Candriam Bonds Global High Yield

Market Overview

Monetary policy played again a significant role this month. The Federal Reserve took its first step in aligning with the global easing trend, reducing interest rates by 50 basis points as inflation pressures continued to recede. The Bank of Canada and the ECB cut-again by 25 bps.
Meanwhile, the Eurozone struggled with sluggish GDP growth as weak demand continued to dampen recovery prospects. Structural challenges and excessive deficits remain prominent risks to the region's growth trajectory. In China, the market saw a robust rally following the government's announcement of significant fiscal stimulus measures and easing monetary guidance. Beijing's commitment to supporting economic stability through these interventions was positively received by investors, offering some optimism in an otherwise cautious global market environment.
Fundamentals remain robust as most companies remain focused on debt reduction in the current rate environment but some cracks are appearing in sectors like autos and retail where demand is weaker than expected. On the negative side, we start to see more M&A transaction with negative implications for credit ratios.
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 have been relatively stable.

Portfolio Highlights & Strategy Review

In September, the strategy underperformed the benchmark by -0.11%. Our UW on US HY and high allocation to cash was detrimental (-0.16%). The underperformance came also from our underweight to the real estate sector (-0.08%) but was partly offset by our underweight in Autos (+0.06%).
In terms of sector allocation, we maintain our underweight exposure to Real Estate where most companies are exhibiting very weak corporate governance and Autos which is a structurally challenged sector. We continue to favour defensive sectors (Telecommunications, Packaging, Healthcare and Utilities).
We continue to favor European High Yield trading with relative attractive spreads. We keep our Underweight to US High Yield as spreads traded are all time tights and yields dropped with rates rallying. This set up in terms of Spread/yield and less convexity for HY bonds after the rally reinforce our cautious stance. We expect credit spreads to widen on the back of stronger supply and uncertainties around US elections. *

* net of fees in EUR terms

Fund Outlook

High Yield markets offer relative 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.
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.

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