Market Mood: What are the Clients Asking?

We catch up with Renato Guerriero, Chief Sales and Distribution Officer.

Renato, we know the market mood is dominated by low rates and risks of inflation discussions. What type of strategies are you being asked for today?

Renato Guerriero: Cash rates are negative, government bonds yields are very low and spreads on emerging debt, corporate and high yield are compressed…: not surprisingly, our Client Relations Teams are receiving more and more questions about certain absolute return strategies, notably **Index Arbitrage** and **Risk Arbitrage**. Some investors wishing to rebalance their allocations are also taking a look at **Absolute Return Credit** products.

By definition, Absolute Return strategies are designed to perform in any market. Of course a steady but modest return is less compelling when the world feels sure of a consistent rise in equity markets. Where these strategies shine in strong markets is in providing decorrelation and diversification in an asset class allocation – especially if the long-term outlook is in flux.

Renato Guerriero, Chief Sales and Distribution Officer

- Equity Market Neutral strategies are just that – they neither benefit from rise in equity indices nor suffer from declines. As 'pure alpha' strategies, they benefit from the skill of the portfolio manager in determining relative performance within markets. While many of our competitors have closed these products, Candriam's investment process has remained in place with a track record since 2003. We attribute this longevity in part to our risk management process and careful control and hedging of our positions.

- Risk Arbitrage benefits from strong merger and acquisition activity, which offers more choice to portfolio managers. One would expect that ongoing changes following the pandemic would drive a continuation of the current strong M&A activity levels. In addition to more deals, there is a high level of 'completion' of the deals, reducing the risk to this strategy. The increase in bidding wars in the US and Europe creates a 'sweet point' for Risk Arb investing.

- Outperforming Eonia in a booming equity market may seem modest, but it's quite a worthy goal when cash and bonds yield are negative or very low. Our Long Short Credit strategy is designed to invest in two types of opportunities. It invests in high-conviction positions, whether long or short, and in relative value positions on a given issue or issuer. These performance engines can be very powerful, yet can be structured to maintain a net zero exposure to rising-rates.

If you want to retain an allocation to Fixed Income, but want to reduce your exposure to any inflation forecasts, what would you look to?

We have two strategies in particular which are worth considering if you are concerned about inflation, **Short-Duration Inflation-linked Bonds**, and defensively-managed **Convertible Bonds**.

- For investors who both fear inflation or rising inflation expectations, an allocation to Short-Duration Inflation-Linked Bonds is an option. Of course short-duration bonds are less sensitive to interest rate changes, whether from inflation-linked or traditional bonds. Within the linkers class, short-duration (or short-term) linkers generate a greater proportion of their total return from inflation changes than is the case for long-duration linkers.

- Convertible bonds come in a wide range of convexity, or interest-rate sensitivity, priced like bonds at one extreme and trading like equity at the other. A portfolio can be constructed for a blend of coupon return in a stable market, but equity exposure in the case of inflation. Our Defensive Convertibles strategy targets holdings with low interest rate sensitivity and low volatility. This emphasizes convertible bonds where the equity price is currently low, but which our analysis shows offer noteworthy equity appreciation potential, reducing the sensitivity to inflation surprise.

"By definition, Absolute Return strategies are designed to perform in any market."

Luxembourg - Brussels - Paris - London

Amsterdam - Dubai - Frankfurt - Geneva - Zurich - Madrid - Milan - New-York

€140 B

AUM as of
31 December 2020

550+

Experienced and
committed professionals

25 years

Leading the way in
sustainable investing

Most prominent risks to investment strategies mentioned: **Equity Market Neutral strategies** present model risks, and volatility risks from the risk decisions adopted by the portfolio manager. **Risk Arbitrage strategies** present mainly, but not only, the risk of failure of completion of any M&A transaction in which the manager invests. **Long Short Credit strategies** present mainly credit risk and amplification from use of financial derivatives to create 'synthetic' positions. **Short-Duration Inflation-Linked Bond strategies** present mainly interest rate and credit risks, including in Emerging Market nations. **Convertible Bond strategies** present mainly credit and interest rate risks, in particular because they are often smaller issuers. Some equity risk elements are also present.

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. This information is available either in English or in local languages for each country where the fund's marketing is approved.

CANDRIAM. INVESTING FOR TOMORROW.

WWW.CANDRIAM.COM

CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY