Fund report, January 2022
Emerging Markets Bonds EUR R
Fixed Income

Sparinvest

RED START FOR THE YEAR

Negative returns on equity, credit and govies

Markets. January ended with a negative return for Emerging Markets (EM) government bonds of 3%. 10Y American interest rates increased by 27 bps and the credit spread increased by 16 bps and ended the month at 384 bps.

Risk aversion among investors dominated the financial market in January. The general negative development came in the wake of announcements from the U.S. Federal Reserve, which warned of changes in the monetary policy process (less dovish). Investors reduced the share of risky assets, which has put particular pressure on stock prices and credit spreads. Government bonds were also hit, causing an overall rise in interest rates- for example, the 10-year U.S. government yield rose to its highest level since the start of the pandemic.

In China, there was a decline in business confidence indicators in January in both the manufacturing and services sectors. The manufacturing indices are 50.1 according to NBS and 49.1 according to Caixin. The levels testify to a Chinese manufacturing sector that is currently in a zero growth area. Similar to developments in the OECD area, it is likely that coronavirus has also played a negative role

In terms of country specific events, we saw continued tensions between The West/Ukraine and Russia. The planned diplomatic discussions has not delivered significant progress in diffusing the situation. The continued military build-up has increased tensions. In Honduras, the country is experiencing a political crisis, as both the newly elect president and congress both announced a new chair of congress. Finally, Ethiopia is experiencing a de-escalation in the fighting giving hope to a future truce.

A bit behind benchmark

The Portfolio had a negative return of 3.1% in January, which was -0.1% lower than the benchmark before costs.

The biggest contributors to the absolute return in January came from the high yield countries Ecuador, Turkey and Angola. Opposite, it was Russia, Indonesia and Ukraine that had the biggest negative contribution to the fund return.

The relative return was supportive of underweights in Malaysia, Saudi Arabia and China. Overweight in Ukraine, Indonesia and Egypt had a negative contribution to the relative return.

During January, we sold all our Russian government bonds, as the Nykredit forum for sustainable investments decided to add Russia to its exclusion list. The country has been on a negative path in its democratic development and the recent threats against NATO was a deciding factor in the decision to exclude. Further, we have adjusted our country and issuer exposures. Overall, we have reduced risk a bit, but still hold a pro-risk tilt in the fund, which have an overweight in High Yield versus Investment Grade.

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.