Marlborough

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Capital is at risk. Please read full risk warning at the end of this document.

Data source: TCW, Bloomberg

Monthly Commentary: October 2026

Global High Yield Bond

- Invests in a broadly diversified portfolio of high yield bonds issued across the US and Europe
- The four strong portfolio management team are supported by a wider fixed interest investment team of around 30 investment professionals
- Individual bonds carefully selected based on extensive 'bottom-up' research to target those bonds believed to offer the best risk and return characteristics

Market Review - Higher for Longer

September began with little progress toward a resolution in the Middle East, as both sides continued to accuse one another of undermining efforts to de-escalate the conflict. What initially appeared to be another geopolitical flare-up increasingly evolved into a macroeconomic concern, as attacks on Saudi energy infrastructure and reports of production falling to its lowest level since 1990 raised fears of a more prolonged disruption to global energy supplies. As supply risks intensified, oil prices moved higher, rising above $100 per barrel at various points during the month and reigniting concerns that inflation could remain elevated for longer than markets had anticipated. Investors viewed higher energy prices not as a temporary shock, but as a potential source of persistent inflation pressure capable of complicating the path for central banks globally.

Against this backdrop, the market narrative became a reassessment of the "higher-for-longer" interest rate story. In the United States, a combination of stronger-than-expected economic activity, resilient labour market conditions, rising input costs, and renewed inflation concerns prompted investors to revise expectations for monetary policy. The Federal Reserve delivered its first rate hike since 2023 and signaled that policymakers remained focused on containing inflation expectations, even as much of the inflationary pressure stemmed from higher energy prices and geopolitical developments beyond its direct control. Treasury yields rose across the curve, led by front-end yields, while the 10-year and 30-year Treasury yields climbed to 5.29% and 5.63%, respectively, levels last seen c. two decades ago.

Inflation concerns were not limited to the United States. Central banks globally continued to respond to upward pressure on prices, particularly those linked to energy markets. The European Central Bank (ECB) raised its deposit rate by 25 bps and reinforced a hawkish message on inflation, while the Bank of Japan delivered another rate increase, taking policy rates to their highest level since 1995 at 1.25%. The Reserve Bank of Australia also tightened policy with a rate hike of 25 bps, which takes its cash rate target to 4.60%.

As such, risk assets came under pressure during the period as higher oil prices, rising global yields, and increased policy restrictiveness weighed on investor sentiment. Credit markets, which had remained relatively resilient for much of the year, began to show signs of weakness. The Bloomberg Global High Yield Index declined 2.8% (-2.3% hedged to GBP), though investment-grade spreads widened modestly (+5 bps), supported by elevated all-in yields and continued demand, while high-yield spreads widened more meaningfully (+45 bps). Consistent with the bifurcation observed throughout the year, BB- (-2.8%) and B-rated (-2.6%) bonds continued to outperform CCC-rated issuers (-3.6%) as investors favoured companies with stronger balance sheets, better free cash flow generation, and greater refinancing flexibility.

Data source: TCW, Bloomberg



Global high yield sector returns were broadly negative, led by communications (-3.6%), where persistent competitive pressures and idiosyncratic challenges across cable, media, and wireline credits weighed on performance, especially during periods of heightened rate volatility like the one experienced in the early part of the year.

Similarly, insurance (-3.6%) continued its decline reflecting its higher sensitivity to rising interest rates with a P&C insurer contributing largely to the decline, while transportation (-3.3%) underperformed as higher oil prices increased fuel costs and pressured margin expectations across freight, logistics, and travel-related issuers, with a payment default adding to sector weakness. In contrast, energy (-1.9%) was among the best-performing sectors as higher oil prices boosted cash flow generation and improved margins. Meanwhile, technology (-1.9%) and basic industry (-2.3%) were relatively resilient, supported by stronger fundamentals and lower sensitivity to the macroeconomic headwinds affecting the broader market.

On the issuance front, U.S. gross issuance reached $51.7bn, the highest level in the past 12 months, while net issuance surged to a record $36bn. The increase in net issuance was driven by several large transactions, including deals from Paramount and SoftBank. Similarly in Europe, gross supply came in at €22bn, with net supply also posting a record high of €12.2bn.

Performance

The IFSL Marlborough Global High Yield fund returned -2.4% (hedged to GBP) in September, to finish behind the Bloomberg Global High Yield Corporate Index, GBP hedged (“Index”) by approximately 5 bps. Modest relative underperformance was driven by capital goods, particularly to European credits held in diversified manufacturing and environmental, while the issue selection drag in insurance was driven by a U.S. name. Additionally, the overweight to gaming was a relative headwind as the sector underperformed the Index. Conversely, the underweight to financials, like finance companies and other financials, were offsetting factors as both sectors trailed Index performance. Finally, the avoidance of an underperforming credit based in the wirelines space provided a further boost.

Company News

- **Électricité de France (EDF)**: EDF is reportedly preparing to sell a 20-30% stake in its Italian utility subsidiary, Edison, with Blackstone, Apollo, Sixth Street, KKR, and Ares among the parties said to be interested. According to Corriere della Sera, the transaction could raise roughly €2bn and may utilise preferred equity financing. The process is expected to launch as early as late October and would represent another step in EDF’s broader asset monetisation efforts.
- **Flutter (FLUT)**: Flutter traded sharply lower after Brazil’s government issued an executive order banning online gambling, forcing the company to suspend its sports betting and online casino operations in the country. The measure will require congressional approval within 120 days to remain in effect, creating significant regulatory uncertainty for one of Flutter’s key growth markets.

- **Paramount Skydance (PSKY)**: The highly anticipated Paramount Skydance financing officially launched during the final week of September. The transaction includes approximately $12.4bn of second-lien high-yield bonds alongside a significantly larger investment-grade financing package, making it one of the largest and most closely watched leveraged financings of the year.

Portfolio Activity

New Additions: *Primary Market activity was strong after the summer-lull, with portfolio additions focused on several new issues in the U.S. and Europe.*

- **European New Issues (DBGFP, GCLIM)**: Derichebourg is a French Waste Management company. Guala Closures is a packaging name with a strong market position.
- **U.S. New Issues (CLSPRK, SOFTBK, SYY)**: CleanSpark/CSDC Finance issued notes to fund AI infrastructure tied to a hyperscaler. Softbank came to market with a large deal and was heavily subscribed. Sysco is an IG-rated non-cyclical company, with hybrid notes.

Complete Sales: *Sold names across U.S. and Europe that were on the tighter end of relative value to fund other opportunities.*

- **Europe (TDCDC, URBASER):** TDC positions were sold following underperformance of related TDC brands' business and concerns about potential issues with two operating companies. Urbaser notes were redeemed in September at make whole price following acquisition by Blackstone and EQT.
- **U.S. (GCCN, HI)**: Great Canadian Gaming's thesis had played out with the sale of the Vancouver casinos and the subsequent paydown of the TLB. Meanwhile, LSF12 Helix Parent's results have been poor post-leveraged buyout, and pricing was not reflective of that, which allowed the team to exit the position.

Investment outlook

Although global high yield spreads have widened on the back of higher treasury yields, they are still rich on a spread basis and have the potential to leak wider from here. In this environment, we remain focused on upgrading portfolio quality, reducing exposure to pro-cyclical risk, and capitalising on idiosyncratic dislocations created by ongoing market dispersion. As valuations continue to tighten, we will seek to realise gains and trim positions with limited upside while redeploying capital into opportunities offering more compelling relative value, particularly among companies with strong competitive positions and resilient business models. Looking ahead, we expect return dispersion across sectors and issuers to increase as the credit cycle evolves. Companies with conservative financial policies, manageable capital requirements, and durable market positions should remain well positioned, while issuers facing elevated leverage, rising investment needs, or deteriorating operating trends may experience greater spread differentiation. As a result, we believe excess returns will be driven increasingly by disciplined security selection rather than broad market beta.

Risk Warnings

Capital is at risk. The value and income from investments can go down as well as up and are not guaranteed. An investor may get back significantly less than they invest. Past performance is not a reliable indicator of current or future performance and should not be the sole factor considered when selecting funds. Our funds invest for the long-term and may not be appropriate for investors who plan to take money out within five years. The Fund will be exposed to financial markets and market conditions can change rapidly. Prices can move irrationally and be affected unpredictably by diverse factors, including political and economic events. The Fund will be exposed to bonds, the prices of which will be impacted by factors including; changes in interest rates, inflation expectations and perceived credit quality. The Fund will have exposure to overseas markets, either directly or indirectly, and is therefore exposed to currency risk. As a result, the value of your investment can be affected by changes in exchange rates. In certain market conditions, the Fund may not be able to sell one or more of its assets for the full value, or at all. This could affect the performance of the Fund and could cause the Fund to defer or suspend redemptions of its shares, meaning investors may not be able to have immediate access to their holdings. A company that we deal with may renege on its obligations, costing the Fund money. The Fund may enter into various financial contracts (known as derivatives) in an attempt to protect the value of the Fund's assets or to reduce the costs of investing, although this may not be achieved. Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the Fund, or inconvenience to investors.

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Copies of the Prospectus and Key Investor Information Documents are available from **www.ifslfunds.com** or can be requested as a paper copy by calling 0808 178 9321 or writing to IFSL at the registered office above.

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