

Candriam Bonds Credit Alpha

Market Overview

Monetary policy played again a significant role this month. The Federal Reserve took its first step in aligning with the global easing trend, reducing interest rates by 50 basis points as inflation pressures continued to recede. The Bank of Canada and the ECB cut-again by 25 bps.

Meanwhile, the Eurozone struggled with sluggish GDP growth as weak demand continued to dampen recovery prospects. Structural challenges and excessive deficits remain prominent risks to the region's growth trajectory. In China, the market saw a robust rally following the government's announcement of significant fiscal stimulus measures and easing monetary guidance. Beijing's commitment to supporting economic stability through these interventions was positively received by investors, offering some optimism in an otherwise cautious global market environment.

Fundamentals remain robust as most companies remain focused on debt reduction in the current rate environment but some cracks are appearing in sectors like autos and retail where demand is weaker than expected. On the negative side, we start to see more M&A transaction with negative implications for credit ratios.

Technical 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 have been relatively stable.

Portfolio Highlights & Strategy Review

In September, the strategy delivered a positive return of +0.25%. Year to date, the strategy is delivering a performance of 4.01% outperforming Ester by 106 bps. The fundamental L/S posted a small positive performance while the quantitative L/S had a negative contribution over the month.

During the month, we used the underperformance of cash in both IG and HY to add negative basis trades to our Quantitative L/S. On the fundamental L/S, we took profits on our short position in Valeo and we added a new short position in Nissan. Our Short position in IHOVER had a negative contribution as the company announced an early refinancing. On the long side, we added a long position in LKQ to benefit from the general weakness in Autos.

*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.

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