

Candriam Bonds Credit Alpha

Market Overview

Over the first month of the year, volatility slightly picked up as Trump administration makes first moves on tariffs, immigration, deficits, and starts moving its pawns on the geopolitical chess. Data showed that the eurozone's economic activity unexpectedly stagnated over the final quarter of 2024 as political instability in Germany and France hurt confidence among business and consumers, with further concerns about potential tariffs and rising energy prices. The BCE cut rates by 25 bps and appears to aim for the neutral rate by mid-year. The US economy meanwhile remains remarkably strong. A closely watched measure of underlying inflation rose to 2.5% and, combined with erratic shifts in Trump's trade policy saw the FED take a more measured approach.

High Yield primary markets tried to make a come-back last 2 weeks of January with both refinancing and M&A deals. Demand continues unabated with books well oversubscribed and ongoing inflows into High Yield funds.

In this context, credit markets compressed with higher betas outperforming. The US high yield credit spreads tightened by 25 bps to 260bps. This happened into mostly unchanged 10yr Treasury over the month despite wild ride from 4.50% at year-end to 4.80% by mid-month and back to 4.50%. European High Yield spreads also tightened by 10bps to 307bps, with the German 10y rate rising to 2.46% (+10 bps).

Portfolio Highlights & Strategy Review

In January, the strategy delivered a positive return outperforming Ester by 13 bps.

The performance came mostly from the fundamental L/S as our long positions outperformed our shorts and delivered a positive performance. We took some profits on both some of our longs (Teva, Perrigo, PurGym) and some of our shorts (VW, BMW, Mercedes). The quantitative L/S had a much smaller contribution (+0.02%).

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.

Candriam Bonds 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.

This marketing communication is provided for information purposes only, it does not constitute an offer to buy or sell financial instruments, nor does it represent an investment recommendation or confirm any kind of transaction, except where expressly agreed. Although Candriam selects carefully the data and sources within this document, errors or omissions cannot be excluded a priori. Candriam cannot be held liable for any direct or indirect losses as a result of the use of this document. The intellectual property rights of Candriam must be respected at all times, contents of this document may not be reproduced without prior written approval.

Warning: Past performance of a given financial instrument or index or an investment service or strategy, or simulations of past performance, or forecasts of future performance does not predict future returns. Gross performances may be impacted by commissions, fees and other expenses. Performances expressed in a currency other than that of the investor's country of residence are subject to exchange rate fluctuations, with a negative or positive impact on gains. If the present document refers to a specific tax treatment, such information depends on the individual situation of each investor and may change.

In respect to money market funds, please be aware that an investment in a fund is different from an investment in deposits and that the investment's principal is capable of fluctuation. The fund does not rely on external support for guaranteeing its liquidity or stabilizing its NAV per unit or share. The risk of loss of the principal is borne by the investor.

Candriam consistently recommends investors to consult via our website www.candriam.com the key information document, prospectus, and all other relevant information prior to investing in one of our funds, including the net asset value ("NAV") of the funds. Investor rights and complaints procedure, are accessible on Candriam's dedicated regulatory webpages <https://www.candriam.com/en/professional/legal-and-disclaimer-candriam/regulatory-information/>. This information is available either in English or in local languages for each country where the fund's marketing is approved. According to the applicable laws and regulations, Candriam may decide to terminate the arrangements made for the marketing of a relevant fund at any time.

Information on sustainability-related aspects: the information on sustainability-related aspects contained in this communication are available on Candriam webpage <https://www.candriam.com/en/professional/market-insights/sfdr/>. The decision to invest in the promoted product should take into account all the characteristics or objectives of the promoted product as described in its prospectus, or in the information documents which are to be disclosed to investors in accordance with the applicable law.

Notice to investors in Switzerland: The information provided herein does not constitute an offer of financial instruments in Switzerland pursuant to the Swiss Financial Services Act ("FinSA") and its implementing ordinance. This is solely an advertisement pursuant to FinSA and its implementing ordinance for financial instruments.

Swiss representative: CACEIS (Switzerland) SA, Route de Signy 35, CH-1260 Nyon. The legal documents as well as the latest annual and semi-annual financial reports, if any, of the investment funds may be obtained free of charge from the Swiss representative.

Swiss paying agent: CACEIS Bank, Paris, succursale de Nyon/Suisse, Route de Signy, 35, CH-1260 Nyon. Place of performance: Route de Signy 35, CH-1260 Nyon. Place of jurisdiction: Route de Signy 35, CH-1260 Nyon.

Specific information for investors in France: the appointed representative and paying agent in France is CACEIS Bank, Luxembourg Branch, sis 1-3, place Valhubert, 75013 Paris, France. The prospectus, the key investor information, the articles of association or as applicable the management rules as well as the annual and semi-annual reports, each in paper form, are made available free of charge at the representative and paying agent in France.

Specific information for investors in Spain: Candriam Sucursal en España has its registered office at C/ Pedro Teixeira, 8, Edif. Iberia Mart I, planta 4, 28020 Madrid and is registered with the Comisión Nacional del Mercado de Valores (CNMV) as an European Economic Area management company with a branch. CNMV: 266