Fund report, October 2021
Global Investment Grade
Fixed Income

Sparinvest

LOWER CREDIT SPREADS…

…neutralized by higher government yields

Markets. In October, tighter credit spreads and higher government yields almost cancelled out each other resulting in a small negative benchmark return of 0.09%. This pushed the year to date benchmark return further into the red (-1.52%). Automobiles & Parts, Oil & Gas and Media outperformed the market in October, whereas Retail, Telecommunications and Travel & Leisure lagged behind.

The corona vaccines continued to support optimism. However, we saw a mounting risk of negative surprises related to the vaccines, due to four big unknowns: The immunity towards new variations of the virus, the long-term side effects, the duration of the immunity and non-specific effects on other diseases. In addition, economic momentum is weakening; inflationary pressures are rising and monetary tightening looms.

Still, credit spreads have contracted considerably year to date, driven by strong technical support, in terms of gigantic fiscal recovery packages across the board, very low interest rates and central banks directly buying financial assets in the market, including corporate bonds. Thus, from a fundamental perspective, capital preservation is a higher priority than capturing full benefit from a potential bull market.

The EU stimulus packages and slump in the economies pushed the Southern European countries into even higher debt levels, combined with a tourist industry melt down, low growth, high unemployment and an overvalued currency. This added to a lack of structural reforms as well as the negative impact of Brexit completion and mounting demographic challenges.

The U.S. is also facing challenges. However, the U.S. starting point in terms of economic activity, interest rate levels and demographics is comparatively robust. In addition, the dollar serves as the world's reserve currency. In the longer term, the U.S. economy may also benefit from a repatriation of American manufacturing jobs. Thus, we continue to view U.S. fundamentals as more appealing than that of the Eurozone.

Ahead of benchmark

The Portfolio. October's zero-return was 0.09% better than the benchmark (-0.09%). Thus, the year to date fund return stood unchanged at a negative 0.70%, which was 0.82 percentage points better than benchmark (-1.52%). The year to date outperformance was mainly attributable to the portfolio's defensive qualities. Volatility in monthly return has been lower than the benchmark over the past year, three years and five years.

October's gross trading of 5% was within the normal monthly trading range of 3-5%. The North American exposure decreased to 47% from 48%, whereas the European and Asian/Pacific holdings remained stable at 35% and 8% respectively.

The fund remains underweight of the Eurozone for the above-mentioned reasons. In addition, ECB's massive purchase program is essentially crowding out traditional corporate credit risk from the Eurozone credit space replacing it with concentrated political risk. Over the past three quarters, the fund has gradually moved towards having a capital preservation tilt.

See performance and fund data Click here >

Strategy
Global Investment Grade 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 Investment Grade bonds.