Sparinvest

HIGHER YIELDS...

...spoiled the party

Markets. In September, materially higher government yields dragged down benchmark return to -1.06% in spite of somewhat tighter credit spreads. This pushes year to date benchmark return further into the red (-1.43%). Travel & Leisure, Technology and Media outperformed the market in September, whereas Retail, Personal & Household Goods and Utilities lagged behind.

The corona vaccines continued to support optimism. However, we see 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 spite of a normalization of the economies, the technical support remains very strong, 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. Probably it is only a matter of time before the direct buying in the market will be phased out, which markets will feel as a tightening of the liquidity environment.

The EU stimulus packages and slump in the economies pushes 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 adds 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. September's return of -0.89% was 0.17% better than the benchmark (-1.06%). This brings down the year to date fund return to a negative 0.70%, which was 0.73 percentage points better than benchmark (-1.43%). 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.

September's gross trading of 4% was within the normal monthly trading range of 3-5%. The North American exposure decreased to 48% from 49%, 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 moderate 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.