

# RISK APPETITE RETURNED

## Omicron potentially milder than feared

**Markets.** December ended with a positive return for Emerging Markets (EM) government bonds of 1.25%. 10Y American interest rates increased by 6 bps and the credit spread decreased by 23 bps and ended the month at 369 bps, which is 17 bps higher than the start of the year.

Appetite for the riskiest assets returned in December. The news flow was again dominated by the development of coronavirus. On the negative side, the rising infection pressure led to the well-known societal restrictions especially in Europe and Asia. On the positive side, there were some signs that the rising infection pressure did not burden the hospital system to the same extent as previous waves. Overall, this gave rise to hopes that the effects on the economic momentum would be limited and of a shorter nature.

Most of the growth related indicators continued to decline during December. The order components in the so-called Flash PMI's (Purchasing Managers' Index) showed declines in the USA, Europe and Japan. It prolongs the period of loss of momentum in order intake that started in the early summer of 2021. For the OECD area, levels are not critical, but the direction characterizes a certain slowdown. Corresponding key figures from China suggest a stabilization. Business confidence showed a marginal increase, but the manufacturing industry still operates close to critical levels, reflecting stagnation.

In terms of country specific events, we saw continued tensions between The West/Ukraine and Russia. Several diplomatic meetings did not deliver significant progress in diffusing the situation. Meetings that are

more diplomatic are scheduled for the beginning of the New Year. In Turkey, the administration managed to halt the depreciations of the Lira by using unconventional measures. Among these, the country will take on the FX risk related to the people's bank deposits denominated in Lira – on the inflation side, the country printed the highest inflation in 19 years - of 36%.

## Positive return in December

**The Portfolio** had a positive return of 1.2% in December, which was 0.1% higher than the benchmark before costs. This takes the return of the year to 2.7%, which is 0.1% better than the benchmark before costs.

In December, it was the least risky bonds that delivered the marginally best return. However, both segments delivered positive returns. The fund has an overweight in High Yield, which is the main reason for the weak relative return.

The biggest contributors to the absolute return in December came from Mexico, Argentina and Egypt. Opposite, High Yield countries of Ukraine, Sri Lanka and El Salvador had the biggest negative contribution to the fund return.

The relative return was supportive of overweight in Mexico, Egypt and Oman. Overweight in El Salvador and Sri Lanka and underweight in South Africa had a negative contribution to the relative return.

During December, we did not do many adjustments to the fund positioning, but we did adjust our position in a Chilean mining company.

See performance and fund data

[Click here >](#)

## Strategy

Value Bonds - Emerging Market Corporates primarily invests in Emerging Markets 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. The investment universe includes Investment Grade bonds, High Yield bonds and to a limited extent non-rated corporate bonds.

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](http://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.