Candriam Sustainable Bond 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 -0.10% due to our overall defensive stance on US HY. Our fund also suffered form our UW to Real Estate (-0.06%).

We keep our Underweight to US High Yield as spreads traded back to the YTD tights (after a brief widening beginning of the month) 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. As Fed's pivot to cut now priced by financial markets, we expect credit spreads to widen in the next 2 months on the back of stronger supply and uncertainties around US elections.

We continue to favor European High Yield trading with relative attractive spreads and a higher quality bias.
In terms of sector allocation, we maintain our underweight exposure to more cyclicals sectors where valuations are unattractive. We continue to favor more "defensive" sectors (Telecommunications, Healthcare, Packaging). We increased our exposure to US IG issuers to gain duration and convexity.*

* 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.

Our fund exhibits several bias due to its ESG approach : a more defensive positioning compared to our benchmark, no exposure to Energy/commodities and a structural overweight to Euro HY vs US HY.