

Candriam Bonds Credit Opportunities

Market Overview

Risky assets posted negative returns in April as uncertainty surrounding inflation, recession risk and geopolitical factors continued to rise. Central banks participated in this uncertainty by adopting an incisive tone so as not to lose control over inflation while avoiding the scenario of a price-wage loop. The ECB could end its asset purchase programme this summer and a rate hike in the third quarter, starting in July, is now expected. The toughening of the Fed's tone has confirmed expectations of a 50 bp rate hike at the next FOMC meeting.

Fundamentals remained strong, with first-quarter results broadly in line with expectations, with most companies having been able to pass on higher costs while those affected by COVID benefited from the global economic recovery.

Technical factors were positive in the short term with a slowdown in outflows and a closed primary market given the lack of visibility, characterising a source of high volatility on rates. Many issuers have become "rising stars", such as Kraft Heinz and LKQ. In contrast, the poor governance of Adler, with the refusal of the auditor KPMG to give an opinion on the annual financial statements, led S&P to downgrade the rating to CCC with a negative outlook on 5 May; the fund had no exposure to this issuer following our internal analysis incorporating ESG factors.

Portfolio Highlights & Strategy Review

Short duration allocation: -1.15%.

Opportunistic allocation: -1.03%. The credit long segment posted a performance of -2.14%, while the credit hedging segment hedged performance by +1.10, a +0.01% rate hedge.

Portfolio strategies:

- The portfolio's net exposure is +22%.
- The portfolio's interest rate sensitivity is 3.1.
- We took profits on positive basic positions (Bond seller - long credit CDS).
- We maintained protection on the opportunistic allocation through hedges on the following indices:
 - Cash Eur Investment grade QW5A for 9%
 - Cash Eur High yield IboxxMJA for 8%
 - Through Xover derivatives for 19% (partially financed by the sale of Put Xover 525, 550 & 600 pts). We initiated a new position with an Xover index above 400 pts, and a Xover call premium of 362.50 to protect the Xover hedging position in the event of a reduction in credit spreads at a cost of around 0.12%.

Fund Outlook

The future of growth in Europe and the level of inflation depend on Western sanctions against Russia, its retaliation, and the support measures taken by European governments and the Central Bank to help economic players and prevent recession. Consequently, government rates need to stabilise. However, with an effective yield of 5% for many debts, the market will have to question this attractive yield if it has not already factored in this period of uncertainty.

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