Monthly Portfolio Update

Pioneer Funds – Global High Yield

31 January 2018

BOND COMMENTARY

Market Review

Strong U.S. and global GDP growth, rising oil prices, improved earnings, and positive momentum driven by the tax cuts and earnings repatriation, drove credit and equity markets higher over the month, despite rising interest rates. Higher real yields and inflation expectations contributed to rate increases; the 2-year Treasury rose from 1.89% to 2.14%, while the 10-year rose from 2.41% to 2.72%. Oil prices continued their strong performance, rising just over 7% to close the month at $64.73 a barrel.

High Yield ("HY") posted positive returns for the month with the Bloomberg Barclays Global High yield Index returning 1.19%. U.S. HY returned 0.60% while European HY returned 4.40% in U.S. Dollar terms. With regard to the Euro, the Pan-European High Yield Index returned 0.63%. Emerging Markets ("EM") U.S. Dollar HY returned 0.36%.

During the month, U.S. BB returned 0.04%; single-B returned 0.71%, while CCC returned 1.96%. In Europe, BB returned 0.50%; single B returned 0.81%, while CCC returned 1.58% in euro.

The U.S. Dollar fell over the month, with the U.S. Dollar Index closing down 3.25%.

Portfolio Review

The Portfolio underperformed its benchmark the Barclays Global High Yield index, for the month.

Security selection was the primary positive contributor to relative performance during the period. EMs were led by our selection within basic industry. In addition, security selection within Communications was a strong positive contributor. Our overweight to Energy also contributed to performance on a relative basis.

Our underweight exposure to the Euro impacted relative performance as the currency rallied another 3.41% vs the U.S. Dollar during the month.

Outlook

We believe that growth should remain robust for both the U.S. and globally in 2018, buoyed by easy financial conditions, and in particular, continued expansion of global central bank balance sheets, which should remain true for the G4 banks until the third quarter of 2018. We believe U.S. GDP growth may accelerate to almost 3% over the year, benefiting from significant tax cuts deregulation and stronger fixed investment spending; only protectionist trade policy may temper this outlook. Solid employment and income growth may continue to support consumption and the housing market. Higher corporate profits, benefiting from strong global growth, tax cuts, and the 100% expensing of fixed investment, may also support increased fixed investment. Globally, we believe that the eurozone and Japan may enjoy strong growth, reflecting lower political risk and quantitative easing. While China's growth may moderate in light of its goals to rein in credit growth from the shadow banking system and to improve the environment, we believe a modest decline in China's growth should not disrupt overall Asia or global GDP growth.

In addition, the recent higher than expected increase in wage inflation reflects our belief that inflation may surprise to the upside on a number of fronts in 2018 and that the FOMC may be behind the curve in raising rates. Nascent signs of wage growth acceleration, service inflation, tighter labour markets in key industries such as homebuilding, and more restrictive immigration policies may contribute to higher price levels in the coming year. Tax reform has the potential to further fuel inflation. In addition, producer price indices are already increasing, on the heels of higher oil and metals prices.

We expect the U.S. Dollar may depreciate relative to both developed and emerging market currencies. Markets have already priced the FOMC's forecasted rate increases. Furthermore, while GDP growth may rise in the short term in response to tax cuts, markets are sceptical that fiscal stimulus could have any significant effect on long-term U.S. growth. Finally, growth differentials between the U.S. and the world no longer favour the U.S. Only a sharp upward

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trajectory for inflation, causing an acceleration of Fed tightening relative to the current forecast, could change sentiment for the U.S. Dollar.

The default rate for HY bonds remains well below historical averages, and we maintain a constructive outlook with respect to the U.S. economy and overall corporate credit fundamentals. Strong earnings and a record pace of debt refinancing has enabled an extension of the credit cycle.

That said, valuations are high across risk assets and the current economic cycle is likely closer to its end than its beginning. As a result, we are seeking to be cautious in assuming risk within HY and generally are moving up in quality with new purchases. We are more constructive on global HY via the Euro, although Europe is not likely to outperform on a local basis.

The Fed is expected to continue to gradually hike rates, and the tapering of its bond portfolio will also inevitably lead to some tightening of credit conditions. That said, HY is less interest rate sensitive than other fixed-income segments.

We have been evaluating the impact of tax reform on various sectors and companies and repositioning our holdings accordingly. Overall, lower tax rates should have a positive impact on HY as an asset class. However, the scaling back of interest deductibility will negatively affect the more leveraged issuers. Looking ahead, we believe, any movement in Washington on an infrastructure bill could have the potential to boost market sentiment.

We view the overall composition of the HY market as healthy, with an improving quality profile across a range of industries. While HY valuations are somewhat extended, we believe overall conditions remain supportive of the asset class.

Important Information

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