

Candriam Monétaire SICAV

Market Overview

After an impressive rally over the last months of 2023, financial markets entered a consolidation phase as they pondered the reaction functions of central banks. Rate markets consequently remained range-bound and volatile, held victim by economic data and a cacophony of comments from central bankers.

The eurozone narrowly avoided a recession as firmer growth in Italy and Spain offset weakness in France and Germany. Although headline inflation has come down spectacularly, barring differences between regions, for the bloc as a whole core inflations remained sticky around 3.4%. The last mile to the ECB's target of 2% is rife with challenges and inflation is showing signs of becoming entrenched. The ECB left rates unchanged, and though policymakers appear to converge on a first cut around June, the lack of pushback from Lagarde emboldened markets to ramp up predictions of a first cut in April. However, policymakers remain nervous about an inflation flare up for a myriad of reasons and are unlikely to move before they receive the Q1 wage data scheduled to come in after their April meeting.

The Fed maintained its policy rates, but markets were caught off guard by the overall neutral tone of Jerome Powell and especially by the strong pushback against a rate cut in March. The central bank's reaction function appears to be much less aggressive than expected and it can afford to err on the cautious side as the economy remains in a goldilocks zone, with gradually retreating inflation and sustained economic growth. Q4 GDP surprised to the upside (3.3% vs 2% expected) and the labour market remains remarkably strong as US companies ramped up hiring over December. Anything that may contradict that narrative is closely scrutinised, such as consumers buying more on credit and taking longer to repay it, the number of people voluntarily leaving their job falling to a three-year low (indicating lower confidence to switch jobs) and mentions of job cuts in earnings calls hitting pandemic-time peaks. Lastly, towards the end of January, regional banks found themselves in the spotlight again as the continued malaise in the US commercial property market drove New York Community Bancorp to significantly increase provisions for credit losses.

The primary market was exceptionally active, setting a record for Europe's busiest month in history, with more than €300 billion issued. Governments seeking to finance their spending plans accounted for the bulk of that, as they took advantage of the supportive market conditions and strong investor demand ahead of potential volatility from elections and geopolitical events. More than 150 corporate issuers also came to the market, likely frontloading their 2024 needs for the same reasons and because refinancing has become considerably cheaper given the lower yield and spread levels.

The result seasons has been mixed so far. The slowdown appears to have arrived and companies are losing pricing power as net profit margins contracted in an effort to counteract declines in volume. One notable takeaway is the strong corporate appetite for share buybacks as a way to offset disappointments generated by lower profits or guidance (e.g. BP and UBS) by supporting their equity value and increasing their gearing ratio. Nonetheless, burning cash in the current macro environment in a way that is non-accretive to topline growth conveys that businesses are less confident to be able to pass on costs and opt for artificial ways to prop up return on capital employed.

Credit spreads (ICE BofA 1-3 Year Euro Corporate Index) benefited from the risk-on environment and economic backdrop and narrowed by 8 bps to a level of 108 bps. The US 5yr rate ended the month at 3.83% (-2 bps), the German 5yr rate rose to 2.05% (+10 bps) and the Italian 5yr rate increased to 3.12% (+5 bps). The Euribor 3 months decreased marginally to 3.90% (-1 bp) while the Euribor 12 months rose to 3.57% (6 bps).

Portfolio Highlights & Strategy Review

The overall structure of the fund remains the same, with a neutral stance on credit and defensive stance on rates. We continue to prefer shorter maturities, while favouring quality and liquidity.

The WAM and WAL of the fund are at 34 and 193 respectively

Fund Outlook

We are closely monitoring changes in economic activity, inflationary pressures and the varying and lagging impacts from the unprecedented rate-hike cycles all around the world. Economic data and financial stability are likely to drive the reaction functions of central banks. While risks to global supply chains, from climate disruption to geopolitics (Ukraine/Russia, Israel/Palestine, risks to maritime transport in the Red Sea and other rising tensions) remain. All of these will likely be key drivers for financial markets over 2024 and the uncertainty surrounding them will likely support volatility as sharp, two-way market reactions are being driven by incremental news flow. We are therefore paying close attention to downside risk and favour high-quality, liquid assets, while remaining selective in our investments. We rely on our rigorous in-house, bottom-up analysis and hold a preference for companies with strong ratings and low leverage.

This marketing communication is provided for information purposes only, it does not constitute an offer to buy or sell financial instruments, nor does it represent an investment recommendation or confirm any kind of transaction, except where expressly agreed. Although Candriam selects carefully the data and sources within this document, errors or omissions cannot be excluded a priori. Candriam cannot be held liable for any direct or indirect losses as a result of the use of this document. The intellectual property rights of Candriam must be respected at all times, contents of this document may not be reproduced without prior written approval.

Warning: Past performance of a given financial instrument or index or an investment service or strategy, or simulations of past performance, or forecasts of future performance does not predict future returns. Gross performances may be impacted by commissions, fees and other expenses. Performances expressed in a currency other than that of the investor's country of residence are subject to exchange rate fluctuations, with a negative or positive impact on gains. If the present document refers to a specific tax treatment, such information depends on the individual situation of each investor and may change.

In respect to money market funds, please be aware that an investment in a fund is different from an investment in deposits and that the investment's principal is capable of fluctuation. The fund does not rely on external support for guaranteeing its liquidity or stabilizing its NAV per unit or share. The risk of loss of the principal is borne by the investor.

Candriam consistently recommends investors to consult via our website www.candriam.com the key information document, prospectus, and all other relevant information prior to investing in one of our funds, including the net asset value ("NAV") of the funds. Investor rights and complaints procedure, are accessible on Candriam's dedicated regulatory webpages <https://www.candriam.com/en/professional/legal-and-disclaimer-candriam/regulatory-information/>. This information is available either in English or in local languages for each country where the fund's marketing is approved. According to the applicable laws and regulations, Candriam may decide to terminate the arrangements made for the marketing of a relevant fund at any time.

Information on sustainability-related aspects: the information on sustainability-related aspects contained in this communication are available on Candriam webpage <https://www.candriam.com/en/professional/market-insights/sfdr/>. The decision to invest in the promoted product should take into account all the characteristics or objectives of the promoted product as described in its prospectus, or in the information documents which are to be disclosed to investors in accordance with the applicable law.

Notice to investors in Switzerland: The information provided herein does not constitute an offer of financial instruments in Switzerland pursuant to the Swiss Financial Services Act ("FinSA") and its implementing ordinance. This is solely an advertisement pursuant to FinSA and its implementing ordinance for financial instruments.

Swiss representative: CACEIS (Switzerland) SA, Route de Signy 35, CH-1260 Nyon. The legal documents as well as the latest annual and semi-annual financial reports, if any, of the investment funds may be obtained free of charge from the Swiss representative.

Swiss paying agent: CACEIS Bank, Paris, succursale de Nyon/Suisse, Route de Signy, 35, CH-1260 Nyon. Place of performance: Route de Signy 35, CH-1260 Nyon. Place of jurisdiction: Route de Signy 35, CH-1260 Nyon.

Specific information for investors in France: the appointed representative and paying agent in France is CACEIS Bank, Luxembourg Branch, sis 1-3, place Valhubert, 75013 Paris, France. The prospectus, the key investor information, the articles of association or as applicable the management rules as well as the annual and semi-annual reports, each in paper form, are made available free of charge at the representative and paying agent in France.

Specific information for investors in Spain: Candriam Sucursal en España has its registered office at C/ Pedro Teixeira, 8, Edif. Iberia Mart I, planta 4, 28020 Madrid and is registered with the Comisión Nacional del Mercado de Valores (CNMV) as an European Economic Area management company with a branch. CNMV: 1472