FUND REPORT

May 2021

Sparinvest

Global Ethical High Yield

FIXED INCOME

Momentum flattened out

Breathing space to "cut the coupon"

Markets. Credit spreads in the High Yield (HY) market were unchanged in May and still at 373. As a result, the benchmark index yielded a positive return of 0.35%, which alone could be attributed to coupon payments. The year-to-date return for the index was 1.83%.

During the spring, there has been a tendency for more sideways movement in the financial markets. This applies to a wide range of areas, including credit spreads on corporate bonds, U.S. government interest rates, leading stock indices and cyclical versus defensive stock sectors. These may be initial reactions to "max. momentum" in the growth-related key figures, which in turn coincide with confidence indicators, which have recently expressed high investor optimism.

Growth-related key figures rose to levels that are typically characterized by a climax in economic momentum. The high-frequency data series published by the Federal Reserve rose almost vertically until mid-April in connection with the reopening of the societal activity in the United States. Since mid-April, the index has moved sideways. This is reflected in market expectations for the growth profile of U.S. GDP over the coming quarters. According to Bloomberg, growth is expected to peak in the current quarter. It is market expectations that growth will slow but remain high in the third quarter - before falling to somewhat lower growth rates until the end of 2022. The latest business confidence indicators from Asia paints the same picture of growth-momentum close to the climax. This is reflected in declines in PMIs in South Korea, Taiwan and a mixed development from the Chinese indicators.

Positive return, ahead of benchmark

The Portfolio had a positive return of 0.59% for May, which was 0.23 percentage points ahead of the benchmark. Year-to-date the fund's return is 3.18%, which is 1.35 percentage points ahead of the benchmark.

The portfolio's positive return was broad based, but with the most notable contribution from Energy and Materials sectors, while Consumer Discretionary was the sector with the worst contribution to the fund's return relative to the benchmark. The continuation of higher oil prices, led by strong demand from re-opening of societies, drove a broad-base positive contribution from the Energy sector, which benefited from both selection and an overweight in the sector. Within Materials sector, increasing copper prices, now at all-time high, surpassing the previous 2011 copper price record, led to a positive return contribution from the copper mining companies within the fund. The precious metals mining companies also contributed positively as gold price increased throughout the month. The negative contribution from the Consumer Discretionary sector stemmed from the fund's underweight in the sector and a position in an Indian retail company which is in the process of being acquired and is facing uncertainties regarding the price and timeline initially agreed upon.

In May, two positions were called within the sectors Materials and Consumer Staples which decreased the weight within these sectors. The proceeds were used for four new issues and in increasing the weights in existing positions. The changes increased the portfolio's credit spread, which remains at a higher level than the benchmark while the portfolio's duration is at a lower level than the benchmark.

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.