Candriam Bonds Global High Yield

Market Overview

Politics returned to the forefront over the month of June as market volatility around the European elections was exacerbated by the surprise announcement of president Macron, who declared legislative elections in France, where results will be finalized in early July. This drove a wave of anxiety and spurred a flight to haven assets and pressured sovereign debt spreads of notably France and Italy. In the US, despite welcome news in the latest inflation data and US consumer sentiment hitting a seven-month low, the FED now sees only one cut in 2024, less than the three expected in March.
Fundamentals remain well oriented with most companies focused on debt reduction to adapt their capital structure to a higher for longer environment. At the bottom of the rating spectrum, cracks are appearing as some balance sheet are not sustainable in the new interest rate regime.
Technicals remain strong with more rising stars than fallen angels and the weaker credits being downgraded to CCC and below. The size of performing High Yield is shrinking and demand remains strong especially in Europe.
In this context, High Yield spreads were relatively stable in the US with a decent underperformance of European High Yield.

Portfolio Highlights & Strategy Review

The Fund delivered a performance of 0.76% over the month (I Share euro, net of fees), in-line with the benchmark.
Volumes remain thin within HY markets with spreads at multi years tights across BBs and Bs. We continue to focus on short duration bonds that exhibit attractive carry. We remain focus on higher quality issuers, leading players with credit friendly behaviours.
In terms of sector allocation, we maintain our underweight exposure to Real Estate where most companies are exhibiting very weak corporate governance and Autos where valuations are unattractive. We continue to favor more “defensive” sectors (Telecommunications, Healthcare) as there is no dispersion between cyclical and non-cyclical sectors. We reduced our OW to Euro Corporate hybrids (Utilities, Energy) and focus on shorter calls as attractive carry trades on robust IG credits.
In term of DTS, we remain well below our benchmark on US HY. We plan to take advantage to recent European HY underperformance to increase our allocation to Euro HY, excluding French corporates as we find valuations unattractive.

* net of fees in EUR terms

Fund Outlook

High Yield spread rallied strongly in the last quarter of 2023 and rates have already discounted a potential policy pivot which has set up a challenging start for 2024, and spread levels appear to be generally tight. On the positive side, we continue to find High Yield spread in Europe attractive vs the US and fundamentals as well as technicals remain very well oriented with rising stars outpacing fallen angels and very limited net supply from the primary market as M&A activity remain subdued.
We also expect the strategy to benefit from elevated dispersion as the impact of the new rate environment will gradually impact the most levered capital structures.