# Candriam Bonds Credit Alpha

## Market Overview

August was all about monetary policies.

At the beginning of the month, the BoJ took the market by surprise with a second hike and the yen's strengthening triggered an unwind of carry trades which brought a significant amount of volatility in equity markets. After this technical sell off, risky assets recovered most of their losses through the month.

At the end of the month, the focus shifted on the other side of the Pacific at Jackson Hole where Chairman Jerome Powell emphasized that labor markets were "looser" than pre-pandemic levels and were no longer a source of inflationary pressure. Furthermore, he indicated there is "ample room" to cut rates and that the FOMC will do "everything we can" to support the labor market. Powell's comments made it clear that September will mark the start of the Feds easing cycle.

In terms of fundamentals, the messaging from the corporate sector on the health of the consumer is also turning weaker, with some significant misses or guidance downgrades in airlines, autos and retail. While earnings season as a whole has been fairly average, almost all of the beats have come from defensive sectors such as telecommunications, healthcare and utilities.

Technicals remain strong with continued inflows into credit funds as investors are anticipating rate cuts and lower income in money market funds.

In this context, credit spreads widened in the first days but recovered most of their widening through the month.

## Portfolio Highlights & Strategy Review

In August, the strategy delivered a positive return of +0.65%. Year to date, the strategy is delivering a performance of 3.75% outperforming Ester by 111 bps. The performance came mainly from the fundamental L/S as the strategy benefited both from our shorts (Dollar Tree and Dollar General) and from our long positions (PureGym, Cellnex and Stada).

During the month, we took some profits on some of our shorts that performed very well (Dollar General and Auchan) and we took some profits on some of our longs as we expect credit spreads to widen in the next 2 months on the back of strong supply and uncertainties around US elections. We continue to like short duration and refi candidates in the next 12 months as they provide attractive yield and limited exposure to the market. .

*net of fees in euro, I-Cap share class.

## Fund Outlook

As a result of structurally higher inflation and lower growth, we believe credit markets entered a new paradigm defined by more volatility, higher default rates and higher dispersion.

Credit Alpha thanks to its unconstrained approach to credit markets and its two complementary engines of performance has the ability to deliver both attractive and uncorrelated return in this type of environment.

In the short term, we expect the fundamental L/S to benefit both from deteriorating credit stories on cyclicals and over levered companies on the short side and from attractive investment opportunities on improving credit stories on the long side.

In the quantitative L/S, we expect the strategy to continue to benefit from credit curves, cross currency and credit basis dislocations as we expect the market to remain volatile.