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

Sparinvest

FALLING RISK PREMIA

Geopolitical risk premiums evaporated

Markets. March ended with a negative return for Emerging Markets (EM) government bonds of 1%. 10Y American interest rates increased by 54 bps and the credit spread decreased by 70 bps and ended the month at 400 bps. The development in the interest rates was therefore the primary driver of the negative return.

The military conflict between Russia and Ukraine continued to make its mark on the financial market. The initial phase of the conflict led to higher risk premiums until mid-March, after which risk premiums were generally eliminated in the second half of March. Largely, this process has so far followed the return patterns that have played out in previous military conflicts. Yields on U.S. 5-year government bonds rose from 1.72% to 2.46% in March. The trend towards generally higher commodity prices continued in March. In the areas of industrial metals, agricultural products and energy, prices rose by 12%, 4% and 16%, respectively, according to the Bloomberg Commodity Index. There has been a general declining trend in terms of confidence indicators in the manufacturing industry in March. The loss of confidence has been greatest in Europe, followed by Asia. In the U.S., there was a slight positive development recorded in March.

At present, the conflict between Russia and Ukraine has not derailed central banks' plans for monetary tightening. The head of the U.S. Federal Reserve (Fed), Jerome Powell, has recently confirmed that the institution will protect price stability. The Fed's rate hike of 25 basis points in mid-March coincided, paradoxically, with the central bank downgrading growth in the U.S. from 4.0% to 2.8% and raising its core inflation forecast from 2.7% to 4.1% for 2022. For the Fed, the price development now has a higher priority than the growth development.

March was also the month where Russia and Belarus were excluded from the EM bond indices

A bit behind benchmark

The Portfolio had a negative return of 0.4% in February, which was 0.7% better than the benchmark before costs.

The largest positive contributions to the absolute fund return came from our positions in Egypt, Ukraine and Ghana. At the opposite end, Kazakhstan, El Salvador and the United Arab Emirates made the largest negative contributions. The relative return was positively affected by underweight in Russia as well as overweights in Egypt and Ukraine. Positions in Kazakhstan, El Salvador and Uzbekistan pulled in a negative direction.

In March, we participated in a new issue from Nigeria. We opportunistically bought up a bit in Uzbekistan's oil company as well as Kazakhstan's development bank. Both looked attractive following the repricing post the Russian invasion. In addition, we have switched our Costa Rica exposure with the Dominican Republic. In addition, we also switched our Mexico exposure to the national electricity company.

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.