Fund report, August 2021
Global Investment Grade
Fixed Income

Sparinvest

MODERATELY NEGATIVE

Slightly higher yields and wider spreads

Markets. In August, both somewhat higher government yields and wider credit spreads resulted in a negative 0.24% benchmark return. Thus, year to date benchmark return remains in the red (-0.38%). Oil & Gas, Travel & Leisure and Industrial outperformed the market in August, whereas Technology, Health Care and Automobiles & Parts lagged behind.

The corona vaccines continued to support optimism. However, we see a mounting risk of negative surprises related to the vaccines, due to four big unknowns: The immunity towards new variations of the virus, the long-term side effects, the duration of the immunity, and non-specific effects on other diseases.

In spite of a normalization of the economies, the technical support remains very strong, in terms of gigantic fiscal recovery packages across the board, very low interest rates and central banks directly buying financial assets in the market, including corporate bonds. Probably it is only a matter of time before the direct buying in the market will be phased out, which markets will feel as a tightening of the liquidity environment.

The EU stimulus packages and slump in the economies pushes the Southern European countries into even higher debt levels, combined with a tourist industry melt down, low growth, high unemployment and an overvalued currency. This adds to a lack of structural reforms as well as the negative impact of Brexit completion and mounting demographic challenges.
The U.S. is also facing challenges. However, the U.S. starting point in terms of economic activity, interest rate levels and demographics is comparatively robust. In addition, the dollar serves as the world's reserve currency. In the longer term, the U.S. economy may also benefit from a repatriation of American manufacturing jobs. Thus, we continue to view U.S. fundamentals as more appealing than that of the Eurozone.

Ahead of benchmark year to date

The Portfolio. August's return of minus 0.34% was 0.10% lower than the benchmark (minus 0.24%). Year to date, the fund's positive return of 0.19% was 0.57 percentage points better than benchmark (-0.38%). The year to date outperformance was mainly attributable to the portfolio's defensive qualities. Volatility in monthly return has been lower than the benchmark over the past year, three years and five years.

August's gross trading of 4% was within the normal monthly trading range of 3-5%. The North American and Asian/Pacific exposures remained stable at 49% and 8% respectively, whereas the European holdings increased to 35% from 33%.

The fund remains underweight of the Eurozone for the above-mentioned reasons. In addition, ECB's massive purchase program is essentially crowding out traditional corporate credit risk from the Eurozone credit space replacing it with concentrated political risk. Over the past three quarters, the fund has gradually moved towards having a moderate capital preservation tilt.

See performance and fund data Click here >

Strategy
Global Investment Grade invests in global corporate bonds, cf. the fund's prospectus. Bond selection is based on the value approach, meaning that the team focuses on bonds issued by companies with healthy long-term earnings power and strong balance sheets as well as an expected ability to service outstanding debt. The portfolio is diversified across sectors, regions and credit ratings. At least 2/3 of the portfolio are invested in Investment Grade bonds.