

SMALL CAP AND REFLATION

Increasing supply problems

Markets. Leading indicators have recently painted a more unambiguous picture that the economic momentum has reached its maximum this time. This development still does not seem to be in line with the general expectations. The so-called "Economic Surprise Indices" published by Citi have fallen from record highs in mid-2020 to now negative levels for both the U.S., Europe and China. This indicates that a broad basket of key figures in the mentioned economies do not live up to market expectations. In this context, it should be added that in the USA and Europe, the development in the growth related key figures is mostly in the nature of a moderate slowdown with declining momentum from high growth levels in early summer.

This has largely been the outlined scenario since pre-summer. However, recent weeks' price increases and supply problems, especially in the energy area, are expected to push the growth scenario to the negative side. Within a few weeks, the imbalances in the field of energy reached a level that is affecting economic activity. The lack of electricity is forcing China to prioritize supply to the household or business sectors. In recent weeks, the Chinese authorities have selectively recommended energy-heavy companies to reduce or stop production activity. This primarily concerns production in the steel, cement and chemicals sectors.

Supply problems for an input as important as electricity potentially open the door to major negative surprises and occur at a time when global supply chains are experiencing major bottlenecks. A supply chain in which Chinese industrial production plays a central role. The supply problem will have far-reaching effects

from earnings to price developments - not just in China but globally.

Small cap and reflation headwind

The Portfolio returned -1.65% and -1.92%, gross and net of fees in the third quarter. The benchmark and Morningstar category of comparable global convertible funds returned -2.28% and -1.84%, respectively. Return for the year, euro hedged, is now 6.61% and 5.75%, gross and net, while the benchmark and Morningstar category have returned -0.27% and 0.67%, respectively. In absolute terms in Q3, the convertible universe was hit by declines in small cap and reflation trade, while the relative return was helped along by idiosyncratic events that contributed positively.

The primary market has found a more sustainable level compared to the elevated levels we have seen for the past 12-18 months. During the third quarter we saw 45 new issues worth EUR 19 billion, around half from the U.S. Software was the largest contributor with roughly EUR 5 bn. Some repeat issuers like Asian Sea, French Korian and German Delivery Hero, but also some new companies came to the convertible market. We participated in a selected few new issues that we found had the appropriate valuation, quality and potential for our strategy.

Adecco in a deal that gave a great boost to the convertible bond price acquired the French engineer-consulting firm Akka Technologies, which has been a sizeable part of our portfolio.

See performance and fund data

[Click here >](#)

Strategy

Sparinvest Global Convertible Bonds is a well-diversified global fund of convertible corporate bonds. Convertible corporate bonds are an asset class in the intersection between stocks and bonds that give some exposure to the stock market with a significantly lower risk than direct investment in the stock market. The strategy utilizes long-term factor premiums such as value, low debt and small cap. These are investment styles that, with certain fluctuations along the way, have historically delivered a long-term excess return compared to investments in the entire market.

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. 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.

