

Candriam Bonds Global High Yield

Market Overview

Rates rallied across both sides of the Atlantic on a string of US economic data that provided reassurance of the gradual cooling in inflation prints and slowing of the labour market.

The ECB did not change its policy at the July meeting, as was widely expected, given that policymakers remain concerned about the elevated services inflation and wage pressures. The Fed kept rates unchanged, but sent a strong dovish signal by recognizing that the recent string of data brought the FOMC closer to cutting rates in September.

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 overall. The primary picked up in Europe but the net supply remains limited with mostly refinancing activities. On the positive side, flows continued to be positive into High Yield funds.

Portfolio Highlights & Strategy Review

In July, the strategy underperformed slightly the benchmark due to our overall defensive stance on US HY with spreads at multi years tight across BBs and Bs. We continue to focus on short duration bonds that exhibit attractive carry and focus on "High Quality" issuers.

In terms of sector allocation, we maintain our underweight exposure to more cyclical sectors where valuations are unattractive. We continue to favor more "defensive" sectors (Telecommunications, Healthcare, Packaging). We reduced further our OW to Euro Corporate hybrids (Utilities, Energy) and focus on shorter calls as attractive carry trades on robust IG credits. We continue to opportunistically use the IG market to add some duration to our fund.

In term of DTS, we remain UW US HY, OW EHY. We took advantage to European HY underperformance to increase our allocation to Euro HY, using the primary market and adding exposure on Euro HY TRS.

* net of fees in EUR terms

Fund Outlook

High Yield markets offer attractive yields but spreads remain unattractive in some area and we believe it is key in this environment to increase selectivity and focus on alpha opportunities. We continue to find High Yield spread in Europe attractive relative to the US, with Fundamentals and Technicals well oriented.

In the coming quarters, our strategy that relies on both high conviction and very active management should benefit from higher dispersion to generate outperformance versus the market.



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