



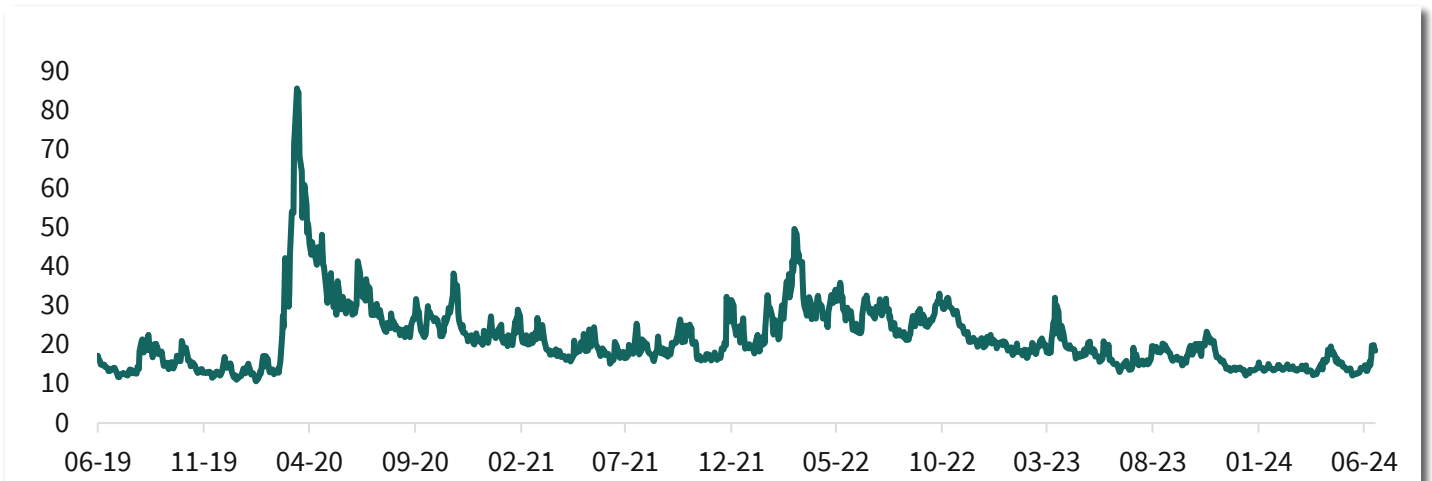
HIGHER VOLATILITY COULD CREATE ATTRACTIVE ENTRY POINTS FOR CORPORATE BONDS

Taken by surprise by Macron's decision to dissolve the French Parliament and by the ensuing party alliances, European financial markets have been left heaving since June 10th. The worst hit by this wave of panic were cyclical sectors and financial stocks. Nevertheless, in this highly uncertain environment, it is important for investors to keep a cool head.

Volatility - to which we had become unaccustomed - **has made a major comeback over the past few days**; these episodes are not unusual and can peak at much higher levels than those observed today.

The VIX index, also known as the "fear gauge", indicates that volatility remains contained for the time being. Admittedly, the peak may not have been reached. Far from causing us to panic, we feel this return of volatility could offer attractive entry points for investors.

VIX VOLATILITY INDEX



Source: Bloomberg ; Sycomore AM. Data as of 18/06/2024.

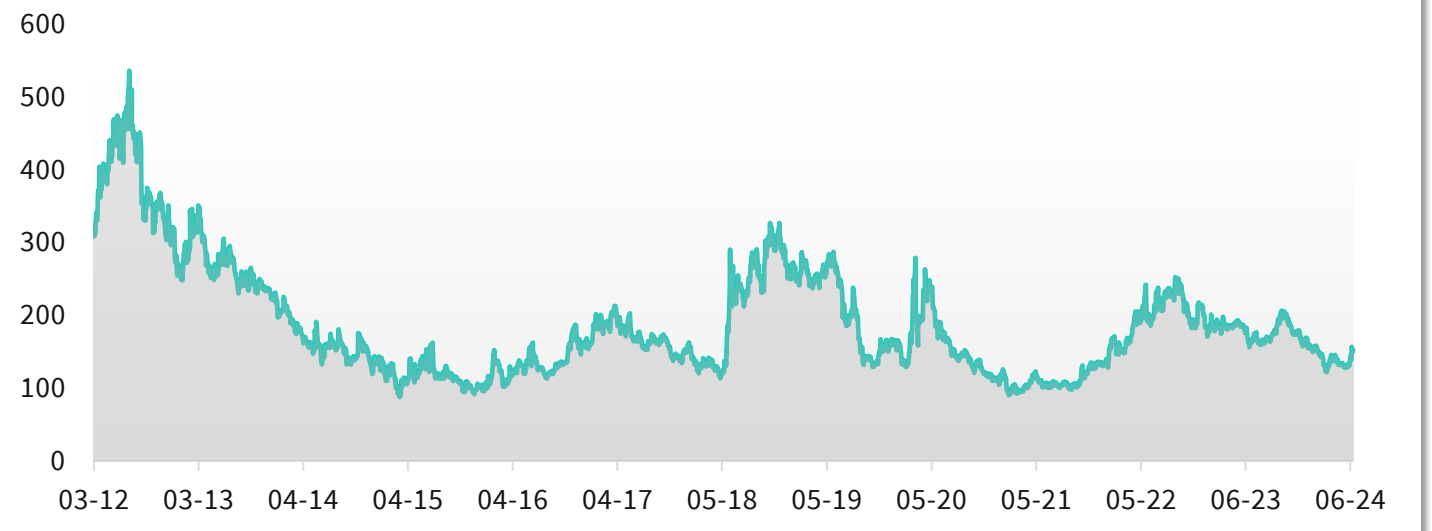
Several observations should **prevent investors from panicking at this stage**. First, at European level, the outgoing coalition in Parliament, made up of three pro-European groups (EPP, social democrats and liberals), has held onto its absolute majority and is likely to win the key seats in the European commission.

Second, looking back, **Italy was in a similar situation to the one France may be in after the elections** on July 7th. Giorgia Meloni, ruler of populist party Fratelli d'Italia, took over as Prime Minister in October 2022.

On economic matters, she has led a centre-right policy rather consistent with her predecessor, Mario Draghi. The country currently benefits from the large funding plans backed by the European Union.

Contrary to all expectations and as shown in the graph below, **Italian credit spreads only widened moderately**, while financial stocks listed on the Milan stock exchange have generally outperformed since the election of Giorgia Meloni.

ITALIAN CREDIT SPREADS



Source: Bloomberg ; Sycomore AM. Data as of 18/06/2024.

In France, **current and future public expenditure** (infrastructure, defence, etc.) **leaves the next government with very little room for manoeuvre.**

Indeed, on Wednesday June 19th, the European commission announced that it had launched an Excessive Deficit Procedure against seven EU country members, including France. To avoid a fine, these countries will have to lower their deficits from 14 to 20 billion euros every year.

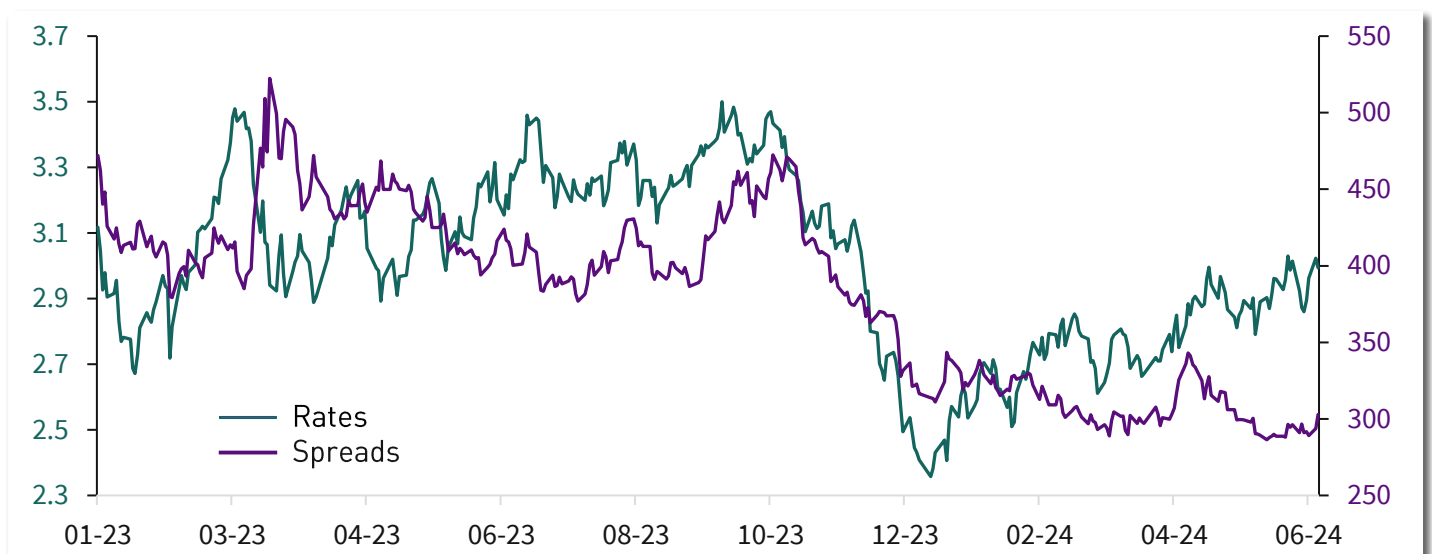
Financial markets can also be very good at exerting fast pressure on a government. Liz Truss, UK Prime Minister for just a few weeks, suffered the consequences in 2022.

Her ‘flash in the pan’ premiership came to an end when she was forced to step down after presenting a controversial budget considered to be ‘unfunded’.

« **Financial markets can be very good at exerting fast pressure on a government** »

We believe **widening spreads offer an entry point** - reminiscent of the Italian experience in 2018 or 2022, when far-right parties won the elections.

RATES AND SPREADS



Source: Bloomberg ; Sycomore AM. Data as of 18/06/2024.

The France-Germany 10-year bond spread, an excellent risk indicator, remains rather modest and principally driven by a **‘flight to quality’ causing German bonds to retreat**, rather than by a massive French bond sell-off. Interest rates, on the other hand, have risen sharply year-to-date, offering attractive yields.

HOW IS OUR INVESTMENT STRATEGY IMPACTED?

In our view, today’s situation offers attractive entry points and notably for our new fixed-term fund, Sycoyield 2030, which could benefit from current and future spread widening. We also believe that our Sycoyield 2026 fixed-term fund remains compelling. This strategy offers a short maturity, thereby limiting volatility, and delivers a superior yield to money market funds.

Over the past two months, we took part in several primary market deals in highly attractive conditions, involving companies such as Nexans, Eramet and Verisure. These bonds have delivered strong post-issuance returns and are playing a key role as 'yield drivers'. **The companies held in the portfolio, such as Picard and Renault for example, appear rather immune to a new political order in France.**

Finally, cash reserves within Sycoyield 2030 and Sycomore Sélection Crédit stand at 5% and 6% respectively. We shall continue to take profits on positions offering a little less upside potential, in our view.

To sum up, we have entered a period of major uncertainty that may extend beyond the 2nd round of the elections on July 7th. Nevertheless, the new political landscape is unlikely to have too much impact on companies, or lead to a rise in default rates over the short and mid-term. The surge in volatility and widening spreads could even offer compelling opportunities for us to strengthen our investments over the next few weeks, once the election is over.



With the contribution of Stanislas de Bailliencourt, Head of Fixed Income and Asset Allocation

The funds offer no performance or yield guarantees and carry a risk of capital loss. The funds objective is based on Sycomore AM's market assumptions and does not constitute a promise of funds performance. These assumptions include the risk of default or downgrading of one or more issuers in the portfolios.

Should they materialize to a greater extent than anticipated, the management objective may not be achieved and the investor may suffer a capital loss. Opinions, estimates or forecasts regarding bond market trends or changes in issuers' risk profiles are based on current market conditions and are subject to change without notice. Sycomore AM makes no commitment that they will be achieved.

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We recommend that you inform yourself carefully before making any investment decision.