

# Candriam Bonds Convertible Defensive

## Market Overview

Equity markets started the year on a high note, with the S&P and DJStoxx600 gaining +1.6% and +1.4% respectively.

As expected, the Fed left rates unchanged for the 4th time in a row. Jerome Powell indicated that he needed more certainty about a downturn in inflation before proceeding with monetary policy easing, thus ruling out any hope of a rate cut in March. He did, however, consider that key rates were probably at their peak.

US GDP growth came in well above expectations at 3.3% annualized, while inflationary pressures eased. In addition, the Composite PMI improved significantly to 52.3, exceeding expectations.

In Europe, unsurprisingly, the ECB left its key rates unchanged for the 3rd time in a row, as disinflation continued in the Eurozone. Christine Lagarde, however, ruled out an imminent rate cut, pointing out that wage and geopolitical tensions are inflationary risk factors to be monitored.

Against this backdrop, US 10-year yields closed at the same level as at the start of the month, at 3.9%, but at 4.19%, while European 10-year yields eased by 35 bps before ending the month at 2.17%.

In China, GDP growth came in slightly below expectations at +5.2%.

On the primary convertible market, activity picked up slightly with \$5.2 bn of issues, including \$2.3 bn in the US (Federal Realty, Immunocore, Opko health, Blackberry, Guess), \$1.1 bn in Europe (Davide Campari, Orpar, GlobalWafer/Siltronic), \$1.4 bn in Japan (Daiwa House) and \$0.4 bn in Asia (Zhen Ding Tech).

## Portfolio Highlights & Strategy Review

Candriam Bonds Convertible Defensive posted a very slightly negative monthly performance, as the interest-rate-driven momentum in convertible bonds in Q4 came to a halt in January as market expectations of lower rates eased. The fund participated in the Davide Campari issue and strengthened its positions in Simon Global, Xiaomi, Daifuku, JFE Holding, Airbnb and Nextera Energy Partners. Conversely, the fund sold its positions in Dexcom, JPM/Siemens and Splunk, and reduced its positions in Akamai and Western Digital. The fund's delta increased slightly to 35.8% and its actuarial yield fell to 0.01%.

## Fund Outlook

Macroeconomic data published this month have reinforced the likelihood of a soft landing for the economy, combined with falling inflation. Moreover, central banks have restored their leeway to intervene in the event of a deterioration in economic activity. Despite this favourable environment for equity markets, we believe upside potential is limited, given investors' strong sense of optimism and the record levels reached in the US and near all-time highs in Europe. We therefore maintain a cautious bias in terms of equity sensitivity. The specific factors favourable to our asset class are still present, namely: a sustained and diversified primary market, and a particularly attractive valuation, with in particular a historically low level of implied volatility in Europe.

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