

Candriam Long Short Credit

Market Overview

Over the month of February sticky inflation data had rates traders second-guess their expectations and further scale back their pricing of interest rate cuts. Markets now expect 90 bps of rate cuts from the ECB over 2024 (as opposed to 164 at the end of last year) and 100 bps from the Fed (compared to 157 bps).

Central bank governors have continued to repeat ad nauseam that they are data dependent, and macroeconomic data for the US appears to remain in a goldilocks zone. The labor market remained resilient, and economic activity was strong at 3.3% annualized for Q4, while inflation is on a slow retreat. Meanwhile, the eurozone expanded 0.1% over Q4, though there is an increasing divergence between Germany and the rest of the region, as the former remains weighed down by continued weakness in its outsized manufacturing sector. Inflation in the EU block remains sticky with core inflation moderating less than expected to 3.1%. The ECB appeared especially weary of wage inflation as evidenced by their inflation expectations of 3.2% over the next 12 months versus the ECB's estimate of 2.7%. The ECB members also appear to converge around June for the first rate cut, while Fed officials are cautiously guiding towards Q3 and are weary of potential accusations alleging election interference. The Fed seems to have more leeway in a context of strong economic growth, while the ECB has historically never led cut rates before the Fed.

The property market turbulence rippled across the globe as Chinese investors, needing to raise cash amid a deepening crisis at home, offloaded assets in Europe and the US at significant discounts. Deal activity picked up and revealed just how far real estate prices have fallen, which raised concern about losses rippling across the global financial system. The turmoil, for now, remains concentrated around smaller banks and regional banks, with New York Community Bancorp, Japan's Aozora Bank Ltd and Germany's Deutsche Pfandbriefbank AG in the spotlight as they took steps to brace for bad loans. The deepening real estate concerns prompted fixed income investors to become more reluctant to add exposure to lenders that are exposed to commercial real estate and has driven an increase in the issuance of covered bonds.

Strong primary activity was witnessed this month for European Non-Fin corporates whose EUR-issuance volume is more than 20% higher than the mark recorded at the same period last year (EUR36bn vs EUR29bn as of end February) and is slightly less than January (-12%). The picture is a bit less rosy for Banks whose deal volumes dramatically decreased after a hectic start to the year (EUR40bn / -53% MoM / -24% YoY). Credit spreads (ICE BofA Year Euro Corporate Index) narrowed by 9 bps (to 121 bps), while High Yield Spreads tightened to 348bp.

Portfolio Highlights & Strategy Review

The fund posted a positive performance this month of +0.24%, or -8p vs ester (Vshare), + 12 bp come from Relative Value Bucket and + 12 bp from directional bucket. At the end of the month, we have a credit duration of 1.4 and a slight long interest rate duration of 0.1.

- **Directional Segment:** We keep our short maturity IG and HY exposure on strong issuers. Our Directional bucket is partially hedged with Payer options on Xover.

- **Relative value segment:**

Basis Trades: We went long corporate basis & took profit on some of them already such as Bouygues on the long end, continued taking profit on financials basis and even went all the way to short financial basis on the senior non preferred segment.

We also opportunistically sold and took profit corporate basis on outliers in the long end of the curve such as Basf on the

10year and above segment.

We went long basis on insurance names trading wide to the sector.

Relative value: We put on and took profit on various cross currency trades mainly as GBP names rallied and overshot vs EUR, USD.

Curve-wise, we took profit on existing steepeners and we implemented a butterfly trade on Mercedes and multiple new steepeners on various names.

On CDS, we put on a decompression trade between sub and senior Allianz cds ratio as it is one of the rare tighteners if not the only significant one in the sector. We participated cautiously in primary markets (EUR mainly).

Fund Outlook

Credit markets appear still to be challenged by the uncertainty on rates, Inflation and geopolitical risks. The inflationary pressures and increased interest rates are likely to have an impact on certain corporate balance sheets. In the absence of fiscal and monetary support, we expect the context characterized by heightened volatility and uncertainty to continue, while dispersion is likely to remain high. In such a context, the fund remains well positioned to capture performance with its mixed IG/HY profile and its two complementary engines of performances. Its focus on relative value and bond picking should allow it to successfully navigate the current context.

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: 798