BlueBay European High Yield Bond Fund (Canada)

Commentary as at December 31, 2023

The Fund's returns benefited from exposure to high-yield bonds issued by Telecommunications, Automotive and Financial-services companies. The portfolio manager favoured large European banks as their income from lending bolstered profitability. Monte dei Paschi, an Italian bank, rallied during the year, driven by a recognition that the issuer's balance sheet had strengthened. Jaguar Land Rover, an automaker, was a significant outperformer, benefiting from easing supply-chain bottlenecks and lower-than-anticipated gasoline prices. Altice, a French Telecommunications provider, aided returns amid a recovery in governance-controlled issuers.

Holdings that had a negative impact on returns were concentrated in the Real Estate sector. European real estate was particularly exposed to rising interest rates due to the relatively high percentage of debt that they carried, as well as to poor governance, complex ownership structures, and a wave of maturities arriving in 2024. The Fund held an underweight position in the sector, but exposure to specific issuers was negative for overall performance. The German real estate companies Signa and Branicks (formerly DIC), were among the largest positions with a negative impact.

Individual holdings of some of the lowest-rated debt (B rated) had a negative impact on returns, partially offset by an overweight allocation to this area as lower-rated debt generally outperformed. The Fund had some exposure to bonds outside Europe, and these holdings had a negative impact on relative returns.

The global economy has so far proven more resilient to widespread monetary tightening than was anticipated. Recent developments on the macroeconomic front are supportive for consumer demand, and investors are pricing in significant interest-rate cuts next year. Valuations reflect the generally strong financial position of issuers and a shrinking pool of high-yield assets, as new issuance drops, and many high-yield issues get upgraded.

The portfolio manager remains largely avoidant on bonds of companies that are acutely exposed to a slowdown in economic growth, as well as companies that are less able to raise prices in the face of rising costs. Yields remain above long-term averages and remain enticing by historical standards.