World Credit Asset

Quarterly Review

- During the third quarter, conditions remained constructive for credit markets despite a significant increase in rate volatility. The treasury curve steepened sharply, particularly towards the long end. Higher yields came as markets responded to resilient growth, persistent inflation, elevated energy prices, and a growing expectation that central banks may need to maintain tighter policy for longer than originally expected. Despite periodic volatility, solid earnings, healthy balance sheets, and continued investment activity were broadly supportive for credit.
- Global investment grade corporate bonds faced headwinds related to the increase in government bond yields and spreads widened. Within the portfolio, investment grade corporates detracted from absolute and aided excess performance, with the positive effect on relative performance coming from a meaningful underweight. Consumer non-cyclical and communications names were primarily responsible for the positive impact on a relative basis.
- Broadly, securitized assets were supported by solid consumer health and relatively lower interest rate sensitivity within key segments of the market. Within the portfolio, the allocation to securitized assets contributed to absolute and excess returns. CLO and ABS issues were mainly responsible for the sector's positive impact on quarterly excess performance.
- For bank loans, the sector's floating-rate nature coupled with supportive fundamentals to result in solid performance overall. Within the portfolio, our allocation to bank loans had a positive effect on absolute performance and a slightly positive effect in excess terms. Consumer cyclical and communications issues buoyed relative performance in particular.
- Global high yield corporate bonds were also broadly adversely affected by rising yields and increasing yield spreads. Within the portfolio, our allocation to the sector detracted from absolute and relative performance. Technology names were mostly responsible for the slight negative overall impact on relative performance.
- Emerging markets assets faced challenges similar to developed markets with yields moving to multi-decade highs amid concerns about stubborn inflation and deteriorating fiscal trends. A stronger US dollar and concerns over related, ongoing conflicts in the Middle East exacerbated headwinds. Within the portfolio, emerging markets assets weighed on absolute and excess performance, with Argentine and Ecuadorian exposures being primarily responsible.

Outlook

- Third quarter developments reinforced our view that the economy remains in a resilient expansionary phase, characterized by broadening earnings growth, stable labor market dynamics, near-term supportive fiscal policy, and resilient consumer health.
- We remain particularly focused on election cycle outcomes, AI developments, and ongoing conflicts in the Middle East. We acknowledge risks related to prolonged conflict in the region but expect that the potential inflationary impact will be constrained to the near-term with limited growth impact.
- Although higher bond yields, persistent inflation, and energy market uncertainty have increased volatility and warrant close monitoring, strong earnings growth, healthy corporate fundamentals, and sustained investment activity continue to support our outlook for risk assets.

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Important Disclosure

Key Risks: *Credit Risk, Issuer Risk, Interest Rate Risk, Liquidity Risk, Non-US Securities Risk, Currency Risk, Derivatives Risk, Leverage Risk, Counterparty Risk, Prepayment Risk and Extension Risk. Investing involves risk including possible loss of principal.*

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Past performance is no guarantee of future results.

Commodity interest and derivative trading involves substantial risk of loss.
Diversification does not ensure a profit or guarantee against a loss.
Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.

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