COMMENTARY

Janus Henderson Multi-Sector Income Fund

August 2020 **For promotional purpose**

Fund managers

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Marco backdrop

The Bloomberg Barclays US Aggregate Bond Index fell in August, led lower by negative returns in both US Treasuries and corporate credit. The yield curve steepened with the yield on the 10-year Treasury note rising to 0.72%, from 0.55% in July, and the yield on the 5-year note closing August at 0.28%, up from 0.21%. Rising yields were largely the result of continued dovish comments from the US Federal Reserve (Fed) as inflation data moved marginally higher. Technical factors, including seasonally low liquidity and yields reaching all-time lows in early August, likely contributed to the correction.

The second wave of COVID-19 cases, which peaked in July, continued to decline, and economic activity was encouragingly stable given additional unemployment benefits began to roll off during the month. Nevertheless, credit and structured security spreads were largely unchanged. The investment grade credit market was relatively subdued as investors digested large amounts of new issuance. Rising Treasury rates therefore drove total returns lower. The high yield bond market performed better as investors continued to find confidence in the Fed's direct interventions.

Fund performance and activity

The fund returned 1.0% (A2 USD, net of fees) while the Bloomberg Barclays US Aggregate Bond Index returned -0.8%. Out-of-index exposure to high yield corporate bonds was the primary factor driving relative outperformance as the asset class generated stronger returns than the index constituents.

Our gaming holdings were particularly accretive, with a position in the Quapaw Downstream Development Authority retracing last month's losses after a positive earnings release. The fund's underweight allocation to investment grade corporate bonds further aided results given the negative performance in the asset class during the month. Detracting from relative returns was the fund's lack of exposure to governmentrelated securities, which include government agency debt as well as debt issued by state-owned firms. Our cable-satellite holdings were another modest detractor, with a position in Altice USA weighing on relative performance.

Outlook/strategy

We continue to believe the US economy will recover in the quarters ahead, buoyed by an accommodative Fed, support from fiscal authorities and sustained progress towards a COVID-19 vaccine. The Fed has clearly telegraphed its intent to remain accommodative and recently indicated that its preference for higher inflation will result in lower-for-longer policy rates compared to prior recoveries. This stance could put pressure on the long end of the US Treasury yield curve as investors gauge the appropriate level for long-term interest rates. While we do not expect a trend towards higher long-term rates, in our view Treasury yields are unlikely to move significantly lower, absent material economic weakness.

Against a backdrop of modest growth, we expect credit markets broadly to remain in demand, especially given the additional yield they offer over very low policy rates. But given the degree to which credit spreads have rallied since the lows of March, we do expect their pace of tightening to slow, particularly in the investment grade bond market. Opportunities in credit markets are likely to be found among and between industries and companies, making security selection a vital component of an investment approach. While we are biased toward sub-investment grade securities at this juncture, we remain vigilant for opportunities across the ratings spectrum, in both corporate and structured securities.

We remain constructive but know that COVID-19 and its economic impact remain a pressing concern. The ability of Congress to deliver further stimulus ahead of the election – and indeed the election itself – remain potential sources of volatility. As we navigate these uncertainties, we will continue to adhere to our research-driven investment process with a focus on taking the right amount of risk throughout the cycle.

Source: Janus Henderson Investors, as at 31 August 2020

Janus Henderson INVESTORS

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.

No share class performance is shown because the share class is less than one year old.

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.

Janus Henderson Multi-Sector Income Fund

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

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