**MONTHLY COMMENTARY** | as at 31 March 2024

# HIGH YIELD FUND

## At a glance

**Performance***
The Fund returned 1.49%, the Index returned 1.18% and the Sector returned 1.09%.

**Contributors/detractors**
Security selection in high yield corporate bonds contributed positively.

**Outlook**
We believe that attractive yields, coupled with a resilient economy and jobs market, should continue to drive strong investor demand for high yield bonds.

## Portfolio management

**Thomas Ross**

**Brent Olson**

**Seth Meyer, CFA**

## Investment environment

- The US high yield bond market posted a positive return in March, with the Bloomberg US Corporate High Yield Bond Index rising 1.2%.
- Markets benefited as the US Federal Reserve (Fed) took a slightly more dovish tone at its March meeting. While the central bank chose to leave rates steady at 5.25% - 5.50%, its dot plot now indicates three rate cuts in 2024.
- The February jobs report was somewhat mixed as new jobs added exceeded expectations (+275,000 actual versus +190,000 consensus), but the unemployment rate of 3.9% exceeded expectations of 3.7%. The February inflation reading of 3.2% was consistent with expectations and a modest uptick from the 3.1% January reading.
- The yield on the 5-year US Treasury ended the month at 4.22% relative to 4.26% at the end of February. Corporate high yield bond spreads tightened 13 basis points (bps) to 299 bps, as investors increased their risk appetite due to the more positive outlook.

## Portfolio review

High yield bond credit spreads tightened again in March. While high yield bonds have delivered strong excess returns, valuations now seem to be pricing in a highly favourable outlook. Notwithstanding, we still think the yields available are attractive and may drive strong investor demand.

Security selection in high yield corporate bond holdings was the key positive contributor for the period. Small allocations to common stock and convertibles also contributed positively.

At an industry level, our allocations to wirelines and cable satellite contributed positively, while food and beverage and building materials detracted, somewhat offsetting relative outperformance.

On an individual issuer basis, allocations to miner Freeport-McMoRan and department store Kohl's contributed positively, while allocations to Community Health Systems and Credit Industriel et Commercial bank detracted.

## Manager outlook

What a difference a year can make. At the start of 2023, inflation was running at 6.5%, predictions of a recession were rife, and the Fed was maintaining its hawkish stance. The central bank would hike another four times in the first half 2023. Fast forward to the first quarter of 2024 and inflation has declined to 3.2%, the Fed is forecasting three rate cuts in 2024, and it has signalled its intent to taper its


*For benchmark and sector, if applicable, refer to Fund details on page 3. For relevant descriptions, risks and the Fund's investment policy statement, refer to Additional fund information on page 4.

quantitative tightening program. Economic growth, jobs growth and corporate earnings have continued to surprise positively. In our view, this is all broadly positive for fixed income markets.

More recently, market participants have grappled with questions of when, and by how much, the Fed will cut rates. This has resulted in some rate volatility and an uptick in yields as the market reprices to align rate-cut expectations with the Fed's own projections. Notwithstanding the tug-of-war taking place in rates markets in the short term, we believe the current monetary and economic environment sets up well for a favourable multi-year outlook for fixed income.

We expect that the recent strong demand for the fixed income asset class should continue - and potentially accelerate once the Fed starts cutting rates - as investors aim to lock in attractive yields and benefit from the diversification that bonds may bring to multi-asset portfolios.

While the outlook has continued to improve and the 'soft landing' appears to be the most likely outcome, we do expect the economy to gradually slow to below-trend growth. Yet, we take comfort that the Fed's dual mandate is coming back into balance, enabling it to react to any unexpected economic weakness with aggressive stimulative measures, because inflation has moderated.

From a credit spread risk perspective, we maintain a cautiously optimistic outlook. While corporate high yield bond spreads currently trade tighter than their 10-year averages, corporates continue to exhibit stronger fundamentals than we have typically seen this late in the cycle. We would expect some spread widening if economic conditions deteriorate, yet high yield bond spread levels are supported by several mitigating factors.

These include the somewhat lower expected default rate relative to prior periods of credit stress (around 4%), the higher quality of the Bloomberg US Corporate High Yield Bond Index versus history (BB-rated issuers now make up almost 50% of this index), and the limited new issuance calendar. In summary, we believe that attractive yields, coupled with a resilient economy and jobs market, should continue to drive investor demand for high yield bonds.

## Performance (%)

| Returns | Cumulative 1 Month | 3 Month | YTD | 1 Year | Annualised 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|
| A2 USD (Net) | 1.49 | 1.39 | 1.39 | 8.19 | -1.04 | 1.82 | 2.09 |
| Index | 1.18 | 1.47 | 1.47 | 11.15 | 2.19 | 4.21 | 4.44 |
| Sector | 1.09 | 1.24 | 1.24 | 9.27 | 1.06 | 2.88 | 2.68 |
| A2 USD (Gross) | — | — | — | — | — | 3.76 | 4.07 |
| Target | — | — | — | — | — | 5.51 | 5.75 |

| Calendar year | YTD at Q1 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| A2 USD (Net) | 1.39 | 10.34 | -16.19 | 4.41 | 5.11 | 13.58 | -4.10 | 4.87 | 11.56 | -2.71 | -0.58 |
| Index | 1.47 | 13.44 | -11.19 | 5.28 | 7.11 | 14.32 | -2.08 | 7.50 | 17.13 | -4.47 | 2.45 |
| Sector | 1.24 | 11.09 | -11.11 | 3.99 | 5.01 | 12.48 | -3.03 | 6.55 | 12.51 | -6.02 | -0.50 |

Performance is on a net of fees basis, with gross income reinvested. Source: at 31/03/24.  The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. **Past performance does not predict future returns.**
Performance/performance target related data will display only where relevant to the share class inception date and annualised target time period. **The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.** Source for target returns (where applicable) - Janus Henderson Investors.

Fund charges will impact the value of your investment. In particular, the ongoing charges applicable to each fund will dilute investment performance, particularly over time. For further explanation of charges please visit our Fund Charges page at www.janushenderson.com.

Note that any differences among portfolio securities currencies, share class currencies and costs to be paid or represented in currencies other than your home currency will expose you to currency risk. Costs and returns may increase or decrease as a result of currency and exchange rate fluctuations.

## Investment objective

The Fund aims to provide a high income with the potential for some capital growth over the long term.
Performance target: To outperform the Bloomberg U.S. Corporate High Yield Bond Index by 1.25% per annum, before the deduction of charges, over any 5 year period.

For the fund's investment policy, refer to the Additional fund information on page 4.
**Past performance does not predict future returns.**

## Fund details

| | |
|---|---|
| **Inception date** | 24 December 1998 |
| **Total net assets** | 333.88m |
| **Asset class** | Fixed Income |
| **Domicile** | Ireland |
| **Structure** | Irish Investment Company |
| **Base currency** | USD |
| **Index** | Bloomberg U.S. Corporate High Yield Bond Index |
| **Morningstar sector** | USD High Yield Bond |
| **SFDR category** | Article 8 |

In accordance with the Sustainable Finance Disclosure Regulation, the Fund is classified as Article 8 and promotes, among other characteristics, environmental and/or social characteristics, and invests in companies with good governance practices.

# Additional fund information

Tax assumptions and reliefs depend upon an investor's particular circumstances and may be subject to change. Please note the performance target is to be achieved over a specific annualised time period. Refer to the performance target wording within the objective. Availability of share classes shown may be limited by law in certain jurisdictions. Performance records/scenarios are detailed within the fund's specific KIID/KID; fees and charges, and the respective risk rating may vary. Further information can be found in the fund's prospectus and KIID/KID, which must be reviewed before investing. Please consult your local sales representative and/or financial adviser if you have any queries. This is an Irish Investment Company regulated by the Central Bank of Ireland. A short-term trading fee may be applied upon exiting the fund as per the prospectus. These are the views of the author at the time of publication and may differ from the views of other individuals/teams at Janus Henderson Investors. Any securities, funds, sectors or indices mentioned within this article do not constitute or form part of any offer or solicitation to buy or sell them. The information in this commentary does not qualify as an investment recommendation. Investment into the fund will acquire units/shares of the fund itself and not the underlying assets owned by the fund. The ongoing charge is calculated using the PRIIP methodology. The PRIIP methodology differs to the UCITS ongoing charge methodology, as the PRIIP methodology captures additional recurring charges, including but not limited to: Interest paid on borrowing (e.g. bank interest); Any fees incurred in relation to stock-lending activity (i.e. the fee paid to the lending agent); Any costs associated with holding closed-ended vehicles. Cash balances and exposures are based on settled and unsettled trades as at the reporting date.

## Investment policy

The Fund invests at least 80% of its assets in US high yield, unrated or non-investment grade, (equivalent to BB+ rated or lower) corporate bonds or preference shares, issued by companies, governments, public authorities, and international organisations or any other type of issuer. At least 51% of the Funds assets will be invested in bonds. The Fund may also hold other assets including bonds of other types from any issuer, cash and money market instruments. The Sub-Investment Adviser may use derivatives (complex financial instruments) to reduce risk, to manage the Fund more efficiently, or to generate additional capital or income for the Fund. The Fund is actively managed with reference to the Bloomberg U.S. Corporate High Yield Bond Index, which is broadly representative of the bonds in which it may invest, as this forms the basis of the Fund's performance target. The Sub-Investment Adviser has discretion to choose investments for the Fund with weightings different to the index or not in the index, but at times the Fund may hold investments similar to the index.

## Investment strategy

The Sub-Investment Adviser draws on Janus Henderson's integrated fixed income and equity research function, to identify the best risk-adjusted opportunities for the Fund. The strategy has the flexibility to deviate significantly from the index on a sector basis while having a strong focus towards the US. The investment process is dynamic with allocations to different types of bonds determined by the opportunities which exist and is supported by a proprietary research and risk management system.

## Fund specific risks

When the Fund, or a share/unit class, seeks to mitigate exchange rate movements of a currency relative to the base currency (hedge), the hedging strategy itself may positively or negatively impact the value of the Fund due to differences in short-term interest rates between the currencies. The Fund could lose money if a counterparty with which the Fund trades becomes unwilling or unable to meet its obligations, or as a result of failure or delay in operational processes or the failure of a third party provider. In addition to income, this share class may distribute realised and unrealised capital gains and original capital invested. Fees, charges and expenses are also deducted from capital. Both factors may result in capital erosion and reduced potential for capital growth. Investors should also note that distributions of this nature may be treated (and taxable) as income depending on local tax legislation. An issuer of a bond (or money market instrument) may become unable or unwilling to pay interest or repay capital to the Fund. If this happens or the market perceives this may happen, the value of the bond will fall. When interest rates rise (or fall), the prices of different securities will be affected differently. In particular, bond values generally fall when interest rates rise (or are expected to rise). This risk is typically greater the longer the maturity of a bond investment. The Fund invests in high yield (non-investment grade) bonds and while these generally offer higher rates of interest than investment grade bonds, they are more speculative and more sensitive to adverse changes in market conditions. If a Fund has a high exposure to a particular country or geographical region it carries a higher level of risk than a Fund which is more broadly diversified. The Fund may use derivatives to help achieve its investment objective. This can result in leverage (higher levels of debt), which can magnify an investment outcome. Gains or losses to the Fund may therefore be greater than the cost of the derivative. Derivatives also introduce other risks, in particular, that a derivative counterparty may not meet its contractual obligations. Securities within the Fund could become hard to value or to sell at a desired time and price, especially in extreme market conditions when asset prices may be falling, increasing the risk of investment losses. Some or all of the ongoing charges may be taken from capital, which may erode capital or reduce potential for capital growth. The Fund may incur a higher level of transaction costs as a result of investing in less actively traded or less developed markets compared to a fund that invests in more active/developed markets.



Source: Janus Henderson Investors, as at 31 March 2024, unless otherwise noted.

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