Candriam Bonds Euro High Yield

Market Overview

At the end of last year, markets declared victory for central banks in their battle against inflation.

After an everything rally from rates to equities and credit over the final months of 2023, financial markets entered a consolidation phase as they scrutinised economic data and central bank reaction more carefully. Rate markets consequently remained range-bound and volatile, amidst a slew of mixed data and balanced central bank rhetoric.

Fundamentals are still better oriented in Europe where most corporates remain focused on debt reduction while some cracks are appearing in the US in sectors like TMTs and some companies shifted to more equity friendly behaviours.

Technicals are more supportive in Europe where we continue to see more rising stars than fallen angels and where the net supply is still negative. In the US, the primary market is much more active with new issuers coming to the market to refinance expensive loans and M&A transactions.

In this context, credit spreads tightened further and are now priced to perfection in US at multi decade tights. In Europe, we continue to find some attractive opportunities as spreads remain more attractive overall but passive flows from maturity funds made some capital structures very expensive with credit spreads through all time tights.

Portfolio Highlights & Strategy Review

In January, the strategy underperformed the benchmark by 0.14%.

Most of the underperformance came from our underweight positions in the real estate sector like Heimstaden (-0.18%) or CPI Property Group (-0.09%) while the strategy benefited from its full underweight on Atos (+0.22%).

In the current environment, we remain focused on leading players with a strong pricing power and a proven ability to pass through inflation costs. We favor issuers with prudent capital management and credit friendly behaviors. In terms of sector allocation, we maintain our underweight exposure to rate sensitive sectors (Real Estate, Chemicals and Construction) and we remain overweight on defensive and energy intensive sectors (Telecommunications, Packaging, Healthcare and Utilities).

We maintained a credit duration and an interest rate duration in line with the benchmark.

*net of fees in EUR terms

Fund Outlook

High Yield spread rallied strongly in the last quarter of 2023 and rates have already discounted a potential policy pivot which have set up a challenging start for 2024. On the positive side, we continue to find High Yield spread in Europe attractive vs the US and fundamentals as well as technicals remain very well oriented with large potential rising stars expected in the coming months and very limited net supply from the primary market as M&A activity remain subdued. We also expect the strategy to benefit from elevated dispersion as the impact of the new rate environment will gradually impact the most levered capital structures.