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Embracing risk in credit: the Candriam approach.



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Corporate bonds are sometimes treated as the sensible shoes of the investment wardrobe. They are expected to be dependable, polished, and occasionally a little dull. Yet anyone who has seen spreads widen quickly or liquidity disappear at the wrong moment knows this: **Credit is not dull. Credit is disciplined.** And discipline begins with risk, not as something to avoid, but as something to understand so well that it can be priced, sized, and monitored with intent.

At Candriam, credit investing is first and foremost an exercise in risk management. We do not seek to eliminate risk—that would be like trying to remove gravity. Instead, we embrace risk by making it visible, measurable, and discussable long before it has the chance to surprise a portfolio. This is what we call taming risk. Our philosophy is straightforward: understanding risk comes before earning return, because in credit, the next coupon matters more than the next headline.

For professional and retail clients alike, the message is the same: **in credit, return is a consequence of risk understood, not risk ignored.**

1. Why risk in credit is important

A corporate bond is a contractual promise of cash flows over time and the repayment of principal. However its value depends on how that promise survives real-world conditions: corporate decisions, economic cycles, and market structure. Credit and rating risk sits at the center of this equation, but it never acts alone. It interacts with interest rates, inflation, currency effects, liquidity conditions, and bond structure. Managing corporate bonds well therefore means managing a *system of risks*, not isolated variables.

Figure 1:

Risk in corporate credit: A system rather than isolated variables



Source: Candriam

A. Credit and rating risk

The primary risk in corporate bonds is straightforward: the issuer may fail to meet its financial obligations. If coupons or principal are at risk, then carry and relative value become irrelevant.

Candriam assesses issuer risk through three complementary lenses: the operating profile, the financial profile, and event risk.

- The operating profile focuses on business fundamentals— what the company does, where it operates, and how resilient demand is. ESG considerations are fully integrated at this stage, as they directly influence cash-flow durability, access to capital, and management behavior.
- The financial profile translates the business story into numbers. We analyse leverage, interest coverage, liquidity, refinancing needs, and capital structure, with a strong emphasis on how these metrics behave under stress. Credit risk is rarely revealed in calm markets. It emerges when conditions tighten.

- Event risk completes the picture. Transactions, regulation, litigation, operational incidents, and governance shocks can rapidly alter credit quality. In credit, the question is not only what the issuer is today, but what it might do when incentives change.

B. Duration and currency risk

Corporate bond prices reflect both issuer credit quality and the environment in which that issuer must finance itself. Duration risk links bond prices to interest rates, while inflation influences policy rates and margins. Currency exposure can matter whenever revenues, costs, or funding markets are not aligned with the bond's currency.

Credit also moves through cycles. Periods of strong growth and ample liquidity can mask balance-sheet fragility, while slowdowns expose weaker issuers to higher funding costs and tighter capital markets. Understanding where we stand in the credit cycle helps distinguish temporary dislocation from structural weakness.

C. Liquidity risk

Liquidity risk is the risk of not being able to sell when you need to, at a price you can accept. Bond markets can be liquid in quiet conditions and unforgiving in stress. When liquidity weakens, bid ask spreads widen, price discovery becomes uneven, and correlations rise.

Because liquidity can vanish when it is most valuable, it must be managed before it becomes a problem. That means focusing on issuers and issues that trade, sizing positions realistically, and building portfolios with an exit plan rather than with hope.

D. Reinvestment risk and call risk

Reinvestment risk arises when future cash flows cannot be reinvested at attractive yields. Call risk is the risk that an issuer redeems a bond early when it suits them. These features shape return patterns, especially in high yield.

This is why the fine print matters. Covenants, documentation quality, seniority, and recovery prospects influence downside far more than headline yield. In credit, structure is an integral part of risk.

E. A system, not a checklist

These risks rarely occur in isolation. A recession can weaken fundamentals, tighten liquidity, and accelerate downgrades. A cluster of issuer specific events can become sector stress, triggering outflows and pushing the cycle lower. **Sound credit management treats risk as an interconnected system and applies multiple lenses to avoid being surprised by risks that are visible, but underestimated.**

2. How we tame risk at Candriam

Candriam's credit approach rests on a central conviction: **risk is the raw material of return, and the investor who understands it best can use it most intelligently**. Our process is designed to make risk explicit at every stage, from defining what is investable, to analysing issuers, to constructing portfolios, to monitoring and selling.

This discipline has been in place since 1999 across investment grade and high yield strategies. It is both a process and a culture. **We are willing to leave performance on the table if return depends on risks we cannot explain clearly**. In credit, clarity is a competitive advantage. It improves sizing, strengthens sell discipline, and makes active management opportunistic rather than reactive. **Our track record, including an absence of issuer defaults in the portfolios we manage, reflects that culture**¹. In comparison, the historical default rate on high yield is around 4-5%².

A. Where we play: a focused investment universe

Understanding risk properly requires focus. **The global credit opportunity set is vast, but not all of it is equally analysable or equally tradable**. We therefore narrow the investable universe to improve transparency, liquidity, and analytical depth.

Our first filter addresses ESG and governance risks. We exclude issuers exposed to controversial activities and those that fail key governance expectations. We also exclude sectors where risks are structurally difficult to manage, including tobacco, thermal coal, and controversial weapons. This is not about avoiding complexity, but about recognising that certain risks can be nonlinear, hard to hedge, and expensive when sentiment turns—and thus **focusing on risks that are identifiable, measurable, and manageable**.

Our second filter is liquidity. We avoid issuers and issues where transparency and tradability are insufficient to support active portfolio management.

- In high yield, we typically avoid European issuers with less than EUR 250 million of debt or individual issue sizes below EUR 500 million. In the United States, we typically avoid issuers with less than USD 1 billion of debt or issue sizes below USD 500 million. These criteria lead to **a focused list of around four hundred issuers** covering around 70% of the BB to B segment of the index, which is sufficient to support active management. While thresholds are indicative and may evolve with market structure, the intent is constant: portfolios must be built so they can be managed, not merely held.
- In investment grade, where liquidity is generally stronger, size and transparency remain essential. We typically focus on issuers with at least EUR 1 billion of debt outstanding in Europe and at least USD 5 billion in the United States. We avoid issuers that do not report at least semiannually, and we favour issuers that are listed or rated by at least two agencies.

¹ - Zero default as of January 2026 in the investment grade and high yield portfolios managed by the team since inception of the strategy

² - Source: Candriam, Bloomberg, long-term default rate on global high yield universe, as of December 2025.



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A third dimension is expertise. While we include financial issuers in our investment grade strategies, structured products such as asset backed securities, mortgage-backed securities, and collateralised loan obligations are intentionally excluded from our high yield portfolios. For those strategies, we exclude financial issuers because we prefer to concentrate on sectors where our team has dedicated analytical depth. **Rather than chase every pocket of spread, we focus on areas where we can be accountable for our conclusions.**

Our choice to work on a reduced universe should not be seen as a constraint on investment. It is a risk control, aiming to improve portfolio liquidity as well as the quality of decisions. **Focusing on issuers that analysts and portfolio managers know in depth is a core principle of active management.** It is easier to trade efficiently when you know your names well and when the market knows them too.



B. How we play: Fundamental bottom-up research first

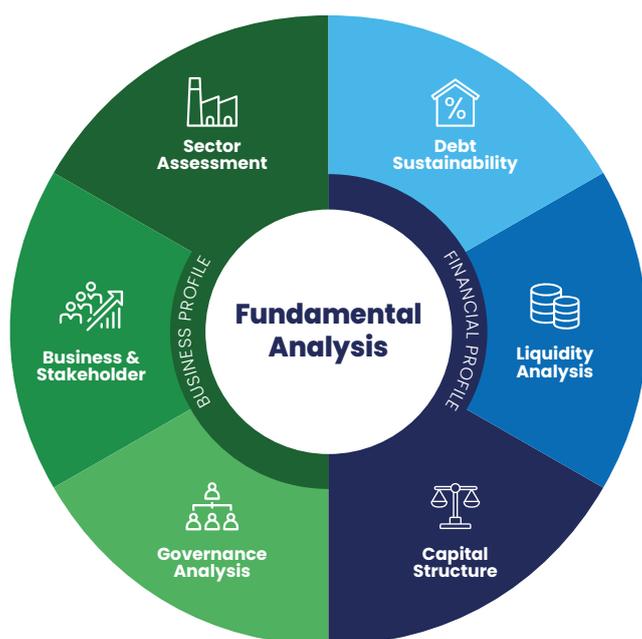
If universe construction defines *where* we invest, fundamental research defines *how* we invest. **Every covered issuer receives an internal credit assessment combining business analysis, financial analysis, and ESG integration.** This turns the broad idea of credit risk into a specific understanding of idiosyncratic risk.

In our view, a complete picture of risk requires both credit expertise and extra financial insight. This is why **we analyse issuers across an ESG integrated business profile and a financial profile.**

- The business profile starts with competitive positioning within the sector and integrates ESG factors in a structured way, analysing potential risks and opportunities linked to environmental and social matters. Questions include for example: how exposed is the issuer to environmental regulation change? How credible is its transition strategy? How can supply chain standards and labour relations affect operational continuity, reputation or cost structure? Governance is a theme of utmost importance across sectors, as it bridges between stated strategy and actual behaviour. Where governance is weak, risk can become unpriceable quickly. That is why governance can be an exclusion driver, not merely a watch list item. Our governance analysis considers strategic direction and financial conduct, conflicts of interest, management quality, and the broader context of country risk and human rights.
- The financial profile then tests balance-sheet resilience through liquidity, leverage, interest coverage, cash flow generation, and capital structure. For banks and insurers within the investment grade segment, a dedicated framework reflects their regulatory and balance-sheet specificities.

Figure 2:

Issuer analysis at Candriam: a bottom-up fundamental approach



Source: Candriam

These business and financial assessments are translated into internal credit scores that guide investability, position sizing, and risk budgeting

Internal ESG ratings, act as a disciplined cross check, ensuring that qualitative risks are not underestimated.

Quantitative credit tools complement fundamental analysis by flagging changes in higher rated issuers, supporting—but not replacing— analyst judgement.

Finally, credit research is not complete without issue-level analysis. Legal structure, covenants, seniority, call features and recovery prospects are assessed bond by bond. In high yield, covenant analysis is an essential part of downside underwriting, because documentation quality can determine whether a credit story is merely volatile or genuinely vulnerable.

As regards financials, we assess banks and insurers through a focused lens on balance-sheet resilience, looking at capital strength, asset quality, and liquidity profiles, and how they behave when conditions tighten rather than when markets are calm. This financial view is inseparable from our assessment of business models, governance, and ESG factors that can materially alter credit outcomes. The objective is not to forecast headlines, but to identify issuers whose risk can be clearly explained, priced, and monitored. This discipline underpins our security selection and capital-structure positioning, ensuring portfolios are built on risks we understand – not on assumptions we hope will hold.

Risk must be shared, not siloed. Our credit views are formalised through a series of committees that ensure timely debate, alignment, and implementation.

C. Calibrating credit risk across the cycle

While issuer analysis is essential, it is not complete without context. Spreads reflect fundamentals and the market's appetite for risk. Our structured market assessment is key to place issuer creditworthiness in the context of growth, inflation, rates, and the credit cycle.

We review the fixed income opportunity set on a monthly basis, evaluating rates, emerging market debt, currencies, and credit using dedicated internal frameworks. As a result, we assign a directional bias that is positive, neutral, or negative: in other words, **we translate a complex environment into a clear risk message.**

The macro view issued by our macro economists informs the duration stance and the rate cycle assessment, translated into duration and curve convictions. The credit team then interprets the implications for spread risk across regions and ratings.

In order to calibrate spread strategies across regions and ratings, we integrate valuation, fundamentals, market sentiment, and technicals.

This comprehensive market assessment calibrates our issuer analysis. It helps a portfolio manager understand when a weaker balance sheet can be carried by abundant liquidity and when even strong issuers may be repriced by a regime shift. It is also a practical tool for risk budgeting, sector allocation, and the balance between carry and liquidity.

D. Portfolio construction: Turning risk insights into portfolio action

There is no single sequence. In investment grade, market assessment often frames duration and risk appetite. In high yield, issuer research typically leads, refined by macro and technical signals. In both cases, the objective is the same: build a coherent view of risk before making relative value decisions.

Once risk is well understood, active management becomes simpler. Even within a more concentrated opportunity set, there remains a wide array of performance drivers and instruments to choose from, across issuers, sectors, regions, ratings, seniority in the capital structure, and maturities. Clear issuer views and well framed market regimes support conviction-based active management. The way to manage risk in this setting is clear: book profits decisively when spreads have done their job, rotate opportunistically into instruments that offer a better balance of carry and downside, and cut losses swiftly when the risk thesis breaks, rather than negotiating with it. This agility is not trading for the sake of motion. It is enabled by two foundations: a deep understanding of macro and issuer risk, and deliberate steps taken upfront to minimise liquidity risk. **Active and flexible management then becomes an invaluable risk management tool in its own right, precisely because it is built on understanding risk first.**

Portfolio guidelines, exposure limits, deviations versus benchmarks, and risk indicators ensure that risks are reassessed early, not under pressure.

Conclusion: Taming risk rather than avoiding it

Credit investing rewards those who can keep their balance when the floor moves. The irony is that balance does not come from avoiding risk. It comes from knowing exactly which risks you own and why you own them. At Candriam, we have built our credit culture around that idea: a focused universe, rigorous issuer research with ESG and legal analysis embedded, structured committees that make risk discussable, and a market framework that keeps every issuer in context.

If this reads like discipline, it is, because bondholders are not paid to be surprised. We would rather spend the time asking awkward questions upfront than answer urgent ones later, and that is precisely why our process insists on seeing risk from every angle before we price it, size it, and own it.

When risk is understood, it becomes investable. When it is not, we are comfortable walking away, even if it means leaving a little performance behind.

Credit at Candriam.

20 years

of innovation on credit,
leading to a diversified
product range

One of the
pioneers

in high yield
since 1999

**Zero
default**

in our investment grade
and high yield strategies
since launch

11

Portfolio managers
and 11 credit analysts,
most of them working
together for a decade

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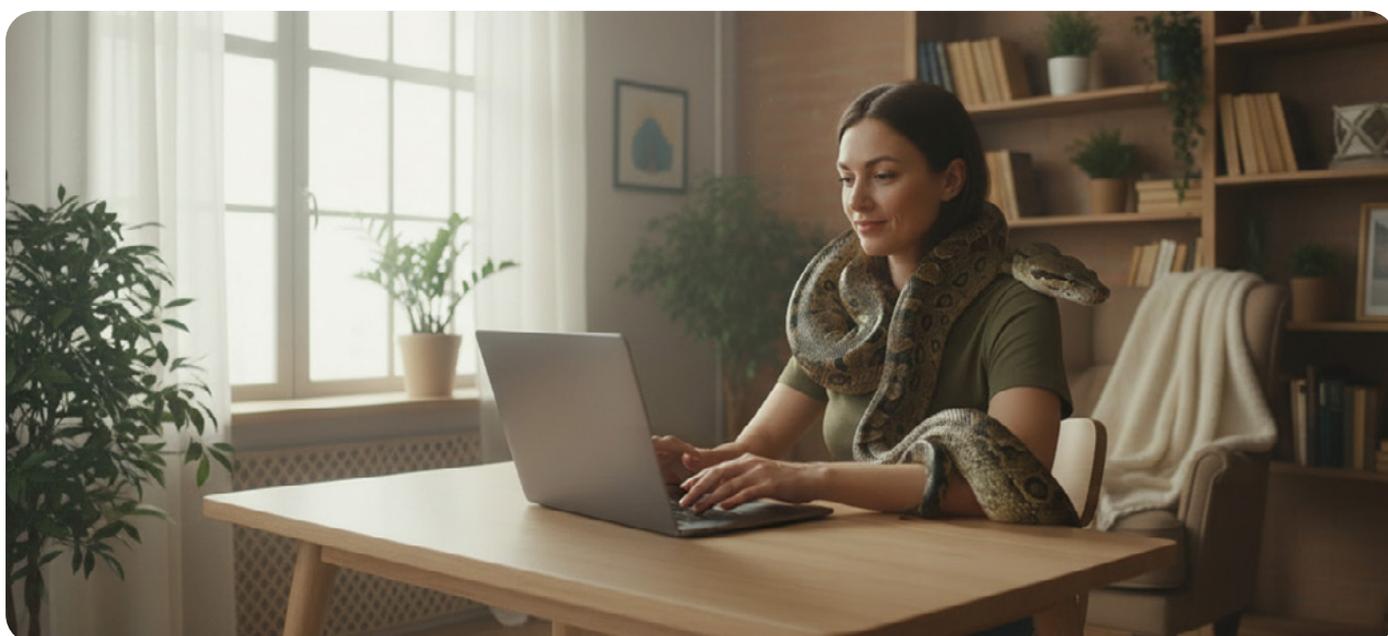
ESG experts
and 5 macro economists
supporting portfolio
managers

To know more on Candriam's credit expertise :

[Credit | Candriam >](#)

To explore how Candriam's credit team tames risks:

[Tame Risk – Credit Expertise | Candriam >](#)



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