Monthly Portfolio Update

*Amundi Funds II – Pioneer Dynamic Credit**
30 April 2018

BOND COMMENTARY

Market Review

Developed financial markets stabilised, in the wake of higher oil prices and higher interest rates over the month. Developed equity delivered modestly positive returns, while Investment Grade (IG) credit markets slightly outperformed Governments, benefitting from a 7% increase in oil prices, as well as from reduced trade tensions, better than expected first quarter U.S. GDP growth, positive earnings outcomes, with almost 75% of companies exceeding estimates, and with lower volatility. Despite these positive factors, performance within these markets was negatively affected by rising rates and inflation. High Yield (HY) markets outperformed, benefitting from significant energy exposure, higher all-in yield, and a benign default outlook.

Rising inflation expectations, spurred by higher oil prices and more hawkish Fed minutes resulted in a broad sell-off in U.S. Treasuries across the curve. Two-year U.S. Treasury yields rose from 2.27% to 2.49%, while the 10-year yield rose from 2.74% to 2.94%, after peaking at 3.03% on 25 April. German Bund yields followed in sympathy. Structured credit outperformed U.S. Treasuries, benefitting from a decline in volatility and demand for risk assets.

Agency MBS recouped almost half of their underperformance year-to-date in April, with a 0.2% excess return relative to U.S. Treasuries. Ginnie Maes outperformed, as rates rose, and as regulators cracked down on aggressive servicers, who were generating high churn of VA loan pools.

In addition, high coupon collateral outperformed. CMBS and ABS enjoyed excess returns similar to agency MBS. IG corporates contributed small positive excess returns for the month, this was due to the benefit of generally strong earnings reports which were offset by concerns around higher sector leverage, and higher issuance driven by increased mergers and acquisition activity, in the wake of lower demand from non-U.S. investors.

HY markets, on the other hand, enjoyed strong performance, delivering strong excess return of over 1% and an absolute return of 0.7%, as spreads narrowed from 372 to 346 bps.

Performance Review

The Portfolio's return was positive during the month as credit risk continued to perform, more than offsetting a weaker U.S. Treasury market.

Our outlook oncredit spreads is that they could potentially be range-bound as the economy is relatively healthy and corporations are enjoying strong earnings and revenues. We don't believe recent increases in equity volatility are necessarily indicative of trouble for credit markets and HY, in particular, tends to hold up better than IG during a rising interest rate environment.

Our outlook for the remainder of the year remains the same as we expect relatively stable markets. That said, there are factors – less accommodative global monetary policies, trade-related disruptions, and/or geopolitical risks – that could potentially surprise markets.

These factors may have the potnetial to create a backdrop for fixed income that is challenging for investors, but highlight the value proposition for the Portfolio.

Flexibility – We believe the Portfolio is well positioned based on our analysis of the markets and global economic data, resulting in no material changes during the period. We continue to de-risk the Portfolio as both interest rate and spread duration have decreased, while our cash position has increased. Our short interest rate duration stance (about 2.6 years) relative to our neutral point of risk remains in place. To reduce portfolio sensitivity to U.S. Treasury and credit markets, we continue to diversify across a variety of asset classes including ILS and securitised credit, both of which contributed to the performance during the month.

Focus – From a sector positioning standpoint we seek to find long-term value in sectors and with long-term stable cash flows. The Portfolio did not make any significant sector or corporate industry allocation shifts during the period. We are still weighted towards Financials and Midstream Energy, along with exposure to European Corporates. In particular, we expect that Financials ought to benefit from higher and steeper interest rates, along with the easing of financial regulations. Given stable housing market fundamentals, the Portfolio has maintained its exposure to housing related credits.

Discipline – We remain cautiously optimistic, given the economic environment and strength of corporate earnings. However, we also recognise that the market can shift quickly and that credit spreads are on the tighter side and valuations are less compelling. As a result, we continue to position the Portfolio more defensively, and portfolio tail risk hedges remain in place.

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