COMMENTARY

Janus Henderson Multi-Sector Income Fund

November 2021 **For promotional purpose**

Fund managers

Seth Meyer, CFA, John Kerschner, CFA, John Lloyd

Marco backdrop

The Bloomberg US Aggregate Bond Index returned 0.3% in November. The US Treasury yield curve flattened as the emergence of the COVID-19 Omicron variant late in the month caused longer-maturity yields to rally while shorter-dated yields rose on expectations that the US Federal Reserve (Fed) would nevertheless be raising interest rates in the year ahead. Mortgage-backed securities (MBS) weighed on the benchmark's returns over the period. Investment grade corporate bonds generated a modest return, largely due to their higher interest rate sensitivity, but saw significant spread widening on the back of increased supply, expectations of interest rate hikes and the arrival of Omicron.

Fund performance and activity

The fund returned -0.5% while the Bloomberg US Aggregate Bond Index returned 0.3%.

The fund's positioning relative to the US Treasury yield curve was the primary detractor from returns, followed by our out-of-index exposure to the high yield asset class. However, the fund's significant underweight position in investment grade corporate bonds and an out-of-index allocation to collateralised loan obligations (CLOs) benefited returns. While security selection within our high yield allocation detracted from returns, this performance was offset by strong security selection within the securitised markets, including MBS, assetbacked securities (ABS) and commercial mortgage-backed securities (CMBS).

Outlook/strategy

Just a few months ago, most investors probably thought 2022 would be a relatively sanguine year. The economy was slowing, but still strong, the Fed was expected to taper its bond purchases, but remained accommodative, and the market generally believed the Fed would be patient about raising interest rates. But surging inflation and a resurgence of COVID-19 fears fuelled by the Omicron variant are raising questions. Perhaps the most important are whether markets are too sanguine and whether prices in both equities and credit markets are thus precariously high.

In this environment we favour sectors and securities which are less likely to be determined by volatility in interest rates and have the fundamental strength to tolerate any greater-than-expected weakness in the economy. We think 2022 may prove to be a year where favouring investments that offer lower returns but are more likely to generate positive returns over the year may (thanks to the power of compounding returns) prove to be prescient.

Put more concretely, we think beginning to rotate credit exposure from corporate bonds to securitised products may prove prudent over the course of the year ahead. In MBS, for example, US house prices seem likely to end the year up more than 20% and while we expect that will slow in 2022, consensus expectations are for a further 5% to 10% rise next year. Given that mortgage rates are still relatively low, there remains pent-up demand for houses and not a lot of supply, it is hard to imagine a bearish scenario for home prices. Similarly, in the industrial mortgage space, more online ordering has raised demand (and rents) for warehouse space benefiting CMBS. Meanwhile, individual savings are still high. This is good news for many asset-backed securities (ABS) and other securitised products that are more directly linked to individuals than companies, and we think individuals, in aggregate, will probably be as strong - if not stronger - a credit risk in 2022 than they were in 2021.

We also remain positive on the high yield corporate bond asset class. After borrowing substantial sums when official interest rates are relatively low (0% in 2020 and 2021), many companies' liquidity profiles improved significantly. Now, flush with cash and the expectations that income will remain strong on the back of a still-recovering economy, more companies have begun a process of repairing their credit profiles. The current 'stress ratio' - the number of bonds trading below 80 cents on the dollar (a great indicator of default rates) has improved dramatically in recent quarters. Indeed, we believe corporate bond defaults peaked in early 2020 and expect they will decline further in 2022.

In the months ahead, we expect relative returns to be driven by identifying individual sectors and industries within the corporate bond and securitised markets. As we navigate this evolving environment we will continue to adhere to our bottom-up, research-driven investment process while looking to a wide variety of sectors and industries to provide yield and reduce overall portfolio volatility.

Source: Janus Henderson Investors, as at 30 November 2021

Janus Henderson Multi-Sector Income Fund

Fund information

Index	Bloomberg Barclays U.S. Aggregate Bond
Objective	The Fund aims to provide a high income with the potential for some capital growth over the long term.

Performance in (USD)

Annualised performance %	A2	A2 (with sales charge)^	Benchmark
1 month	-0.5	-5.4	0.3
3 months	-1.3	-6.2	-0.6
1 year	2.4	-2.7	-1.2
3 years (p.a)	-	-	-
5 years (p.a)	-	-	-
Since inception (p.a)	3.0	0.4	3.0

Source: at 30 Nov 2021. , performance is net of fees, with gross income reinvested. Performance figures of less than 1 year are not annualized. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

^Performance with sales charge assume 5.00% initial sales charge/front-end load (FEL) applied.

Past performance is not a guide to future performance.

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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For further information on the Janus Henderson fund range please contact your local sales office or visit our website: www.janushenderson.com/sg

Singapore
Janus Henderson Investors
Tel: +65 6813 1000
Fax: +65 6221 0039
Website: www.janushenderson.com/sg

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