

# Janus Henderson Horizon Euro Corporate Bond Fund

July 2019

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## Fund manager names: Tim Winstone & Tom Ross

### Overview

July was another positive month for European investment grade bond markets with the iBoxx Euro Investment Grade Index generating a 1.4% total return. Performance was driven by positive excess credit returns as European investment grade credit spreads (versus governments) tightened on the back of the expectation of dovish policy announcements from the European Central Bank (ECB) and Federal Reserve (Fed) towards the end of the month. Both the ECB and Fed meetings disappointed somewhat and spreads did begin to retrace from the tightens towards the end of the month. Monthly euro investment grade fund flows were positive once again, driven by a continued search for yield among investors, which also helped to cause credit spreads to tighten. Movements in government bonds further added to performance as yields rallied further.

Issuance in July eased to €34.6 billion, which was in line with levels seen last July, and net issuance for the month totalled €10.8 billion. Gross and net issuance year-to-date is above the levels seen over the same period last year, and full-year 2019 gross and net supply is expected to be larger than that of 2018.

All euro investment grade credit spreads moved tighter over the month with insurance, retail and automobiles and parts seeing the greatest spread tightening. On a ratings basis, the month saw lower-rated credit outperform with BBB-rated credit seeing the greatest spread tightening followed by A, AA and then AAA-rated bonds.

### Performance and activity

The fund underperformed its benchmark over the month.

Negative relative performance came from the fund's allocation to high yield bonds given US and euro high yield underperformed their investment grade counterparts on a total and excess credit return basis. An overweight position to TUI Group, and underweight positions to Deutsche Telekom and ING also hurt relative performance.

At the asset allocation level, positive relative performance came from overweight positions to real estate and industrials. Security selection also added to relative performance with issuers where the fund had an overweight position to adding significantly. In particular, the fund's overweight positions to Volkswagen, Adler and Fidelity National Information Services added the most.

### Outlook

We are currently positioned marginally long risk versus the index, composed of an underweight position to European investment grade credit and an overweight position to non-core areas of credit including sterling and US dollar investment grade, as well as high yield credit. The global economic backdrop continues to be weak, and we are cognisant recent escalations in trade tensions between the US and China has brought the threat of a trade war back to the fore. These trade tensions are likely to linger in the medium term, and continue to negatively impact business sentiment and global growth prospects. Ongoing instability from Brexit negotiations and Italian politics also remains prevalent and could threaten investor risk appetite.

However, central bank easing is set against the threat of trade tensions. Euro investment grade credit spreads tightened ahead of the ECB meeting and following this the market now widely expects the announcement of an asset purchase program (which is likely to include corporate bonds) in September. In the US, the Fed cut rates as anticipated by the market, illustrating it will undertake actions to support markets. We believe the Fed and the ECB will continue to support risk assets in the near term, helping to minimise the level of widening in European investment grade credit spreads. Given the large volumes of negative yielding European government and corporate bonds, we believe the strong search for yield among investors will remain present, helping to drive investors into investment grade credit.

Fund activity from this juncture is likely to evolve depending on the balance between central bank policy, and the economic and political landscape. More clarity and confirmation of renewed quantitative easing or a move towards a resolution between the US and China will likely see us increase risk from here.

Source: Janus Henderson Investors, as at 31 July 2019

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For further information on the Luxembourg-domiciled Janus Henderson fund range please contact your local sales office or visit our website: [www.janushenderson.com](http://www.janushenderson.com).

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