

# Candriam Bonds Global High Yield

## Market Overview

August was all about monetary policies.

At the beginning of the month, the BoJ took the market by surprise with a second hike and the yen's strengthening triggered an unwind of carry trades which brought a significant amount of volatility in equity markets. After this technical sell off, risky assets recovered most of their losses through the month.

At the end of the month, the focus shifted on the other side of the Pacific at Jackson Hole where Chairman Jerome Powell emphasized that labor markets were "looser" than pre-pandemic levels and were no longer a source of inflationary pressure. Furthermore, he indicated there is "ample room" to cut rates and that the FOMC will do "everything we can" to support the labor market. Powell's comments made it clear that September will mark the start of the Feds easing cycle.

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 with continued inflows into credit funds as investors are anticipating rate cuts and lower income in money market funds.

In this context, credit spreads widened in the first days but recovered most of their widening through the month.

## Portfolio Highlights & Strategy Review

In August, the strategy underperformed the benchmark by -0.23%.

The underperformance came mostly from our full underweight to the real estate sector (-0.21%). Although we are constructive at the sector level, the issuers in our market (Heimstaden -0.11%, CPI Property Group -0.10%) are exhibiting particularly weak corporate governance and as a result we intend to maintain the underweight.

In the current environment, we remain focused on leading players with a strong pricing power and a proven ability to pass through inflation costs. We favor issuers with prudent capital management and credit friendly behaviors. 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 fundamentals are under pressure and valuations are unattractive. We continue to favour defensive sectors (Telecommunications, Packaging, Healthcare and Utilities) and the Energy sector. In terms of country allocation, we maintained an underweight exposure to French corporates as we find valuations unattractive.

\* net of fees in EUR terms

## Fund Outlook

High Yield markets offer attractive yields but valuations are becoming less attractive in some area and we believe it is key in this environment to increase selectivity and focus on alpha opportunities. In the coming quarters, our strategy that relies on both high conviction and active management should benefit from higher dispersion to generate outperformance versus the market.

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