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

Sparinvest

RUSSIA INVADED UKRAINE

Geopolitical risk dominated markets

Markets. February ended with a negative return for Emerging Markets (EM) government bonds of 6.6%. 10Y American interest rates increased by 5 bps and the credit spread increased by 85 bps and ended the month at 470 bps. The development in the credit spread was therefore the primary driver of the negative return.

The Russian invasion of Ukraine in February immediately left its mark on the financial markets, as geopolitical risk premiums increased across asset classes and across sectors. Prices of certain commodities rose sharply in the wake of the Russian invasion. Oil, gas and wheat prices rose by 10%, 16% and 22% respectively last month. Russia is a key producer of precisely these raw materials. Russia and in particular Ukraine are small economies in a global context. The economies of the two countries make up about 2% of the global economy. Trade between the two countries and the rest of the world is limited. Both imports and exports account for less than 0.5% of global GDP. These magnitudes testify to the fact that the direct effects, including trade, will be of a limited nature for the global economy.

The most significant economic risk is associated with the situation within energy, where Russia has a special status as a major supplier of gas and oil to Europe. Both parties may be forced to include the energy sector in mutual sanctions, which will inevitably lead to both price increases and supply problems. It will be the primary transmission mechanism for lower growth in economies with high-energy import dependence. This is primarily Europe and secondarily Asia.

Russian government bonds fell by 75%. Ukrainian fell by 65% and Belarussian by 85%. The significant moves where the primary reason for the overall spread increase. However, the invasion did also have an impact on the broader market – led by former soviet republics.

A bit behind benchmark

The Portfolio had a negative return of 4.5% in February, which was 2.1% better than the benchmark before costs.

The biggest contributors to the absolute return in February came from the high yield countries Costa Rica, Ecuador and Lebanon. Opposite, Ukraine, Ghana and Egypt had the biggest negative contribution to the fund return.

The relative return was supportive of underweights in Russia, Belarus and Kazakhstan. Overweight in Ukraine, Egypt and Ghana had a negative contribution to the relative return.

The sustainability decision we made in January to sell all our Russian government bonds turned out to be a very good economic decision in February. Further, in February, we also sold all our legacy positions in Venezuela and its oil company except for one bond that affected by sanctions. Finally, we participated in a new issue from the Dominican Republic.

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.