

GEOPOLITICAL TENSIONS DOMINATE

Russian invasion of Ukraine left its mark

Markets. Credit spreads widened by 62 bps in the High Yield (HY) Short Dated market in February, which resulted in a negative return for the benchmark of 2.17%.

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 2.10% for February, which was 0.07 percentage points ahead of the benchmark. Year to date the portfolio had a negative return of 3.04%, which was 0.78 percentage points ahead of the benchmark.

The most positive sector contributions relative to the benchmark came from Real Estate, Energy, Financials, and Communications while Materials contributed negatively relative to the benchmark. Real Estate contributed positively due to the fund's continued underweight to Chinese real estate developers. The positive contributions from the other three sectors came primarily from the full underweight against Russia and Russian companies, while the negative contribution from Materials came primarily 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.

In February, three bonds were called and the proceeds were invested in 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 in line with the benchmark.

See performance and fund data

[Click here >](#)

Strategy

Global Short Dated High Yield invests in short-dated (1-5Y) corporate bonds with a rating from BB-B, 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.

This material does not constitute individual investment advice and cannot form the basis for a decision to buy or sell (or an omission thereof) of investment certificates. The material has been prepared for information purposes only and investors are encouraged to seek necessary professional advice before buying or selling investment certificates. Sparinvest does not undertake any responsibility for the advice given and actions taken or not taken in respect of this material. The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. Investors are urged to read the prospectus, the key investor information document and the current annual / semi-annual report of Sparinvest SICAV prior to investing. The documents are available at sparinvest.lu. There are always risks involved when investing and it is stressed that past performance or past return cannot be considered as a guarantee for future performance or return. Investors may not get back the full amount invested. Sparinvest makes reservations for possible typing errors, calculation errors and any other errors in the material.