

PH&N High Yield Bond Fund



Commentary as at December 31, 2023

U.S. high-yield bonds posted strong gains in 2023 following one of their worst years. The recovery was driven by a sharp decline in bond yields in the last two months of the year as major central banks signaled confidence that inflation was easing to acceptable levels, suggesting a potential reduction in benchmark interest rates. Default rates continued to trend higher, although they remained lower than the long-term average. Given the risks in the current economic environment, the Fund continued to hold a significant allocation in higher-quality bonds.

The Fund's emphasis on higher-quality bonds helped shield the portfolio from much of the volatility experienced in the high-yield bond market. Also insulating the Fund from the interest-rate volatility was the portfolio manager's decision to position the Fund such that it would have less sensitivity to changes in interest rates than the broader market.

In light of the softening economic backdrop, the portfolio manager remains cautious as the risk of a recession remains. The portfolio manager therefore continues to favour higher-quality, more liquid assets that position the Fund to withstand any market weakness and stands ready to take advantage of attractive opportunities as they arise. The portfolio manager's research shows that, all else being equal, periods in which yields rise significantly are often followed by periods of attractive returns.

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