

AMUNDI FUNDS OPTIMAL YIELD

Monthly
Portfolio
Update

30/09/2025

Meet the Team



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Market Overview

Another good month for European high yield market in September that benefitted both from carry and some small spread tightening that offset a bit higher Bunds yields as markets adjusted their expectations for further ECB rate cuts. This was well aligned with other risky assets including S&P, US high yield and emerging markets debt. Ongoing French political jitters, US government shutdown and Japan's political challenges on the back of the recent coalition government breakdown all remain on the investors' radar.

In Europe, the Eurozone inflation print, at 2.2% in September, was slightly above expectations driven by services, but core held steady at 2.3%, unchanged for the fifth consecutive month and composite PMIs remained in the expansion territory. There was some improvement in services, mainly in Germany, while manufacturing activity remained under pressure likely penalized by stronger Euro and US tariffs.

In the US, the Q2 GDP was revised upwards from 3.3% to 3.8% driven by household consumption, however, prospects may be less favorable as recent labor markets prints show a clear slowdown, and inflation risks remain.

Despite uncertainties, the Fed decision to lower rates by 25bp as a preventive measure due to growth risks was perceived positively, especially since two more cuts are anticipated by the end of the year. The ECB, for its part, kept its key rates unchanged, while revising its 2027 inflation forecast downwards.

In the EM space, credit delivered good returns in September, up +0.95% in corporates and 1.8% in sovereign space as measured by the JPM indices - outperforming European HY. Argentina's markets initially corrected following a corruption scandal, a disappointing Buenos Aires election result, and central bank intervention, but bond prices rebounded strongly after US support suggested a new lender of last resort ahead of crucial mid-term elections. In the meantime, China published disappointing data, both in retail sales, industrial production, and investments.

Finally, technicals remain supportive, across both European HY and emerging markets debt, as inflows continue to chase yield. After slower August, the primary market activities picked up in September and the new issuance was well absorbed by the market.

Portfolio Review

The portfolio delivered robust returns in September and over the course of the quarter.

In European High Yield, our exposure to Automotive, Telecommunications, Retail and Technology sectors delivered most returns.

In the Auto sector, where we continue to be underweight relative to the reference universe, we saw our picks among German and Spanish auto parts and equipment suppliers doing well. In Telecoms, it was mostly down to our exposure to a Luxemburg-headquartered satellite communication services provider that delivered most returns - its Q2 sales and earnings beat market expectations and confirmed the earlier guidance for the rest of the year supported by strong backlog of government contracts. Another telecom holding in France, which have recently finalised its year-long financial restructuring negotiations, also featured in the sector's top contributors last quarter.

Elsewhere, we saw a good performance from a handful of French and Japanese retailers, while in the Tech & Electronics sector, it was mostly down to a multinational IT service and consulting company, based in France, that serves a wide range of industries, including the French public sector and defence.

In the meantime, our allocation to emerging markets that we increased to about a quarter of the fund over summer, - as European high yield spreads continued to grind tighter and we saw more relative value opportunities in EM - further boosted returns. In the corporate space, Energy, particularly, in Mexico and Ghana, Utilities and Banks were among the top performers with a bit of a drag from Real Estate sector which was largely due to Chinese property developers that underperformed with yet another batch of weak macroeconomic data from China not helping the case. In sovereigns, we added Ukraine in August in light of more progress on providing security guarantees for the country as well as Romania and Uzbekistan.

The fund finished the quarter featuring above 5.3% portfolio yield, a duration profile of around 2.8 years and an average credit rating of BB-.

Market Outlook

We are entering the final quarter of the year with somewhat tight valuations as supportive supply/demand technicals over the summer, decent earnings season and the absence of major tariffs escalation news pushed spreads into the tight territory. These valuations leave limited room for further compression and we expect spreads to be largely range bound into the year end. That being said, the macro environment and corporate fundamentals remain supportive of carry strategies and the European High Yield continues to benefit from attractive risk-return profile with investor demand still a strong technical driver.

We remain constructive on EM debt markets as we believe the worst of trade tensions are behind us. Our emerging market allocation, which currently stands at about a quarter of the fund, remains opportunistic across corporate and sovereign space.

Although the US economy is slowing amidst a tariff rate of 15-18% and a deceleration in job growth, there are reasons to be reasonably optimistic. US corporate earnings remain strong, AI and capex spending are supportive, and hence, the US will likely avoid a recession. The Fed has resumed rate cuts, and we expect further cuts will be greater than market expectations.

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Our base case is the 'Goldilocks' environment for carry is likely to remain. US growth will slow below trend along with job growth, enabling the Fed to continue cutting rates. The pass-through from tariffs thus far has been modest, although a resurgence in US trade tensions is a risk to our outlook. Other concerns include an escalation in the geopolitical landscape in the Middle East and/or the Russia/Ukraine conflict. Combining this with relatively tight valuations, we do not expect an "easy ride" for the remainder of the year and are focusing our research efforts on identifying quality and idiosyncratic stories to generate alpha.

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