

Candriam Sustainable Bond 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.

Technical 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 -0.25%.. While our UW on energy (+0.05%) and Auto (+0.07%) had a positive impact on the performance this was more than offset by our underweight to the real estate sector (-0.09%) and our defensive stance, along with the strong outperformance of issuers excluded from our investment universe

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.



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