

MOMENTUM TOOK A TURN

Declining growth momentum

Markets Credit spreads tightened by 33 bps in the High Yield (HY) market in August. The benchmark index gave a positive return of 0.72%, which was roughly evenly split between coupon accruals and price increases. The year-to-date return increased to 2.08%.

In August, predominantly the risky assets achieved the highest returns - a development that was led by equities and HY bonds. This month, once again, the HY return was driven by Emerging Markets, which recovered some of what was lost in July, and therefore contributed positively to the index return.

The growth-related key figures are beginning to paint a more unambiguous picture of declining momentum. Industrial confidence indicators have fallen further in the past month in the key economies of the OECD area. The corresponding indicator for China shows a decline for the fifth month in a row. This development does not seem to be in line with the general market expectations. The so-called "Economic Surprise Indices" published by Citi have fallen from record highs in mid-2020 to now negative levels for both the USA, Europe and China. This is an indication that a broad basket of key figures in the mentioned economies now has outcomes that do not live up to market expectations. An increase in COVID infections plays a role, but the main reason is most likely a consequence of the explosive growth momentum, which was triggered in the first part of 2021 in the wake of mass vaccinations. A growth rate of this nature can only be expected to be maintained for a limited period.

Positive return

The Portfolio had a positive return of 0.74% for August, which was 0.02 percentage points ahead of the benchmark. Year-to-date the return is 4.13%, which is 2.05 percentage points ahead of the benchmark.

Materials and Industrials were the two sectors that generated the largest positive contribution to the portfolio relative to the benchmark, while Consumer Discretionary and IT were the worst contributors. The largest positive contribution from Materials came from a diversified Indian mining company that benefits from the high commodity prices and therefore delivered a strong cash flow in the first half of 2021, which led to the company's credit rating being upgraded. Within Industrials, the positive contribution came primarily from a company that offers mandatory safety and training courses. The company was hit hard by the corona shutdowns last year, but this year the company's half-year report has clearly shown that activity has improved markedly. The largest negative contribution from Consumer Discretionary was the fund's position in an Indian retailer. The reason for the drop was a court decision not to approve the sale of the business to another company and increased the uncertainty surrounding the situation. In IT, the small negative contribution came from underweights in a number of names from the benchmark.

In August, two bonds were called and three sold. The proceeds were invested in three new issues and two new positions. The changes did not offset the fund's overall credit spread tightening and the fund ended the month with a slight lower credit spread

See performance and fund data

[Click here >](#)

Strategy

Global Short Dated High Yield invests in short-dated (1-5Y) corporate bonds with a rating from BB-B, 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.

This material does not constitute individual investment advice and cannot form the basis for a decision to buy or sell (or an omission thereof) of investment certificates. The material has been prepared for information purposes only and investors are encouraged to seek necessary professional advice before buying or selling investment certificates. Sparinvest does not undertake any responsibility for the advice given and actions taken or not taken in respect of this material. The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. Investors are urged to read the prospectus, the key investor information document and the current annual / semi-annual report of Sparinvest SICAV prior to investing. The documents are available at sparinvest.lu. There are always risks involved when investing and it is stressed that past performance or past return cannot be considered as a guarantee for future performance or return. Investors may not get back the full amount invested. Sparinvest makes reservations for possible typing errors, calculation errors and any other errors in the material.