

## Global Ethical High Yield

FIXED INCOME

# A not so quiet summer

## Falling rates and Chinese volatility

**Markets.** Credit spreads in the High Yield (HY) market widened by 29 bps in July. The benchmark index yielded a negative return of -0.10%, bringing the year-to-date return to 2.64%.

July offered mixed returns for risky assets in an environment with relatively large declines in government interest rates. Yields on U.S. 10-year government bonds fell by 22 bps in July. Equity markets in developed countries (DM) returned 1.7% while Emerging Markets (EM) fell by 6.1% - driven by large declines in China. The HY market was also affected by EM developments, with the positive contribution from U.S. and Europe being more than offset by the negative contribution from EM, in particular China. China's regulatory intervention in the shape of higher accounting requirements for property developers and demands made to private education firms to turn non-profit and ban foreign ownership, led to increased volatility. Moreover, the largest real estate developer in China, within the index, received another downgrade in its credit rating which raised the level of distrust among stakeholders. This led to large price declines - especially in the weakest issuers - in a relatively large sector of the HY index.

Developments in the financial markets in July have shown that the return on risky assets relative to risk-free assets does not follow the same unambiguous pattern as in previous quarters. As mass vaccinations lead to the reopening of societies, it is mostly a matter of time before the current QE programs are phased out. The ongoing economic recovery will seize liquidity and lead the "surplus liquidity" to fall significantly in the coming quarters.

Return is calculated gross of fees and excluding swing.

## Positive return, ahead of benchmark

**The Portfolio** had a positive return of 0.28% for July, which was 0.38 percentage points ahead of the benchmark. Year-to-date the fund's return is 4.54%, which is 1.90 percentage points ahead of the benchmark.

Real Estate and Industrials were the two sectors that generated the largest positive contribution to the portfolio relative to the benchmark, while Health Care and Materials were the worst contributors. The positive contribution from Real Estate came from the fund's significant underweight in Chinese real estate companies, which had a very tough month on account of increased government intervention and increased distrust in one of the largest Chinese real estate companies, which had its credit rating downgraded once again. Within Industrials, the largest positive contribution came from a global container shipping company, which benefited from continued record high container freight rates and from obtaining a high credit rating after previously being non-rated. The negative contribution from Health Care came from an American pharmaceutical company, involved in several lawsuits, among others related to the U.S. opioid epidemic. Negative news surrounding these lawsuits weakened the bond during July. In Materials, a silver mining company contributed negatively, as it was hit by the falling silver price.

In July, two positions were called and one was sold as it had reached its expected return. The proceeds were reinvested in four new issues and in increasing the weights across existing positions. A previously excluded company due to ethical concerns was added to the fund after a review by the ESG team did not identify any ongoing breaches of international norms.

See performance and fund data [Click here >](#)

## Strategy

Ethical High Yield Value Bonds 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 High Yield bonds. Up to 15% may be invested in corporate bonds issued by companies operating in Emerging Markets.

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.