aegon asset management

Asset class perspective

December 2024

AEGON **INSIGHTS**

European ABS Outlook

Egbert Bronsema
Senior Portfolio Manager, Aegon European ABS Fund

Egbert Bronsema is a portfolio manager in the European ABS team. Prior to joining the firm, he worked for eleven years as a portfolio manager and an analyst in the structured finance team at IMC Asset Management. Egbert has been in the industry since 2005 and joined the firm in 2016. He holds a Master's degree in business economics and quantitative economics from Maastricht University.

ABS in 2024: Steady returns amidst a sea of volatility

When it comes to market volatility, 2024 has been quite the year. With geopolitical issues, the continued effects of inflation and high cost of living, and the hike in interest rates, few asset classes and investor expectations have been left unaffected.

In the ABS (Asset Backed Securities) sector, even when faced with an increased cost of living, the consumer has remained in good health. And in the face of market turmoil, its floating-rate structure left ABS significantly less impacted. Even more so, thanks to its pickup compared to traditional fixed income, ABS has been able to provide stable returns in a volatile environment.

How do you view the current macroeconomic environment and consumer fundamentals?

Since the Covid crisis, consumer savings levels across Europe have risen, surpassing expectations set by inflation and cost of living pressures. Which, for an asset class backed by consumer risk, is a welcome sign. And from a consumer perspective, the prospect of decreasing interest rates and inflation, it only gets better for them.

On the other hand, expectations of increasing unemployment could impact performance on a fundamental level. But as it currently stands, the job market remains tight and there has been no rise in bankruptcies.

How are ABS expected to perform in a decreasing interest rate environment?

> ***In an environment where there's a lot of things changing: sentiment, fundamental performance, it is good to have that additional carry in your investments. And that's something that ABS inherently has due to its floating rate and exposure to the front and not the long end of the curve.***

From a fundamental perspective, lower interest rates are more favorable for performance. On the other hand, this can decrease the coupon on a floating interest rate product like ABS. However, over the last two years, we have observed a lot of volatility on the back of growth and inflation expectations, including varying outlooks for interest rates across markets. An ABS investor is affected to a lesser extent by expectations of interest rate moves (that tend to move the longer end of the interest curve), as their carry is primarily affected by the front end of the curve. As rate curves are inverted, this results in a higher current yield that is, on average, 80-90 basis points higher than the yield to maturity.

What is your outlook for the asset class and where in the investment universe do you see relative value?

Apart from what has already been mentioned on the fundamental side of things, from a demand/supply technical, we have seen spreads tighten as a significant increase in supply has been met with an increase in demand. As investors recognize the benefits of this asset class: **stable income**, **consumer exposure**, and **having that higher carry in an uncertain environment**, we have seen a lot of inflow into ABS funds.

There has been increased issuance from banks, who, with fading ECB stimulus and no purchasing programs, need to mitigate risk from their balance sheet. As a result, we have seen more issuance from Italy, Spain, France, and the Netherlands as banks need funding to generate more consumer lending. We expect this to continue because, as interest rates go down, credit availability is better, and conditions are favorable for consumer lending and consumer lending institutions, and issuance will increase.

On the other hand, demand remains bullish with spreads above comparable interest rate products. And with the added benefit of a floating interest rate, we anticipate carry to be the main performance attributor for ABS in 2025 again.

Owing to our loan-level data analysis and trustee reporting and monitoring systems, any deterioration in asset fundamentals can be averted by choosing not to invest or divest, whether that's on a sector or single issuance level. But overall, we believe that the outlook for ABS is looking good from a fundamental perspective.

We believe that the outlook for ABS is looking good from a fundamental perspective.

Disclosures

For Professional Investors only and not to be distributed to or relied upon by retail clients.

This is a marketing communication. Please refer to the following legal documents of the UCITS before making any final investment decisions. For UK investors: This product is based overseas (Ireland) and is not subject to UK sustainable investment labelling and disclosure requirements. Please read the Key Investor Information, Prospectus, Supplementary Information Document and Application Form carefully. Consider getting financial advice if you need help to understand the investment and both the risks and opportunities involved. This product is authorised overseas but not in the United Kingdom and the Financial Ombudsman Service is unlikely to be able to consider complaints related to the product, its operator or depositary. Any claims for losses relating to the operator or depositary of this product are unlikely to be covered under the Financial Services Compensation Scheme. For EU investors: please refer to the Prospectus and the PRIIPs KID. The relevant documents can be found at aegonam.com. The principal risk of this product is the loss of capital.

Past performance does not predict future returns. Outcomes, including the payment of income, are not guaranteed.

Opinions and/or example trades/securities represent our understanding of markets both current and historical and are used to promote Aegon Asset Management's investment management capabilities: they are not investment recommendations, research or advice. Sources used are deemed reliable by Aegon Asset Management at the time of writing. Please note that this marketing is not prepared in accordance with legal requirements designed to promote the independence of investment research, and is not subject to any prohibition on dealing by Aegon Asset Management or its employees ahead of its publication.

All data is sourced to Aegon Asset Management unless otherwise stated. The document is accurate at the time of writing but is subject to change without notice. Data attributed to a third party ("3rd Party Data") is proprietary to that third party and/or other suppliers (the "Data Owner") and is used by Aegon Investment Management B.V. under license. 3rd Party Data: (i) may not be copied or distributed; and (ii) is not warranted to be accurate, complete or timely. None of the Data Owner, Aegon Investment Management B.V. or any other person connected to, or from whom Aegon Investment Management B.V. sources, 3rd Party Data is liable for any losses or liabilities arising from use of 3rd Party Data.

Aegon Asset Management Europe ICAV is an umbrella type open-ended investment company with variable capital, registered in the Republic of Ireland (Company No. C153036) at 25-28 North Wall Quay, International Financial Services Centre, Dublin 1. Board of Directors: M. Kirby, S. Donald and B. Wright. Aegon Asset Management Europe ICAV is regulated by the Central Bank of Ireland. Aegon Investment Management B.V (Aegon AM NL) is the appointed management company. Aegon AM NL (Chamber of Commerce number: 27075825) is registered with and supervised by the Dutch Authority for Financial Markets (AFM). For Switzerland, ICAV is a UCITS which is authorised for distribution by FINMA as a Foreign Collective Investment Scheme. The Disclosures are available from www.aegonam.com or from the Representative and Paying Agent in Switzerland, CACEIS (SA) Switzerland, Chemin de Precossy 7-9, CH-1260 Nyon / VD, Suisse, Phone: +41 22 360 94 00, Fax: +41 22 360 94 60.

Aegon Asset Management UK plc is an appointed sub-promoter for Aegon Asset Management Europe ICAV. Aegon Asset Management UK plc is authorized and regulated by the Financial Conduct Authority.

Please note that not all sub-funds and share classes may be available in each jurisdiction. This content is marketing and does not constitute an offer or solicitation to buy any fund(s) mentioned. No promotion or offer is intended other than where the fund(s) is/are authorized for distribution.

Please visit www.aegonam.com/en/contact/ for an English summary of investor rights and more information on access to collective redress mechanisms.

AdTrax: 7427748.1 | Exp. Date: 31 December 2025