Fund report, February 2022
Global Investment Grade
Fixed Income

Sparinvest

RUSSIA SPURRED UNCERTAINTY

Corporate bond markets went into defense

Markets. In early February, a dominant market theme was the consistently high inflation numbers, which prompted fixed income markets to speed up the pricing in of a monetary tightening. Financial conditions tightened and credit spreads widened.

During the month, geopolitical tensions in Ukraine grew. The diplomatic efforts to prevent a war in Eastern Europe entered a new phase when French President Macron and German chancellor Scholz each met with Russian President Putin in Moscow. Diplomacy was unable to prevent Russia's invasion of Ukraine at the end of February.

The effects of Russia's invasion of Ukraine in February immediately rippled across the financial markets. Markets are discussing geopolitical risk premiums across asset classes and equity sectors. The prices of certain commodities soared in the wake of the Russian invasion.

Russia and Ukraine in particular, are small economies in a global context. The economies of the two countries represent around 2% of the global economy. The two countries' trade with the rest of the world is limited. Both imports and exports make up less than 0.5% of global GDP. A scale showing that the direct effects, including trade, will be limited for the global economy.

The main economic risks relate to energy supply – Russia has a special status as major supplier of gas and oil to Europe. Both parties may be forced to use the energy area to impose mutual sanctions, which will inevitably lead to price increases and supply issues. This would be the main transmission mechanism to lower growth in economies with high-energy import dependency, primarily Europe and secondarily Asia.

Geopolitical conflicts often trigger tighter financial conditions. This could generally impact the access to and the cost of capital – even for parties who are not directly involved in the conflicts. From a European perspective, this development has merely moderately tightened financial conditions, and so far, the adverse impacts are considered modest. However, the usual stabilisers are setting in. German government bonds are reversing much of the recent yield rises. The ECB has said "to take whatever action needed for stability" along with the first signals of a delay in monetary tightening. Germany has spearheaded the launch of fiscal policy spending packages in the defence area. More European countries are likely to follow suit.

Short dated AAA corporates the place to be

The Portfolio yielded a negative return in February. As in January, the return was driven by higher credit spreads, and the negative return was magnified by higher interest rates. In a climate with elevated uncertainty, the top performers were mainly corporates with high credit ratings. Higher yields meant that short-dated bonds generated the highest returns.

The portfolio is overweight in companies with AAA credit ratings as well as bonds with a maturity of less than 1Y and more than 10Y. This position yielded a return in February below benchmark. In February, we increased the portfolio duration to come closer to benchmark, whilst maintaining the low level of credit risk.

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.

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