Fund report, January 2022
Global Investment Grade
Fixed Income

Sparinvest

2022 STARTING OUT NEGATIVE

Wider credit spreads and higher yields

Markets. January benchmark return was deeply in the red (-2.63%) burdened by both wider credit spreads and higher government yields across the board.

Worst hit were Retail, Oil & Gas and Financials, whereas Travel & Leisure, Industrials and Construction & Materials outperformed the market.

Weakening economic momentum, persisting inflationary pressures and looming American monetary tightening sparked the negative sentiment. Corona jabs provide immunity for a shorter period than expected and omicron proved lower vaccine protection levels towards new variants. In addition, we see a risk of long-term side effects and possible adverse non-specific effects of the vaccines on other diseases.

Still, credit spreads remain tighter than end-2019 before corona, 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, we have increased our focus on capital preservation.

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.

Defensive features paid off

The Portfolio. January's return of -2.10% was 0.53% percentage points better than the benchmark (negative 2.63%). The outperformance was attributable to the portfolio's defensive qualities. Thus further reinforces the pattern of the fund having lower volatility of monthly returns than the benchmark measured over the past year, three years, five years and seven years.

January's gross trading was below the normal monthly trading range of 3-5% of AUM, as the portfolio was well prepared for the market setback. The North American exposure decreased to 48% from 49%, whereas the European exposure increased to 38% from 35%. The Asian/Pacific holdings remained at 7%.

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. Therefore, 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.