

# Schroder ISF\* Euro High Yield



**Fund Manager(s): Hugo Squire**

**Fund update: April 2026**

Marketing material for professional clients only.

## Market Review

April was another volatile month for bond markets as the oil price remained elevated, reflecting ongoing disruption in the Middle East, with Brent crude briefly moving above \$120 a barrel for the first time since 2022. However, risk markets showed a strong recovery following the announcement of a ceasefire between the US and Iran. Credit spreads tightened across the board in European markets. On average, euro-denominated issues outperformed US dollar credit, with high yield outperforming investment grade markets.

In Europe, initial first quarter corporate earnings announcements have been encouraging with positive updates from the banking, energy and technology sectors offsetting weakness in cyclical sectors such as autos. The technical backdrop for European credit markets remained favourable. April saw a continuation of strong year-to-date supply in the primary market, boosted by large investment grade issues from leading US technology companies to fund the build out of data centres. However, this supply is well absorbed by high demand for European credit.

European government bond markets remained particularly sensitive to events in the Middle East given the region's dependency on energy imports, with the 10-year German bund yield recording its highest level since 2011. However, in a reversal of the trend exhibited during March, peripheral markets outperformed the core. The European Central Bank (ECB) left the deposit rate unchanged at 2% although officials adopted a cautious stance on monetary policy guidance, emphasising the impact of the Middle East conflict on inflation.

European economic indicators reflected a more stagflationary economic outlook. The flash eurozone composite purchasing managers index (PMI) came in well below expectations, signalling the first contraction in economic activity for 16 months with evidence that higher energy costs have begun to impact consumer spending while services sector activity, previously an area of relative strength, has also softened. On the other hand, inflation increased to 3% - its highest level since September 2023, driven largely by an upsurge in energy costs, creating a challenging backdrop for the ECB over the coming months.

## Drivers of Fund Performance

The fund posted a positive total return but underperformed the reference benchmark during April.

An underweight allocation to the automotive sector detracted as spreads compressed over the month. Positioning in the financial services sector also detracted, notably exposure to debt collectors as investors continued to discount interest rate hikes in eurozone and in the UK.

An overweight allocation to the real estate sector made a positive contribution, notably holdings in a German commercial property developer, a US healthcare real estate investment trust, and a commercial developer focused on Central and Eastern European markets.

In basic industries, the holding in a global specialty chemicals group performed well as continuing disruptions to petrochemical supplies caused by the conflict in the Middle East highlighted the advantages for groups with European operations in comparison with Asia-focused peers, as they are less reliant on the Persian Gulf, sourcing feedstock from the US.

Security selection among banks and in the insurance sector was additive.

\*Schroder International Selection Fund is referred to as Schroder ISF throughout.

## Portfolio Activity

We continue to focus on opportunities in the technology sector, specifically AI-related capital expenditure on the build out of data centres. Our emphasis is on identifying infrastructure assets with long fixed-term leases with strong covenants. We added a high yield issue from a US business to fund the rollout of AI cloud infrastructure, underpinned by contracts with several major US technology companies.

Elsewhere in the primary market, we added an issue from an Italian cable operator to fund the expansion of its fibre optic network.

We also added high yield issues from a French utility group and an Italian digital technology company.

With credit spreads in the high yield market remaining at tight levels historically, we continue to hold a proportion of the portfolio in investment grade bonds, mainly BBB-rated securities, which act as a buffer against market volatility. In the investment grade market, we added to our holding in an Italian insurance group.

On the disposals side, we sold down holdings in a transport group, the financing vehicle for a UK food retailer and a commercial property developer.

## Outlook/positioning

Given the eurozone's reliance on energy imports, the region is doubly affected by the closure of the Strait of Hormuz due to the impact on natural gas prices, which are crucial for electricity supplies and for heating. Though the initial reaction to the war was sharp, gas prices have retraced a significant portion of this move, leaving them elevated relative to their pre-war baseline but still significantly lower than after the Russia/Ukraine conflict in 2022.

We expect that the impact of elevated energy prices on the eurozone economy will be noticeable, but not recessionary. As is the case with the US, this is partly a function of a solid starting point.

European bond markets are likely to remain driven by global events, with bond valuations already pricing in a reflationary outlook where the ECB commences hiking interest rates. Credit fundamentals in Europe remain broadly solid, with strong balance sheets and limited refinancing risks overall. However, having compressed in recent weeks euro investment grade credit spreads remain close to historically tight levels, and while we would generally consider a widening of credit spreads as a buying opportunity in the meantime we are concentrating on enhancing returns through credit selection and exploiting mis-priced bonds.

We continue to place a strong emphasis on credit quality, focusing on opportunities that offer good carry and favourable underlying credit fundamentals.

Against this backdrop, we have added risk modestly while continuing to place a strong emphasis on credit quality, focusing on opportunities that offer good carry and favourable underlying credit fundamentals, while limiting exposure to cyclical sectors and issues which are vulnerable to near-term refinancing pressures.

## Calendar yearly performance (%)

**Past performance is not a guide to future performance and may not be repeated.**

Period	Fund A Acc EUR	Fund I Acc EUR	Benchmark <sup>1</sup>
2025	4.9	6.2	5.1
2024	10.9	12.3	8.6
2023	11.8	13.1	12.0
2022	-13.8	-12.8	-11.5
2021	4.5	5.8	3.3
2020	4.2	5.6	2.7
2019	9.8	11.1	11.2
2018	-5.5	-4.4	-3.6

2017	6.7	8.0	6.7
2016	10.0	11.4	9.1

Source: Schroders, Morningstar, as of 30 April 2026. Performance shown is based on the currency of the share class shown and is net of fees. Please see factsheet for other share classes. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested. **Exchange rate changes may cause the value of investments to fall as well as rise.** Performance data does not take into account any commissions and costs, if any, charged when units or shares of any fund, as applicable, are issued and redeemed. The Fund's investment universe is expected to overlap materially with the components of the target benchmark. The investment manager invests on a discretionary basis and there are no restrictions on the extent to which the Fund's portfolio and performance may deviate from the target benchmark. The investment manager will invest in companies or sectors not included in the target benchmark in order to take advantage of specific investment opportunities.

<sup>1</sup>Benchmark refers to ICE BofA EUR HY Constnd TR EUR.

## Performance snapshot (%)

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	1 Month	3 Months	YTD	1 Year	3 Years p.a.	5 Years p.a.	10 Years p.a.	Since Inception
<b>Fund A Acc EUR</b>	1.6	-0.2	0.6	4.7	8.6	2.7	3.7	4.5
<b>Fund I Acc EUR</b>	1.7	0.1	1.0	6.0	9.9	4.0	5.0	5.8
<b>Benchmark<sup>1</sup></b>	1.9	-0.5	0.2	4.4	7.5	2.8	3.8	4.5

Source: Schroders, Morningstar, as of 30 April 2026. Performance shown is based on the currency of the share class shown and is net of fees. Please see factsheet for other share classes. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested. **Exchange rate changes may cause the value of investments to fall as well as rise.** Performance data does not take into account any commissions and costs, if any, charged when units or shares of any fund, as applicable, are issued and redeemed.

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## Investment Overview

The fund aims to provide capital growth and income in excess of the ICE BofA EUR HY Constnd TR EUR after fees have been deducted over a three to five year period by investing in sub-investment grade bonds denominated in euro issued by companies worldwide.

## Risk considerations

**Contingent convertible bonds:** The fund may invest in contingent convertible bonds which are bonds that convert to shares if the bond issuer's financial health deteriorates. A reduction in the financial strength of the issuer may result in losses to the fund.

**Counterparty risk:** The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole.

**Credit risk:** If a borrower of debt provided by the fund or a bond issuer experiences a decline in financial health, their ability to make payments of interest and principal may be affected, which may cause a decline in the value of the fund.

**Currency risk:** If the fund's investments are denominated in currencies different to the fund's base currency, the fund may lose value as a result of movements in foreign exchange rates, otherwise known as currency rates. If the investor holds a share class in a different currency to the base currency of the fund, investors may be exposed to losses as a result of movements in currency rates.

**Currency risk / hedged share class:** The currency hedging of the share class may not be fully effective and residual currency exposure may remain. The cost associated with hedging may impact performance and potential gains may be more limited than for unhedged share classes.

**Derivatives risk:** Derivatives, which are financial instruments deriving their value from an underlying asset, may be used for investment purposes and/ or to manage the portfolio efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund.

**Event risk:** The fund will take significant positions on companies involved in mergers, acquisitions, reorganisations and other corporate events. These may not turn out as expected and may result in losses to the fund.

**High yield bond risk:** High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk meaning greater uncertainty of returns.

**Interest rate risk:** The fund may lose value as a direct result of interest rate changes.

**Liquidity risk:** In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance 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.

**Market risk:** The value of investments can go up and down and an investor may not get back the amount initially invested.

**Operational risk:** Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.

**Performance risk:** Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro economic environment, investment objectives may become more difficult to achieve.

**Sustainability risk:** The fund has environmental and/or social characteristics. This means it may have limited exposure to some companies, industries or sectors and may forego certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria chosen by the investment manager. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

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