

# Janus Henderson Horizon Euro High Yield Bond Fund

April 2019

**Fund manager names:** Tom Ross & Thomas Hanson

## Overview

April was another strong month for European high yield bonds with the ICE BoAML HPIC benchmark delivering a total return of 1.4%. This was largely driven by positive monthly excess credit as credit spreads tightened (ICE BoAML HPIC benchmark versus government OAS) on the back of a constructive market tone, low supply and retail inflows. Movements in German government bonds detracted from performance as yields increased with the 10-year bund ending the month in positive territory, in contrast to last month.

European high yield outperformed US high yield in April on a total and excess credit return basis (versus government bonds). In European high yield bonds, rating performance was largely beta-driven with CCC-rated bonds delivering the strongest excess credit return, followed by single B and then BB-rated bonds. On a sector basis all sectors delivered a positive total return with the strongest performance coming from basic industry, automotive and media.

Issuance in April picked up relative to March with gross issuance in the euro non-bank and insurance space totalling 9.6 billion euros while net issuance totalled 4.8 billion euros. Net issuance year-to-date however, remains below that seen over the same period in 2018.

## Performance and activity

The fund\* outperformed the benchmark over the month.

At the asset allocation level positive performance came from the fund's underweight position to BB-rated bonds given this rating segment of the European market delivered the weakest total returns. However, the majority of positive attribution came from security selection with overweight positions to high yield issuers such as Adler, Endo and Tesco adding in particular. Further positive total returns came from the fund's position to investment grade securities, including an overweight to hybrid bonds in Vodafone.

Negative performance came from our underweight risk position versus the index given the rally seen over the month. On a single issuer basis the majority of underperformance came from issuers where we were underweight including Jaguar Land Rover and Adient.

## Outlook

European high yield bonds (as defined by the ICE BoAML HPIC Index) currently offers a spread (on a government OAS basis) of approximately 421 basis points. Valuations are now above the five and three year historical averages and the asset class continues to remain attractive in our view when compared to US high yield on a rating adjusted basis. From a technical perspective, we expect the market to remain in reasonable shape as supply is expected to be very manageable and inflows into the asset class year-to-date have been strong.

However, the macroeconomic outlook continues to remain mired with uncertainties. Despite global central banks continuing to act with a dovish tilt, concerns persist over slowing global growth with recent European economic data showing deteriorating signs. The market remains focused on the path of growth and we believe a stabilisation in data (at the least) is needed to cause credit spreads to tighten aggressively from here. In Europe, corporate fundamentals are still in reasonable shape, but the direction of travel for European high yield issuers has become weaker, and it seems likely that this will persist for the immediate future. Geopolitical and economic threats from the continued US/China trade conflict discussions, Italian politics and Brexit negotiations also continue to linger and impact investor sentiment.

Given the above, we remain cautious on the asset class and are currently positioned to be underweight risk versus the benchmark as measured by spread duration contribution and duration times spread metrics. We believe single issuer dispersion will be a key theme this year and we will continue to focus on using these idiosyncratic opportunities to help drive returns.

Source: Janus Henderson Investors, as at 30 April 2019

\* Gross of fees - gross of 5% initial sales charge. Calculated on a bid to bid basis, with gross income reinvested in EUR.

Note: Reference to any specific company or stock is for information purposes only and should not be construed as a recommendation to buy or sell the same.

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