Candriam Bonds Global High Yield

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.

In spite of the periods of heightened volatility, 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, our strategy underperformed the benchmark as higher betas / lower quality credit profiles continue to outperform. The fund also suffered from its UW to Energy.

During the month, we used the primary market to increase our credit exposure. In the US, we continue to focus on shorter duration BB Bonds (2-5yr) to benefit from the strong carry.

In terms of sector allocation, we maintain our Underweight exposure to Energy (weaker fundamentals ahead), Real Estate (where most companies are exhibiting weak corporate governance) and Autos (structurally challenged sector with tariffs risk ahead). We continue to favour defensive sectors (Packaging, Healthcare and Utilities) and Telecoms with better valuations. We keep our OW to corporate hybrids in the Utilities & Energy sectors to benefit from attractive relative yields and convexity. In terms of duration, we are flat on Euro HY vs our benchmark, slightly negative (-.25) on US HY, and slightly positive on GBP HY.

Fund Outlook

While spreads remain unattractive on historical basis, High Yield markets offer relative attractive yields with lower duration.

We believe it is key in this environment to remain selective and focus on alpha opportunities. M&A, lower regulation in the US, easing monetary policy should contribute to growth in credit in 2025 which could help balance supply/demand.

Our strategy that relies on both high conviction and very active management should benefit from higher dispersion and volatility to generate outperformance versus High Yield markets.