

## CONTINUED DARKNESS IN CHINA

### Declining order intake and rising prices

**Markets.** Credit spreads widened by 29 bps in the High Yield (HY) Short Dated market in October. The benchmark index gave a return of -1.21%, which brought the year-to-date return down to 0.1%.

The latest set of leading growth-related indicators still paints a picture of declining momentum. Figures from US and Europe show, for example, that the ratio between order intake and inventories has fallen further. This probably means that industrial production will have to continue to adapt to lower activity in the coming period. Despite the prospect of lower growth momentum in the manufacturing industry, the latest indicators point to, even higher, end prices. End prices continue to act as a buffer despite signs of lower activity. This merely indicates extraordinarily large imbalances in the global manufacturing industry. Part of that development is due to broken supply chains and built-up bottlenecks in the wake of corona related restrictions. The remaining part can be attributed to a generally strong demand. At present, there is no sign that the existing imbalance between supply and demand is showing material improvement.

Developments in China in particular have worsened since the summer. China is currently experiencing electricity and energy supply problems that exceed previous periods of bottlenecks. This comes on top of the debt problems in the Chinese real estate sector that have been going on for several months. Data from September and October indicate somewhat lower activity in the housing market in China and a negative spillover on prices. This sector alone accounted for approx. 90% of the negative index return for the month.

### Negative return, ahead of benchmark

**The Portfolio** had a negative return of 0.25% for October, which was 0.96 percentage points ahead of the benchmark. Year-to-date the return is 3.91%, which is 3.81 percentage points ahead of the benchmark.

Real Estate and Financials were the two sectors that generated the largest positive contribution to the portfolio relative to the benchmark, while IT as the only sector contributed slightly negative relative to the benchmark. The largest positive contribution from Real Estate came again from the large underweight in Chinese real estate developers, as these had another tough month in October. Within Financials, the positive contribution came from a number of positions, with a provider of mortgage insurance standing out especially. Its positive contribution was driven, among others, by positive analyst recommendations of the company and generally less uncertainty about the risk of mortgage insurance in the US. The small negative contribution from IT came from a Nordic provider of automated messages to corporate customers. The company's recent acquisition ended up being canceled, as the parties could not agree on the price. The news of its cancellation had a negative impact on the bonds, as the acquisition would have been financed with new equity, effectively reducing leverage for the combined entity.

In October, two bonds were called, one sold and several positions reduced as they have reached their fair value and to accommodate six new issues and one new name as well as increases across several other positions. The changes increased the fund's overall credit spread and reduced the underweight the U.S.

See performance and fund data

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### Strategy

Global Short Dated High Yield invests in short-dated (1-5Y) corporate bonds with a rating from BB-B, 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.

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