

A low-angle, upward-looking photograph of several tall skyscrapers in a city. The buildings are made of brick and have many windows. Two large American flags are flying from poles in the foreground, partially obscuring the buildings. The sky is a pale, overcast blue.

Fixed income views: impact of US Elections

Nicolas Jullien, CFA – incoming Global Head of Fixed Income

Charudatta Shende – Head of CPM Fixed Income

Trump triumph: a clean sweep



HARRIS

226

TRUMP



295

A comprehensive win with all swing states supporting Trump



HOUSE OF REPRESENTATIVE

Democrats
205

Republicans
214



SENATE

Democrats
45

Republicans
53



› **Tariffs**

› **Deregulation**

› **Tax cuts**

› **Immigration**

Sources: Candriam, Bloomberg© as of 07/11/2024.



Economic & Financial Outlook

EUROPEAN UNION

- › Slow growth with **downside risk**
- › Inflation is receding, **and should move lower**
- › Many countries under excessive deficits, **but likely to be forced to reduced**

UNITED STATES

- › **Resilient growth**
- › Inflation was receding, **but seems sticky lately**
- › Fiscal deficit is large

CHINA

- › Growth is low, **and structural overcapacity is weighting on sentiment and consumption**
- › Deflationary spiral looming
- › **Fiscal spending stimulus announced**

Source: Candriam – Indicative data may change over time.



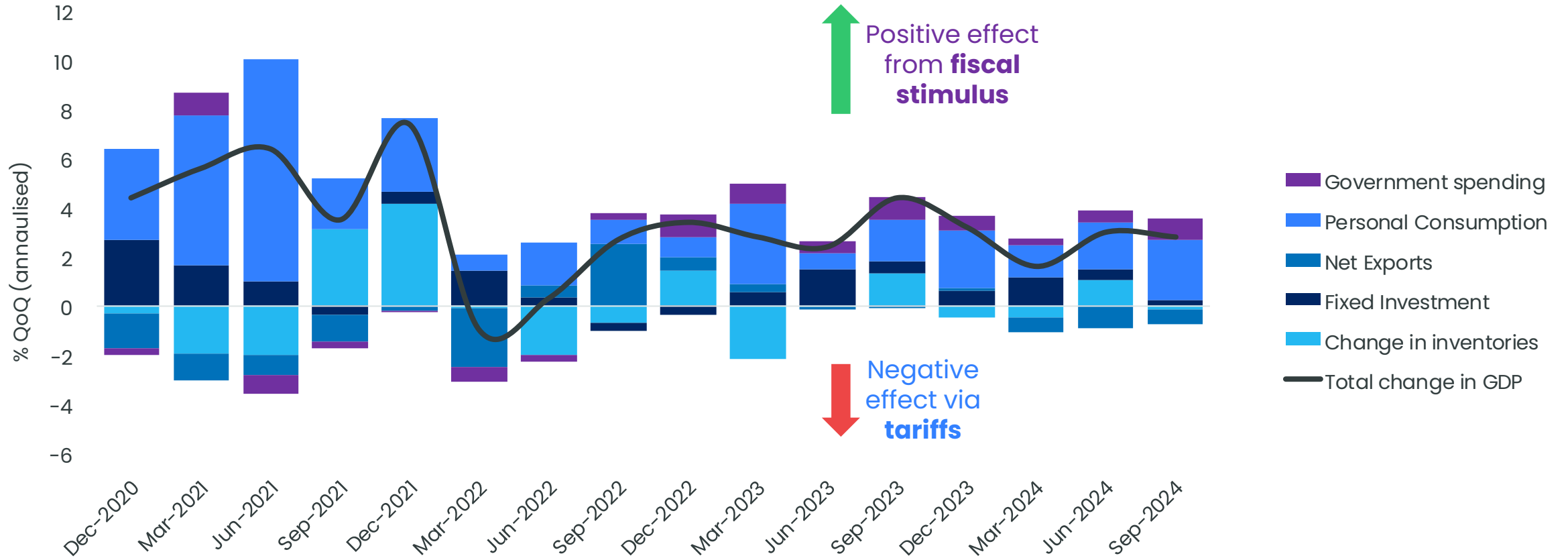


1 Rates Outlook



US Growth

Counteracting effects, but probably positive on balance

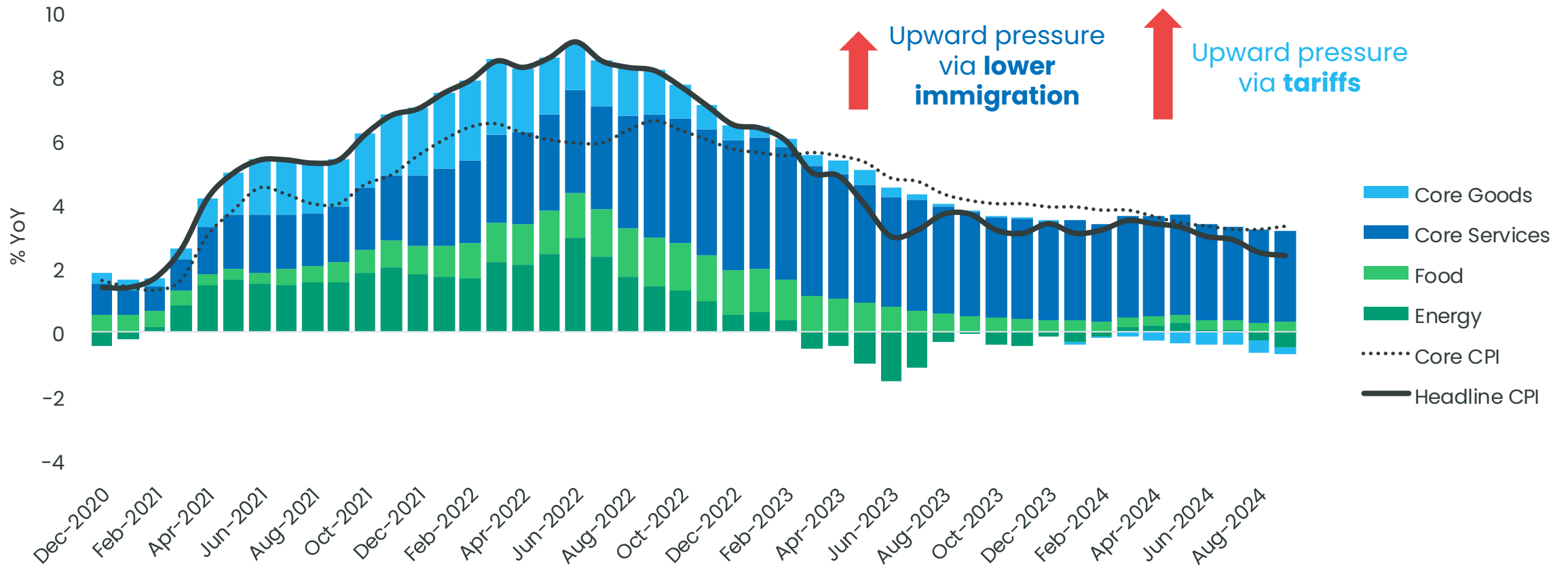


Source: Candriam, Bloomberg, as of 08/11/2024



US Inflation

Trump's policy proposals are clearly inflationary

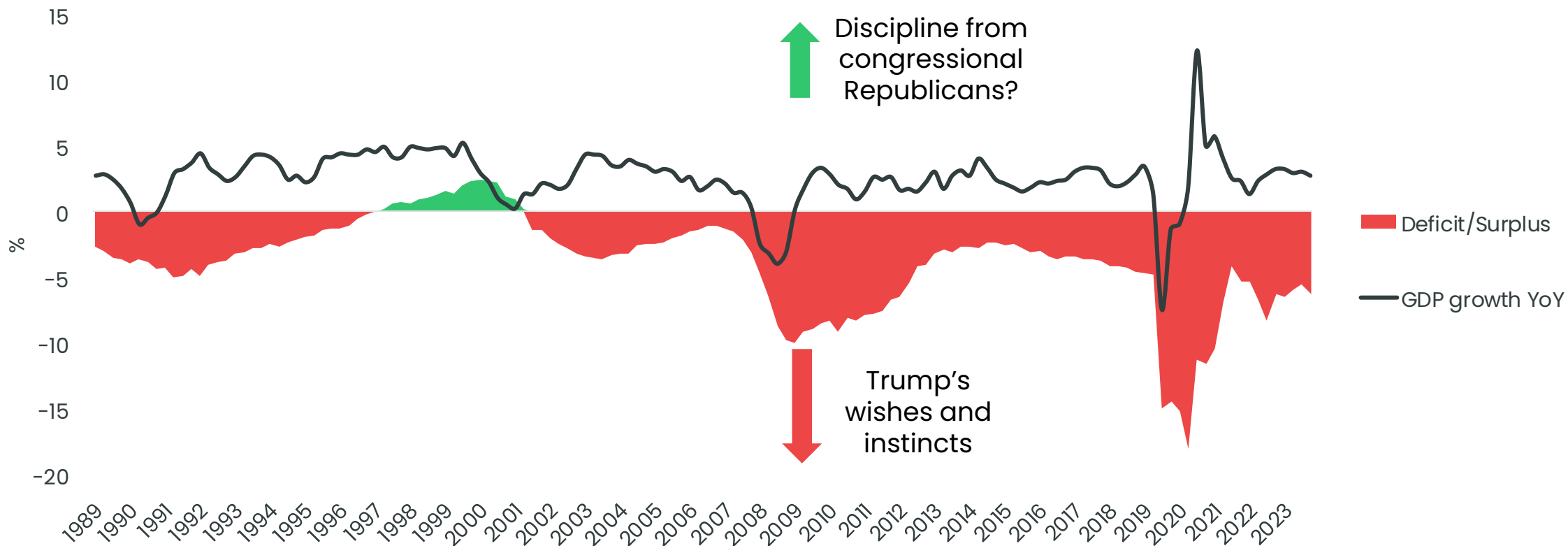


Source: Candriam, Bloomberg, as of 08/11/2024.



US Deficit

Will Trump be reigned in by congressional Republicans?

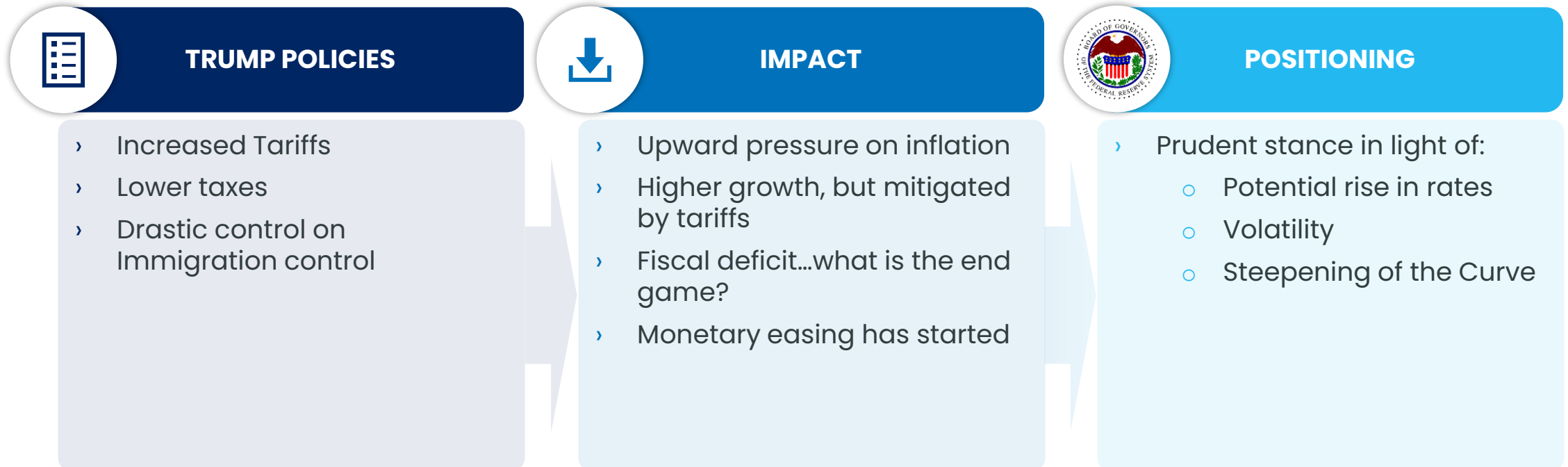


Source: Candriam, Bloomberg, as of 08/11/2024



US Rates: we hold a prudent stance

Why do we still remain careful after the rise in rates we saw immediately after the election?

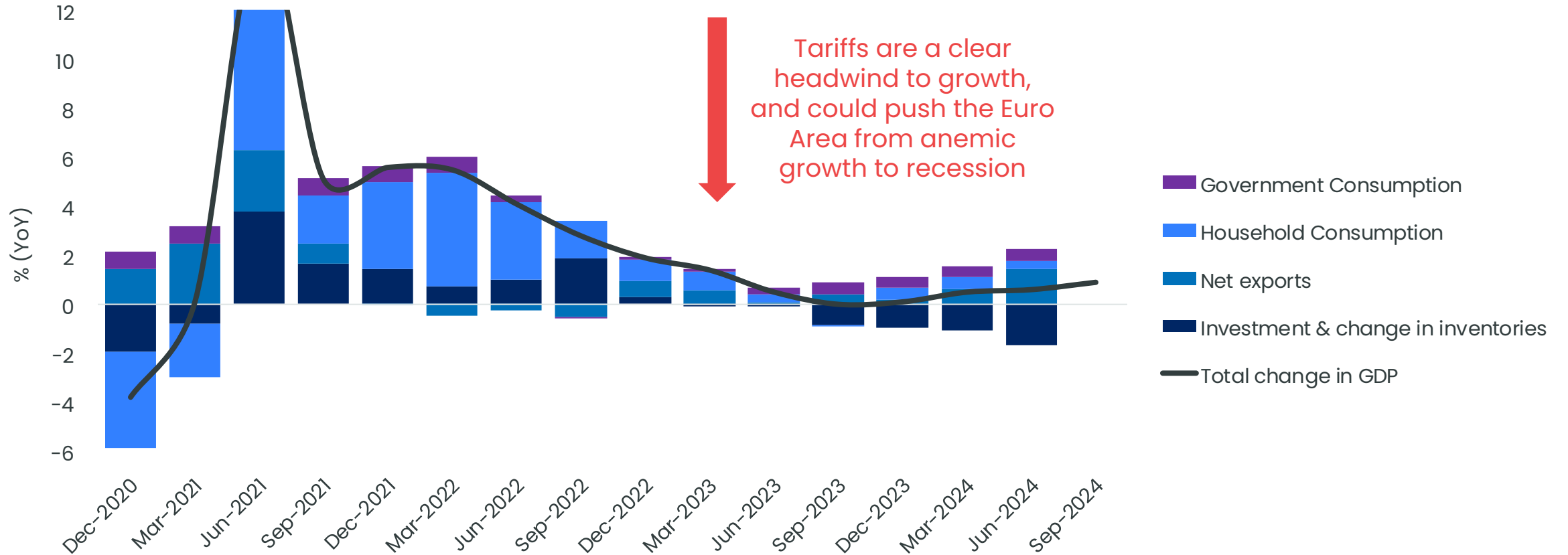


Source: Candriam – Indicative data may change over time.



Growth

Euro Area growth is structurally challenged

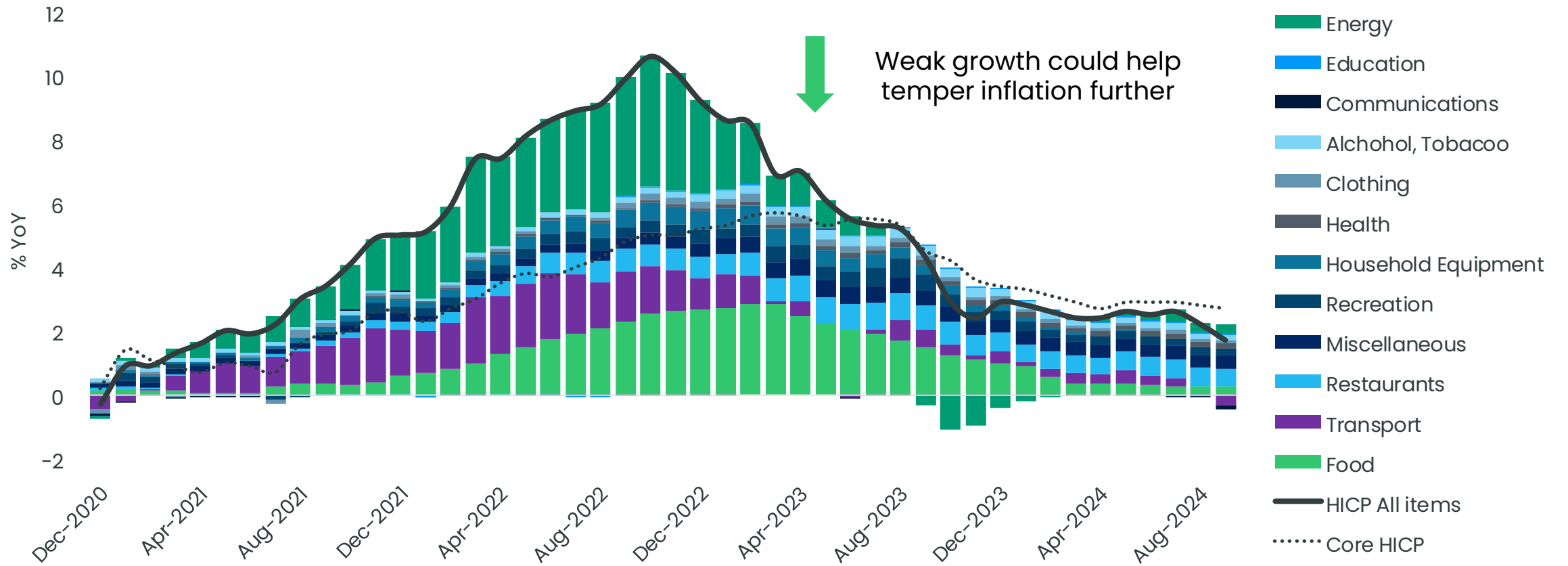


Source: Candriam, Bloomberg, as of 08/11/2024



Inflation

US inflation unlikely to feed through, weak growth could exert deflationary pressure

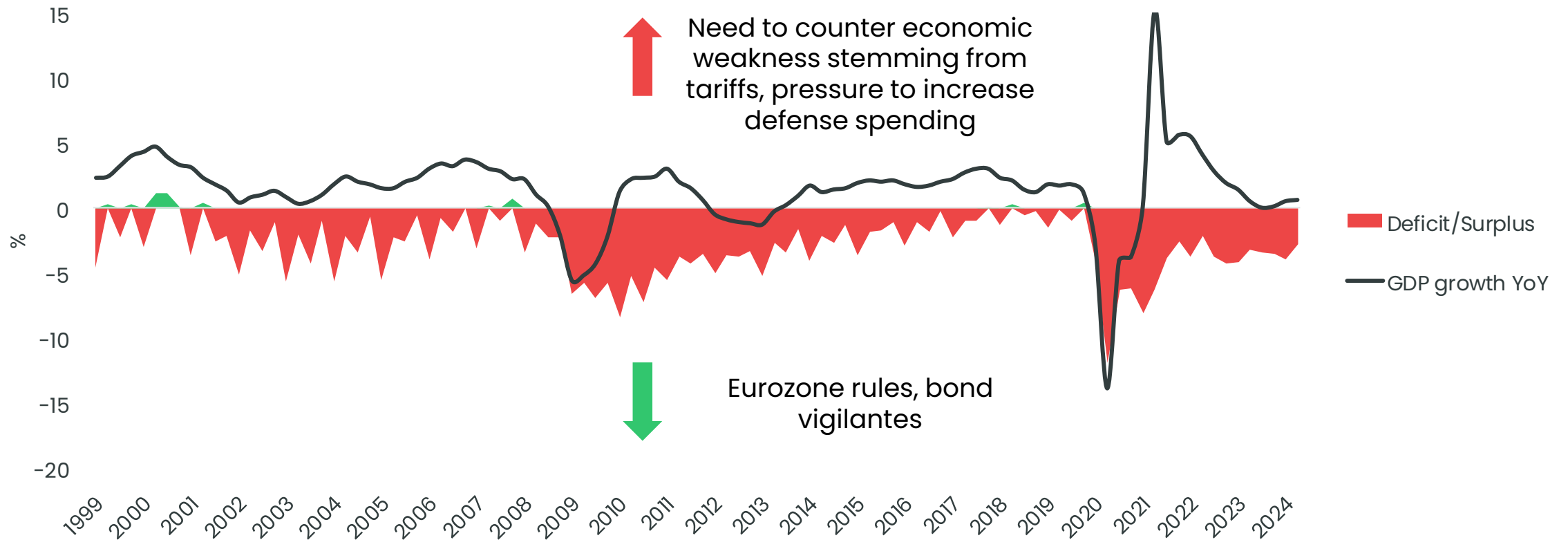


Source: Candriam, Bloomberg, as of 08/11/2024.



Deficit

Germany the only major EZ economy with breathing room – but so far, no political will

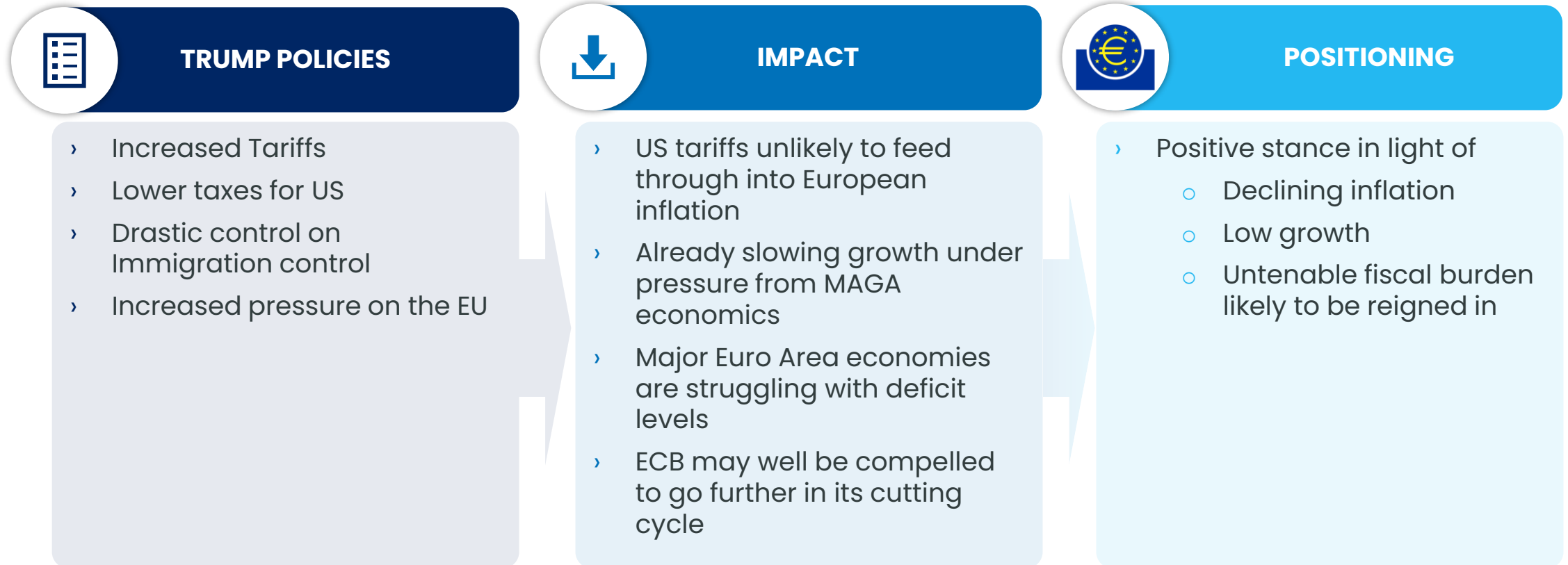


Source: Candriam, Bloomberg, as of 08/11/2024



EUR Rates: Constructive view in the short term

Trump will be negative for growth , while inflation should continue to trend lower



Source: Candriam – Indicative data may change over time.



Macro imbalances challenge EMD

Weak China and strong US Rates/Dollar are a headwind

CHINA

- › **Trump trade wars** having direct impact on economy
- › **Fiscal & monetary stimulus impact** still insufficient
- › **Structural challenges persist:**
 - Demography
 - Youth unemployment
 - Weak social security system

US RATES / DOLLAR

- › Trump policies **pushing up growth and inflation expectations**
- › **Disinflation seems under way** despite some residual stickiness
- › **Dollar strength**

COMMODITIES

- › **Drill-baby-Drill will** contribute to higher supply
- › **Energy** demand still relatively stable
- › **Industrial metals** exporters exposed heavily to Chinese economy

FIN. CONDITIONS

- › **Global risk appetite is higher post Trump election**
- › **Appetite for EM risk positive with clarity** around election outcome
- › Lighter positioning into elections getting squared off, causing **spread compression across credit buckets**

Source: Candriam – Indicative data may change over time.



EM Debt: Cautiously Constructive

Weak China & higher US rates vs. improved financial conditions & EMD Strength



TRUMP POLICIES

- › Increased Tariffs/Trade wars
- › Lower taxes
- › Drill-baby-drill
- › Resolving Ukraine/ Russia conflict



IMPACT

- › Countries vulnerable to tariffs likely in sufficiently strong position to face off default risk
- › Weak China will result in rotation towards certain countries
- › Strong dollar leaves less room to cut rates for EM central banks
- › Higher US rates imply lower FDI & FPI flows towards EM



POSITIONING

- › EMD HC
 - Underweight China & Oil exporters
 - Overweight Eastern Europe & Latam
- › EMD LC
 - Favour countries with higher real yields (Brazil, Czech Rep.)
 - Focus on idiosyncratic stories (OW Brazil , UW China)

Source: Candriam – Indicative data may change over time.





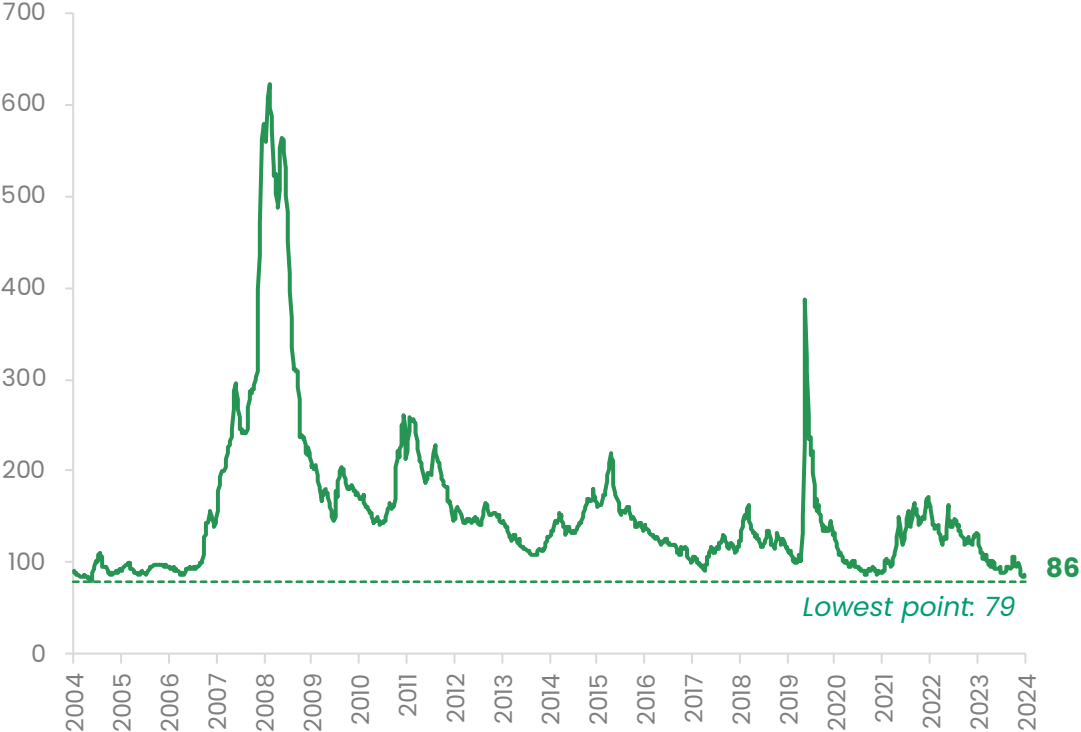
2 Credit Outlook



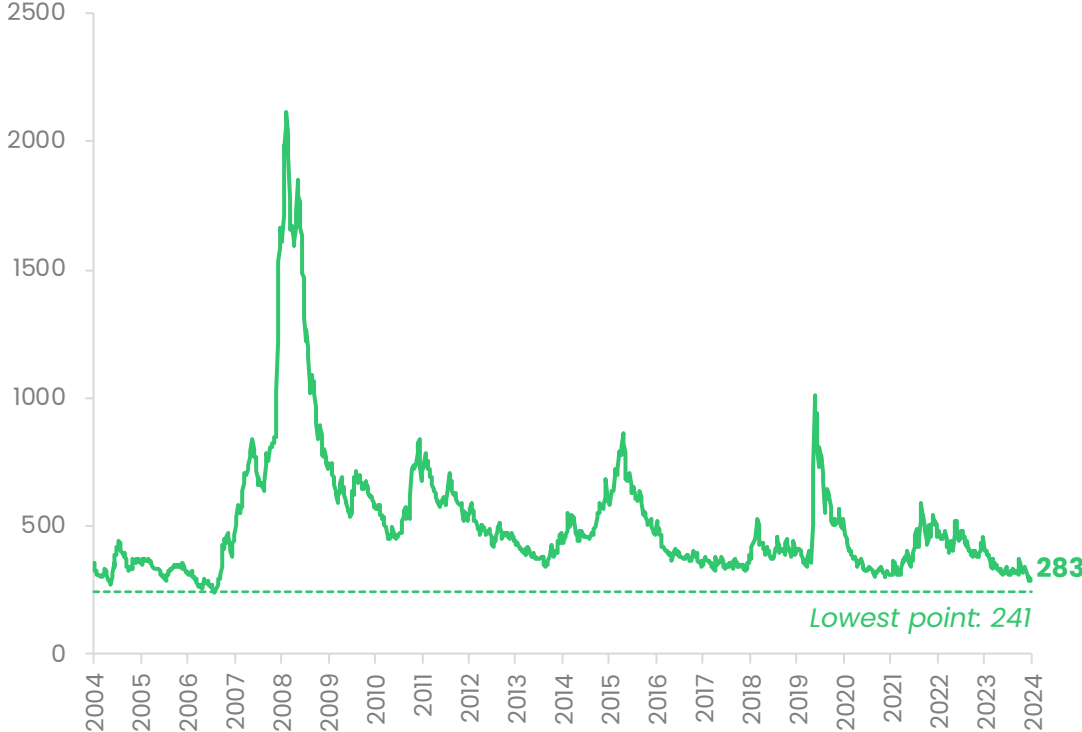
US credit spreads are at all time tight

Potential for spreads to tighten further appear very limited

US Investment Grade Spread (OAS)



US High Yield Spread (OAS)



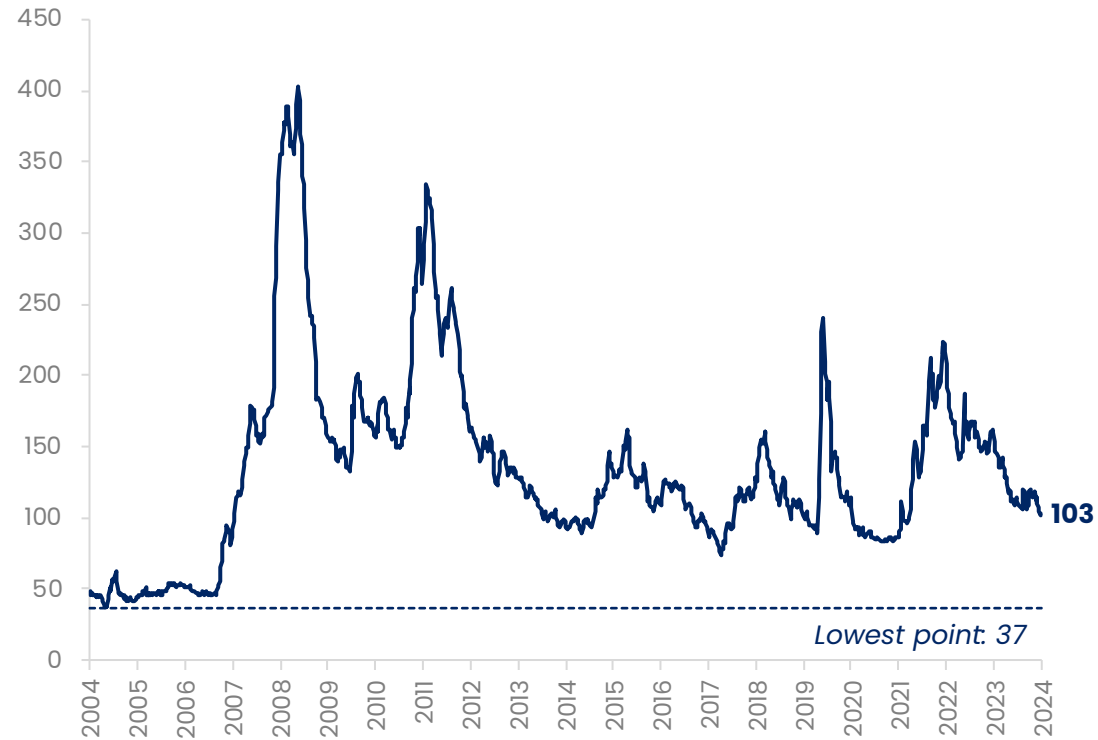
Sources: Candriam, Bloomberg© as of 07/11/2024.



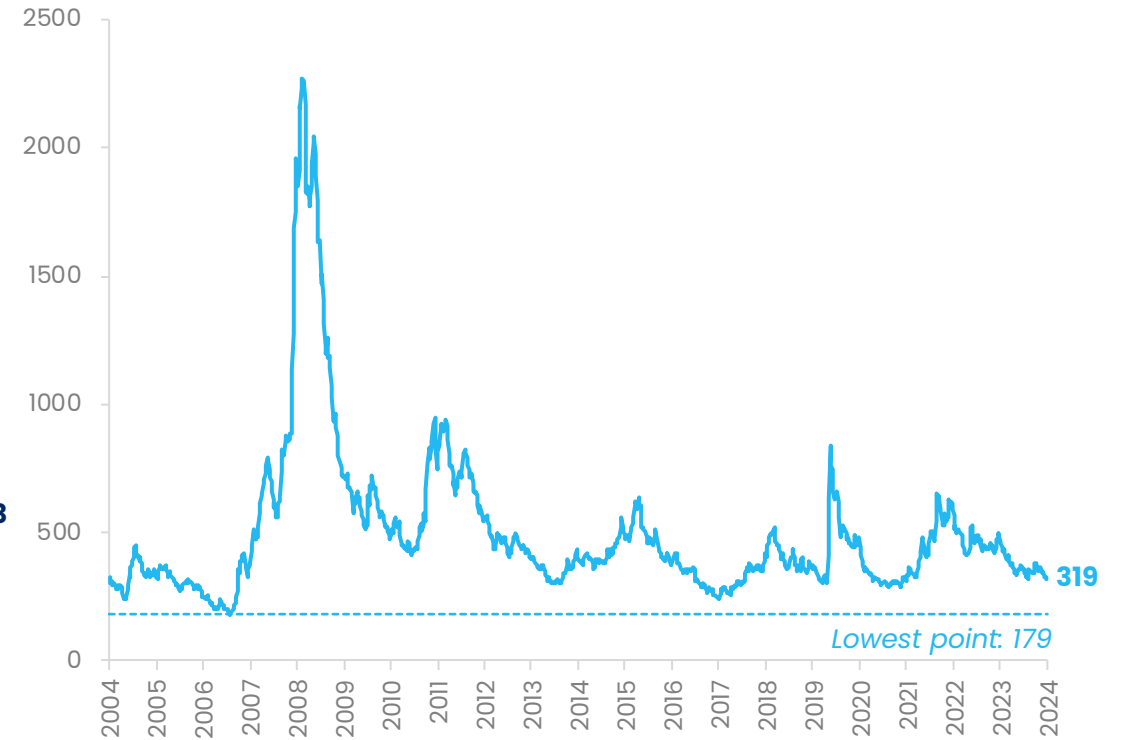
Euro credit spreads are more attractive

Duration is much shorter in Euro IG and Credit quality is stronger in Euro HY

Euro Investment Grade Spread (OAS)



Euro High Yield Spread (OAS)



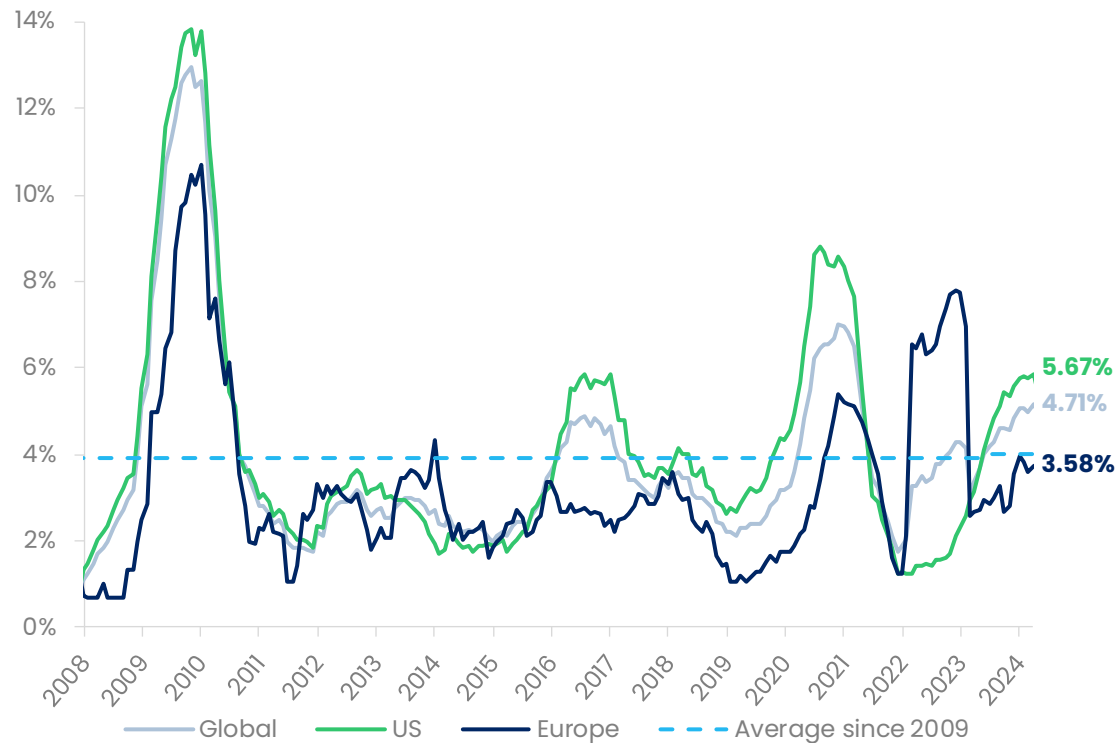
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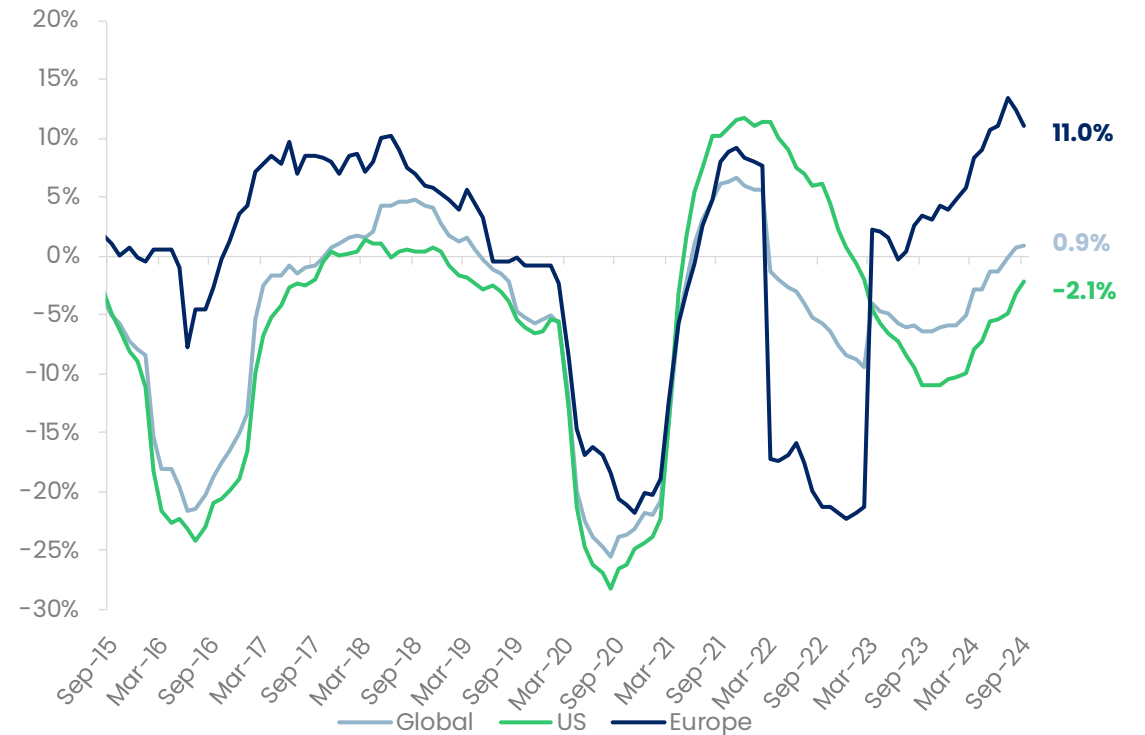
Credit Fundamentals

Fundamentals are solid in IG but default rates will remain elevated in HY

Default Rate



High Yield Rating Drift (12-months)



Sources: Candriam, Moody's as of 30/09/2024



Credit – How to position for Trump 2.0?



TRUMP 2.0

- › Inflationary policies (Tariffs, tax cuts and immigration)
- › Increased tensions with China and other countries on trade
- › High level of unpredictability



MARKET IMPLICATIONS

- › Increased divergence between EUR and USD assets
- › Increased dispersion among sectors and geographies
- › Increased rate volatility



HOW TO POSITION IN CREDIT

- › Favor Euro vs US credit
- › Go Global to benefit from tactical opportunities
- › Go Active to benefit from higher dispersion
- › Go Long/Short to improve diversification

Source: Candriam – Indicative data may change over time.





Be prepared for the worst and hope for the best



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