

Candriam Sustainable Bond Euro Corporate

Market Overview

Over the month of March, sticky inflation data had rates traders second-guess their expectations and further scale back their pricing of interest rate cuts. Markets now expect 90 bps of rate cuts from the ECB over 2024 (as opposed to 164 at the end of last year) and 100 bps from the Fed (compared to 157 bps).

Central bank governors have continued to repeat ad nauseam that they are data dependent, and macroeconomic data for the US appears to remain in a goldilocks zone. The labor market remained resilient, and economic activity was strong at 3.3% annualized for Q4, while inflation is on a slow retreat. Meanwhile, the eurozone expanded 0.1% over Q4, though there is an increasing divergence between Germany and the rest of the region, as the former remains weighed down by continued weakness in its outsized manufacturing sector. Inflation in the EU block remains sticky with core inflation moderating less than expected to 3.1%. The ECB appeared especially weary of wage inflation as evidenced by their inflation expectations of 3.2% over the next 12 months versus the ECB's estimate of 2.7%. The ECB members also appear to converge around June for the first rate cut, while Fed officials are cautiously guiding towards Q3 and are weary of potential accusations alleging election interference. The Fed seems to have more leeway in a context of strong economic growth, while the ECB has historically never led cut rates before the Fed.

The property market turbulence rippled across the globe as Chinese investors, needing to raise cash amid a deepening crisis at home, offloaded assets in Europe and the US at significant discounts. Deal activity picked up and revealed just how far real estate prices have fallen, which raised concern about losses rippling across the global financial system. The turmoil, for now, remains concentrated around smaller banks and regional banks, with New York Community Bancorp, Japan's Aozora Bank Ltd. and Germany's Deutsche Pfandbriefbank AG in the spotlight as they took steps to brace for bad loans. The deepening real estate concerns prompted fixed income investors to become more reluctant to add exposure to lenders that are exposed to commercial real estate and has driven an increase in the issuance of covered bonds.

Strong primary activity was witnessed this month for European Non-Fin corporates whose EUR-issuance volume is more than 20% higher than the mark recorded at the same period last year (EUR36bn vs EUR29bn as of end February) and is slightly less than January (-12%). The picture is a bit less rosy for Banks whose deal volumes dramatically decreased after a hectic start to the year (EUR40bn / -53% MoM / -24% YoY). Credit spreads (ICE BofA Year Euro Corporate Index) narrowed by 9 bps (to 121 bps), while the shorter end of the curve (1-3 year) narrowed by 14 bps, benefiting from the safer-haven demand as longer duration bonds were under. The US 10y rate ended the month at 4.25% (up from 3.9%), the German 10y rate rose to 2.41% (from 2.16%) and the Italian 10y rate increased modestly to 3.32% (from 3.2%).

Portfolio Highlight & Strategy Review

February has again been a busy month for the fund. This time we started overweight credit on the back of the crazy technicals than we have seen in the asset class (which has seen overall very solid inflows) and the reassuring set of companies results and resilient macro backstop overall (even European economic growth seems to be rebounding).

Given the strength of the rally and or belief that there might be negative surprises on the monetary policy front, we reduced our exposure over the month (ending beta at 0.95), benefiting there from some month-end fatigue with spreads slightly widening.

Fundamentals on Banks are still very strong although the noise on CRE exposure around some of them, particularly German Banks. However the price action seem to have gone far on the sector, leaded by the lower supply of debt in the sector. We decided to turn underweight on the sector, particularly on senior debt, preferring to getting most of our exposure to non-financial corporates.

In general, we still have a preference for the shorter duration on our credit exposure, (the 1-5 years).

On duration, in our opinion, the re-heating of the economy and the inflation story is not done. They might be some curve repricing ahead on the interest rate curve. We have remained underweight duration compared to our benchmark. Regarding interest rate exposure, this is important to note that in this new market regime, we observe now a negative correlation between rates and spreads (meaning any sell-off in rates does not automatically impact the credit by itself).

Over the month, the fund outperformed benefiting mainly from our tactical beta positioning (long when spreads tightened and underweight when they turned around), our sector positioning (particularly overweight on Insurance and Real Estate companies while underweight on non-cyclical corporates (especially utilities).

The fund has also benefited from some credit idiosyncratic stories (Securitas upgraded during the month, and the French REITS Carmila strong performance).

The impact of the duration positioning was pretty neutral over the month, the directional underweight was offset by the negative outcome of the portfolio steepener.

As per its ESG metrics, the Fund keeps a much better ESG score than its reference index while its carbon footprint is much below the 30% objective versus the one of the benchmark.

The share of Green Bonds within the Fund is around 14%.

* net of fees in EUR terms

Portfolio Highlight & Strategy Review

Volatility (in the best sense of the word) is back to credit markets. Technicals are extremely strong as final investors rush to the asset class "while is still time".

We are fine to keep with the flow ... because nothing seems to be able to derail credit at this stage, not even the level of spreads in the asset class which are getting closer and closer to the times the European Central Banks was very active in the market.

However, the inflation topic is not as done as some markets participants are thinking. There might still be some surprises around Monetary Policy actions, especially in Japan, where wages growth could finally put pressure on last Central Bank that hasn't stop its accommodative programs yet.

We are also mindful of the slope in the interest rate curve in general, with an inversion that is lowering the attractiveness of Credit versus low risk money market alternatives.

A part from that, we cannot really be anything else than positive at this stage.

Volatility is back on credit and it seems that responsiveness will be the key word to generate performance through the year.

This marketing communication is provided for information purposes only, it does not constitute an offer to buy or sell financial instruments, nor does it represent an investment recommendation or confirm any kind of transaction, except where expressly agreed. Although Candriam selects carefully the data and sources within this document, errors or omissions cannot be excluded a priori. Candriam cannot be held liable for any direct or indirect losses as a result of the use of this document. The intellectual property rights of Candriam must be respected at all times, contents of this document may not be reproduced without prior written approval.

Warning: Past performance of a given financial instrument or index or an investment service or strategy, or simulations of past performance, or forecasts of future performance does not predict future returns. Gross performances may be impacted by commissions, fees and other expenses. Performances expressed in a currency other than that of the investor's country of residence are subject to exchange rate fluctuations, with a negative or positive impact on gains. If the present document refers to a specific tax treatment, such information depends on the individual situation of each investor and may change.

In respect to money market funds, please be aware that an investment in a fund is different from an investment in deposits and that the investment's principal is capable of fluctuation. The fund does not rely on external support for guaranteeing its liquidity or stabilizing its NAV per unit or share. The risk of loss of the principal is borne by the investor.

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. Investor rights and complaints procedure, are accessible on Candriam's dedicated regulatory webpages <https://www.candriam.com/en/professional/legal-and-disclaimer-candriam/regulatory-information/>. This information is available either in English or in local languages for each country where the fund's marketing is approved. According to the applicable laws and regulations, Candriam may decide to terminate the arrangements made for the marketing of a relevant fund at any time.

Information on sustainability-related aspects: the information on sustainability-related aspects contained in this communication are available on Candriam webpage <https://www.candriam.com/en/professional/market-insights/sfdr/>. The decision to invest in the promoted product should take into account all the characteristics or objectives of the promoted product as described in its prospectus, or in the information documents which are to be disclosed to investors in accordance with the applicable law.

Notice to investors in Switzerland: The information provided herein does not constitute an offer of financial instruments in Switzerland pursuant to the Swiss Financial Services Act ("FinSA") and its implementing ordinance. This is solely an advertisement pursuant to FinSA and its implementing ordinance for financial instruments.

Swiss representative: CACEIS (Switzerland) SA, Route de Signy 35, CH-1260 Nyon. The legal documents as well as the latest annual and semi-annual financial reports, if any, of the investment funds may be obtained free of charge from the Swiss representative.

Swiss paying agent: CACEIS Bank, Paris, succursale de Nyon/Suisse, Route de Signy, 35, CH-1260 Nyon. Place of performance: Route de Signy 35, CH-1260 Nyon. Place of jurisdiction: Route de Signy 35, CH-1260 Nyon.

Specific information for investors in France: the appointed representative and paying agent in France is CACEIS Bank, Luxembourg Branch, sis 1-3, place Valhubert, 75013 Paris, France. The prospectus, the key investor information, the articles of association or as applicable the management rules as well as the annual and semi-annual reports, each in paper form, are made available free of charge at the representative and paying agent in France.

Specific information for investors in Spain: Candriam Sucursal en España has its registered office at C/ Pedro Teixeira, 8, Edif. Iberia Mart I, planta 4, 28020 Madrid and is registered with the Comisión Nacional del Mercado de Valores (CNMV) as an European Economic Area management company with a branch. CNMV: 1493