Fund report, February 2022
Global Ethical High Yield
Fixed Income

Sparinvest

GEOPOLITICAL TENSIONS DOMINATE

Negative returns across asset classes

Markets. Credit spreads widened by 62 bps in the High Yield (HY) market in February, which resulted in a negative benchmark return of 2.14%.

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.

After a benign January, February became another tough month for Chinese real estate developers. Some local banks withdrew part of their commitments, which led to liquidity pressure for several developers and large bond price declines as a result.

Negative return in line with index

The Portfolio had a negative return of 2.13% for February, which was 0.01 percentage points ahead of the benchmark. Year to date the portfolio had a negative return of 3.19%, which was 1.40 percentage points ahead of the benchmark.

The most positive sector contributions relative to the benchmark came from Energy and Communications while Materials contributed negatively relative to the benchmark. The positive contributions from Energy and Communications came primarily from the full underweight in Russia and Russian companies, while the negative contribution from Materials primarily came from a Ukrainian company. The company, which has Investment Grade characteristics, produces steel and has facilities close to the Russian border. In total, the fund is underweight Russia and Ukraine. Energy also benefited from the rising oil price and the funds overweight in the sector. Real Estate was also a positive contributor as the fund continues to be underweight in Chinese real estate developers.

In January, three positions were called and the proceeds was invested in one new position and existing positions. Apart from market movements, this did not change the funds credit spread. The funds overall credit spread is still higher than the benchmark and the duration is still lower than the benchmark.

See performance and fund data Click here >

Strategy
Ethical High Yield Value Bonds 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 High Yield bonds. Up to 15% may be invested in corporate bonds issued by companies operating in Emerging Markets.