Fund report, November 2021
Emerging Markets Bonds EUR R
Fixed Income

Sparinvest

RISK AVERSION INCREASED

New virus variant, increasing inflation and much more...

Markets. November ended with a negative return for Emerging Markets (EM) government bonds of 2%. 10Y American interest rates decreased by 11 bps and the credit spread increased by 33 bps and ended the month at 392 bps.

In November, the financial market was dominated by reduced risk appetite. The development of coronavirus left its mark in the form of rising infection rates in Europe and the USA, as well as parts of Asia. The virus variant called Omicron created doubts about the effectiveness of existing vaccines. Oil prices fell 16% in the wake of the U.S. decision to supply oil from the country's strategic reserves and concerns about further "lock downs". Finally, investors began to recognize a tighter monetary policy stance in the United States, as the U.S. Federal Reserve is now seriously beginning to question the conclusions of its economic analysis with the common denominator "transitory". After just a few weeks, the central bank is now rejecting the proposed plan to phase out QE (Quantitative Easing), which was decided at the FOMC (Federal Open Market Committee) meeting on 3 November. The question is now whether the ECB will come to the same concession. Changes in economic policy are considered important signals for the economic momentum and thus the financial market.

In terms of country specific events, we saw an escalation in the tensions between Ukraine and Russia. The U.S. intelligence agency reported increased Russian military activity towards the Ukrainian borders. In Turkey, the central bank further reduced interest rates, the finance minister was replaced and the president reiterated his determination to fight high interest rates. As a result, the currency depreciated 40%. However, the USD government bonds did surprisingly well, by registering as negative return of 4%.

Negative return in November

The Portfolio had a negative return of 2.6% in November, which was 0.6% below the benchmark before costs.

Again, in November, it was the least risky bonds that delivered the best 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 November came from Qatar, United Arab Emirates and Malaysia. Opposite, High Yield countries of Ukraine, Egypt and Mexico had the biggest negative contribution to the fund return.

The relative return was supportive of underweights in Turkey, Lebanon and Mexico. Overweight in Egypt, Ukraine and El Salvador had a negative contribution to the relative return.

During November, we sold our exposure in Bolivia and a Costa Rican utility company. We have participated in new issues from Gabon and the state owned oil Company in Uzbekistan.

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 extend non-rated corporate bonds.