

Candriam Bonds Euro Corporate

Market Overview

Both bond and equity markets rallied strongly across the developed markets over the final month of 2023, driven by the expectation of easier monetary policy as inflation fears evaporated. The move was primarily triggered by the surprising dovishness of the Fed, that held rates constant, but did not push back against market expectations that the Fed is done raising rates. This was a stark contrast compared with the “premature to speculate on when policy may ease” of some weeks prior. Rate markets at the end of 2023, priced over 150 bps in rate cuts for 2024 and almost 25 bps as early as March 2024. While some Fed officials unsuccessfully tried to talk back the market after the meeting, the euphoric markets continued to rally.

For the Eurozone, markets expect over 160 bps in rate cuts from the ECB over 2024 and the first cut as early as April 2024. Arguably the economic outlook for the bloc is far less resilient than the US, with industrial production falling in Germany, Italy, Spain and France and confidence indicators pointed towards further pain and industrials and manufacturing firms reducing investments and operating costs. On the other hand, a downward surprise in November core HICP had even the notably hawkish council members concede that the progress on inflation was encouraging and makes further rate hikes unlikely. The ECB held rates constant, and revised inflation expectations for 2024 and 2025 downward as it expects inflation to decline gradually despite the upward pressure of wage increases. Lastly, the ECB announced it would end reduce PEPP reinvestments by the end of 2024 starting around July.

Global financial markets have already discounted the potential policy pivot and have set up a challenging start for 2024. Economic data could possibly deliver more volatility as financial markets are dependent on the data-driven approach of central banks. The contradicting views of credit- and equity markets (expecting a soft landing) and the rate markets (requiring a deeper contraction than central banks) are likely to be challenged. While central banks might still provide a negative surprise via their willingness to stomach economic pain as the policy mistake of premature easing could be more significant than keeping rates high for too long. Credit spreads (ICE BofA Euro Corporate Index) narrowed by 9 bps to a level of 136 bps. The US 10y rate ended the month at 3.88% (-45 bps), the German 10y rate rallied to 2.02% (-42 bps) and the Italian 10y rate decreased to 3.69% (-29 bps).

Portfolio Highlights & Strategy Review

Spreads continued to tighten in December with IG spreads tightening by 9bp and HY spread by 38bp. In this context the fund posted a 2.9% performance, outperforming the ibovx by 0.12%. The fund still benefitted from its overweight in sub debt (financials and corporate), in the automotive secteur. With spread at their tightest level, we reduced our credit exposure at the end of December in order to make room for a new wave of primary issues or in case the secondary market reprice the primary. Regarding rates, and due to the strong rally in December we decided to reduce the duration of the fund.

Fund Outlook

We still believe market context is positive for credit spreads, in particular IG market, and we can maintain a slightly overweight credit exposure, despite having made some tactical take profits on higher beta names at the end of the year.

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: