Candriam Sustainable Bond Global High Yield

Fund performance

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.
Despite 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 tightened with higher betas segments outperforming. U.S. High Yield credit spreads narrowed by 25 bps to 260 bps. This occurred despite a largely unchanged 10-year Treasury yield over the month, which saw a volatile trajectory from 4.50% at year-end, peaking at 4.80% by mid-month, before retracing to 4.50%. Similarly, European High Yield spreads tightened by 10 basis points to 307 basis points, while the German 10-year yield rose to 2.46% (+10 bps).

Portfolio Highlights & Strategy Review

In January, the strategy underperformed the benchmark as higher-beta and lower-quality credits continued to outperform. Additionally, the fund was adversely impacted by its structural underweight exposure in the Energy sector. Performance was further impacted by our holdings in long duration, rate-sensitive debts, like hybrids, from high quality issuers.
During the month, we utilized the primary market to manage our credit exposure. In the US, we continue to focus on shorter duration BB Bonds (2-5yr) to benefit from the strong carry.
From a sector allocation perspective, beyond our structural underweight position in Energy, we maintain an underweight stance in Real Estate, where corporate governance concerns persist, and in Autos, a structurally challenged sector facing tariff-related risks. We continue to favor sectors with low cyclicality and attractive valuations, such as Telecoms. Additionally, we retain our overweight position in corporate hybrids within the Utilities sector to benefit from their attractive relative yields and convexity.
The fund's duration is slightly above the index for Euro High Yield, while it remains marginally below the benchmark for U.S. High Yield.

Fund Outlook

While spreads remain at tight historical levels, 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 support credit growth in 2025, helping rebalance the supply/demand dynamics.
Our strategy continues to focus on high quality ESG issuers, that benefit from strong solid balance sheets and sustainable business models. We think that these companies will better navigate in a more volatile markets.