

Candriam Bonds Global High Yield

Fund performance

At the end of last year, markets declared victory for central banks in their battle against inflation.

After an everything rally from rates to equities and credit over the final months of 2023, financial markets entered a consolidation phase as they scrutinised economic data and central bank reaction more carefully. Rate markets consequently remained range-bound and volatile, amidst a slew of mixed data and balanced central bank rhetoric.

Fundamentals are still better oriented in Europe where most corporates remain focused on debt reduction while some cracks are appearing in the US in sectors like TMTs and some companies shifted to more equity friendly behaviours.

Technicals are more supportive in Europe where we continue to see more rising stars than fallen angels and where the net supply is still negative. In the US, the primary market is much more active with new issuers coming to the market to refinance expensive loans and M&A transactions.

In this context, credit spreads tightened further and are now priced to perfection in US at multi decade tights. In Europe, we continue to find some attractive opportunities as spreads remain slightly more attractive overall but passive flows from maturity funds made some capital structures very expensive with credit spreads through all time tights. Cash now yields as much as many BBs with HY universe (4% in Euro, 5.5% in the US) as rates curves remain inverted.

Portfolio Activity

In January the strategy outperformed slightly its benchmark by 0.13%.

We used the spreads tightening to continue to take profit on tightest BB credits as BB vs BBB spreads squeezed further. Duration now stands 0.4 below the benchmark. Cash balance remains elevated. We remained selective in the primary market as new issuance finally picked up last week of the month in the US. We raised our exposure to IG with some US issuers trading wider than BB HY names (Ford, Icon, Berry).

We keep our OW to Corporate hybrids (Utilities, Energy) as an attractive carry trade on robust IG credits with the segment still trading with discount to generic HY issuers. We continue to look for refinancing candidates and favor shorter bonds trading with a discount to par.

In the current environment, we continue to favor issuers with prudent capital management and credit friendly behaviors. In terms of sector allocation, we remain overweight on more defensive sectors (Media, Healthcare and European Utilities) as dispersion between cyclical and non-cyclical sectors remains limited.

* net of fees in EUR terms

Fund Outlook

High Yield spread rallied strongly in the last quarter of 2023 and rates have already discounted a potential policy pivot which have set up a challenging start for 2024. Fundamentals are expected to deteriorate especially for more levered companies that will face significantly higher interest costs as they will start to tackle their maturity wall. With much tighter conditions leading to deteriorating earnings and strengthening momentum in downgrades/defaults, we expect credit selection to be of utmost importance in this cycle.

In the short term, we intend to manage the beta actively and to remain very selective as we expect idiosyncratic risk to increase substantially through the year.

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