

# Candriam Sustainable Bond Euro

## Market Overview

European bond markets saw mixed performance in February as US inflation and labor market data again surprised on the upside. Against this backdrop, central bankers in the US and Europe signaled that they want to see more evidence that inflation is on track to reach their inflation target on a sustainable basis before starting their easing cycle. As a result, market expectations regarding the first rate cut have been pushed back towards June compared to March at the beginning of the year for both the Fed as well as the ECB.

In the eurozone growth expectations remain low, but we have seen some modest improvements in data recently. The February composite PMI increased to 49.2, driven by services. On a country level we saw a large drop in Germany while data improved in the rest of the euro area. On the inflation front, data decelerated further in the eurozone, driven by energy and food with headline standing at 2.6% YoY. Core inflation decelerated (3.1% YoY), but proved more resilient while services also remained sticky at 3.9%.

On the monetary front, ECB members appear to converge towards June for the first rate cut while they continue to closely monitor wage developments in the eurozone to have a better view on the medium term inflation outlook. The Fed from his side has more leeway given the resilience of their economy.

Concerns related to US commercial real estate continue to raise some concerns 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.

In this environment, German 10 yr yields increased to 2.41%, while Italian and Spanish 10 yr yields ended the month at respectively 3.84% and 3.29%. In terms of yield curve, we saw some flattening of the curve. The supply frontloading in the euro aggregate universe continued both on the sovereign (more than Euro 300 bn YTD) and credit front (close to 170 bn. YTD) but was well absorbed by the market. Excess return was again positive for Euro IG credit, despite a weaker end of the month. Performance wise real estate, insurance and banks were again among the better performing sectors.

## Portfolio Highlights & Strategy Review

In February, relative performance was close to benchmark. Our overweight on credit, SSA and EE contributed positively while duration and curve were negative drivers. We initiated a long duration bias as 10-year yields turned back above 2.3% while we kept our steepening bias on the 10-30 year part of the curve. Country wise, we kept an underweight stance on France and Belgium preferring exposure to Austria among core peers. We increased our exposure on Luxembourg via a 10-year primary issue. Among non-core countries we favour EE countries. On Italy we favour corporate exposure relative to sovereign exposure. On credit we maintained our constructive stance and were active on the primary market with still a more important bias on financials vs non-financials. Among non-financials, we favour telecoms, technology and healthcare while we remain defensive on the Oil and automobiles sector given their ESG dynamics. We remain overweight on SSA, as we continue to see potential for swap spread tightening. Lastly, we continue to increase and have a marked active exposure to Green, Social and Sustainability Bonds.

\* net of fees in EUR terms

## Fund Outlook

We closely monitor geopolitical risks and its economic impact, inflationary pressures, financial stability and the evolution of monetary policies of major central banks. These are likely to remain the key drivers and the uncertainty surrounding them will likely drive volatility. In terms of monetary policy, most major central banks are at the end of their tightening cycle and should bring first rate cuts forward in Q2-Q3, as inflation should continue to decelerate. We keep a constructive view on IG credit as absolute yield levels remain interesting and fundamentals are resilient. We remain more prudent in relative terms towards high yield, especially the lower ratings given the economic backdrop. In terms of issuer selection, we count on our rigorous

in-house bottom-up and ESG analysis, as selectivity should be important as there will be more dispersion. On the political front it will be important to monitor the outcome of the elections in Portugal.

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](http://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