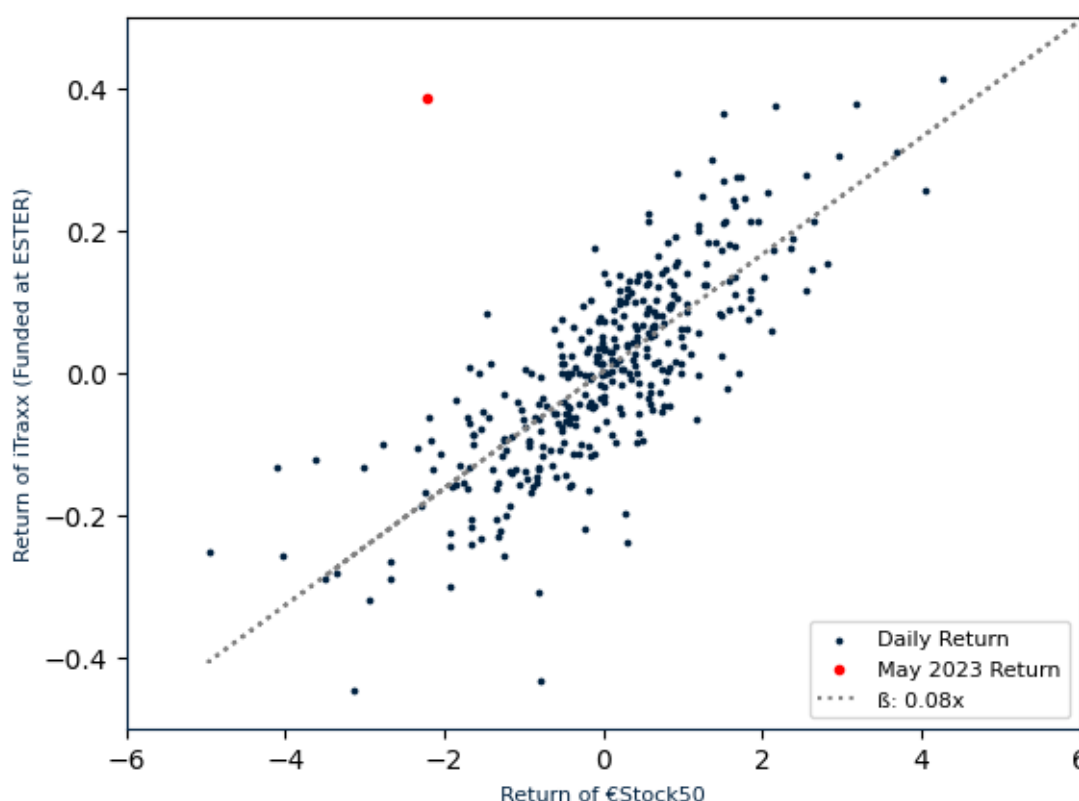
Synthetic credit beats stocks.

Long iTraxx has significantly outperformed €Stock50 as shows in Fig2. (Period for regression [December 2021 to May 2023]).

As we said in previous letters, credit tends to outperform in uncertain environments and during recessions. 2022 shows iTraxx suffering almost the most. It is not a surprise to see iTraxx coming back against stocks. Recently we saw some comments in this direction from Citadel's Griffin¹.

In our view, carry and roll down favour credit products and Investment Grade in particular. Given the uncertainty around the potential level of rates, we would choose credit with a shorter duration. With central bank meetings coming we should have a clearer view on the pivot rates and then come back to targeting duration. We would like to remind you that rates decorrelated from spreads in November 2022, serving as cushion in a crisis and stress environment.

Fig. 2: Correlation between €Stock50 and iTraxx Main (Funded)



Source: Bloomberg.

Three rooms, three atmospheres

Both Rates curves and some analysts are still predicting, respectively, recession and crisis ahead, but they are late to materialize in economic data. Therefore, the point when central banks react, by cutting rates, are continuously pushed further out.

Looking at Fig.3, German 10Y bond future ("Bund") volatility ~8% is still above its average at ~6%, showing uncertainty regarding the "final ECB rate" and regarding the timing and strength of the recession. On the contrary, equity volatility shown by the VIX index hit its lowest since the covid crisis, reflecting strong economic data and good corporate results and outlook.

As we said in previous monthly letters, equity performance was mainly driven by Information Tech stocks perspectives. iTraxx just traded at its average, reflecting some uncertainties. Now iTraxx trades range bound (70-85bps). Spread volatility (realized) are also at lows; roughly from a pick of 90 in mid-April to 40 at end of May (not shown on Fig.3).

¹ Source FT & Bloomberg – 14.06.2023

1. **Base case:** a mild recession, to materialize in 2024, with supportive central banks. Low volatility in credit and stocks, pushing investors to add risk when they dip. Both credit and stock then trade range bound, while rates volatility should normalize. Spread and stocks volatility may increase during brief periods, but nothing persistent nor violent.
2. **Bull case:** soft landing sentiment builds up; with investors pushed to invest in a low volatility environment and central bank pausing/stop upward rate moves.
3. **Bear case:** government debt ratio, as well as rates levels, would reduce fiscal conditions for corporates and increasing refinancing costs. Today's relative long positioning would then reverse sharply and may be a replay of credit and stock performance of the first half of 2022, hitting HY (credit) and information tech (stocks) the most.

The chart displays the historical volatility of three financial instruments over a 14-year period. The iTraxx Main 5Y Spread (dark blue line) shows the highest volatility, with a significant peak in early 2012 reaching over 200. The Vix Index (green line) also shows volatility, with a peak in early 2012 reaching around 45. The Future BUND (10Y) Volatility (red line) remains the most stable, staying below 10 throughout the period. The chart includes three horizontal reference lines representing long-term averages: iTraxx Average: 83.0, Vix Average: 19.0, and Bund Volatility Average: 6.0.

Date	iTraxx Main 5Y Spread	Vix Index	Future BUND (10Y) Volatility
Jan-2010	~80	~20	~5
Jan-2012	~210	~45	~10
Jan-2014	~80	~20	~5
Jan-2016	~80	~20	~5
Jan-2018	~60	~20	~5
Jan-2020	~140	~40	~10
Jan-2022	~100	~20	~5
Jan-2024	~80	~20	~5

[illegible]

Selwood AM France view and opinions are for illustrative purpose and not to be construed as investment

Selwood Asset Management France,

This material is not intended to be relied upon as a forecast, research, or investment advice and is not a recommendation offer or solicitation to buy or sell any securities or to adopt any investment strategy.

If you wish to know more about our **#ESG credit Abs return (Article 8), #Tail & Credit Hedge, #Long Only, #Absolute Return and #Solvency II Solutions.**

Please feel free to contact us for any further information at paris@selwoodam.com or via our website <https://www.selwoodam.fr/>



DISCLAIMER

Monthly Letter. Selwood Asset Management France SAS ("Selwood") is providing this monthly commentary solely at the request of and for the exclusive use of the recipient (the "Recipient") in its capacity as the investment manager.

Purpose and Non-Reliance. The monthly letter is provided to the Recipients who are sophisticated investors, being professional clients, eligible counterparties, accredited investors or qualified purchasers. The monthly letter is provided to the Recipient for the limited purpose of providing the Recipient with information relating to the performance and the risk profile of the Fund as at the date specified therein and/or for the purposes of discussion with Selwood only.

The monthly letter is not intended to provide and should not be relied upon as any form of accounting, legal or tax advice or investment recommendations. The Recipient should consult its own tax, legal, accounting or other advisors about the issues contained herein. The Recipient should refer to the risk factors set out in the Fund's prospectus and supplement.

Carry. Any references to "carry" are intended to refer to a specific performance computation. Carry and theta would correspond to expected performance in a 12 months' period. Certain assumptions are used to calculate "carry", such as no trading and all market parameters staying intact, which may have inherent limitations. Accordingly, the estimated carry and performance is not reliable, is not exhaustive and represents subjective views of Selwood. Please also refer to the Risk Factors listed in the Fund's prospectus and the supplement. Note also that any estimates are gross and do not include the deduction of fees and trading costs.

Accuracy of Information. The figures, estimated figures, projections, views, charts, calculations and other information (the "Information") contained in the monthly letter is indicative only and are provided as at the date specified therein.

Information related to any net estimated returns is based on unaudited, internally prepared assessments of the performance of the Fund's portfolio by Selwood and have not been independently verified or confirmed. The net estimated returns are subject to adjustment as a result of items such as changes or delays in Selwood's or the Fund's administrator's calculation of the profit and loss of the portfolio in whole or in part and/or Selwood's assessment of the month-end value of any one or more of the financial instruments in the Fund's portfolio. Any such adjustments could have a material impact on the estimated net returns, including a change from a positive monthly net return or year to date performance estimate to a negative monthly net return or year to date performance estimate.

Market views presented herein, including any forward-looking statements, are reasonably held by Selwood as at the date hereof but are subjective and have not been independently verified. Market pricings assume. These are not intended to and do not constitute financial or investment advice.

Selwood is not under any obligation to update or revise this monthly letter or any specific Information (including, without limitation, the estimated net returns or carry) contained therein or to correct any inaccuracies, whether as a result of new information, future events or otherwise.

No representation, warranty or undertaking, express or implied, is given as to the fairness, correctness, accuracy or completeness of the Information or the models used in preparing such, opinions or any forward-looking statements contained in the monthly letter by any of Selwood, or its respective members, employees or affiliates (together "Selwood Parties") and no liability is accepted by such persons for the accuracy or completeness of any such information or opinions, and nothing contained herein shall be relied upon as a promise or representation whether as to past or future performance.

Use of Models and Simulations. Certain information contained herein is derived from simulations or models. Methodologies and models used by Selwood are just some among alternative other methodologies that could be used, and such can produce different results. Neither the simulations, nor the models have been independently verified. The derived information is therefore based on certain assumptions which may be subjective and may not necessarily be reflective of reality.

Distribution and Non-Solicitation. The monthly letter is not intended, and must not be construed, as an offer of, or a solicitation of an offer to purchase, any investments in any jurisdiction where such offer or solicitation would be unlawful. The distribution of the monthly letter may be restricted in certain jurisdictions. It is the responsibility of any person or persons in possession of this monthly letter to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Please refer to the country-specific disclaimers in the prospectus and the supplements of the Fund.

External Market Conditions. The current global market conditions are exceedingly impacted by the Russia/Ukraine conflict and the continuing uncertainty around COVID-19 which creates unprecedented volatility and could last for an extended period thus adversely affecting the Fund's performance and liquidity.

Solvency II (SCR). No representations or guarantees as to compliance with Solvency II are being made by Selwood. Prospective and existing investors need to complete their own analysis of Solvency II requirements.

Confidentiality. Selwood is distributing this monthly letter to the Recipient only. The monthly letter is strictly confidential and may contain proprietary information of Selwood. It may not be reproduced, distributed or published by any Recipient for any purpose without the prior written consent of Selwood.

Selwood. Nothing contained herein shall be deemed to create any obligations or commitment on the part of Selwood or any of the Selwood Parties. Selwood is acting solely as an arm's length contractual counterparty to the Fund and not as the Recipient's financial advisor or fiduciary. To the maximum extent permitted by law, none of the Selwood Parties shall be liable (including in negligence) for any direct, indirect or consequential losses, damages, costs or expenses arising out of or in connection with the use of or reliance on the monthly letter. By accepting a copy of the monthly letter, the Recipient agrees to be bound by the foregoing limitations and conditions.

Selwood Asset Management (France) SAS is registered in France (884 339 839 RCS) with its registered office at 106 Boulevard Haussmann – 75008 – Paris; and is authorised and regulated by the Autorité des Aprilés financiers (AMF) (GP- 21000006).

© Copyright 2023 Selwood Asset Management (France) SAS. All rights reserved.