September performance in global multi-asset credit strategies was similar to August, with moderately positive total returns gross of fees being posted in the face of continued interest rate volatility and a mixed environment for risk assets. Despite pausing in the policy rate tightening cycle at its September meeting, the Fed’s so-called hawkish pause gave impetus to a “higher for longer” narrative for interest rates looking out to 2024 and drove yield curves higher and steeper. The US 10-year Treasury yield rose from 4.10% to 4.57%. In Europe the ECB raised rates as expected and an upward trend in yield curves there was accentuated by widening spreads between the periphery and the core, with increasing market focus on the fiscal position of Italy.

Credit started the month quite strongly with a typically lively post-Labour Day market, and a decent new issue calendar, especially in investment grade, but the tone grew weaker as we went on. The market digested significant landmark new high yield issues, notably a much-anticipated LBO financing for Worldpay, as well as supporting ongoing refinancing transactions for smaller high yield businesses. The Itraxx Xover index of European credits had tightened by ~10bps by mid-September but closed the month 40bps wide of that mark. Cash credit was more resilient but also mixed with global BB spreads (HW10) widening by 9bps over the period and global BBBs (GBC4) remaining flat. Global equities tracked steadily lower through the month while oil prices rose, peaking north of $90 for WTI before closing at ~$89.

Performance Analysis

Against this background, the positioning of the global multi-asset strategies at the front end, and on the cusp of investment grade and high yield were able to generate a small positive return gross of fees while global BBBs and global BBs gave up return (GBC4 down 173bps and HW10 down 90bps in the month).

Portfolio Strategy and Activity

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Portfolio strategy and activity

The portfolio benefited from “rising star” upgrades to investment grade holdings in the European banking and global automotive sectors. In secondary, we selectively added in bank junior subordinated debt as prices became more attractive, while on the other side reduced our exposure to the airline and leisure sectors which have performed well but have played out.

Credit fundamentals are deteriorating a bit, but from a strong base. As defaults are expected to rise, and dispersion grows, security selection continues to be paramount. We will continue to reinforce our views on high conviction names. Carry will continue to be important and attractive in this higher yield environment, and we are working hard to maintain a healthy balance between risk and carry. We would like to reemphasize, that all-in yields continue to appear attractive and well insulated at the front end of the curve.

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