FUND REPORT

June 2021

Sparinvest

Global Ethical High Yield

FIXED INCOME

The inflation theme continued

Positive month for risky assets

Markets. Credit spreads in the High Yield (HY) market tightened 12 bps in June. The benchmark index yielded a positive return of 0.90%, bringing the year-to-date return at 2.74%.

Developments in the financial market in June were characterized by positive returns on risky assets combined with a flatter yield curve, due to higher short-term government interest rates and lower long-term government interest rates. Business confidence indicators in the U.S. and Asia paint a picture of growth-momentum close to climax. In Europe, the overall positive development continued in June due to the delayed evolution of the Corona crisis. The return on risky assets relative to risk-free assets in the early summer did not follow the same unambiguous pattern that prevailed in the previous quarters, highlighting that the environment has become more complex.

The complexity goes beyond expectations of economic momentum. In the United States and Europe, mass vaccinations led to the reopening of societal activity - which over time will lead to a normalization of economies. The development is therefore increasingly contrary to maintaining the current monetary policy, which still includes monthly QE programs of USD 120 billion in the U.S. and EUR 80 billion. in Europe. The most recent FOMC meeting revealed that the central bank had to once again change its economic forecast towards higher inflation in 2021 and lower unemployment rates in 2022. At the meeting, several members expressed a desire to bring forward the monetary policy tightening. Credibility is declining both in the monetary policy manuscript and in the belief that rising inflation is temporary, as expected by the Fed.

Positive return, ahead of benchmark

The Portfolio had a positive return of 1.04% for June, which was 0.14 percentage points ahead of the benchmark. Year-to-date the fund's return is 4.24%, which is 1.50 percentage points ahead of the benchmark.

Financials and Real Estate were the two sectors that generated the largest positive contribution to the portfolio relative to the benchmark, while IT and Consumer Staples were the worst contributors to the fund's return. The positive contribution from Financials was broad based but the two largest contributions came from a larger UK bank and a Danish bank. In Real Estate, the positive contribution came primarily from the fund's underweight in Chinese real estate companies, which generally had a tough month. One of the largest Chinese real estate companies has had its credit rating downgraded after uncertainty regarding the company's ability to pay its short bonds and several Chinese banks limiting the lending options for the company. The negative contribution from IT came primarily from a position in a Nordic company that offers solutions for sending auto-generated messages to a company's customers. The company announced an acquisition increasing the size of the bond and its leverage. The bondholders were compensated by receiving a fee for accepting the changes. In Consumer Staples, the negative contribution was due of the funds underweight in the sector.

In June, two positions were called and eight positions were sold as they have reached their expected return. The proceeds were reinvested in six new issues, two new positions and in increasing the weights across existing positions. The changes resulted in a roughly unchanged spread for the portfolio.

Return is calculated gross of fees and excluding swing.

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.