

Candriam Sustainable Bond Euro

Corporate

Market overview

Treasury yield curves continued to bear steepen in the US and in Europe, driven primarily by the better-than-expected economic prints from the US and its exceptionally resilient labor market. The US 30-year yield hit 5% for the first time since 2007 and European bond markets briefly reached the highest 10-year yields in a decade.

The unrelenting rise in long-term rates has been noted by the FED, with officials commenting that tightening financial conditions and the sharp increase in long-term real yields were doing some of the hard work for the Fed. These comments were perceived as dovish and prompted a small period of sharp rates decrease, which continued on the back of the increased safe-haven demand driven by the unfortunate geopolitical tensions in the middle east.

Overall though, The FED remains in wait-and-see mode and left rates unchanged, with their committee minutes indicating that policy should remain restrictive for some time.

Similarly, across the Atlantic, as the lagged impact of tighter financial conditions increasingly ripple through the economy and markets, the ECB also kept rates unchanged and gave a dovish impression as Lagarde repeatedly and explicitly mentioned the clearly weakening economic growth.

Policymakers appeared concerned about the economic outlook, as the European economy shrank at the highest pace in three years. Corporates and households appear to be feeling the pressure of monetary tightening and inflation prints are gradually trending downwards as aggregate demand is dampened.

The earnings season saw large dispersion, and a material portion of the companies (both IG and HY) missed on top-line expectations. Although the majority could beat on the operating margin, guidance has generally become materially cautious and companies conceded increasing concern about their ability to defend margins.

Credit spreads (ICE BofA Year Euro Corporate Index) widened by 8 bps to a level of 159 bps. The US 5y rate ended the month at 4.93% (+26 bps), while its German counterpart rallied to 2.8% (-12 bps) and the Italian 10y rate decreased to 4.73% (-7 bps).

Fund performance & Portfolio activity

Overall, we ended up the month with a positive credit exposure, keeping a preference for Fins vs non-Fins. We have notably maintained an overweight position on Banks (both in seniors and Tier 2) and Real Estate.

On duration, we ended the month with a slightly lower duration than the benchmark, but we kept playing the range tactically.

On the ESG side, the portfolio keeps a better ESG score than its reference index (+4 pp) and carbon exposure is 40% below the one of the benchmark. The share of Green Bonds rose to c. 14%.

Fund outlook

As the earnings season is gradually coming to an end, we would expect supply to resume both for Financials and Corporate issuers. This could be an opportunity to gradually increase the credit exposure of the Fund, though we will remain wary of potential liquidity issues as we are approaching years' end.



We will continue to carefully monitor central banks' communication and macro data, both in Europe and in the US, and adjust duration of the Fund accordingly.

We will also closely follow geopolitical developments, notably in the Middle-East, though we must acknowledge that impact on markets has been quite muted so far.

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/sfd/>. 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: 1493