Candriam Bonds Credit Alpha

Market Overview

In November, the highly anticipated U.S. election concluded, with Trump achieving a decisive victory to become the 47th President of the United States. The Republican Party also secured sweeping control of both the House and Senate, paving the way for smoother implementation of Trump's second-term agenda. The bond market welcomed Scott Bessent’s nomination as Treasury Secretary, with yield of 10-year note declined by 25bps since the announcement, reflecting a relief rally.

European composite PMI and core inflation fell short of expectations, intensifying pressure on the ECB to lower rates. Trump’s tariff policies added further uncertainty, posing growth risks for Europe. German bund dropped by 30bps in response to weak data.

Fundamentally, Q3 earnings were strong overall, though auto sector outlook dimmed due to both structural and macro challenges.

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

In this context, the Euro high yield credit spreads widened (340bps), lagging the US high yield market reaching all time tights (260 OAS end of Nov).

Portfolio Highlights & Strategy Review

In November, the strategy delivered a positive return. Year to date, the strategy is delivering a performance outperforming Ester.

In the fundamental L/S, we used the spread widening in autos to take profits on half of our short position in Nissan and we covered fully our short on ZFF. On the long side, we used the primary market in Europe to add new positions at attractive levels.

In the quantitative L/S, the activity has been very limited as we have seen very few new opportunities and we prefer to keep a low gross exposure as we head into a lower liquidity environment in December.

In the tactical bucket, we cut our short positions on US HY and IG as a negative scenario on US elections did not materialize.

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.