

# Candriam Bonds Global High Yield

## Market Overview

October has been a very busy month on the macro front. In the UK the fiscal U-turn helped stabilize interest rates globally. In Europe, the warm weather and the near full storage capacity sent gas prices in negative territories while the ECB hiked by another 75 basis points but acknowledged that a substantial part of the rate normalization has been now done. Fed expected to follow with another 75bps hike.

On the micro front companies started to report Q3 numbers. If fundamentals are still holding, guidance are either revised downward or removed and the level of dispersion is increasing.

In terms of technical, they remain strong with fund flows stabilizing, no supply on the primary market and more rising stars than fallen angels. Autostrade & Centene have been upgraded to Investment Grade and will leave our index.

Valuations are increasingly attractive on a medium-term investment horizon with spreads close to 625 bps in Europe compared to 450 bps in the US.

## Portfolio Highlights & Strategy Review

In October, the strategy outperformed the benchmark as the dispersion continued to increase in credit markets and rates continue to climb (US 10y reached 4.25%, 2y 4.72%).

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 favour issuers with prudent capital management and credit friendly behaviours. In terms of sector, we reduced our OW to Energy as our rising stars targets now trading in line with IG peers. We remain OW Healthcare/Pharma and Telcos (with a focus on companies with no refinancing risk in a rising rate environment) and UW to consumer. discretionary (Auto, Retail). In terms of geographies, we still focus on US companies and global players among European issuers.

For US issuers, we favor euro-denominated issues given valuations. For European names, we favor USD-denominated bonds as US investors tend to focus on homeland issuers making valuations more attractive in dollars.

We remain very active as we see more and more dislocation causing by ETFs as Managers playing defense and stay on the sidelines.

## Fund Outlook

We keep our cautious stance on High Yield markets given where we are in the credit cycle and the very high level on uncertainties on the macro front, but we start to be more constructive on defensive sectors and high-quality credits where the combination of wider spreads and very low cash prices (70-80s) creates an attractive investment opportunity with an asymmetric profile over the medium term.

In the short term we expect the credit dispersion to increase and the strategy to benefit from this environment to generate alpha.



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