Candriam Sustainable Bond Euro Corporate

Market Overview

Economic data continued to paint a mixed picture over the month, and with limited conviction the market rapidly oscillated between market narratives. The labour market appeared to be slowing in an orderly way and wage pressure slowed down, while forward-looking and sentiment indicators point towards a further slowdown. Despite the resilience of labour markets, credit card- and car payment delinquencies continued to rise and raised concerns about the health of the US consumer. In Europe, industrial output in the largest economies slowed further, with increased signs for concern from the PMI's. Although the manufacturing PMI slightly improved, the services are catching down and both indices remain firmly in contraction territory. Core inflation remained sticky in the euro zone (5.3%, more than twice the target of policymakers), with upside surprises in France and Spain and slowing less than anticipated in Germany. Complicating the picture is the trajectory of the Chinese economy where the manufacturing contraction eased somewhat, the economy continues to be dragged down by the property market downturn. Support measures could lead to a rebound in activity over Q4 and a reversal or slowdown of factory gate price declines.

Monetary policy was also at the forefront as central bankers from across the globe gathered in Jackson hole this month for their annual symposium. Investors were expecting a "hawkish hold" message from Jerome Powell but The FED chairman remained vague to keep all options on the table, but still remained relatively hawkish. The ECB aims to get inflation to target by 2025 and may therefore err on the cautious side, as hinted at by statements that "rates will be set at sufficiently restrictive levels to break the back of inflation and return to target come what may." Real rates in Europe are not as high as in the US, putting more pressure on the ECB to act, though a 25-bps hike at this stage is likely less relevant than for how much longer rates will remain restrictive.

The primary market was quiet due to the lock up period imposed by the earnings season, as well as the summer season. Though a few deals made it to the market around the end of August. Secondary markets remained tight with low liquidity for money market- and short term offers for the most part.

In the context of volatility in interest rates and equity markets, credit spreads widened by 8 bps to a level of 155 bps. The US 10y rate ended the month at 4.1% (+15 bps), while its German counterpart declined to 2.47% (-2 bps) and the Italian 10y rate closed broadly flat at 4.1%.

Portfolio Highlights & Strategy Review

Credit spreads widened during the month both in Financials and Non-Financials. In that context, Banking was the best performing sector while Real Estate was the worst one.

Overall, we ended up the month with a neutral to slightly positive credit exposure, keeping a preference for the Banking and Automobiles sectors while keeping cautious on Real Estate given the confirmed risk of rating risk along the degraded credit metrics.

On the duration overlay, we have been taking volatility on rates as an opportunity to play, ending the month broadly neutral vs benchmark. We are tactically studying the best entry-points to put it more at play in the strategy.

On the ESG side, the portfolio keeps a better ESG score than its reference index (+6%) and carbon exposure is 40% below the one of the benchmark. The share of Green Bonds is at c. 10.6%.

Fund Outlook

Liquidity and funding needs will be something to pay attention to as we moved to the second part of the year. As such, we stay ready to pick-up any favorable weakness on credit spreads. We expect supply to resume vigorously in September and primary markets could be opportunity to selectively add credit exposure provided new issue premiums remain attractive. For that purpose, we are happy to keep a sufficient cash buffer within the fund.

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